

**JPMORGAN CHASE BANK,
NATIONAL ASSOCIATION**

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

CONSOLIDATED FINANCIAL STATEMENTS

For the three years ended December 31, 2010

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

FOR THE THREE YEARS ENDED DECEMBER 31, 2010

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Report of independent registered public accounting firm



Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholder's equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of JPMorgan Chase Bank, National Association and its subsidiaries (the "Bank") at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

A handwritten signature in black ink, which appears to read "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

March 24, 2011

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

Consolidated statements of income

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

Year ended December 31, (in millions)	2010	2009	2008
Revenue			
Investment banking fees	\$ 3,104	\$ 3,534	\$ 2,675
Principal transactions	7,824	8,688	5,016
Lending- and deposit-related fees	6,328	7,033	5,073
Asset management, administration and commissions	9,365	9,000	9,594
Securities gains ^(a)	2,975	1,369	1,328
Mortgage fees and related income	3,219	3,080	3,557
Credit card income	3,386	4,254	3,569
Other income	2,462	1,439	2,417
Noninterest revenue	38,663	38,397	33,229
Interest income	42,951	50,093	57,437
Interest expense	7,020	10,502	25,920
Net interest income	35,931	39,591	31,517
Total net revenue	74,594	77,988	64,746
Provision for credit losses	9,406	22,712	16,238
Noninterest expense			
Compensation expense	20,811	19,791	17,122
Occupancy expense	3,226	3,250	2,659
Technology, communications and equipment expense	4,155	4,029	3,663
Professional and outside services	4,728	4,335	4,277
Marketing	786	621	631
Other expense	15,191	10,356	8,091
Amortization of intangibles	534	599	612
Merger costs	—	410	229
Total noninterest expense	49,431	43,391	37,284
Income before income tax expense and extraordinary gain	15,757	11,885	11,224
Income tax expense	3,931	3,539	2,711
Income before extraordinary gain	11,826	8,346	8,513
Extraordinary gain	—	76	1,906
Net income	\$ 11,826	\$ 8,422	\$ 10,419

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

Year ended December 31, (in millions)	2010	2009
Total other-than-temporary impairment losses	\$ —	\$ (506)
Losses recorded in/(reclassified from) other comprehensive income	(6)	368
Total credit losses recognized in income	\$ (6)	\$ (138)

The Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated balance sheets

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

December 31, (in millions, except share data)	2010	2009
Assets		
Cash and due from banks	\$ 26,604	\$ 25,179
Deposits with banks	20,451	61,851
Federal funds sold and securities purchased under resale agreements (included \$19,876 and \$20,055 at fair value)	175,166	165,696
Securities borrowed (included \$13,961 and \$7,032 at fair value)	57,370	45,320
Trading assets (included assets pledged of \$25,690 and \$21,691)	358,150	302,589
Securities (included \$310,745 and \$347,848 at fair value and assets pledged of \$87,107 and \$140,995)	310,762	347,873
Loans (included \$973 and \$553 at fair value)	553,004	558,424
Allowance for loan losses	(22,435)	(23,766)
Loans, net of allowance for loan losses	530,569	534,658
Accrued interest and accounts receivable (included zero and \$2,271 at fair value)	35,985	35,650
Premises and equipment	10,987	9,755
Goodwill	27,348	27,510
Mortgage servicing rights	13,440	15,342
Other intangible assets	1,967	2,959
Other assets (included \$8,139 and \$1,339 at fair value and assets pledged of \$1,305 and \$1,416)	62,822	53,302
Total assets^(a)	\$ 1,631,621	\$ 1,627,684
Liabilities		
Deposits (included \$4,327 and \$4,455 at fair value)	\$ 1,019,993	\$ 1,024,036
Federal funds purchased and securities loaned or sold under repurchase agreements (included \$2,555 and \$2,222 at fair value)	178,552	193,996
Other borrowed funds (included \$7,125 and \$4,761 at fair value)	27,403	43,929
Trading liabilities	124,438	109,508
Accounts payable and other liabilities (included the allowance for lending-related commitments of \$691 and \$935 and \$127 and \$5 at fair value)	68,619	51,842
Beneficial interests issued by consolidated variable interest entities (included \$354 and \$736 at fair value)	26,099	8,400
Long-term debt (included \$20,819 and \$27,865 at fair value)	63,300	68,679
Total liabilities^(a)	1,508,404	1,500,390
Commitments and contingencies (see Note 29 on page 115 of these Consolidated Financial Statements)		
Stockholder's equity		
Preferred stock (\$1 par value; authorized 15,000,000 shares; issued zero shares at December 31, 2010, and 2009)	—	—
Common stock (\$12 par value; authorized 150,000,000 shares; issued 148,761,243 shares at December 31, 2010, and 2009)	1,785	1,785
Capital surplus	76,771	78,377
Retained earnings	41,785	45,494
Accumulated other comprehensive income	2,876	1,638
Total stockholder's equity	123,217	127,294
Total liabilities and stockholder's equity	\$ 1,631,621	\$ 1,627,684

(a) The following table presents information on assets and liabilities related to VIEs that are consolidated by JPMorgan Chase Bank, N.A. at December 31, 2010 and 2009. The difference between total VIE assets and liabilities represents JPMorgan Chase Bank, N.A.'s interests in those entities, which were eliminated in consolidation.

December 31, (in millions)	2010	2009
Assets		
Trading assets	\$ 2,947	\$ 2,411
Loans	27,467	6,367
All other assets	1,520	3,426
Total assets	\$ 31,934	\$ 12,204
Liabilities		
Beneficial interests issued by consolidated variable interest entities	\$ 26,099	\$ 8,400
All other liabilities	1,661	1,236
Total liabilities	\$ 27,760	\$ 9,636

The assets of the consolidated VIEs are used to settle the liabilities of those entities. The holders of the beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. At December 31, 2010, JPMorgan Chase Bank, N.A. provided limited program-wide credit enhancement of \$2.0 billion related to its JPMorgan Chase Bank, N.A.-administered multi-seller conduits. For further discussion, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

The Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated statements changes in stockholder's equity and comprehensive income

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

Year ended December 31, (in millions)	2010	2009	2008
Common stock			
Balance at January 1 and December 31	\$ 1,785	\$ 1,785	\$ 1,785
Capital surplus			
Balance at January 1	78,377	77,254	62,439
Cash capital contribution from JPMorgan Chase & Co.	594	704	14,485
Adjustments to capital due to transactions with JPMorgan Chase & Co.	(927)	419	330
Other	(1,273)	—	—
Balance at December 31	76,771	78,377	77,254
Retained earnings			
Balance at January 1	45,494	52,309	42,808
Cumulative effect of change in accounting principles	19	—	—
Net income	11,826	8,422	10,419
Cash dividends paid to JPMorgan Chase & Co.	(15,500)	(15,200)	(1,000)
Net internal legal entity mergers	(54)	(37)	82
Balance at December 31	41,785	45,494	52,309
Accumulated other comprehensive income/(loss)			
Balance at January 1	1,638	(2,581)	(686)
Cumulative effect of change in accounting principles	(38)	—	—
Other comprehensive income/(loss)	1,276	4,219	(1,895)
Balance at December 31	2,876	1,638	(2,581)
Total stockholder's equity	\$ 123,217	\$ 127,294	\$ 128,767
Comprehensive income			
Net income	\$ 11,826	\$ 8,422	\$ 10,419
Other comprehensive income/(loss)	1,276	4,219	(1,895)
Comprehensive income	\$ 13,102	\$ 12,641	\$ 8,524

The Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated statements of cash flows

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

Year ended December 31, (in millions)	2010	2009	2008
Operating activities			
Net income	\$ 11,826	\$ 8,422	\$ 10,419
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:			
Provision for credit losses	9,406	22,712	16,238
Depreciation and amortization	3,113	2,707	2,482
Amortization of intangibles	534	599	612
Deferred tax benefit	(1,951)	(3,339)	(2,930)
Investment securities gains	(2,975)	(1,369)	(1,328)
Originations and purchases of loans held-for-sale	(37,086)	(21,976)	(34,749)
Proceeds from sales, securitizations and paydowns of loans held-for-sale	40,054	32,655	37,345
Net change in:			
Trading assets	(57,261)	96,801	(29,251)
Securities borrowed	(12,019)	(2,580)	1,504
Accrued interest and accounts receivable	2,287	8,742	(8,353)
Other assets	(18,584)	29,590	(44,437)
Trading liabilities	13,687	(66,404)	40,806
Accounts payable and other liabilities	22,545	(14,974)	(9,937)
Other operating adjustments	6,764	3,187	(5,487)
Net cash (used in)/provided by operating activities	(19,660)	94,773	(27,066)
Investing activities			
Net change in:			
Deposits with banks	41,454	65,730	(112,355)
Federal funds sold and securities purchased under resale agreements	(9,274)	33,530	(3,909)
Held-to-maturity securities:			
Proceeds	8	9	10
Available-for-sale securities:			
Proceeds from maturities	99,807	82,634	44,168
Proceeds from sales	115,985	110,148	94,703
Purchases	(175,145)	(331,539)	(242,086)
Proceeds from sales and securitizations of loans held-for-investment	18,192	28,575	16,230
Other changes in loans, net	(5,896)	49,455	(37,533)
Net cash (used)/received in business acquisitions or dispositions	(1,576)	3	16,521
Net maturities/(purchases) of asset-backed commercial paper guaranteed by the FRBB	—	130	(130)
All other investing activities, net	(238)	(642)	(2,065)
Net cash provided by/(used in) investing activities	83,317	38,033	(226,446)
Financing activities			
Net change in:			
Deposits	(6,965)	(68,668)	192,117
Federal funds purchased and securities loaned or sold under repurchase agreements	(15,475)	13,395	57,415
Other borrowed funds	1,460	(45,087)	(9,022)
Beneficial interests issued by consolidated variable interest entities	(1,015)	(2,197)	(55)
Proceeds from long-term borrowings and trust preferred capital debt securities	13,286	16,737	23,120
Payments of long-term borrowings and trust preferred capital debt securities	(38,020)	(32,117)	(36,479)
Cash capital contribution from JPMorgan Chase & Co.	594	704	14,485
Dividends paid to JPMorgan Chase & Co.	(15,500)	(15,200)	(1,000)
All other financing activities, net	(909)	(1,023)	51
Net cash (used in)/provided by financing activities	(62,544)	(133,456)	240,632
Effect of exchange rate changes on cash and due from banks	312	327	(314)
Net increase/(decrease) in cash and due from banks	1,425	(323)	(13,194)
Cash and due from banks at the beginning of the year	25,179	25,502	38,696
Cash and due from banks at the end of the year	\$ 26,604	\$ 25,179	\$ 25,502
Cash interest paid	\$ 7,269	\$ 11,657	\$ 29,023
Cash income taxes paid, net ^(a)	6,117	6,664	5,803

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

In 2008, the fair values of noncash assets acquired and liabilities assumed in the Washington Mutual transaction were \$260.3 billion and \$260.1 billion, respectively.

(a) Includes \$3.7 billion, \$4.6 billion and \$4.1 billion paid to JPMorgan Chase & Co. in 2010, 2009 and 2008, respectively.

The Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to consolidated financial statements

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

Note 1 – Basis of presentation

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

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

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

Consolidation

The Consolidated Financial Statements include the accounts of JPMorgan Chase Bank, N.A. and other entities in which JPMorgan Chase Bank, N.A. has a controlling financial interest. All material intercompany balances and transactions have been eliminated. JPMorgan Chase Bank, N.A. determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (“VIE”).

Voting Interest Entities

Voting interest entities are entities that have sufficient equity and provide the equity investors voting rights that enable them to make significant decisions relating to the entity’s operations. For these types of entities, JPMorgan Chase Bank, N.A.’s determination of whether it has a controlling interest is primarily based on the amount of voting equity interests held. Entities in which JPMorgan Chase Bank, N.A. has a controlling financial interest, through ownership of the majority of the entities’ voting equity interests, or through other contractual rights that give JPMorgan Chase Bank, N.A. control, are consolidated by JPMorgan Chase Bank, N.A.

Investments in companies in which JPMorgan Chase Bank, N.A. has significant influence over operating and financing decisions (but does not own a majority of the voting equity interests) are accounted for (i) in accordance with the equity method of accounting (which requires JPMorgan Chase Bank, N.A. to recognize its propor-

tionate share of the entity’s net earnings), or (ii) at fair value if the fair value option was elected at the inception of JPMorgan Chase Bank, N.A.’s investment. These investments are generally included in other assets, with income or loss included in other income.

JPMorgan Chase Bank, N.A.-sponsored asset management funds are generally structured as limited partnerships or limited liability companies, which are typically considered voting interest entities. For the significant majority of these entities, JPMorgan Chase Bank, N.A. is the general partner or managing member but the non-affiliated partners or members have the ability to remove JPMorgan Chase Bank, N.A. as the general partner or managing member without cause (i.e., kick-out rights), based on a simple majority vote, or the non-affiliated partners or members have rights to participate in important decisions. Accordingly, JPMorgan Chase Bank, N.A. does not consolidate these funds. In the limited cases where the non-affiliated partners or members do not have substantive kick-out or participating rights, JPMorgan Chase Bank, N.A. consolidates the funds.

JPMorgan Chase Bank, N.A.’s investment companies make investments in both public and private entities, including investments in buyouts, growth equity and venture opportunities. These investments are accounted for under investment company guidelines and accordingly, irrespective of the percentage of equity ownership interests held, are carried on the Consolidated Balance Sheets at fair value, and are recorded in other assets.

Variable Interest Entities

VIEs are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity’s operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

The most common type of VIE is a special purpose entity (“SPE”). SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. SPEs are an important part of the financial markets, including the mortgage- and asset-backed securities and commercial paper markets, as they provide market liquidity by facilitating investors’ access to specific portfolios of assets and risks. SPEs may be organized as trusts, partnerships or corporations and are typically established for a single, discrete purpose. SPEs are not typically operating entities and usually have a limited life and no employees. The basic SPE structure involves a company selling assets to the SPE; the SPE funds the purchase of those assets by issuing securities to investors. The legal documents that govern the transaction specify how the cash earned on the assets must be allocated to the SPE’s investors and other parties that have rights to those cash flows. SPEs are generally structured to insulate investors from claims on the SPE’s assets by creditors of other entities, including the creditors of the seller of the assets.

On January 1, 2010, JPMorgan Chase Bank, N.A. implemented new consolidation accounting guidance related to VIEs. The new guidance eliminates the concept of qualified special purpose entities (“QSPEs”) that were previously exempt from consolidation, and introduces a new framework for consolidation of VIEs. The primary beneficiary of a VIE is required to consolidate the assets and liabilities of the VIE. Under the new guidance, the primary beneficiary is the party that has both (1) the power to direct the activities of an entity that most significantly impact the VIE’s economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

To assess whether JPMorgan Chase Bank, N.A. has the power to direct the activities of a VIE that most significantly impact the VIE’s economic performance, JPMorgan Chase Bank, N.A. considers all the facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes, first, identifying the activities that most significantly impact the VIE’s economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE (such as asset managers, collateral managers, servicers, or owners of call options or liquidation rights over the VIE’s assets) or have the right to unilaterally remove those decision-makers are deemed to have the power to direct the activities of a VIE.

To assess whether JPMorgan Chase Bank, N.A. has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE, JPMorgan Chase Bank, N.A. considers all of its economic interests, including debt and equity investments, servicing fees, and derivative or other arrangements deemed to be variable interests in the VIE. This assessment requires that JPMorgan Chase Bank, N.A. apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held across various classes within the VIE’s capital structure; and the reasons why the interests are held by JPMorgan Chase Bank, N.A.

JPMorgan Chase Bank, N.A. performs on-going reassessments of: (1) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and therefore subject to the VIE consolidation framework; and (2) whether changes in the facts and circumstances regarding JPMorgan Chase Bank, N.A.’s involvement with a VIE cause JPMorgan Chase Bank, N.A.’s consolidation conclusion to change.

For further details regarding JPMorgan Chase Bank, N.A.’s application of the accounting guidance effective January 1, 2010, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

The Financial Accounting Standards Board (“FASB”) issued an amendment which deferred the requirements of the accounting guidance for certain investment funds, including mutual funds, private equity funds and hedge funds. For the funds to which the deferral applies, JPMorgan Chase Bank, N.A. continues to apply

other existing authoritative guidance to determine whether such funds should be consolidated.

Assets held for clients in an agency or fiduciary capacity by JPMorgan Chase Bank, N.A. are not assets of JPMorgan Chase Bank, N.A. and are not included in the Consolidated Balance Sheets.

For reporting periods prior to January 1, 2010, there were two different accounting frameworks applicable to SPEs: The qualifying special purpose entity (“QSPE”) framework and the VIE framework. The applicable framework depended on the nature of the entity and JPMorgan Chase Bank, N.A.’s relation to that entity. The QSPE framework was applicable when an entity sold financial assets to an SPE meeting certain defined criteria that were designed to ensure that the activities of the entity were essentially predetermined at the inception of the vehicle and that the transferor of the financial assets could not exercise control over the entity and the assets therein. QSPEs were not consolidated by the transferor or other counterparties as long as they did not have the unilateral ability to liquidate or to cause the entity to no longer meet the QSPE criteria. JPMorgan Chase Bank, N.A.’s securitizations of residential and commercial mortgages, credit card, automobile and student loans generally were evaluated using the QSPE framework. For further details, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

Additionally, the other SPEs were evaluated using the VIE framework, which was based on a risk and reward approach, and required a variable interest holder (i.e., an investor or other counterparty to a VIE) to consolidate the VIE if that party absorbed a majority of the expected losses of the VIE, received the majority of the expected residual returns of the VIE, or both. In making the determination of whether JPMorgan Chase Bank, N.A. should consolidate a VIE, JPMorgan Chase Bank, N.A. evaluated the VIE’s design, capital structure and relationships among the variable interest holders. If JPMorgan Chase Bank, N.A. could not identify the party that consolidates a VIE through a qualitative analysis, JPMorgan Chase Bank, N.A. performed a quantitative analysis, which computed and allocated expected losses or residual returns to variable interest holders. The allocation of expected cash flows in this analysis was based on the relative rights and preferences of each variable interest holder in the VIE’s capital structure. JPMorgan Chase Bank, N.A. reconsidered whether it was the primary beneficiary of a VIE only when certain defined events occurred.

Use of estimates in the preparation of consolidated financial statements

The preparation of Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expense, and disclosures of contingent assets and liabilities. Actual results could be different from these estimates.

Notes to consolidated financial statements

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

Foreign currency translation

JPMorgan Chase Bank, N.A. revalues assets, liabilities, revenue and expense denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates.

Gains and losses relating to translating functional currency financial statements for U.S. reporting are included in other comprehensive income/(loss) within stockholder's equity. Gains and losses relating to nonfunctional currency transactions, including non-U.S. operations where the functional currency is the U.S. dollar, are reported in the Consolidated Statements of Income.

Statements of cash flows

For JPMorgan Chase Bank, N.A.'s Consolidated Statements of Cash Flows, cash is defined as those amounts included in cash and due from banks.

Significant accounting policies

The following table identifies JPMorgan Chase Bank, N.A.'s other significant accounting policies and the Note and page where a detailed description of each policy can be found.

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Note 2 – Accounting and reporting developments

Accounting for transfers of financial assets and consolidation of variable interest entities

Effective January 1, 2010, JPMorgan Chase Bank, N.A. implemented new accounting guidance that amends the accounting for the transfers of financial assets and the consolidation of VIEs. Upon adoption of the new guidance, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, JPMorgan Chase Bank, N.A.-administered multi-seller conduits, and certain mortgage and other consumer loan securitization entities. The FASB deferred the requirements of the new accounting guidance for VIEs for certain investment funds, including

mutual funds, private equity funds and hedge funds, until the FASB reconsiders the appropriate accounting guidance for these funds. For additional information about the impact of the adoption of the new accounting guidance on January 1, 2010, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

Fair value measurements and disclosures

In January 2010, the FASB issued guidance that requires new disclosures, and clarifies existing disclosure requirements, about fair value measurements. The clarifications and the requirement to separately disclose transfers of instruments between level 1 and level 2 of the fair value hierarchy are effective for interim reporting periods beginning after December 15, 2009; JPMorgan Chase Bank, N.A. adopted this guidance in the first quarter of 2010. For additional information about the impact of the adoption of the new fair value measurements guidance, see Note 4 on pages 12–29 of these Consolidated Financial Statements. In addition, a new requirement to provide purchases, sales, issuances and settlements in the level 3 rollforward on a gross basis is effective for fiscal years beginning after December 15, 2010.

Subsequent events

In May 2009, the FASB issued guidance that established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance was effective for interim or annual financial periods ending after June 15, 2009. JPMorgan Chase Bank, N.A. adopted the guidance in the second quarter of 2009. In February 2010, the FASB issued amendments to the guidance that was effective for JPMorgan Chase Bank, N.A. immediately upon issuance. The application of the guidance and amendments did not have any impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

Accounting for certain embedded credit derivatives

In March 2010, the FASB issued guidance clarifying the circumstances in which a credit derivative embedded in beneficial interests in securitized financial assets is required to be separately accounted for as a derivative instrument. The guidance is effective for the first fiscal quarter beginning after June 15, 2010, with early adoption permitted. Upon adoption, the new guidance permits the election of the fair value option for beneficial interests in securitized financial assets. JPMorgan Chase Bank, N.A. adopted the new guidance prospectively, effective July 1, 2010. The adoption of the guidance did not have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance. For additional information about the impact of the adoption of the new guidance, see Note 7 on pages 33–41 of these Consolidated Financial Statements.

Accounting for troubled debt restructurings of purchased credit-impaired loans that are part of a pool

In April 2010, the FASB issued guidance that amends the accounting for troubled debt restructurings of purchased credit-impaired loans accounted for within a pool. The guidance clarifies that modified PCI loans should not be removed from a pool even if the modification would otherwise be considered a TDR. Additionally, the guidance clarifies that the impact of modifications should be included in evaluating whether a pool of loans is impaired. The guidance was effective for JPMorgan Chase Bank, N.A. beginning in the third quarter of 2010, and is to be applied prospectively. The guidance is consistent with JPMorgan Chase Bank, N.A.'s previously existing accounting practice and, therefore, had no impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

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

In July 2010, the FASB issued guidance that requires enhanced disclosures surrounding the credit characteristics of JPMorgan Chase Bank, N.A.'s loan portfolio. Under the new guidance, JPMorgan Chase Bank, N.A. is required to disclose its accounting policies, the methods it uses to determine the components of the allowance for credit losses, and qualitative and quantitative information about the credit risk inherent in the loan portfolio, including additional information on certain types of loan modifications. For JPMorgan Chase Bank, N.A., the new disclosures became effective for the 2010 Annual Financial Statements. The adoption of this guidance only affects JPMorgan Chase Bank, N.A.'s disclosures of financing receivables and not its Consolidated Balance Sheets or financial performance. In January 2011, the FASB issued guidance that deferred the effective date of certain disclosures in this guidance regarding TDRs, pending resolution on the FASB's project to amend the scope of TDR guidance.

Note 3 – Business changes and developments

Acquisition of the banking operations of Washington Mutual Bank

On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank ("Washington Mutual") from the Federal Deposit Insurance Corporation ("FDIC") for \$1.9 billion. The acquisition expanded JPMorgan Chase Bank, N.A.'s consumer branch network into several states, including California, Florida, Washington, Georgia, Idaho, Nevada and Oregon and created the third largest branch network in the U.S. The acquisition also extended the reach of JPMorgan Chase Bank, N.A.'s business banking, commercial banking, credit card, consumer lending and wealth management businesses. The acquisition was accounted for under the purchase method of accounting, which requires that the assets and liabilities of Washington Mutual be initially reported at fair value.

In 2008, the \$1.9 billion purchase price was preliminarily allocated to the Washington Mutual assets acquired and liabilities assumed, which resulted in negative goodwill. In accordance with U.S. GAAP for business combinations that was in effect at the time of the acquisition, noncurrent nonfinancial assets acquired in the Washington Mutual transaction that were not held-for-sale, such as the premises and equipment and other intangibles, were written down against the negative goodwill. The negative goodwill that remained after writing down the nonfinancial assets was recognized as an extraordinary gain of \$1.9 billion at December 31, 2008. The final total extraordinary gain that resulted from the Washington Mutual transaction was \$2.0 billion.

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The final summary computation of the purchase price and the allocation of the final total purchase price of \$1.9 billion to the net assets acquired of Washington Mutual – based on their respective fair values as of September 25, 2008, and the resulting final negative goodwill of \$2.0 billion are presented below.

September 25, 2008 (in millions)

Purchase price		
Purchase price		\$ 1,938
Direct acquisition costs		<u>3</u>
Total purchase price		1,941
Net assets acquired:		
Washington Mutual's net assets before fair value adjustments	\$ 39,186	
Washington Mutual's goodwill and other intangible assets	<u>(7,566)</u>	
Subtotal	31,620	
Adjustments to reflect assets acquired at fair value:		
Securities	(16)	
Trading assets	(591)	
Loans	(30,998)	
Allowance for loan losses	8,216	
Premises and equipment	680	
Accrued interest and accounts receivable	(243)	
Other assets	4,010	
Adjustments to reflect liabilities assumed at fair value:		
Deposits	(686)	
Other borrowed funds	68	
Accounts payable, accrued expense and other liabilities	(1,124)	
Long-term debt	1,063	
Fair value of net assets acquired		<u>11,999</u>
Negative goodwill before allocation to nonfinancial assets		(10,058)
Negative goodwill allocated to nonfinancial assets ^(a)		<u>8,076</u>
Negative goodwill resulting from the acquisition^(b)		<u>\$ (1,982)</u>

(a) The acquisition was accounted for as a purchase business combination, which requires the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of an acquired business to be recorded at their respective fair values as of the effective date of the acquisition and consolidated with those of JPMorgan Chase Bank, N.A. The fair value of the net assets of Washington Mutual's banking operations exceeded the \$1.9 billion purchase price, resulting in negative goodwill. Noncurrent, nonfinancial assets not held-for-sale, such as premises and equipment and other intangibles, were written down against the negative goodwill. The negative goodwill that remained after writing down transaction-related core deposit intangibles of approximately \$4.9 billion and premises and equipment of approximately \$3.2 billion was recognized as an extraordinary gain of \$2.0 billion.

(b) The extraordinary gain was recorded net of tax expense in JPMorgan Chase Bank, N.A.'s Consolidated Financial Statements.

Condensed statement of net assets acquired

The following condensed statement of net assets acquired reflects the final value assigned to the Washington Mutual net assets as of September 25, 2008.

(in millions)	September 25, 2008
Assets	
Cash and due from banks	\$ 3,680
Deposits with banks	3,517
Federal funds sold and securities purchased under resale agreements	1,700
Trading assets	5,691
Securities	17,224
Loans (net of allowance for loan losses)	206,456
Accrued interest and accounts receivable	3,253
Mortgage servicing rights	5,874
All other assets	16,596
Total assets	<u>\$ 263,991</u>
Liabilities	
Deposits	\$ 159,872
Federal funds purchased and securities loaned or sold under repurchase agreements	4,549
Other borrowed funds	81,636
Trading liabilities	585
Accounts payable, accrued expense and other liabilities	6,708
Long-term debt	6,718
Total liabilities	<u>260,068</u>
Washington Mutual net assets acquired	<u>\$ 3,923</u>

Unaudited pro forma condensed combined financial information reflecting the Washington Mutual transaction

The following unaudited pro forma condensed combined financial information presents the 2008 results of operations of JPMorgan Chase Bank, N.A. as they may have appeared, if the Washington Mutual transaction had been completed on January 1, 2008.

Year ended December 31, (in millions)	2008
Total net revenue	\$ 74,035
Income before extraordinary gain	375
Net income	2,281

The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2008, nor is it indicative of the results of operations in future periods. Included in the unaudited pro forma combined financial information for the year ended December 31, 2008, were pro forma adjustments to reflect the results of operations of Washington Mutual's banking operations, considering the purchase accounting, valuation and accounting conformity adjustments. The amortization of purchase accounting adjustments to report interest-earning assets acquired and interest-bearing liabilities assumed at current interest rates is reflected for the year ended December 31, 2008. Valuation adjustments and the adjustment to conform allowance methodologies in the Washington Mutual transaction, are reflected in the results for the year ended December 31, 2008.

Other business events

RBS Sempra transaction

On July 1, 2010, JPMorgan Chase & Co. completed the acquisition of RBS Sempra Commodities' global oil, global metals and European power and gas businesses. JPMorgan Chase & Co. acquired approximately \$1.7 billion of the net assets, which included \$3.3 billion of debt which was immediately repaid. JPMorgan Chase Bank, N.A. paid approximately \$1.7 billion related to this acquisition including the repayment of debt attributed to JPMorgan Chase Bank, N.A. This acquisition significantly expanded the number of clients the commodities business can serve and will enable the commodities business to offer clients more products in more regions of the world.

Purchase of remaining interest in J.P. Morgan Cazenove

On January 4, 2010, JPMorgan Chase Bank, N.A. purchased the remaining interest in J.P. Morgan Cazenove, an investment banking business partnership formed in 2005 which resulted in an adjustment to JPMorgan Chase Bank, N.A.'s capital surplus of approximately \$1.3 billion.

Termination of Chase Paymentech Solutions joint venture

The dissolution of Chase Paymentech Solutions joint venture, a global payments and merchant acquiring joint venture between JPMorgan Chase Bank, N.A. and First Data Corporation, was completed on November 1, 2008. JPMorgan Chase Bank, N.A. retained approximately 51% of the business, which it operates under the name Chase Paymentech Solutions. The dissolution of the Chase Paymentech Solutions joint venture was accounted for as a step acquisition in accordance with U.S. GAAP for business combinations, and JPMorgan Chase Bank, N.A. recognized an after-tax gain of \$627 million in the fourth quarter of 2008 as a result of the dissolution. The gain represents the amount by which the fair value of the net assets acquired (predominantly intangible assets and goodwill) exceeded JPMorgan Chase Bank, N.A.'s carrying value in the net assets transferred to First Data Corporation. Upon dissolution, JPMorgan Chase Bank, N.A. consolidated the retained Chase Paymentech Solutions business.

Sale of Washington Mutual's credit card assets to Chase Bank, USA, N.A.

On October 3, 2008, JPMorgan Chase Bank, N.A. sold net credit card-related assets acquired in the Washington Mutual transaction to Chase Bank USA, N.A. for \$14.7 billion in cash. The sale included \$15.0 billion and \$251 million of credit card-related assets and liabilities, respectively.

Merger with The Bear Stearns Companies Inc.

Effective May 30, 2008, BSC Merger Corporation, a wholly owned subsidiary of JPMorgan Chase, merged with The Bear Stearns Companies Inc. ("Bear Stearns") pursuant to the Agreement and Plan of Merger, dated as of March 16, 2008, as amended March 24, 2008, and Bear Stearns became a wholly-owned subsidiary of JPMorgan Chase. The merger provided JPMorgan Chase with a leading global prime brokerage platform; strengthened JPMorgan Chase's equities and asset management businesses; enhanced capabilities in mortgage origination, securitization and servicing; and expanded the platform of JPMorgan Chase's energy business. The merger was accounted for under the purchase method of accounting, which requires that the assets and liabilities of Bear Stearns be fair valued. The final total purchase price to complete the merger was \$1.5 billion. Additional information regarding the Merger is provided in Note 2 on pages 167–169 of JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2010.

Following the Merger, JPMorgan Chase Bank, N.A. acquired in a cash transaction, four wholly-owned subsidiaries of Bear Stearns that engage in various derivative and mortgage lending activities, which are permissible activities for national banks and their operating subsidiaries. JPMorgan Chase Bank, N.A. accounted for the acquisition of the four Bear Stearns subsidiaries in accordance with U.S. GAAP for business combinations, and the results of operations of the Bear Stearns subsidiaries were reported in JPMorgan Chase Bank, N.A.'s results beginning in the third quarter of 2008.

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In connection with the transactions described in the preceding paragraph, JPMorgan Chase agreed to indemnify JPMorgan Chase Bank, N.A. for specified losses and related expenditures related to any loan assets owned or held by the Bear Stearns subsidiaries on July 1, 2008, or derivatives entered into, owned or held by the Bear Stearns' subsidiaries on July 1, 2008, or to be transferred to JPMorgan Chase Bank, N.A., and any losses, judgments, costs or expenses incurred by JPMorgan Chase Bank, N.A. arising out of any conduct or breach of any covenant or agreement by or on behalf of the Bear Stearns subsidiaries. These indemnities are effective until June 30, 2013.

JPMorgan Chase made a capital contribution of \$4.6 billion, an amount equal to the estimated additional amount of capital required to ensure that JPMorgan Chase Bank, N.A.'s regulatory capital ratios (i.e., Tier 1; total capital and leverage) do not decline from the levels for the quarter ended June 30, 2008, as a result of the aforementioned indemnified transactions. To the extent that any capital contribution by JPMorgan Chase exceeds the actual regulatory capital impact of these transactions, JPMorgan Chase Bank, N.A. will pay JPMorgan Chase the difference.

Other internal transfers of legal entities under common control

On January 1, 2010, JPMorgan Chase Bank, N.A. distributed its wholly-owned subsidiary, JPMorgan Investment Advisors Inc. ("JPMIA"), to a JPMorgan Chase affiliate. JPMIA's principal activity was investment advisory for the asset management business. At the time of the transfer, JPMIA had approximately \$850 million of assets, predominantly consisting of \$546 million of other intangible assets and \$255 million of deposits with banks. In addition, \$300 million of goodwill recorded on the books of JPMorgan Chase Bank, N.A. was also transferred to JPMorgan Chase in connection with this transaction.

On May 1, 2009, JPMorgan Chase contributed its wholly-owned subsidiary, Bear Stearns Financial Products Inc. ("BSFP"), to JPMorgan Chase Bank, N.A. BSFP's principal activity is offering fixed income and equity-index derivative products to AAA or similarly rated counterparties. At the time of the transfer, BSFP had approximately \$1.1 billion of assets, predominantly consisting of \$560 million of accrued interest and accounts receivable and \$541 million of trading assets-derivative receivables.

In addition to the above transfer to JPMorgan Chase Bank, N.A., in 2009 and 2008, JPMorgan Chase transferred various other wholly-owned subsidiaries to JPMorgan Chase Bank, N.A. In 2009, the total assets for these subsidiaries were \$93 million, which were predominantly deposits with banks and equity investments. In 2008, the total assets for these subsidiaries were \$280 million, which were largely loans and federal funds sold. There were no wholly-owned subsidiaries transferred from JPMorgan Chase to JPMorgan Chase Bank N.A. in 2010.

In addition to the above transfers from JPMorgan Chase Bank, N.A., in 2010 and 2009, JPMorgan Chase Bank, N.A. transferred

various wholly-owned subsidiaries to JPMorgan Chase. The total assets for these subsidiaries were \$11 million and \$36 million in 2010 and 2009, respectively. In 2010, these assets were primarily accrued interest and accounts receivable, and in 2009 these assets were largely cash and due from banks. There were no wholly-owned subsidiaries transferred from JPMorgan Chase Bank, N.A. to JPMorgan Chase in 2008.

The internal transfers of the above legal entities were accounted for at historical cost in accordance with U.S. GAAP for business combinations. However, all of the transfers were reflected in the Consolidated Financial Statements prospectively, and not as of the beginning of all periods presented, because the impact of these transfers was not material to JPMorgan Chase Bank, N.A.'s Consolidated Financial Statements for any of the years ended December 31, 2010, 2009 or 2008.

Subsequent events

JPMorgan Chase Bank, N.A. has performed an evaluation of events that have occurred subsequent to December 31, 2010, and through March 24, 2011 (the date these Consolidated Financial Statements were available to be issued). There have been no material subsequent events that occurred during such period that would require disclosure or recognition in these Consolidated Financial Statements, as of or for the year ended December 31, 2010.

Note 4 – Fair value measurement

JPMorgan Chase Bank, N.A. carries a portion of its assets and liabilities at fair value. The majority of such assets and liabilities are carried at fair value on a recurring basis. Certain assets and liabilities are carried at fair value on a nonrecurring basis, including held-for-sale loans, which are accounted for at the lower of cost or fair value and that are only subject to fair value adjustments under certain circumstances.

JPMorgan Chase Bank, N.A. has an established and well-documented process for determining fair values. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity of the instrument. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, JPMorgan Chase Bank, N.A.'s creditworthiness, constraints on liquidity and unobservable parameters. Valuation adjustments are applied consistently over time.

- Credit valuation adjustments (“CVA”) are necessary when the market price (or parameter) is not indicative of the credit quality of the counterparty. As few classes of derivative contracts are listed on an exchange, the majority of derivative positions are valued using internally developed models that use as their basis observable market parameters. An adjustment is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value. The adjustment also takes into account contractual factors designed to reduce JPMorgan Chase Bank, N.A.’s credit exposure to each counterparty, such as collateral and legal rights of offset.
- Debit valuation adjustments (“DVA”) are necessary to reflect the credit quality of JPMorgan Chase Bank, N.A. in the valuation of liabilities measured at fair value. The methodology to determine the adjustment is consistent with CVA and incorporates JPMorgan Chase Bank, N.A.’s credit spread as observed through the credit default swap market.
- Liquidity valuation adjustments are necessary when JPMorgan Chase Bank, N.A. may not be able to observe a recent market price for a financial instrument that trades in inactive (or less active) markets or to reflect the cost of exiting larger-than-normal market-size risk positions (liquidity adjustments are not taken for positions classified within level 1 of the fair value hierarchy; see below). JPMorgan Chase Bank, N.A. estimates the amount of uncertainty in the initial valuation based on the degree of liquidity in the market in which the financial instrument trades and makes liquidity adjustments to the carrying value of the financial instrument. JPMorgan Chase Bank, N.A. measures the liquidity adjustment based on the following factors: (1) the amount of time since the last relevant pricing point; (2) whether there was an actual trade or relevant external quote; and (3) the volatility of the principal risk component of the financial instrument. Costs to exit larger-than-normal market-size risk positions are determined based on the size of the adverse market move that is likely to occur during the period required to bring a position down to a nonconcentrated level.
- Unobservable parameter valuation adjustments are necessary when positions are valued using internally developed models that use as their basis unobservable parameters – that is, parameters that must be estimated and are, therefore, subject to management judgment. Such positions are normally traded less actively. Examples include certain credit products where parameters such as correlation and recovery rates are unobservable. Unobservable parameter valuation adjustments are applied to mitigate the possibility of error and revision in the estimate of the market price provided by the model.

JPMorgan Chase Bank, N.A. has numerous controls in place intended to ensure that its fair values are appropriate. An independent model review group reviews JPMorgan Chase Bank, N.A.’s valuation models and approves them for use for specific products. All valuation models within JPMorgan Chase Bank, N.A. are subject to this review process. A price verification group, independent from the risk-taking function, ensures observable market prices and market-based parameters are used for valuation wherever possible. For those products with material parameter risk for which observable market levels do not exist, an independent review of the assumptions made on pricing is performed. Additional review includes deconstruction of the model valuations for certain structured instruments into their components and benchmarking valuations, where possible, to similar products; validating valuation estimates through actual cash settlement; and detailed review and explanation of recorded gains and losses, which are analyzed daily and over time. Valuation adjustments, which are also determined by the independent price verification group, are based on established policies and applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm that the changes are justified. As markets and products develop and the pricing for certain products becomes more or less transparent, JPMorgan Chase Bank, N.A. continues to refine its valuation methodologies. During 2010, no changes were made to JPMorgan Chase Bank, N.A.’s valuation models that had, or are expected to have, a material impact on JPMorgan Chase Bank, N.A.’s Consolidated Balance Sheets or financial performance.

The methods described above to estimate fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while JPMorgan Chase Bank, N.A. believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Valuation Hierarchy

A three-level valuation hierarchy has been established under U.S. GAAP for disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – one or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used by JPMorgan Chase Bank, N.A. to measure instruments at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Assets

Securities purchased under resale agreements ("resale agreements") and securities borrowed

To estimate the fair value of resale agreements and securities borrowed transactions, cash flows are first evaluated taking into consideration any derivative features of the resale agreement and are then discounted using the appropriate market rates for the applicable maturity. As the inputs into the valuation are primarily based on readily observable pricing information, such resale agreements are classified within level 2 of the valuation hierarchy.

Loans and unfunded lending-related commitments

The majority of JPMorgan Chase Bank, N.A.'s loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The fair value of such loans and lending-related commitments is included in the additional disclosures of fair value of certain financial instruments required by U.S. GAAP on pages 27–28 of this Note. Loans carried at fair value on a recurring and nonrecurring basis are included in the applicable tables that follow.

Wholesale

There is no liquid secondary market for most loans and lending-related commitments in JPMorgan Chase Bank, N.A.'s wholesale portfolio. In the limited circumstances where direct secondary market information – including pricing of actual market transactions, broker quotations or quoted market prices for similar instruments – is available (principally for loans in JPMorgan Chase Bank, N.A.'s secondary trading portfolio), such information is used in the determination of fair value. For the remainder of the portfolio, fair value is estimated using a discounted cash flow ("DCF") model. In addition to the characteristics of the underlying loans (including principal, contractual interest rate and contractual fees), key inputs to the model include interest rates, prepayment rates and credit spreads. The credit spread input is derived from the cost of credit default swaps ("CDS") and, as a result, also incorporates the effects of secondary market liquidity. As many of JPMorgan Chase Bank, N.A.'s clients do not have bonds traded with sufficient liquidity in the public markets to have observable CDS spreads, JPMorgan Chase Bank, N.A. principally develops benchmark credit curves by industry and credit rating to estimate fair value. Also incorporated into the valuation process are additional adjustments to account for the difference in loss severity rates between bonds, on which the cost of credit derivatives is based, and loans as well as loan equivalents (which

represent the portion of an unused commitment expected, based on JPMorgan Chase Bank, N.A.'s average portfolio historical experience, to become outstanding prior to an obligor default). Certain floating rate loans that are not carried on the balance sheet at fair value are carried at amounts that approximate fair value due to their short term nature and negligible credit risk (e.g., based on historical experience or collateralization).

JPMorgan Chase Bank, N.A.'s loans and unfunded lending-related commitments carried at fair value are classified within level 2 or 3 of the valuation hierarchy depending on the level of liquidity and activity in the markets for a particular product.

Consumer

The only products in JPMorgan Chase Bank, N.A.'s consumer loan portfolio with a meaningful level of secondary market activity in the current economic environment are certain conforming residential mortgages. These loans are classified as trading assets and carried at fair value on the Consolidated Balance Sheets. They are predominantly classified within level 2 of the valuation hierarchy based on the level of market liquidity and activity.

The fair value of JPMorgan Chase Bank, N.A.'s other consumer loans (except for credit card receivables) is generally determined by discounting the loan principal and interest cash flows expected to be collected at a market observable discount rate, when available. Portfolio-specific factors that a market participant would consider in determining fair value (e.g., expected lifetime credit losses, estimated prepayments, servicing costs and market liquidity) are either modeled into the cash flow projections or incorporated as an adjustment to the discount rate. For products that continue to be offered in the market, discount rates are derived from market-observable primary origination rates. Where primary origination rates are not available (i.e., subprime mortgages, subprime home equity and option adjustable-rate mortgages ("option ARMs")) the valuation is based on JPMorgan Chase Bank, N.A.'s estimate of a market participant's required return on equity for similar products (i.e., a hypothetical origination spread). Estimated lifetime credit losses consider expected and current default rates for existing portfolios, collateral prices (where applicable) and expectations about changes in the economic environment (e.g., unemployment rates).

The fair value of credit card receivables is determined using a discounted expected cash flow methodology. Key estimates and assumptions include: projected interest income and late fee revenue, funding, servicing, credit costs, and loan payment rates. The projected loan payment rates are used to determine the estimated life of the credit card loan receivables, which are then discounted using a risk-appropriate discount rate. The discount rate is derived from JPMorgan Chase Bank, N.A.'s estimate of a market participant's expected return on credit card receivables. As the credit card portfolio has a short-term life, an amount equal to the allowance for loan losses is considered a reasonable proxy for the credit cost component.

Loans that are not carried on the Consolidated Balance Sheets at fair value are not classified within the fair value hierarchy.

Mortgage loans carried at fair value

For certain loans that are expected to be securitized, fair value is estimated using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. When relevant market activity is not occurring or is limited, fair value is estimated by projecting the expected cash flows and discounting those cash flows at a rate reflective of current market liquidity. To estimate the projected cash flows of a residential mortgage loan (inclusive of assumptions of prepayment, default rates and loss severity), specific consideration is given to both borrower-specific and other market factors, including, but not limited to: the borrower's FICO score; the type of collateral supporting the loans; the level of documentation for the loan; and market-derived expectations for home price appreciation or depreciation in the respective geography of the borrower. For commercial mortgages consideration is given to both borrower-specific and other market factors, including but not limited to: the borrower's debt-service coverage ratio; the type of commercial property (e.g., retail, office, lodging, multi-family, etc.); an estimate of the current loan-to-value ratio; and market-derived expectations for property price appreciation or depreciation in the respective geographic location. In addition, commercial mortgage loans typically have lock-out periods where the borrower is restricted from prepaying the loan due to prepayment penalties. These features reduce prepayment risk for commercial mortgages relative to that of residential mortgages. These loans are classified within level 2 or 3 of the valuation hierarchy depending on the level of liquidity and activity in the markets for the particular product.

Securities

Where quoted prices for identical securities are available in an active market, securities are classified in level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds; mortgage products for which there are quoted prices in active markets such as U.S. government agency or U.S. government-sponsored enterprise (collectively, "U.S. government agencies") markets; pass-through mortgage-backed securities ("MBS"); and exchange-traded equities (e.g., common and preferred stocks).

If quoted market prices are not available for the specific security, JPMorgan Chase Bank, N.A. may estimate the value of such instruments using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. JPMorgan Chase Bank, N.A. may also use pricing models or discounted cash flows. The majority of such instruments are classified within level 2 of the valuation hierarchy; however, in cases where there is limited activity

or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy.

For mortgage-backed securities, where market activity is not occurring or is limited, fair value is estimated considering the value of the collateral and the specific attributes of the securities held by JPMorgan Chase Bank, N.A. The value of the collateral pool supporting the securities is analyzed using the same techniques and factors described above for residential mortgage loans, albeit in a more aggregated manner across the pool. For example, for residential MBS, factors evaluated may include average FICO scores, average delinquency rates, average loss severities and prepayment rates, among other metrics. For commercial MBS, factors evaluated may include average delinquencies, loan or geographic concentrations, and average debt-service coverage ratios, among other metrics. In addition, as each securitization vehicle distributes cash in a manner or order that is predetermined at the inception of the vehicle, the priority in which each particular MBS is allocated cash flows, and the level of credit enhancement in place to support those cash flows, are key considerations in deriving the value of MBS. Finally, the risk premium that investors demand for securitized products in the current market is factored into the valuation. To benchmark its valuations, JPMorgan Chase Bank, N.A. looks to transactions for similar instruments and uses independent pricing provided by third-party vendors, broker quotes and relevant market indices, such as the ABX index, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of JPMorgan Chase Bank, N.A.'s estimates.

For certain collateralized mortgage and debt obligations, asset-backed securities ("ABS") and high-yield debt securities, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. For cash collateralized debt obligations ("CDOs"), external price information is not available. Therefore, cash CDOs are valued using market-standard models, such as Intex, to model the specific collateral composition and cash flow structure of each deal; key inputs to the model are market spread data for each credit rating, collateral type and other relevant contractual features. Asset-backed securities are valued based on external prices or market spread data, using current market assumptions on prepayments and defaults. For ABS where the external price data is not observable or the limited available data is opaque, the collateral performance is monitored and considered in the valuation of the security. To benchmark its valuations, JPMorgan Chase Bank, N.A. looks to transactions for similar instruments and uses independent prices provided by third-party vendors, broker quotes and relevant market indices, such as the ABX index, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of JPMorgan Chase Bank, N.A.'s estimates. The majority of collateralized mortgage and debt obligations, high-yield debt securities and ABS are currently classified in level 3 of the valuation hierarchy.

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Collateralized loan obligations (“CLOs”) are securities backed by corporate loans, and they are predominantly held in JPMorgan Chase Bank, N.A.’s available-for-sale (“AFS”) securities portfolio. For these securities, external pricing information is not readily available. They are therefore valued using market-standard models to model the specific collateral composition and cash flow structure of each deal; key inputs to the model are market spread data for each credit rating, collateral type and other relevant contractual features. For further discussion, see Note 13 on pages 52–56 of these Consolidated Financial Statements.

Commodities

Commodities inventory is generally carried at the lower of cost or fair value. The fair value of commodities inventory is determined primarily using pricing and data derived from the markets on which the commodities are traded. The majority of commodities inventory is classified within level 1 of the valuation hierarchy.

JPMorgan Chase Bank, N.A. also has positions in commodities-based derivatives that can be traded on an exchange or over-the-counter (“OTC”) and carried at fair value. The pricing inputs to these derivatives include forward curves of underlying commodities, basis curves, volatilities, correlations, and occasionally other model parameters. The valuation of these derivatives is based on calibrating to market transactions, as well as to independent pricing information from sources such as brokers and consensus pricing services. Where inputs are historical time series data, they are adjusted for uncertainty where appropriate. The majority of commodities-based derivatives are classified within level 2 of the valuation hierarchy.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of JPMorgan Chase Bank, N.A.’s derivative positions are valued using internally developed models that use as their basis readily observable market parameters – that is, parameters that are actively quoted and can be validated to external sources, including industry pricing services. Depending on the types and contractual terms of derivatives, fair value can be modeled using a series of techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models, which are consistently applied. Where derivative products have been established for some time, JPMorgan Chase Bank, N.A. uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity, as the methodologies used in the models do not require significant judgment, and inputs to the models are readily observable from actively quoted markets, as is the case for “plain vanilla” interest rate swaps, option contracts and

CDS. Such instruments are generally classified within level 2 of the valuation hierarchy.

Derivatives that are valued based on models with significant unobservable market parameters and that are normally traded less actively, have trade activity that is one way, and/or are traded in less-developed markets are classified within level 3 of the valuation hierarchy. Level 3 derivatives include, for example, CDS referenced to certain MBS, certain types of CDO transactions, options on baskets of single-name stocks, and callable exotic interest rate options.

Other complex products, such as those sensitive to correlation between two or more underlying parameters, also fall within level 3 of the valuation hierarchy, and include structured credit derivatives which are illiquid and non-standard in nature (e.g., synthetic CDOs collateralized by a portfolio of credit default swaps “CDS”). For most CDO transactions, while inputs such as CDS spreads may be observable, the correlation between the underlying debt instruments is unobservable. Correlation levels are modeled on a transaction basis and calibrated to liquid benchmark tranche indices. For all structured credit derivatives, actual transactions, where available, are used regularly to recalibrate all unobservable parameters.

Correlation sensitivity is also material to the overall valuation of options on baskets of single-name stocks; the valuation of these baskets is typically not observable due to their non-standardized structuring. Correlation for products such as these is typically estimated based on an observable basket of stocks and then adjusted to reflect the differences between the underlying equities.

For callable exotic interest rate options, while most of the assumptions in the valuation can be observed in active markets (e.g., interest rates and volatility), the callable option transaction flow is essentially one-way, and as such, price observability is limited. As pricing information is limited, assumptions are based on the dynamics of the underlying markets (e.g., the interest rate markets) including the range and possible outcomes of the applicable inputs. In addition, the models used are calibrated, as relevant, to liquid benchmarks, and valuation is tested against monthly independent pricing services and actual transactions.

Mortgage servicing rights and certain retained interests in securitizations

Mortgage servicing rights (“MSRs”) and certain retained interests from securitization activities do not trade in an active, open market with readily observable prices. Accordingly, JPMorgan Chase Bank, N.A. estimates the fair value of MSRs and certain other retained interests in securitizations using DCF models.

- For MSRs, JPMorgan Chase Bank, N.A. uses an option-adjusted spread (“OAS”) valuation model in conjunction with JPMorgan Chase Bank, N.A.’s proprietary prepayment model to project MSR cash flows over multiple interest rate scenarios; these scenarios are then discounted at risk-adjusted rates to estimate the fair value of the MSRs. The OAS model consid-

ers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. JPMorgan Chase Bank, N.A. reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. Due to the nature of the valuation inputs, MSRs are classified within level 3 of the valuation hierarchy.

- For certain retained interests in securitizations, JPMorgan Chase Bank, N.A. estimates the fair value for those retained interests by calculating the present value of future expected cash flows using modeling techniques. Such models incorporate management's best estimates of key variables, such as expected credit losses, prepayment speeds and the appropriate discount rates, considering the risk involved. Changes in the assumptions used may have a significant impact on JPMorgan Chase Bank, N.A.'s valuation of retained interests, and such interests are therefore typically classified within level 3 of the valuation hierarchy.

For both MSRs and certain other retained interests in securitizations, JPMorgan Chase Bank, N.A. compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. For further discussion of the most significant assumptions used to value retained interests and MSRs, as well as the applicable stress tests for those assumptions, see Note 17 on pages 82–97, and Note 18 on pages 98–100 of these Consolidated Financial Statements.

Other fund investments

JPMorgan Chase Bank, N.A. holds investments in mutual/collective investment funds, private equity funds, hedge funds and real estate funds. Where the funds produce a daily net asset value ("NAV") that is validated by a sufficient level of observable activity (purchases and sales at NAV), the NAV is used to value the fund investment and it is classified in level 1 of the valuation hierarchy. Where adjustments to the NAV are required, for example, with respect to interests in funds subject to restrictions on redemption (such as lock-up periods or withdrawal limitations) and/or observable activity for the fund investment is limited, investments are classified within level 2 or 3 of the valuation hierarchy.

Liabilities

Securities sold under repurchase agreements ("repurchase agreements")

To estimate the fair value of repurchase agreements, cash flows are first evaluated taking into consideration any derivative features of the repurchase agreements and are then discounted using the appropriate market rates for the applicable maturity. Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to, or in excess of, the principal amount loaned; as a result, there would be no adjustment, or an immaterial adjustment, to reflect the credit quality of JPMorgan Chase Bank, N.A. (i.e., DVA) related to these agreements. As the inputs into the valuation are primarily based on observable pricing information, repurchase agreements are classified within level 2 of the valuation hierarchy.

Beneficial interests issued by consolidated VIEs

The fair value of beneficial interests issued by consolidated VIEs ("beneficial interests") is estimated based on the fair value of the underlying assets held by the VIEs. The valuation of beneficial interests does not include an adjustment to reflect the credit quality of JPMorgan Chase Bank, N.A., as the holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. Where the inputs into the valuation are based on observable market pricing information, the beneficial interests are classified within level 2 of the valuation hierarchy. Where significant inputs into the valuation are unobservable, the beneficial interests are classified within level 3 of the valuation hierarchy.

Deposits, other borrowed funds and long-term debt

To estimate the fair value of long-term debt, cash flows are discounted using the appropriate market rates for the applicable maturities with an adjustment to reflect the credit quality of JPMorgan Chase Bank, N.A. (i.e., the DVA). Included within deposits, other borrowed funds and long-term debt are structured notes issued by JPMorgan Chase Bank, N.A. that are financial instruments containing embedded derivatives. In addition to the above, the estimation of the fair value of structured notes takes into consideration any derivative features. Where the inputs into the valuation are primarily based on observable market prices, the structured notes are classified within level 2 of the valuation hierarchy. Where significant inputs are unobservable, the structured notes are classified within level 3 of the valuation hierarchy.

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The following tables present the assets and liabilities measured at fair value as of December 31, 2010 and 2009, by major product category and by the fair value hierarchy (as described above).

Assets and liabilities measured at fair value on a recurring basis

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

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

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December 31, 2009 (in millions)	Fair value hierarchy			Netting adjustments	Total fair value
	Level 1	Level 2	Level 3		
Federal funds sold and securities purchased under resale agreements	\$ —	\$ 20,055	\$ —	\$ —	\$ 20,055
Securities borrowed	—	7,032	—	—	7,032
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. government agencies ^(a)	805	5	—	—	810
Residential – nonagency	—	761	242	—	1,003
Commercial – nonagency	—	43	180	—	223
Total mortgage-backed securities	805	809	422	—	2,036
U.S. Treasury and government agencies ^(a)	4,404	523	—	—	4,927
Obligations of U.S. states and municipalities	—	365	257	—	622
Certificates of deposit, bankers' acceptances and commercial paper	—	1,941	—	—	1,941
Non-U.S. government debt securities	27,340	32,481	88	—	59,909
Corporate debt securities	—	39,854	4,558	—	44,412
Loans	—	18,168	11,070	—	29,238
Asset-backed securities	—	804	6,520	—	7,324
Total debt instruments	32,549	94,945	22,915	—	150,409
Equity securities	67,801	1,156	284	—	69,241
Physical commodities ^(b)	9,450	—	—	—	9,450
Other	—	1,312	160	—	1,472
Total debt and equity instruments^(c)	109,800	97,413	23,359	—	230,572
Derivative receivables ^{(d)(e)}	979	1,506,366	46,026	(1,481,354)	72,017
Total trading assets	110,779	1,603,779	69,385	(1,481,354)	302,589
Available-for-sale securities:					
Mortgage-backed securities:					
U.S. government agencies ^(a)	158,957	8,941	—	—	167,898
Residential – nonagency	—	14,773	8	—	14,781
Commercial – nonagency	—	4,575	—	—	4,575
Total mortgage-backed securities	158,957	28,289	8	—	187,254
U.S. Treasury and government agencies ^(a)	350	29,592	—	—	29,942
Obligations of U.S. states and municipalities	—	3,541	65	—	3,606
Certificates of deposit	—	2,650	—	—	2,650
Non-U.S. government debt securities	5,506	18,997	—	—	24,503
Corporate debt securities	1	61,486	—	—	61,487
Asset-backed securities:					
Credit card receivables	—	19,108	—	—	19,108
Collateralized loan obligations	—	5	12,144	—	12,149
Other	—	6,204	111	—	6,315
Equity securities	679	77	78	—	834
Total available-for-sale securities	165,493	169,949	12,406	—	347,848
Loans	—	243	310	—	553
Mortgage servicing rights	—	—	15,342	—	15,342
Other assets ^(h)	—	—	3,610	—	3,610
Total assets measured at fair value on a recurring basis^(f)	\$ 276,272	\$ 1,801,058	\$ 101,053	\$ (1,481,354)	\$ 697,029

December 31, 2009 (in millions)	Fair value hierarchy			Netting adjustments	Total fair value
	Level 1	Level 2	Level 3		
Deposits	\$ —	\$ 3,979	\$ 476	\$ —	\$ 4,455
Federal funds purchased and securities loaned or sold under repurchase agreements	—	2,222	—	—	2,222
Other borrowed funds	—	4,269	492	—	4,761
Trading liabilities:					
Debt and equity instruments ^(c)	36,158	8,983	10	—	45,151
Derivative payables ^{(d)(e)}	1,051	1,483,164	34,627	(1,454,485)	64,357
Total trading liabilities	37,209	1,492,147	34,637	(1,454,485)	109,508
Accounts payable and other liabilities	—	2	3	—	5
Beneficial interests issued by consolidated VIEs	—	168	568	—	736
Long-term debt	—	13,900	13,965	—	27,865
Total liabilities measured at fair value on a recurring basis	\$ 37,209	\$ 1,516,687	\$ 50,141	\$ (1,454,485)	\$ 149,552

- (a) At December 31, 2010 and 2009, included total U.S. government-sponsored enterprise obligations of \$94.7 billion and \$155.0 billion, respectively, which were predominantly mortgage-related.
- (b) Physical commodities inventories are generally accounted for at the lower of cost or fair value.
- (c) Balances reflect the reduction of securities owned (long positions) by the amount of securities sold but not yet purchased (short positions) when the long and short positions have identical Committee on Uniform Security Identification Procedures ("CUSIPs").
- (d) The level 3 amounts for derivative receivables and derivative payables related to credit primarily include structured credit derivative instruments. For further information on the classification of instruments within the valuation hierarchy, see pages 13–17 of this Note.
- (e) As permitted under U.S. GAAP, JPMorgan Chase Bank, N.A. has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. For purposes of the tables above, JPMorgan Chase Bank, N.A. does not reduce derivative receivables and derivative payables balances for this netting adjustment, either within or across the levels of the fair value hierarchy, as such netting is not relevant to a presentation based on the transparency of inputs to the valuation of an asset or liability. Therefore, the balances reported in the fair value hierarchy table above are gross of any counterparty netting adjustments. However, if JPMorgan Chase Bank, N.A. were to net such balances within level 3, the reduction in the level 3 derivative receivable and derivative payable balances would be \$12.5 billion and \$16.0 billion at December 31, 2010 and 2009, respectively, exclusive of the netting benefit associated with cash collateral, which would further reduce the level 3 balances.
- (f) At December 31, 2010 and 2009, balances included investments valued at net asset value of \$1.9 billion and \$4.1 billion, respectively, of which \$874 million and \$1.2 billion, respectively, were classified in level 1, \$741 million and \$2.0 billion, respectively, in level 2 and \$243 million and \$866 million in level 3.
- (g) For the year ended December 31, 2010, there were no significant transfers between levels 1 and 2. Transfers from level 3 into level 2 included \$1.2 billion of trading loans due to increased price transparency. There were no significant transfers into level 3.
- (h) Included assets within accrued interest receivable and other assets at December 31, 2009.

Changes in level 3 recurring fair value measurements

The following tables include a rollforward of the balance sheet amounts (including changes in fair value) for financial instruments classified by JPMorgan Chase Bank, N.A. within level 3 of the fair value hierarchy for the years ended December 31, 2010, 2009 and 2008. When a determination is made to classify a financial instrument within level 3, the determination is based on the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses

in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, JPMorgan Chase Bank, N.A. risk-manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the fair value hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the following tables do not reflect the effect of JPMorgan Chase Bank, N.A.'s risk management activities related to such level 3 instruments.

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Fair value measurements using significant unobservable inputs						
Year ended December 31, 2010 (in millions)	Fair value at January 1, 2010	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3(e)	Fair value at December 31, 2010	Change in unrealized gains/(losses) related to financial instruments held at December 31, 2010
Assets:						
Trading assets:						
Debt instruments:						
Mortgage-backed securities:						
U.S. government agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential – nonagency	242	117	(144)	(28)	187	95
Commercial – nonagency	180	75	(56)	1	200	—
Total mortgage-backed securities	422	192	(200)	(27)	387	95
Obligations of U.S. states and municipalities	257	(7)	(6)	—	244	(6)
Non-U.S. government debt securities	88	(33)	192	(45)	202	(8)
Corporate debt securities	4,558	(416)	757	(55)	4,844	32
Loans	11,070	(140)	737	(1,244)	10,423	(250)
Asset-backed securities	6,520	136	(302)	14	6,368	156
Total debt instruments	22,915	(268)	1,178	(1,357)	22,468	19
Equity securities	284	137	3	(80)	344	163
Other	160	24	(112)	1	73	74
Total debt and equity instruments	23,359	(107)^(a)	1,069	(1,436)	22,885	256^(a)
Net derivative receivables:						
Interest rate	2,038	2,697	(2,523)	(23)	2,189	111
Credit	10,182	(1,764)	(2,987)	(91)	5,340	(1,059)
Foreign exchange	1,083	(796)	(485)	(438)	(636)	(378)
Equity	(1,400)	(234)	(483)	93	(2,024)	118
Commodity	(504)	(124)	(192)	63	(757)	(75)
Total net derivative receivables	11,399	(221)^(a)	(6,670)	(396)	4,112	(1,283)^(a)
Available-for-sale securities:						
Asset-backed securities	12,255	(215)	1,430	—	13,470	(168)
Other	151	39	61	72	323	18
Total available-for-sale securities	12,406	(176)^(b)	1,491	72	13,793	(150)^(b)
Loans	310	52 ^(a)	197	(8)	551	34 ^(a)
Mortgage servicing rights	15,342	(2,325) ^(c)	423	—	13,440	(2,325) ^(c)
Other assets	3,610	(53) ^(d)	4,569	—	8,126	(92) ^(d)

Fair value measurements using significant unobservable inputs						
Year ended December 31, 2010 (in millions)	Fair value at January 1, 2010	Total realized/ unrealized (gains)/losses	Purchases, issuances settlements, net	Transfers into and/or out of level 3(e)	Fair value at December 31, 2010	Change in unrealized gains/(losses) related to financial instruments held at December 31, 2010
Liabilities^(f):						
Deposits	\$ 476	\$ 28 ^(a)	\$ (200)	\$ 330	\$ 634	\$ (77) ^(a)
Other borrowed funds	492	(126) ^(a)	659	(242)	783	414 ^(a)
Trading liabilities:						
Debt and equity instruments	10	5 ^(a)	(32)	19	2	— ^(a)
Accounts payable and other liabilities	3	(7) ^(d)	131	—	127	(5) ^(d)
Beneficial interests issued by consolidated VIEs	568	26 ^(a)	(419)	—	175	27 ^(a)
Long-term debt	13,965	(147) ^(a)	(4,352)	92	9,558	713 ^(a)

Fair value measurements using significant unobservable inputs

Year ended December 31, 2009 (in millions)	Fair value, January 1, 2009	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3(e)	Fair value, December 31, 2009	Change in unrealized gains/(losses) related to financial instruments held at December 31, 2009
Assets:						
Trading assets:						
Debt instruments:						
Mortgage-backed securities:						
U.S. government agencies	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential – nonagency	615	113	(129)	(357)	242	22
Commercial – nonagency	174	73	(68)	1	180	—
Total mortgage-backed securities	789	186	(197)	(356)	422	22
Obligations of U.S. states and municipalities	353	(30)	(66)	—	257	(28)
Non-U.S. government debt securities	12	35	(22)	63	88	32
Corporate debt securities	4,838	154	(3,516)	3,082	4,558	(9)
Loans	14,481	(366)	(3,306)	261	11,070	(615)
Asset-backed securities	5,540	1,432	(378)	(74)	6,520	736
Total debt instruments	26,013	1,411	(7,485)	2,976	22,915	138
Equity securities	235	(43)	(96)	188	284	9
Other	21	14	75	50	160	22
Total debt and equity instruments	26,269	1,382 ^(a)	(7,506)	3,214	23,359	169 ^(a)
Total net derivative receivables	8,932	(12,257) ^(a)	(1,769)	16,493	11,399	(10,991) ^(a)
Available-for-sale securities:						
Asset-backed securities	11,195	(77)	1,137	—	12,255	(101)
Other	63	59	371	(342)	151	58
Total available-for-sale securities	11,258	(18) ^(b)	1,508	(342)	12,406	(43) ^(b)
Loans	1,397	(47) ^(a)	(1,818)	778	310	(85) ^(a)
Mortgage servicing rights	9,236	5,735 ^(c)	371	—	15,342	5,735 ^(c)
Other assets ^(g)	2,826	(434) ^(d)	1,201	17	3,610	(447) ^(d)

Fair value measurements using significant unobservable inputs

Year ended December 31, 2009 (in millions)	Fair value, January 1, 2009	Total realized/ unrealized (gains)/losses	Purchases, issuances settlements, net	Transfers into and/or out of level 3(e)	Fair value, December 31, 2009	Change in unrealized (gains)/losses related to financial instruments held at December 31, 2009
Liabilities^(f):						
Deposits	\$ 1,235	\$ 47 ^(a)	\$ (870)	\$ 64	\$ 476	\$ (36) ^(a)
Other borrowed funds	56	(63) ^(a)	653	(154)	492	9 ^(a)
Trading liabilities:						
Debt and equity instruments	287	57 ^(a)	(331)	(3)	10	9 ^(a)
Accounts payable and other liabilities	—	(7) ^(a)	10	—	3	(7) ^(a)
Beneficial interests issued by consolidated VIEs	—	344 ^(a)	(766)	990	568	327 ^(a)
Long-term debt	14,525	1,173 ^(a)	(3,059)	1,326	13,965	1,534 ^(a)

Notes to consolidated financial statements

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

Year ended December 31, 2008 (in millions)	Fair value measurements using significant unobservable inputs					Change in unrealized gains/(losses) related to financial instruments held at December 31, 2008
	Fair value, January 1, 2008	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3(e)	Fair value, December 31, 2008	
Assets:						
Trading assets:						
Debt and equity instruments	\$ 18,815	\$ (4,969)(a)	\$ (1,063)	\$13,486	\$ 26,269	\$ (4,229)(a)
Net derivative receivables	206	1,846(a)	5,645	1,235	8,932	(1,670)(a)
Available-for-sale securities	10	(895)(b)	3,439	8,704	11,258	(187)(b)
Loans	7,797	(1,091)(a)	(1,181)	(4,128)	1,397	(1,159)(a)
Mortgage servicing rights	8,632	(6,772)(c)	7,376	—	9,236	(6,772)(c)
Other assets(g)	1,938	(170)(d)	1,077	(19)	2,826	(141)(d)

Year ended December 31, 2008 (in millions)	Fair value measurements using significant unobservable inputs					Change in unrealized (gains)/losses related to financial instruments held at December 31, 2008
	Fair value, January 1, 2008	Total realized/ unrealized (gains)/losses	Purchases, issuances settlements, net	Transfers into and/or out of level 3(e)	Fair value, December 31, 2008	
Liabilities(f):						
Deposits	\$ 1,228	\$ (72)(a)	\$ 28	\$ 51	\$ 1,235	\$ (69)(a)
Other borrowed funds	101	19(a)	—	(64)	56	(5)(a)
Trading liabilities:						
Debt and equity instruments	480	(78)(a)	(27)	(88)	287	(127)(a)
Accounts payable and other liabilities	25	(25)(a)	—	—	—	—
Beneficial interests issued by consolidated VIEs	82	(53)(a)	(5)	(24)	—	—
Long-term debt	21,198	(3,968)(a)	(3,604)	899	14,525	(3,227)(a)

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

(b) Realized gains and losses on available-for-sale securities, as well as other-than-temporary impairment losses that are recorded in earnings, are reported in securities gains. Unrealized gains and losses are reported in other comprehensive income.

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

(d) Predominantly reported in other income

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

(f) Level 3 liabilities as a percentage of total JPMorgan Chase Bank, N.A. liabilities accounted for at fair value (including liabilities measured at fair value on a nonrecurring basis) were 26%, 34% and 30% at December 31, 2010, 2009 and 2008, respectively.

(g) Includes certain assets that are classified within accrued interest receivable and other assets on the Consolidated Balance Sheet at December 31, 2009 and 2008.

Assets and liabilities measured at fair value on a nonrecurring basis

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but instead are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following tables present the assets and liabilities carried on the Consolidated Balance Sheets by caption and level within the valuation hierarchy (as described above) as of December 31, 2010 and 2009, for which a nonrecurring change in fair value has been recorded during the reporting period.

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

December 31, 2009 (in millions)	Fair value hierarchy			Total fair value
	Level 1	Level 2	Level 3	
Loans retained ^(a)	\$ —	\$ 4,539	\$ 1,137	\$ 5,676
Loans held-for-sale ^(b)	—	601	978	1,579
Total loans	—	5,140	2,115	7,255
Other real estate owned	—	177	228	405
Other assets	—	—	160	160
Total other assets	—	177	388	565
Total assets at fair value on a nonrecurring basis	\$ —	\$ 5,317	\$ 2,503	\$ 7,820
Accounts payable and other liabilities ^(c)	\$ —	\$ 87	\$ 39	\$ 126
Total liabilities at fair value on a nonrecurring basis	\$ —	\$ 87	\$ 39	\$ 126

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

(b) Predominantly includes leveraged lending loans at December 31, 2010 and 2009. Loans held-for-sale are carried on the Consolidated Balance Sheets at the lower of cost or fair value.

(c) Represents, at December 31, 2010 and 2009, fair value adjustments associated with \$517 million and \$688 million, respectively, of unfunded held-for-sale lending-related commitments within the leveraged lending portfolio.

(d) In the year ended December 31, 2010, transfers between levels 1, 2 and 3 were not significant.

Notes to consolidated financial statements

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The method used to estimate the fair value of impaired collateral-dependent loans, and other loans where the carrying value is based on the fair value of the underlying collateral (e.g., residential mortgage loans charged off in accordance with regulatory guidance), depends on the type of collateral (e.g., securities, real estate, nonfinancial assets) underlying the loan. Fair value of the collateral is estimated based on quoted market prices, broker quotes or independent appraisals, or by using a discounted cash flow model. For further information, see Note 16 on pages 77–81 of these Consolidated Financial Statements.

Nonrecurring fair value changes

The following table presents the total change in value of assets and liabilities for which a fair value adjustment has been included in the Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, related to financial instruments held at those dates.

Year ended December 31, (in millions)	2010	2009	2008
Loans retained	\$ (3,213)	\$ (3,548)	\$ (1,158)
Loans held-for-sale	49	(386)	(2,628)
Total loans	(3,164)	(3,934)	(3,786)
Other assets	48	17	(211)
Accounts payable and other liabilities	6	31	(263)
Total nonrecurring fair value gains/(losses)	\$ (3,110)	\$ (3,886)	\$ (4,260)

In the above table, loans predominantly include: (1) mortgage, home equity, and other loans where changes in the carrying value are based on the fair value of the underlying collateral; and (2) the change in fair value for leveraged lending loans carried on the Consolidated Balance Sheets at the lower of cost or fair value. Accounts payable and other liabilities predominantly include the change in fair value for unfunded lending-related commitments within the leveraged lending portfolio.

Level 3 analysis

Level 3 assets at December 31, 2010, predominantly include derivative receivables, mortgage servicing rights ("MSRs"), collateralized loan obligations ("CLOs") held within the available-for-sale securities portfolio, trading loans and asset-backed trading securities.

- Derivative receivables included \$34.9 billion of interest rate, credit, foreign exchange, equity and commodity contracts classified within level 3 at December 31, 2010. Included within this balance was \$11.6 billion of structured credit derivatives with corporate debt underlying. In assessing JPMorgan Chase Bank, N.A.'s risk exposure to structured credit derivatives, JPMorgan Chase Bank, N.A. believes consideration should also be given to derivative liabilities with similar, and therefore offsetting, risk profiles. At December 31, 2010, \$5.6 billion of level 3 derivative liabilities had risk characteristics similar to those of the derivative receivable assets classified in level 3.
- Mortgage servicing rights represent the fair value of future cash flows for performing specified mortgage servicing activities for

others (predominantly with respect to residential mortgage loans). For a further description of the MSR asset, interest rate risk management and the valuation methodology used for MSRs, including valuation assumptions and sensitivities, see Note 18 on pages 98–100 of these Consolidated Financial Statements.

- CLOs totaling \$13.5 billion were securities backed by corporate loans held in JPMorgan Chase Bank, N.A.'s AFS securities portfolio. Substantially all of these securities are rated "AAA," "AA" and "A" and had an average credit enhancement of 30%. Credit enhancement in CLOs is primarily in the form of subordination, which is a form of structural credit enhancement where realized losses associated with assets held by an issuing vehicle are allocated to issued tranches considering their relative seniority. For further discussion, see Note 13 on pages 52–56 of these Consolidated Financial Statements.
- Trading loans totaling \$10.4 billion included \$2.3 billion of non-agency residential mortgage whole loans and commercial mortgage loans held in the investment banking business for which there is limited price transparency; and \$3.9 billion of reverse mortgages for which the principal risk sensitivities are mortality risk and home prices. The fair value of the commercial and residential mortgage loans is estimated by projecting expected cash flows, considering relevant borrower-specific and market factors, and discounting those cash flows at a rate reflecting current market liquidity. Loans are partially hedged by level 2 instruments, including credit default swaps and interest rate derivatives, which are observable and liquid.

Consolidated Balance Sheets changes

Level 3 assets (including assets measured at fair value on a nonrecurring basis) were 6% of total JPMorgan Chase Bank, N.A. assets and 13% of total assets measured at fair value at December 31, 2010. The following describes significant changes to level 3 assets during the year.

For the year ended December 31, 2010

Level 3 assets decreased by \$7.9 billion during 2010, due to the following:

- \$11.1 billion decrease in derivative receivables, predominantly driven by changes in credit spreads;
- A net increase of \$2.8 billion due to the adoption of new accounting guidance related to VIEs. As a result of the adoption of the new guidance, there was an increase of \$5.1 billion in other assets related to the reclassification of JPMorgan Chase Bank, N.A.'s share of its undivided interest in nonconsolidated credit card securitization trusts sponsored by an affiliate from loans, partially offset by a decrease of \$2.3 billion in retained securitization interests in trusts consolidated by an affiliate that were eliminated;
- \$1.9 billion decrease in MSRs. For a further discussion of the change, refer to Note 18 on pages 98–100 of these Consolidated Financial Statements;

- \$1.8 billion increase in JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card trusts sponsored by an affiliate which is classified in other assets; and,
- \$1.2 billion increase in asset-backed AFS securities predominantly driven by purchases of CLOs.

Gains and Losses

Gains and losses included in the tables for 2010, 2009 and 2008 included:

2010

Included in the tables for the year ended December 31, 2010

- \$2.3 billion of losses on MSRs.

2009

Included in the tables for the year ended December 31, 2009

- \$12.3 billion of net losses on derivatives primarily related to the tightening of credit spreads;
- \$1.4 billion of gains related to trading—debt and equity assets primarily related to asset-backed securities;
- \$5.7 billion of gains on MSRs; and
- \$1.2 billion of losses related to structured note liabilities, predominantly due to volatility in the equity markets.

2008

Included in the tables for the year ended December 31, 2008

- Losses on trading-debt and equity instruments of approximately \$5.0 billion, principally from mortgage-related transactions;
- Losses of \$6.8 billion on MSRs;
- Losses of approximately \$3.2 billion on leveraged loans;
- Net gains of \$1.8 billion related to derivatives, principally due to changes in credit spreads and rate curves; and
- Gains of \$4.0 billion related to structured notes, principally due to significant volatility in the fixed income, commodities and equity markets.

For further information on changes in the fair value of the MSRs, see Note 18 on pages 98–100 of these Consolidated Financial Statements.

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

U.S. GAAP requires disclosure of the estimated fair value of certain financial instruments, and the methods and significant assumptions used to estimate their fair value. Financial instruments within the scope of these disclosure requirements are included in the following table. However, certain financial instruments and all nonfinancial instruments are excluded from the scope of these disclosure requirements. Accordingly, the fair value disclosures provided in the following table include only a partial estimate of the fair value of JPMorgan Chase Bank, N.A.'s assets and liabilities. For example, JPMorgan Chase Bank, N.A. has developed long-term relationships with its customers through its deposit base and credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items, in the aggregate, add significant value to JPMorgan Chase Bank, N.A., but their fair value is not disclosed in this Note.

Financial instruments for which carrying value approximates fair value

Certain financial instruments that are not carried at fair value on the Consolidated Balance Sheets are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and due from banks; deposits with banks; federal funds sold; securities purchased under resale agreements and securities borrowed with short-dated maturities; short-term receivables and accrued interest receivable; commercial paper; federal funds purchased; securities loaned and sold under repurchase agreements with short-dated maturities; other borrowed funds (excluding advances from the Federal Home Loan Banks ("FHLBs")); accounts payable; and accrued liabilities. In addition, U.S. GAAP requires that the fair value for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value; recognition of the inherent funding value of these instruments is not permitted.

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

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

December 31, (in billions, except where otherwise noted)	2010			2009		
	Carrying value	Estimated fair value	Appreciation/ (depreciation)	Carrying value	Estimated fair value	Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	\$ 47.1	\$ 47.1	\$ —	\$ 87.0	\$ 87.0	\$ —
Accrued interest and accounts receivable (included zero and \$2.3 at fair value)	36.0	36.0	—	35.7	35.7	—
Federal funds sold and securities purchased under resale agreements (included \$19.9 and \$20.1 at fair value)	175.2	175.2	—	165.7	165.7	—
Securities borrowed (included \$14.0 and \$7.0 at fair value)	57.4	57.4	—	45.3	45.3	—
Trading assets	358.2	358.2	—	302.6	302.6	—
Securities (included \$310.7 and \$347.8 at fair value)	310.8	310.8	—	347.9	347.9	—
Loans (included \$1.0 and \$0.6 at fair value)(a)(b)	530.6	531.6	1.0	534.7	528.8	(5.9)
Mortgage servicing rights at fair value	13.4	13.4	—	15.3	15.3	—
Other (included \$8.1 and \$1.3 at fair value)	41.1	41.3	0.2	34.4	34.3	(0.1)
Total financial assets	\$ 1,569.8	\$ 1,571.0	\$ 1.2	\$ 1,568.6	\$ 1,562.6	\$ (6.0)
Financial liabilities						
Deposits (included \$4.3 and \$4.5 at fair value)	\$ 1,020.0	\$ 1,021.1	\$ (1.1)	\$ 1,024.0	\$ 1,025.1	\$ (1.1)
Federal funds purchased and securities loaned or sold under repurchase agreements (included \$2.6 and \$2.2 at fair value)	178.6	178.6	—	194.0	194.0	—
Other borrowed funds (included \$7.1 and \$4.8 at fair value)	27.4	27.4	—	43.9	44.1	(0.2)
Trading liabilities	124.4	124.4	—	109.5	109.5	—
Accounts payable and other liabilities (included \$127 million and \$5 million at fair value)	47.7	47.7	—	35.5	35.5	—
Beneficial interests issued by consolidated VIEs (included \$0.4 and \$0.7 at fair value)	26.1	26.1	—	8.4	8.4	—
Long-term debt and junior subordinated deferrable interest debentures (included \$20.8 and \$27.9 at fair value)	63.3	62.8	0.5	68.7	68.3	0.4
Total financial liabilities	\$ 1,487.5	\$ 1,488.1	\$ (0.6)	\$ 1,484.0	\$ 1,484.9	\$ (0.9)
Net appreciation/(depreciation)			\$ 0.6			\$ (6.9)

(a) For originated or purchased loans held for investment, other than PCI loans, the carrying value is the principal amount outstanding, net of the allowance for loan losses, net charge-offs, interest applied to principal (for loans accounted for on the cost recovery method), unamortized discounts and premiums, and deferred loan fees or costs. For a further discussion of JPMorgan Chase Bank, N.A.'s loan accounting framework, see Note 15 on pages 58–76 of these Consolidated Financial Statements.

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

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

December 31, (in billions)	2010		2009	
	Carrying value ^(a)	Estimated fair value	Carrying value ^(a)	Estimated fair value
Wholesale lending-related commitments	\$ 0.7	\$ 0.9	\$ 0.9	\$ 1.3

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

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

Trading assets and liabilities

Trading assets include debt and equity instruments held for trading purposes that JPMorgan Chase Bank, N.A. owns (“long” positions), certain loans managed on a fair value basis and for which JPMorgan Chase Bank, N.A. has elected the fair value option, and physical commodities inventories that are generally accounted for at the lower of cost or fair value. Trading liabilities include debt and equity instruments that JPMorgan Chase Bank, N.A. has sold to other parties but does not own (“short” positions). JPMorgan Chase Bank, N.A. is obligated to purchase instruments at a future date to

cover the short positions. Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. Trading assets and liabilities are carried at fair value on the Consolidated Balance Sheets. Balances reflect the reduction of securities owned (long positions) by the amount of securities sold but not yet purchased (short positions) when the long and short positions have identical Committee on Uniform Security Identification Procedures (“CUSIPs”).

Trading assets and liabilities—average balances

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

Year ended December 31, (in millions)	2010	2009	2008
Trading assets – debt and equity instruments ^(a)	\$ 252,926	\$ 213,483	\$ 268,986
Trading assets – derivative receivables	74,416	95,231	106,225
Trading liabilities – debt and equity instruments ^{(a)(b)}	53,824	41,188	55,921
Trading liabilities – derivative payables	68,291	74,412	84,411

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

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

Note 5 – Fair value option

The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value.

Elections

Elections were made by JPMorgan Chase Bank, N.A. to:

- Mitigate income statement volatility caused by the differences in the measurement basis of elected instruments (for example, certain instruments elected were previously accounted for on an accrual basis) while the associated risk management arrangements are accounted for on a fair value basis;
- Eliminate the complexities of applying certain accounting models (e.g., hedge accounting or bifurcation accounting for hybrid instruments); and
- Better reflect those instruments that are managed on a fair value basis.

Elections include the following:

- Loans purchased or originated as part of securitization warehousing activity, subject to bifurcation accounting, or managed on a fair value basis.
- Securities financing arrangements with an embedded derivative and/or a maturity of greater than one year.
- Owned beneficial interests in securitized financial assets that contain embedded credit derivatives, which would otherwise be required to be separately accounted for as a derivative instrument.
- Certain tax credits and other equity investments acquired as part of the Washington Mutual transaction.
- Structured notes issued as part of the investment banking business’s client-driven activities. (Structured notes are financial instruments that contain embedded derivatives.)
- Long-term beneficial interests issued by the investment banking business’s consolidated securitization trusts where the underlying assets are carried at fair value.

Notes to consolidated financial statements

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Changes in fair value under the fair value option election

The following table presents the changes in fair value included in the Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, for items for which the fair value election was made. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

December 31, (in millions)	2010			2009			2008		
	Principal transactions	Other income	Total changes in fair value recorded	Principal transactions	Other income	Total changes in fair value recorded	Principal transactions	Other income	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	\$ 176	\$ —	\$ 176	\$ (533)	\$ —	\$ (533)	\$ 1,116	\$ —	\$ 1,116
Securities borrowed	31	—	31	82	—	82	29	—	29
Trading assets:									
Debt and equity instruments, excluding loans	345	(2) ^(c)	343	405	34 ^(c)	439	(558)	(15) ^(c)	(573)
Loans reported as trading assets:									
Changes in instrument-specific credit risk	921	(6) ^(c)	915	157	(177) ^(c)	(20)	(8,869)	(283) ^(c)	(9,152)
Other changes in fair value	(270)	4,449 ^(c)	4,179	1,117	3,119 ^(c)	4,236	786	1,178 ^(c)	1,964
Loans:									
Changes in instrument-specific credit risk	47	—	47	(69)	—	(69)	(1,210)	—	(1,210)
Other changes in fair value	41	—	41	40	—	40	(44)	—	(44)
Other assets	—	(79) ^(d)	(79)	—	(359) ^(d)	(359)	—	(168) ^(d)	(168)
Deposits ^(a)	(566)	—	(566)	(766)	—	(766)	(117)	—	(117)
Federal funds purchased and securities loaned or sold under repurchase agreements	(31)	—	(31)	115	—	115	(121)	—	(121)
Other borrowed funds ^(a)	522	—	522	(796)	—	(796)	1,243	—	1,243
Trading liabilities	(19)	—	(19)	1	—	1	14	—	14
Beneficial interests issued by consolidated VIEs	(35)	—	(35)	3	—	3	—	—	—
Other liabilities	1	9 ^(d)	10	(132)	—	(132)	421	—	421
Long-term debt:									
Changes in instrument-specific credit risk ^(a)	397	—	397	(1,241)	—	(1,241)	797	—	797
Other changes in fair value ^(b)	660	—	660	(1,663)	—	(1,663)	11,990	—	11,990

(a) Total changes in instrument-specific credit risk related to structured notes were \$467 million, (\$1.3) billion and \$834 million for the years ended December 31, 2010, 2009 and 2008, respectively. These totals include adjustments for structured notes classified within deposits and other borrowed funds, as well as long-term debt.

(b) Structured notes are debt instruments with embedded derivatives that are tailored to meet a client's need for derivative risk in funded form. The embedded derivative is the primary driver of risk. The 2008 gain included in "Other changes in fair value" results from a significant decline in the value of certain structured notes where the embedded derivative is principally linked to either equity indices or commodity prices, both of which declined sharply during the third quarter of 2008. Although the risk associated with the structured notes is actively managed, the gains reported in this table do not include the income statement impact of such risk management instruments.

(c) Reported in mortgage fees and related income.

(d) Reported in other income.

Determination of instrument-specific credit risk for items for which a fair value election was made

The following describes how the gains and losses included in earnings during 2010, 2009 and 2008, which were attributable to changes in instrument-specific credit risk, were determined.

- Loans and lending-related commitments: For floating-rate instruments, all changes in value are attributed to instrument-specific credit risk. For fixed-rate instruments, an allocation of the changes in value for the period is made between those changes in value that are interest rate-related and changes in value that are credit-related. Allocations are generally based on an analysis of bor-

rower-specific credit spread and recovery information, where available, or benchmarking to similar entities or industries.

- Long-term debt: Changes in value attributable to instrument-specific credit risk were derived principally from observable changes in JPMorgan Chase Bank, N.A.'s credit spread.
- Resale and repurchase agreements, securities borrowed agreements and securities lending agreements: Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to or in excess of the principal amount loaned; as a result, there would be no adjustment or an immaterial adjustment for instrument-specific credit risk related to these agreements.

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

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2010 and 2009, for loans, long-term debt and long-term beneficial interests for which the fair value option has been elected.

December 31, (in millions)	2010			2009		
	Contractual principal outstanding	Fair value	Fair value over/(under) contractual principal outstanding	Contractual principal outstanding	Fair value	Fair value over/(under) contractual principal outstanding
Loans						
Performing loans 90 days or more past due						
Loans reported as trading assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans	—	—	—	—	—	—
Nonaccrual loans						
Loans reported as trading assets	3,389	877	(2,512)	4,835	1,723	(3,112)
Loans	132	111	(21)	234	108	(126)
Subtotal	3,521	988	(2,533)	5,069	1,831	(3,238)
All other performing loans						
Loans reported as trading assets	32,584	31,188	(1,396)	30,050	27,515	(2,535)
Loans	952	862	(90)	571	445	(126)
Total loans	\$ 37,057	\$ 33,038	\$ (4,019)	\$ 35,690	\$ 29,791	\$ (5,899)
Long-term debt						
Principal-protected debt	\$ 7,942 ^(c)	\$ 7,913	\$ (29)	\$ 10,991 ^(c)	\$ 10,840	\$ (151)
Nonprincipal-protected debt ^(a)	NA	12,906	NA	NA	17,025	NA
Total long-term debt	NA	\$ 20,819	NA	NA	\$ 27,865	NA
Total long-term beneficial interests^{(a)(b)}	NA	\$ 354	NA	NA	\$ 736	NA

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

(b) Includes only nonprincipal protected debt at December 31, 2010 and 2009.

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

At December 31, 2010 and 2009, the contractual amount of letters of credit for which the fair value option was elected was \$3.8 billion and \$3.7 billion, respectively, with a corresponding fair value of \$6 million at both December 31, 2010 and 2009. For further information regarding off-balance sheet commitments see Note 28 on pages 109–115 of these Consolidated Financial Statements.

Note 6 – Credit risk concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

JPMorgan Chase Bank, N.A. regularly monitors various segments of its credit portfolio to assess potential concentration risks and to obtain collateral when deemed necessary. Senior management is significantly involved in the credit approval and review process, and risk levels are adjusted as needed to reflect management's risk tolerance.

In JPMorgan Chase Bank, N.A.'s wholesale portfolio, risk concentrations are evaluated primarily by industry and monitored regularly on both an aggregate portfolio level and on an individual customer basis. Management of JPMorgan Chase Bank, N.A.'s wholesale exposure is accomplished through loan syndication and participation, loan sales, securitizations, credit derivatives, use of master netting agreements, and collateral and other risk-reduction techniques. In the consumer portfolio, concentrations

are evaluated primarily by product and by U.S. geographic region, with a key focus on trends and concentrations at the portfolio level, where potential risk concentrations can be remedied through changes in underwriting policies and portfolio guidelines.

JPMorgan Chase Bank, N.A. does not believe that its exposure to any particular loan product (e.g., option ARMs), industry segment (e.g., commercial real estate) or its exposure to residential real estate loans with high loan-to-value ratios results in a significant concentration of credit risk. Terms of loan products and collateral coverage are included in JPMorgan Chase Bank, N.A.'s assessment when extending credit and establishing its allowance for loan losses.

For further information regarding on-balance sheet credit concentrations by major product and/or geography, see Notes 15 and 16 on pages 58–76 and 77–81, respectively, of these Consolidated Financial Statements. For information regarding concentrations of off-balance sheet lending-related financial instruments by major product, see Note 28 on pages 109–115 of these Consolidated Financial Statements.

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The table below presents both on-balance sheet and off-balance sheet wholesale- and consumer-related credit exposure by JPMorgan Chase Bank, N.A.'s three portfolio segments as of December 31, 2010, and 2009.

December 31, (in millions)	2010				2009			
	On-balance sheet			Off-balance sheet ^(d)	On-balance sheet			Off-balance sheet ^(d)
	Credit exposure	Loans	Derivatives		Credit exposure	Loans	Derivatives	
Wholesale^(a)								
Real estate	\$ 63,995	\$ 53,321	\$ 830	\$ 9,844	\$ 68,451	\$ 57,195	\$ 1,077	\$ 10,179
Banks and finance companies	62,520	21,738	17,466	23,316	51,064	14,389	14,977	21,698
Healthcare	40,706	5,754	2,015	32,937	35,012	4,477	1,846	28,689
State and municipal governments	34,715	5,226	4,924	24,565	33,375	4,515	4,800	24,060
Asset managers	28,218	6,970	6,212	15,036	23,705	5,894	5,630	12,181
Consumer products	27,279	7,777	973	18,529	26,957	7,880	1,056	18,021
Oil and gas	25,410	5,530	3,420	16,460	22,632	5,756	2,225	14,651
Utilities	25,366	3,674	3,104	18,588	26,766	5,175	2,943	18,648
Retail and consumer services	20,569	5,675	758	14,136	20,450	5,482	750	14,218
Technology	14,235	2,720	1,479	10,036	14,106	3,796	1,352	8,958
Machinery and equipment manufacturing	13,237	3,545	427	9,265	12,736	3,179	443	9,114
Building materials/construction	12,773	3,266	279	9,228	10,438	3,252	271	6,915
Chemicals/plastics	12,093	3,176	334	8,583	9,741	2,608	379	6,754
Metals/mining	11,100	3,267	726	7,107	12,506	3,410	1,117	7,979
Business services	11,072	3,712	345	7,015	10,599	3,587	381	6,631
Central government	10,858	1,118	5,765	3,975	9,210	1,703	5,154	2,353
Insurance	10,823	1,092	1,576	8,155	13,318	1,285	2,415	9,618
Media	10,807	3,669	273	6,865	12,314	4,160	319	7,835
Telecom services	10,664	1,508	1,332	7,824	11,162	2,042	1,226	7,894
Holding companies	10,410	3,836	853	5,721	15,972	4,360	1,000	10,612
Transportation	9,440	3,593	772	5,075	9,560	3,006	1,196	5,358
Automotive	8,947	1,973	237	6,737	9,247	2,439	343	6,465
Securities firms and exchanges	7,411	1,703	3,114	2,594	8,475	3,441	2,570	2,464
Agriculture/paper manufacturing	7,218	1,777	240	5,201	5,699	1,834	243	3,622
Aerospace	5,675	468	188	5,019	5,234	580	76	4,578
All other ^(b)	140,511	63,741	13,800	62,970	135,100	41,370	18,228	75,502
Subtotal	636,052	219,829	71,442	344,781	613,829	196,815	72,017	344,997
Loans held-for-sale and loans at fair value	4,112	4,112	—	—	3,219	3,219	—	—
Interests in purchased receivables	391	—	—	—	2,927	—	—	—
Total wholesale	640,555	223,941	71,442	344,781	619,975	200,034	72,017	344,997
Consumer, excluding credit card								
Home equity – senior lien	34,609	21,076	—	13,533	46,622	27,376	—	19,246
Home equity – junior lien	82,634	56,991	—	25,643	111,280	74,049	—	37,231
Prime mortgage, including option ARMs ^(a)	67,389	66,123	—	1,266	67,005	65,351	—	1,654
Subprime mortgage ^(a)	9,849	9,849	—	—	12,522	12,522	—	—
Auto ^(a)	53,613	48,367	—	5,246	51,498	46,031	—	5,467
Business banking	26,501	16,799	—	9,702	25,996	16,956	—	9,040
Student and other ^(a)	15,796	15,217	—	579	16,915	14,726	—	2,189
PCI-Home equity	24,459	24,459	—	—	26,520	26,520	—	—
PCI-Prime mortgage	17,322	17,322	—	—	19,693	19,693	—	—
PCI-Subprime mortgage	5,398	5,398	—	—	5,993	5,993	—	—
PCI-option ARMs	25,584	25,584	—	—	29,039	29,039	—	—
Loans held-for-sale	154	154	—	—	2,142	2,142	—	—
Total consumer, excluding credit card	363,308	307,339	—	55,969	415,225	340,398	—	74,827
Credit Card								
Credit card - retained ^{(a)(c)}	41,171	21,665	—	19,506	37,667	17,992	—	19,675
Credit card - held-for-sale	59	59	—	—	—	—	—	—
Total credit card	41,230	21,724	—	19,506	37,667	17,992	—	19,675
Total exposure	\$ 1,045,093	\$ 553,004	\$ 71,442	\$ 420,256	\$ 1,072,867	\$ 558,424	\$ 72,017	\$ 439,499

(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon the adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust and certain other consumer loan securitization entities, primarily mortgage-related. As a result, related receivables are now recorded as loans on the Consolidated Balance Sheet. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

(b) For more information on exposures to SPEs included in all other, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

(c) Excludes \$38.3 billion of securitized credit card receivables at December 31, 2009.

(d) Represents lending-related financial instruments.

Note 7 – Derivative instruments

Derivative instruments enable end-users to modify or mitigate exposure to credit or market risks. Counterparties to a derivative contract seek to obtain risks and rewards similar to those that could be obtained from purchasing or selling a related cash instrument without having to exchange upfront the full purchase or sales price. JPMorgan Chase Bank, N.A. makes markets in derivatives for customers and also uses derivatives to hedge or manage its own market risk exposures. The majority of JPMorgan Chase Bank, N.A.'s derivatives are entered into for market-making purposes.

Trading derivatives

JPMorgan Chase Bank, N.A. makes markets in a variety of derivatives in its trading portfolios to meet the needs of customers (both dealers and clients) and to generate revenue through this trading activity ("client derivatives"). Customers use derivatives to mitigate or modify interest rate, credit, foreign exchange, equity and commodity risks. JPMorgan Chase Bank, N.A. actively manages the risks from its exposure to these derivatives by entering into other derivative transactions or by purchasing or selling other financial instruments that partially or fully offset the exposure from client derivatives. JPMorgan Chase Bank, N.A. also seeks to earn a spread between the client derivatives and offsetting positions, and from the remaining open risk positions.

Risk management derivatives

JPMorgan Chase Bank, N.A. manages its market risk exposures using various derivative instruments.

Interest rate contracts are used to minimize fluctuations in earnings that are caused by changes in interest rates. Fixed-rate assets and liabilities appreciate or depreciate in market value as interest rates change. Similarly, interest income and expense increase or decrease as a result of variable-rate assets and liabilities resetting to current market rates, and as a result of the repayment and subsequent origination or issuance of fixed-rate assets and liabilities at current market rates. Gains or losses on the derivative instruments that are related to such assets and liabilities are expected to substantially offset this variability in earnings. JPMorgan Chase Bank, N.A. generally uses interest rate swaps, forwards and futures to manage the impact of interest rate fluctuations on earnings.

Foreign currency forward contracts are used to manage the foreign exchange risk associated with certain foreign currency-denominated (i.e., non-U.S.) assets and liabilities and forecasted transactions, as well as JPMorgan Chase Bank, N.A.'s net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. As a result of fluctuations in foreign currencies, the U.S. dollar-equivalent values of the foreign currency-denominated assets and liabilities or forecasted revenue or expense increase or decrease. Gains or losses on the derivative instruments related to these foreign currency-denominated assets or liabilities, or forecasted transactions, are expected to substantially offset this variability.

Commodities based forward and futures contracts are used to manage the price risk of certain inventory, including gold and base metals, in JPMorgan Chase Bank, N.A.'s commodities portfolio. Gains or losses on the forwards and futures are expected to substantially offset the depreciation or appreciation of the related inventory. Also in the commodities portfolio, electricity and natural gas futures and forwards contracts are used to manage price risk associated with energy-related tolling and load-serving contracts and investments.

JPMorgan Chase Bank, N.A. uses credit derivatives to manage the counterparty credit risk associated with loans and lending-related commitments. Credit derivatives compensate the purchaser when the entity referenced in the contract experiences a credit event, such as bankruptcy or a failure to pay an obligation when due. For a further discussion of credit derivatives, see the discussion in the Credit derivatives section on pages 39–41 of this Note.

For more information about risk management derivatives, see the risk management derivatives gains and losses table on page 38 of this Note, and the hedge accounting gains and losses tables on pages 36–37 of this Note.

Accounting for derivatives

All free-standing derivatives are required to be recorded on the Consolidated Balance Sheets at fair value. As permitted under U.S. GAAP, JPMorgan Chase Bank, N.A. nets derivative assets and liabilities, and the related cash collateral received and paid, when a legally enforceable master netting agreement exists between JPMorgan Chase Bank, N.A. and the derivative counterparty. The accounting for changes in value of a derivative depends on whether or not the transaction has been designated and qualifies for hedge accounting. Derivatives that are not designated as hedges are marked to market through earnings. The tabular disclosures on pages 34–41 of this Note provide additional information on the amount of, and reporting for, derivative assets, liabilities, gains and losses. For further discussion of derivatives embedded in structured notes, see Notes 4 and 5 on pages 12–29 and 29–31, respectively, of these Consolidated Financial Statements.

Derivatives designated as hedges

JPMorgan Chase Bank, N.A. applies hedge accounting to certain derivatives executed for risk management purposes – generally interest rate, foreign exchange and gold and base metal derivatives. However, JPMorgan Chase Bank, N.A. does not seek to apply hedge accounting to all of the derivatives involved in JPMorgan Chase Bank, N.A.'s risk management activities. For example, JPMorgan Chase Bank, N.A. does not apply hedge accounting to purchased credit default swaps used to manage the credit risk of loans and commitments, because of the difficulties in qualifying such contracts as hedges. For the same reason, JPMorgan Chase Bank, N.A. does not apply hedge accounting to certain interest rate and commodity derivatives used for risk management purposes.

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To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, for a derivative to be designated as a hedge, the risk management objective and strategy must be documented. Hedge documentation must identify the derivative hedging instrument, the asset or liability or forecasted transaction and type of risk to be hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. To assess effectiveness, JPMorgan Chase Bank, N.A. uses statistical methods such as regression analysis, as well as nonstatistical methods including dollar-value comparisons of the change in the fair value of the derivative to the change in the fair value or cash flows of the hedged item. The extent to which a derivative has been, and is expected to continue to be, effective at offsetting changes in the fair value or cash flows of the hedged item must be assessed and documented at least quarterly. Any hedge ineffectiveness (i.e., the amount by which the gain or loss on the designated derivative instrument does not exactly offset the change in the hedged item attributable to the hedged risk) must be reported in current-period earnings. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

There are three types of hedge accounting designations: fair value hedges, cash flow hedges and net investment hedges. JPMorgan Chase Bank, N.A. uses fair value hedges primarily to hedge fixed-rate long-term debt, AFS securities and gold and base metal inventory. For qualifying fair value hedges, the changes in the fair value of the derivative, and in the value of the hedged item, for the risk being hedged, are recognized in earnings. If the hedge relationship is terminated, then the fair value adjustment to the hedged item continues to be reported as part of the basis of the hedged item and for interest-bearing instruments is amortized to earnings as a yield adjustment. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item — primarily net interest income and principal transactions revenue.

JPMorgan Chase Bank, N.A. uses cash flow hedges to hedge the exposure to variability in cash flows from floating-rate financial instruments and forecasted transactions, primarily the rollover of short-term assets and liabilities, and foreign currency-denominated revenue and expense. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income/(loss) ("OCI") and recognized in the Consolidated Statements of Income when the hedged cash flows affect earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item — primarily interest income, interest expense, noninterest revenue and compensation expense. The ineffective portions of cash flow hedges are immediately recognized in earnings. If the hedge relationship is terminated, then the value of the derivative recorded in accumulated other comprehensive income/(loss) ("AOCI") is recognized in earnings when the cash flows that were hedged affect earnings. For hedge relationships that are discontinued because a

forecasted transaction is not expected to occur according to the original hedge forecast, any related derivative values recorded in AOCI are immediately recognized in earnings.

JPMorgan Chase Bank, N.A. uses foreign currency hedges to protect the value of JPMorgan Chase Bank, N.A.'s net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. For foreign currency qualifying net investment hedges, changes in the fair value of the derivatives are recorded in the translation adjustments account within AOCI.

Notional amount of derivative contracts

The following table summarizes the notional amount of derivative contracts outstanding as of December 31, 2010 and 2009.

December 31, (in billions)	Notional amounts ^(b)	
	2010	2009
Interest rate contracts		
Swaps	\$ 46,371	\$ 47,762
Futures and forwards	8,607	6,575
Written options	4,069	4,550
Purchased options	3,958	4,563
Total interest rate contracts	63,005	63,450
Credit derivatives^(a)	5,475	5,998
Foreign exchange contracts		
Cross-currency swaps	2,566	2,213
Spot, futures and forwards	3,907	3,587
Written options	674	685
Purchased options	649	698
Total foreign exchange contracts	7,796	7,183
Equity contracts		
Swaps	117	88
Futures and forwards	45	37
Written options	434	669
Purchased options	360	444
Total equity contracts	956	1,238
Commodity contracts		
Swaps	338	224
Spot, futures and forwards	125	91
Written options	230	211
Purchased options	222	216
Total commodity contracts	915	742
Total derivative notional amounts	\$ 78,147	\$ 78,611

(a) Primarily consists of credit default swaps. For more information on volumes and types of credit derivative contracts, see the Credit derivatives discussion on pages 39–41 of this Note.

(b) Represents the sum of gross long and gross short notional derivative contracts with third parties and JPMorgan Chase affiliates. For additional information on related party derivatives, see Note 23, on page 104 of these Consolidated Financial Statements.

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

Impact of derivatives on the Consolidated Balance Sheets

The following tables summarize derivative fair values as of December 31, 2010 and 2009, by accounting designation (e.g., whether the derivatives were designated as hedges or not) and contract type.

Free-standing derivatives^(a)

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

December 31, 2009 (in millions)	Derivative receivables			Derivative payables		
	Not designated as hedges	Designated as hedges	Total derivative receivables	Not designated as hedges	Designated as hedges	Total derivative payables
Trading assets and liabilities						
Interest rate	\$ 1,149,497	\$ 1,239	\$ 1,150,736	\$ 1,120,784	\$ 114	\$ 1,120,898
Credit	171,028	—	171,028	165,214	—	165,214
Foreign exchange ^(b)	142,868	580	143,448	144,617	351	144,968
Equity	57,886	—	57,886	58,336	—	58,336
Commodity	30,234	39	30,273	29,232	194 ^(d)	29,426
Gross fair value of trading assets and liabilities	\$ 1,551,513	\$ 1,858	\$ 1,553,371	\$ 1,518,183	\$ 659	\$ 1,518,842
Netting adjustment ^(c)			(1,481,354)			(1,454,485)
Carrying value of derivative trading assets and trading liabilities on the Consolidated Balance Sheets			\$ 72,017			\$ 64,357

(a) Excludes structured notes for which the fair value option has been elected. See Note 5 on pages 29–31 of these Consolidated Financial Statements for further information.

(b) Excludes \$21 million of foreign currency-denominated debt designated as a net investment hedge at December 31, 2010. JPMorgan Chase Bank, N.A. did not use foreign currency-denominated debt as a hedging instrument in 2009, and therefore there was no impact as of December 31, 2009.

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

(d) Excludes \$1.0 billion and \$1.3 billion related to commodity derivatives that are embedded in a debt instrument and used as fair value hedging instruments that are recorded in the line item of the host contract (other borrowed funds) for December 31, 2010 and 2009, respectively.

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Derivative receivables and payables mark-to-market

The following table summarizes the fair values of derivative receivables and payables, including those designated as hedges, by contract type after netting adjustments as of December 31, 2010 and 2009.

December 31, (in millions)	Trading assets – Derivative receivables		Trading liabilities – Derivative payables	
	2010	2009	2010	2009
Contract type:				
Interest rate ^(a)	\$ 28,693	\$ 31,015	\$ 23,996	\$ 17,888
Credit ^(a)	7,835	10,080	6,045	6,754
Foreign exchange	24,138	20,872	25,375	26,526
Equity	4,362	6,637	10,510	11,396
Commodity	6,414	3,413	5,229	1,793
Total	\$ 71,442	\$ 72,017	\$ 71,155	\$ 64,357

(a) In 2010, the reporting of cash collateral netting was enhanced to reflect a refined allocation by product. Prior periods have been revised to conform to the current presentation. The refinement resulted in an increase to interest rate derivative receivables, and an offsetting decrease to credit derivative receivables of \$7.0 billion, and an increase to interest rate derivative payables and a corresponding decrease to credit derivative payables of \$4.5 billion as of December 31, 2009.

The tables that follow reflect the derivative-related income statement impact by accounting designation for the years ended December 31, 2010 and 2009, respectively.

Fair value hedge gains and losses

The following tables present derivative instruments, by contract type, used in fair value hedge accounting relationships, as well as pretax gains/(losses) recorded on such derivatives and the related hedged items for the years ended December 31, 2010 and 2009. JPMorgan Chase Bank, N.A. includes gains/(losses) on the hedging derivative and the related hedged item in the same line item in the Consolidated Statements of Income.

Year ended December 31, 2010 (in millions)	Gains/(losses) recorded in income			Income statement impact due to:	
	Derivatives	Hedged items	Total income statement impact ^(e)	Hedge ineffectiveness ^(f)	Excluded components ^(g)
Contract type					
Interest rate ^(a)	\$ (77)	\$ (109)	\$ (186)	\$ 40	\$ (226)
Foreign exchange ^{(b)(c)}	278	(529)	(251)	—	(251)
Commodity ^(d)	(1,354)	1,882	528	—	528
Total	\$ (1,153)	\$ 1,244	\$ 91	\$ 40	\$ 51

Year ended December 31, 2009 (in millions)	Gains/(losses) recorded in income			Income statement impact due to:	
	Derivatives	Hedged items	Total income statement impact ^(e)	Hedge ineffectiveness ^(f)	Excluded components ^(g)
Contract type					
Interest rate ^(a)	\$ (244)	\$ 287	\$ 43	\$ (49)	\$ 92
Foreign exchange ^{(b)(c)}	(1,629)	1,884	255	—	255
Commodity ^(d)	(430)	399	(31)	—	(31)
Total	\$ (2,303)	\$ 2,570	\$ 267	\$ (49)	\$ 316

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

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

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

(d) Consists of overall fair value hedges of gold and base metal inventory. Gains and losses were recorded in principal transactions revenue.

(e) Total income statement impact for fair value hedges consists of hedge ineffectiveness and any components excluded from the assessment of hedge effectiveness. The related amount for the year ended December 31, 2008 was a net gain of \$1 million.

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

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

Cash flow hedge gains and losses

The following tables present derivative instruments, by contract type, used in cash flow hedge accounting relationships, and the pretax gains/(losses) recorded on such derivatives, for the years ended December 31, 2010 and 2009, respectively. JPMorgan Chase Bank, N.A. includes the gain/(loss) on the hedging derivative in the same line item as the offsetting change in cash flows on the hedged item in the Consolidated Statements of Income.

Year ended December 31, 2010 (in millions)	Gains/(losses) recorded in income and other comprehensive income/(loss)				
	Derivatives – effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income ^(d)	Total income statement impact	Derivatives – effective portion recorded in OCI	Total change in OCI for period
Contract type					
Interest rate ^(a)	\$ 274 ^(c)	\$ 20	\$ 294	\$ 812	\$ 538
Foreign exchange ^(b)	(82)	(3)	(85)	(141)	(59)
Total	\$ 192	\$ 17	\$ 209	\$ 671	\$ 479

Year ended December 31, 2009 (in millions)	Gains/(losses) recorded in income and other comprehensive income/(loss)				
	Derivatives – effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income ^(d)	Total income statement impact	Derivatives – effective portion recorded in OCI	Total change in OCI for period
Contract type					
Interest rate ^(a)	\$ (157) ^(c)	\$ (63)	\$ (220)	\$ 30	\$ 187
Foreign exchange ^(b)	279	—	279	693	414
Total	\$ 122	\$ (63)	\$ 59	\$ 723	\$ 601

(a) Primarily consists of benchmark interest rate hedges of LIBOR-indexed floating-rate assets and floating-rate liabilities. Gains and losses were recorded in net interest income.

(b) Primarily consists of hedges of the foreign currency risk of non-U.S. dollar-denominated revenue and expense. The income statement classification of gains and losses follows the hedged item – primarily net interest income, compensation expense and other expense.

(c) In 2010, JPMorgan Chase Bank, N.A. reclassified a \$25 million loss from accumulated other comprehensive income (“AOCI”) to earnings because JPMorgan Chase Bank, N.A. determined that it is probable that forecasted interest payment cash flows related to certain wholesale deposits will not occur. JPMorgan Chase Bank, N.A. did not experience forecasted transactions that failed to occur for the year ended December 31, 2009.

(d) Hedge ineffectiveness is the amount by which the cumulative gain or loss on the designated derivative instrument exceeds the present value of the cumulative expected change in cash flows on the hedged item attributable to the hedged risk. Hedge ineffectiveness recorded directly in income for cash flow hedges was a net gain of \$18 million for the year ended December 31, 2008.

Over the next 12 months, JPMorgan Chase Bank, N.A. expects that \$340 million (after-tax) of net losses recorded in AOCI at December 31, 2010, related to cash flow hedges will be recognized in income. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

Net investment hedge gains and losses

The following table presents hedging instruments, by contract type, that were used in net investment hedge accounting relationships, and the pretax gains/(losses) recorded on such instruments for the years ended December 31, 2010 and 2009.

Year ended December 31, (in millions)	Gains/(losses) recorded in income and other comprehensive income/(loss)			
	Hedging instruments – excluded components recorded directly in income ^(a)		Hedging instruments – effective portion recorded in OCI	
	2010	2009	2010	2009
Contract type				
Foreign exchange derivatives	\$ (125)	\$ (101)	\$ (123)	\$ (389)
Foreign currency denominated debt	—	NA	41	NA
Total	\$ (125)	\$ (101)	\$ (82)	\$ (389)

(a) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on a futures or forward contract. Amounts related to excluded components are recorded in current-period income. There was no ineffectiveness for net investment hedge accounting relationships during 2010 and 2009.

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

The following table presents nontrading derivatives, by contract type, that were not designated in hedge accounting relationships, and the pretax gains/(losses) recorded on such derivatives for the years ended December 31, 2010 and 2009. These derivatives are risk management instruments used to mitigate or transform market risk exposures arising from banking activities other than trading activities, which are discussed separately below.

Year ended December 31, (in millions)	Derivatives gains/(losses) recorded in income	
	2010	2009
Contract type		
Interest rate ^(a)	\$ 5,008	\$ (3,102)
Credit ^(b)	(237)	(3,222)
Foreign exchange ^(c)	(69)	(56)
Equity ^(b)	—	(9)
Commodity ^(b)	—	—
Total	\$ 4,702	\$ (6,389)

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

(b) Gains and losses were recorded in principal transactions revenue.

(c) Gains and losses were recorded in principal transactions revenue and net interest income.

Trading derivative gains and losses

JPMorgan Chase Bank, N.A. has elected to present derivative gains and losses related to its trading activities together with the cash instruments with which they are risk managed. All amounts are recorded in principal transactions revenue in the Consolidated Statements of Income for the years ended December 31, 2010 and 2009. The amounts below do not represent a comprehensive view of JPMorgan Chase Bank, N.A.'s trading activities because they do not include certain revenue associated with those activities, including net interest income earned on cash instruments used in trading activities and gains and losses on cash instruments that are risk managed without derivative instruments.

Year ended December 31, (in millions)	Gains/(losses) recorded in principal transactions revenue	
	2010	2009
Type of instrument		
Interest rate	\$ 577	\$ 4,691
Credit	3,080	4,599
Foreign exchange ^(a)	1,844	2,690
Equity	1,359	1,008
Commodity	63	668
Total	\$6,923	\$ 13,656

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

Credit risk, liquidity risk and credit-related contingent features

In addition to the specific market risks introduced by each derivative contract type, derivatives expose JPMorgan Chase Bank, N.A. to credit risk – the risk that derivative counterparties may fail to meet their payment obligations under the derivative contracts and the collateral, if any, held by JPMorgan Chase Bank, N.A. proves to be of insufficient value to cover the payment obligation. It is the policy of JPMorgan Chase Bank, N.A. to enter into legally enforceable master netting agreements as well as to actively pursue the use of collateral agreements to mitigate derivative counterparty credit risk. The amount of derivative receivables reported on the Consolidated Balance Sheets is the fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by JPMorgan Chase Bank, N.A. These amounts represent the cost to JPMorgan Chase Bank, N.A. to replace the contracts at then-current market rates should the counterparty default.

While derivative receivables expose JPMorgan Chase Bank, N.A. to credit risk, derivative payables expose JPMorgan Chase Bank, N.A. to liquidity risk, as the derivative contracts typically require JPMorgan Chase Bank, N.A. to post cash or securities collateral with counterparties as the mark-to-market ("MTM") of the contracts moves in the counterparties' favor, or upon specified downgrades in JPMorgan Chase Bank, N.A.'s and its subsidiaries' respective credit ratings. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either JPMorgan Chase Bank, N.A. or the counterparty, at the fair value of the derivative contracts. The aggregate fair value of net derivative payables that contain contingent collateral or termination features triggered upon a downgrade was \$15.1 billion and \$19.6 billion at December 31, 2010 and 2009, respectively, for which JPMorgan Chase Bank, N.A. has posted collateral of \$10.9 billion and \$20.4 billion, respectively, in the normal course of business. At December 31, 2010 and 2009, the impact of a single-notch and two-notch ratings downgrade to JPMorgan Chase Bank, N.A. and its subsidiaries, would have required \$1.4 billion and \$2.9 billion, respectively, and \$1.1 billion and \$2.1 billion, respectively, of additional collateral to be posted by JPMorgan Chase Bank, N.A. In addition, at December 31, 2010 and 2009, the impact of single-notch and two-notch ratings downgrades to JPMorgan Chase Bank, N.A. and its subsidiaries, related to contracts with termination triggers would have required JPMorgan Chase Bank, N.A. to settle trades with a fair value of \$430 million and \$1.0 billion, respectively, and \$260 million and \$270 million, respectively.

The following table shows the current credit risk of derivative receivables after netting adjustments, and the current liquidity risk of derivative payables after netting adjustments, as of December 31, 2010 and 2009.

December 31, (in millions)	Derivative receivables		Derivative payables	
	2010	2009	2010	2009
Gross derivative fair value	\$ 1,505,060	\$ 1,553,371	\$ 1,471,805	\$ 1,518,842
Netting adjustment – offsetting receivables/payables	(1,362,503)	(1,416,053)	(1,362,502)	(1,416,053)
Netting adjustment – cash collateral received/paid	(71,115)	(65,301)	(38,148)	(38,432)
Carrying value on Consolidated Balance Sheets	\$ 71,442	\$ 72,017	\$ 71,155	\$ 64,357

In addition to the collateral amounts reflected in the table above, at December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had received liquid securities and other cash collateral in the amount of \$17.1 billion and \$15.5 billion, respectively, and had posted \$10.0 billion and \$11.2 billion, respectively. JPMorgan Chase Bank, N.A. also receives and delivers collateral at the initiation of derivative transactions, which is available as security against potential exposure that could arise should the fair value of the transactions move in JPMorgan Chase Bank, N.A.'s or client's favor, respectively. Furthermore, JPMorgan Chase Bank, N.A. and its counterparties hold collateral related to contracts that have a non-daily call frequency for collateral to be posted, and collateral that JPMorgan Chase Bank, N.A. or a counterparty has agreed to return but has not yet settled as of the reporting date. At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had received \$12.0 billion and \$13.4 billion, respectively, and delivered \$2.8 billion and \$1.0 billion, respectively, of such additional collateral. These amounts were not netted against the derivative receivables and payables in the table above, because, at an individual counterparty level, the collateral exceeded the fair value exposure at December 31, 2010 and 2009.

Credit derivatives

Credit derivatives are financial instruments whose value is derived from the credit risk associated with the debt of a third-party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Credit derivatives expose the protection purchaser to the creditworthiness of the protection seller, as the protection seller is required to make payments under the contract when the reference entity experiences a credit event, such as a bankruptcy, a failure to pay its obligation or a restructuring. The seller of credit protection receives a premium for providing protection but has the risk that the underlying instrument referenced in the contract will be subject to a credit event.

JPMorgan Chase Bank, N.A. is both a purchaser and seller of protection in the credit derivatives market and uses these derivatives for two primary purposes. First, in its capacity as a market-maker in the dealer/client business, JPMorgan Chase Bank, N.A. actively risk manages a portfolio of credit derivatives by purchasing and selling credit protection, predominantly on corporate debt obligations, to meet the needs of customers. As a seller of protection, JPMorgan Chase Bank, N.A.'s exposure to a given reference entity may be offset partially, or entirely, with a contract to purchase protection from another counterparty on the same or similar

reference entity. Second, JPMorgan Chase Bank, N.A. uses credit derivatives to mitigate credit risk associated with its overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments) as well as to manage its exposure to residential and commercial mortgages. See Note 4 on pages 12–29 of these Consolidated Financial Statements for further information on JPMorgan Chase Bank, N.A.'s mortgage-related exposures. In accomplishing the above, JPMorgan Chase Bank, N.A. uses different types of credit derivatives. Following is a summary of various types of credit derivatives.

Credit default swaps

Credit derivatives may reference the credit of either a single reference entity ("single-name") or a broad-based index. JPMorgan Chase Bank, N.A. purchases and sells protection on both single-name and index-reference obligations. Single-name CDS and index CDS contracts are OTC derivative contracts. Single-name CDS are used to manage the default risk of a single reference entity, while index CDS contracts are used to manage the credit risk associated with the broader credit markets or credit market segments. Like the S&P 500 and other market indices, a CDS index comprises a portfolio of CDS across many reference entities. New series of CDS indices are periodically established with a new underlying portfolio of reference entities to reflect changes in the credit markets. If one of the reference entities in the index experiences a credit event, then the reference entity that defaulted is removed from the index. CDS can also be referenced against specific portfolios of reference names or against customized exposure levels based on specific client demands: for example, to provide protection against the first \$1 million of realized credit losses in a \$10 million portfolio of exposure. Such structures are commonly known as tranche CDS.

For both single-name CDS contracts and index CDS contracts, upon the occurrence of a credit event, under the terms of a CDS contract neither party to the CDS contract has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the reference obligation at the time of settling the credit derivative contract, also known as the recovery value. The protection purchaser does not need to hold the debt instrument of the underlying reference entity in order to receive amounts due under the CDS contract when a credit event occurs.

Credit-related notes

A credit-related note is a funded credit derivative where the issuer of the credit-related note purchases from the note investor credit protection on a referenced entity. Under the contract, the investor pays the

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issuer the par value of the note at the inception of the transaction, and in return, the issuer pays periodic payments to the investor, based on the credit risk of the referenced entity. The issuer also repays the investor the par value of the note at maturity unless the reference entity experiences a specified credit event. If a credit event occurs, the issuer is not obligated to repay the par value of the note, but rather, the issuer pays the investor the difference between the par value of the note and the fair value of the defaulted reference obligation at the time of settlement. Neither party to the credit-related note has recourse to the defaulting reference entity. For a further discussion of credit-related notes, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

Effective July 1, 2010, JPMorgan Chase Bank, N.A. adopted new accounting guidance prospectively related to credit derivatives embedded in beneficial interests in securitized financial assets, which resulted in the election of the fair value option for certain instruments in the AFS securities portfolio. The related cumulative effect adjustment increased retained earnings and decreased accumulated other comprehensive income by \$15 million, respectively, as of July 1, 2010.

The following table presents a summary of the notional amounts of credit derivatives and credit-related notes JPMorgan Chase Bank, N.A. sold and purchased as of December 31, 2010 and 2009. Upon a credit event, JPMorgan Chase Bank, N.A. as seller of protection would typically pay out only a percentage of the full notional amount of net protection sold, as the amount actually required to be paid on the contracts takes into account the recovery value of the reference obligation at the time of settlement. JPMorgan Chase Bank, N.A. manages the credit risk on contracts to sell protection by purchasing protection with identical or similar underlying reference entities. Other purchased protection referenced in the following table includes credit derivatives bought on related, but not identical, reference positions (including indices, portfolio coverage and other reference points) as well as protection purchased through credit-related notes.

JPMorgan Chase Bank, N.A. does not use notional amounts as the primary measure of risk management for credit derivatives, because the notional amount does not take into account the probability of the occurrence of a credit event, the recovery value of the reference obligation, or related cash instruments and economic hedges.

Total credit derivatives and credit-related notes

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

December 31, 2009 (in millions)	Maximum payout/Notional amount			
	Protection sold	Protection purchased with identical underlyings ^(c)	Net protection (sold)/purchased ^(d)	Other protection purchased ^(e)
Credit derivatives				
Credit default swaps	\$ (2,939,912)	\$ 2,979,923	\$ 40,011	\$ 27,380
Other credit derivatives ^(a)	(10,575)	9,290	(1,285)	30,473
Total credit derivatives	(2,950,487)	2,989,213	38,726	57,853
Credit-related notes	(4,031)	—	(4,031)	1,596
Total	\$ (2,954,518)	\$ 2,989,213	\$ 34,695	\$ 59,449

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

(b) As a result of the adoption of new accounting guidance, effective July 1, 2010, includes beneficial interests in securitized financial assets that contain embedded credit derivatives.

(c) Represents the total notional amount of protection purchased where the underlying reference instrument is identical to the reference instrument on protection sold; the notional amount of protection purchased for each individual identical underlying reference instrument may be greater or lower than the notional amount of protection sold.

(d) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.

(e) Represents protection purchased by JPMorgan Chase Bank, N.A. through single-name and index credit default swap or credit-related notes.

The following tables summarize the notional and fair value amounts of credit derivatives and credit-related notes as of December 31, 2010 and 2009, where JPMorgan Chase Bank, N.A. is the seller of protection. The maturity profile is based on the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of protection purchased are comparable to the profile reflected below.

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

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

December 31, 2009 (in millions)	<1 year	1–5 years	>5 years	Total notional amount	Fair value ^(b)
Risk rating of reference entity:					
Investment-grade	\$ (215,585)	\$ (1,140,207)	\$ (367,016)	\$ (1,722,808)	\$ (16,595)
Noninvestment-grade	(150,119)	(807,300)	(274,291)	(1,231,710)	(90,810)
Total	\$ (365,704)	\$ (1,947,507)	\$ (641,307)	\$ (2,954,518)	\$ (107,405)

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

(b) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements and cash collateral held by JPMorgan Chase Bank, N.A.

Note 8 – Noninterest revenue

Investment banking fees

This revenue category includes advisory and equity and debt underwriting fees. Advisory fees are recognized as revenue when the related services have been performed and the fee has been earned. Underwriting fees are recognized as revenue when JPMorgan Chase Bank, N.A. has rendered all services to the issuer and is entitled to collect the fee from the issuer, as long as there are no other contingencies associated with the fee (e.g., the fee is not contingent upon the customer obtaining financing). Underwriting fees are net of syndicate expense; JPMorgan Chase Bank, N.A. recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

The following table presents the components of investment banking fees.

Year ended December 31, (in millions)	2010	2009	2008
Underwriting:			
Equity	\$ 759	\$ 1,295	\$ 708
Debt	1,697	1,458	1,171
Total underwriting	2,456	2,753	1,879
Advisory ^(a)	648	781	796
Total investment banking fees	\$ 3,104	\$ 3,534	\$ 2,675

(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-administered multi-seller conduits. The consolidation of the conduits did not significantly change JPMorgan Chase Bank, N.A.'s net income as a whole; however, it did affect the classification of items on JPMorgan Chase Bank, N.A.'s Consolidated Statements of Income. As a result, certain advisory fees were considered intercompany and eliminated, and the fees charged by the consolidated multi-seller conduits to its customers were classified as lending-and-deposit-related fees.

Principal transactions

Principal transactions revenue consists of realized and unrealized gains and losses from trading activities (including physical commodities inventories that are generally accounted for at the lower of cost or fair value), changes in fair value associated with financial instruments held by the investment banking business for

which the fair value option was elected, and loans held-for-sale within the wholesale lines of business.

Lending- and deposit-related fees

This revenue category includes fees from loan commitments, standby letters of credit, financial guarantees, deposit-related fees in lieu of compensating balances, cash management-related activities or transactions, deposit accounts and other loan-servicing activities. These fees are recognized over the period in which the related service is provided.

Asset management, administration and commissions

This revenue category includes fees from investment management and related services, custody, brokerage services, insurance premiums and commissions, and other products. These fees are recognized over the period in which the related service is provided. Performance-based fees, which are earned based on exceeding certain benchmarks or other performance targets, are accrued and recognized at the end of the performance period in which the target is met.

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

Year ended December 31, (in millions)	2010	2009	2008
Total asset management fees	\$ 1,345	\$ 1,385	\$ 1,509
Total administration fees ^(a)	1,884	1,769	2,263
Commission and other fees:			
Brokerage commissions	1,318	1,300	1,780
All other commissions and fees	4,818	4,546	4,042
Total commissions and fees	6,136	5,846	5,822
Total asset management, administration and commissions	\$ 9,365	\$ 9,000	\$ 9,594

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

Mortgage fees and related income

This revenue category primarily reflects the retail financial services business's mortgage banking revenue, including: fees and income derived from mortgages originated with the intent to sell; mortgage sales and servicing including losses related to the repurchase of previously-sold loans; the impact of risk management activities

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associated with the mortgage pipeline, warehouse loans and MSRs; and revenue related to any residual interests held from mortgage securitizations. This revenue category also includes gains and losses on sales and lower of cost or fair value adjustments for mortgage loans held-for-sale, as well as changes in fair value for mortgage loans originated with the intent to sell and measured at fair value under the fair value option. Changes in the fair value of the retail financial services business's mortgage servicing rights are reported in mortgage fees and related income. Net interest income from mortgage loans, and securities gains and losses on AFS securities used in mortgage-related risk management activities, are recorded in interest income and securities gains/(losses), respectively. For a further discussion of MSRs, see Note 18 on pages 98–100 of these Consolidated Financial Statements.

Credit card income

The revenue related to credit cards primarily results from a participating arrangement with a bank affiliate of JPMorgan Chase Bank, N.A. and from the credit card business in Canada.

This revenue category includes interchange income from credit and debit cards. Prior to 2010, this revenue category included servicing fees earned in connection with securitization activities. Effective January 1, 2010, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust (See Note 17 on pages 82–97 of these Consolidated Financial Statement) and, as a result, the servicing fees were eliminated in consolidation. Volume-related payments to partners and expense for rewards programs are netted against interchange income; expense related to rewards programs are recorded when the rewards are earned by the customer. Other fee revenue is recognized as earned, except for annual fees, which are deferred and recognized on a straight-line basis over the 12-month period to which they pertain. Direct loan origination costs are also deferred and recognized over a 12-month period. In addition, due to the consolidation of Chase Paymentech Solutions in the fourth quarter of 2008, this category now includes net fees earned for processing card transactions for merchants.

Note 9 – Interest income and Interest expense

Interest income and interest expense is recorded in the Consolidated Statements of Income and classified based on the nature of the underlying asset or liability. Interest income and interest expense includes the current-period interest accruals for financial instruments measured at fair value, except for financial instruments containing embedded derivatives that would be separately accounted for in accordance with U.S. GAAP absent the fair value option election; for those instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue. For financial instruments that are not measured at fair value, the related interest is included within interest income or interest expense, as applicable.

Details of interest income and interest expense were as follows.

Year ended December 31, (in millions)	2010	2009	2008
Interest income			
Loans	\$ 24,428	\$ 28,479	\$ 31,049
Securities	9,454	11,993	6,213
Trading assets	6,814	6,979	11,071
Federal funds sold and securities			
purchased under resale agreements	1,590	1,513	5,805
Securities borrowed	395	334	1,436
Deposits with banks	315	860	1,765
Other assets ^(a)	(45)	(65)	98
Total interest income^(b)	42,951	50,093	57,437
Interest expense			
Interest-bearing deposits	3,718	5,231	15,705
Short-term and other liabilities ^(c)	2,164	3,954	8,234
Long-term debt	1,009	1,216	1,729
Beneficial interests issued by			
consolidated VIEs	129	101	252
Total interest expense^(b)	7,020	10,502	25,920
Net interest income	\$ 35,931	\$ 39,591	\$ 31,517
Provision for credit losses	9,406	22,712	14,704
Provision for credit losses – accounting conformity ^(d)	—	—	1,534
Total provision for credit losses	\$ 9,406	\$ 22,712	\$ 16,238
Net interest income after provision for credit losses	\$ 26,525	\$ 16,879	\$ 15,279

(a) Predominantly margin loans.

(b) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon the adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, its JPMorgan Chase Bank, N.A.-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. The consolidation of these VIEs did not significantly change JPMorgan Chase Bank, N.A.'s total net income. However, it did affect the classification of items on JPMorgan Chase Bank, N.A.'s Consolidated Statements of Income; as a result of the adoption of the guidance, certain noninterest revenue was eliminated in consolidation, offset by the recognition of interest income, interest expense, and provision for credit losses.

(c) Includes brokerage customer payables.

(d) 2008 includes an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual's banking operations.

Note 10 – Pension and other postretirement employee benefit plans

JPMorgan Chase Bank, N.A.'s defined benefit pension plans and the United Kingdom ("U.K.") other postretirement employee benefit ("OPEB") plan are accounted for in accordance with U.S. GAAP for retirement benefits.

Defined benefit pension plans and OPEB plan

Substantially all of JPMorgan Chase Bank, N.A.'s U.S. employees are provided benefits through JPMorgan Chase's qualified noncontributory, U.S. defined benefit pension plan. In addition, JPMorgan Chase Bank, N.A. offers postretirement medical and life insurance benefits to certain retirees and postretirement medical benefits to qualifying U.S. employees through JPMorgan Chase plans. These JPMorgan Chase plans are discussed in the JPMorgan Chase pension and OPEB plans section below.

JPMorgan Chase Bank, N.A. offers benefits through defined benefit pension plans to qualifying employees in certain non-U.S. locations and OPEB to qualifying U.K. employees. The U.K. OPEB plan is unfunded. JPMorgan Chase Bank, N.A. also offers certain qualifying employees in the U.S. the ability to participate in a

number of defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act. The most significant of these plans is the U.S. Excess Retirement Plan, pursuant to which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by law under a qualified plan. JPMorgan Chase Bank, N.A. announced that, effective May 1, 2009, pay credits would no longer be provided on compensation amounts above the maximum stipulated by law. The U.S. Excess Retirement Plan had an unfunded projected benefit obligation in the amount of \$221 million and \$222 million, at December 31, 2010 and 2009, respectively.

It is JPMorgan Chase Bank, N.A.'s policy to fund the pension plans in amounts sufficient to meet the requirements under applicable laws. In 2011, the cost of funding benefits under the U.S. Excess Retirement Plan is expected to be \$34 million. The expected amount of 2011 contributions to the non-U.S. defined benefit pension plans and U.K. OPEB plan is \$168 million of which \$154 million is contractually required.

Defined contribution plans

JPMorgan Chase Bank, N.A.'s employees may also participate in one of the two qualified defined contribution plans offered by JPMorgan Chase in the U.S. and other similar arrangements offered by JPMorgan Chase Bank, N.A. in certain non-U.S. locations, all of which are administered in accordance with applicable local laws and regula-

tions. The most significant of these plans is The JPMorgan Chase 401(k) Savings Plan (the "401(k) Savings Plan"), which covers substantially all U.S. employees. The 401(k) Savings Plan allows employees to make pretax and Roth 401(k) contributions to tax-deferred investment portfolios. The JPMorgan Chase Common Stock Fund, which is an investment option under the 401(k) Savings Plan, is a nonleveraged employee stock ownership plan.

JPMorgan Chase Bank, N.A. matched eligible employee contributions in the 401(k) Savings Plan up to 5% of benefits-eligible compensation (e.g., base pay) on a per pay period basis through April 30, 2009, and then amended the plan to provide that thereafter matching contributions would be made annually. Employees begin to receive matching contributions after completing the one-year-of-service requirement. Employees with total annual cash compensation of \$250,000 or more are not eligible for matching contributions. Matching contributions are immediately vested for employees hired before May 1, 2009, and will vest after three years of service for employees hired on or after May 1, 2009. The 401(k) Savings Plan also permits discretionary profit-sharing contributions by participating companies for certain employees, subject to a specified vesting schedule.

Effective August 10, 2009, JPMorgan Chase Bank, N.A. became the sponsor of the WaMu Savings Plan and that plan's assets were merged into the 401(k) Savings Plan effective March 31, 2010.

The following table presents the changes in benefit obligations and plan assets and funded status amounts reported on the Consolidated Balance Sheets for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension plans and U.K. OPEB plan.

As of or for the year ended December 31, (in millions)	Defined benefit pension plans				U.K. OPEB plan	
	U.S.		Non-U.S.		2010	2009
	2010	2009	2010	2009		
Change in benefit obligation						
Benefit obligation, beginning of year	\$ (344)	\$ (295)	\$ (2,531)	\$ (2,007)	\$ (29)	\$ (32)
Benefits earned during the year	(3)	(5)	(26)	(28)	—	—
Interest cost on benefit obligations	(20)	(21)	(120)	(122)	(2)	(2)
Plan amendments	—	—	10	1	—	—
Business combinations	—	(4) ^(b)	(12) ^(b)	—	—	—
Employee contributions	NA	NA	(4)	(3)	—	—
Net gain/(loss)	(20)	(17)	(71)	(287)	(9)	7
Benefits paid	29	34	96	95	3	2
Curtailments	—	—	—	1	—	—
Settlements	—	—	(1)	4	—	—
Special termination benefits	—	—	(1)	(1)	—	—
Foreign exchange impact and other	(1)	(36)	62	(184)	1	(4)
Benefit obligation, end of year	\$ (359)	\$ (344)	\$ (2,598)	\$ (2,531)	\$ (36)	\$ (29)
Change in plan assets						
Fair value of plan assets, beginning of year	\$ —	\$ —	\$ 2,432	\$ 2,008	\$ —	\$ —
Actual return on plan assets	—	—	228	218	—	—
JPMorgan Chase Bank, N.A. contributions	29	32	157	115	3	2
Employee contributions	—	—	4	3	—	—
Benefits paid	(29)	(32)	(96)	(95)	(3)	(2)
Settlements	—	—	(5)	(4)	—	—
Foreign exchange impact and other	—	—	(73)	187	—	—
Fair value of plan assets, end of year	\$ —	\$ —	\$ 2,647^(c)	\$ 2,432^(c)	\$ —	\$ —
Funded/(unfunded) status^(a)	\$ (359)	\$ (344)	\$ 49	\$ (99)	\$ (36)	\$ (29)
Accumulated benefit obligation, end of year	\$ (359)	\$ (344)	\$ (2,575)	\$ (2,506)	NA	NA

(a) Represents underfunded plans with an aggregate balance of \$459 million and \$502 million at December 31, 2010 and 2009, respectively, and overfunded plans with an aggregate balance of \$113 million and \$30 million at December 31, 2010 and 2009, respectively.

(b) Represents change resulting from the RBS Sempra Commodities business in 2010 and from the Washington Mutual plan in 2009.

(c) At December 31, 2010 and 2009, defined benefit pension plan amounts not measured at fair value include \$9 million and \$8 million, respectively, of accrued receivables for non-U.S. plans.

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Gains and losses

For JPMorgan Chase Bank, N.A.'s defined benefit pension plans, fair value is used to determine the expected return on plan assets. Amortization of net gains and losses is included in annual net periodic benefit cost if, as of the beginning of the year, the net gain or loss exceeds 10% of the greater of the projected benefit obligation or the fair value of the plan assets. Any excess, as well as prior service costs,

are amortized over the average future service period of defined benefit pension plan participants, which for the U.S. Excess Retirement Plan is currently nine years and for the non-U.S. defined benefit pension plans is the period appropriate for the affected plan. For the U.K. OPEB plan, any excess net gains or losses are amortized over the average future service period of plan participants expected to receive benefits, which is currently 15 years.

The following table presents pretax pension and U.K. OPEB amounts recorded in AOCI.

December 31, (in millions)	Defined benefit pension plans				U.K. OPEB plan	
	U.S.		Non-U.S.		2010	2009
	2010	2009	2010	2009		
Net gain/(loss)	\$ (74)	\$ (57)	\$ (566)	\$ (668)	\$ 6	\$ 17
Prior service credit/(cost)	(1)	(1)	13	3	—	—
Accumulated other comprehensive income/ (loss), pretax, end of year	\$ (75)	\$ (58)	\$ (553)	\$ (665)	\$ 6	\$ 17

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

Year ended December 31, (in millions)	Pension plans						U.K. OPEB plan		
	U.S.		2008	Non-U.S.			2010	2009	2008
2010	2009	2010		2009	2008				
Components of net periodic benefit cost									
Benefits earned during the year	\$ 3	\$ 5	\$ 5	\$ 28	\$ 26	\$ 29	\$ —	\$ —	\$ —
Interest cost on benefit obligations	20	21	18	121	122	142	2	2	3
Expected return on plan assets	—	—	—	(126)	(114)	(152)	—	—	—
Amortization:									
Net loss/(gain)	2	2	—	56	44	25	(1)	—	—
Prior service credit	—	—	—	(1)	—	—	—	—	—
Settlement loss	—	—	—	6	1	—	—	—	—
Special termination benefits	—	—	—	1	—	3	—	—	—
Net periodic benefit cost	25	28	23	85	79	47	1	2	3
Other defined benefit pension plans ^(a)	14	14	14	7	8	14	NA	NA	NA
Total defined benefit plans	39	42	37	92	87	61	1	2	3
Total defined contribution plans	298	318	209	222	198	286	NA	NA	NA
Total pension and OPEB cost included in compensation expense	\$ 337	\$ 360	\$ 246	\$ 314	\$ 285	\$ 347	\$ 1	\$ 2	\$ 3
Changes in plan assets and benefit obligations recognized in other comprehensive income									
Net (gain)/loss arising during the year	\$ 20	\$ 23	\$ 22	\$ (21)	\$ 183	\$ 230	\$ 9	\$ (6)	\$ (1)
Prior service credit arising during the year	—	—	—	(10)	(1)	—	—	—	—
Amortization of net (loss)/gain	(3)	(2)	—	(56)	(44)	(27)	1	—	—
Amortization of prior service (cost)/credit	—	(1)	—	1	—	—	—	—	—
Settlement gain	—	—	—	(1)	(1)	—	—	—	—
Foreign exchange impact and other	—	—	—	(25)	43	(150)	1	(2)	—
Total recognized in other comprehensive income	17	20	22	(112)	180	53	11	(8)	(1)
Total recognized in net periodic benefit cost and other comprehensive income	\$ 42	\$ 48	\$ 45	\$ (27)	\$ 259	\$ 100	\$ 12	\$ (6)	\$ 2

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

It is expected that \$44 million and \$1 million, pretax, of net loss and prior service credit, respectively, related to non-U.S. defined benefit pension plans recorded in AOCI at December 31, 2010, will be recognized in earnings during 2011.

The following table presents the actual rate of return on plan assets for the non-U.S. defined benefit pension plans.

December 31,	Non-U.S. defined benefit pension plans		
	2010	2009	2008
Actual rate of return	0.77-10.65%	3.17-22.43%	(21.58)-5.06%

Plan assumptions

JPMorgan Chase Bank, N.A.'s expected long-term rate of return for its non-U.S. defined benefit pension plans' assets is a blended average of the investment advisor's projected long-term (10 years or more) returns for the various asset classes, weighted by the asset allocation. Returns on asset classes are developed using a forward-looking building-block approach and are not strictly based upon historical returns. For the U.K. defined benefit pension plans, which represent the most significant of JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans, procedures are used to develop the expected long-term rate of return on defined benefit pension plan assets, taking into consideration local market conditions and the specific allocation of plan assets. The expected long-term rate of return on U.K. plan assets is an average of projected long-term returns for each asset class. The return on equities has been selected by reference to the yield on long-term U.K. government bonds plus an

equity risk premium above the risk-free rate. The return on "AA"-rated long-term corporate bonds has been taken as the average yield on such bonds.

The discount rate used in determining the benefit obligation under the U.S. Excess Retirement Plan was selected by reference to the yields on portfolios of bonds with maturity dates and coupons that closely match the plan's projected cash flows; such portfolios are derived from a broad-based universe of high-quality corporate bonds as of the measurement date. In years in which these hypothetical bond portfolios generates excess cash, such excess is assumed to be reinvested at the one-year forward rates implied by the Citigroup Pension Discount Curve published as of the measurement date. The discount rate for the U.K. defined benefit pension and OPEB plans represents a rate implied from the yield curve of the year-end iBoxx £ corporate "AA" 15-year-plus bond index.

The following tables present the weighted-average annualized actuarial assumptions for the projected and accumulated postretirement benefit obligations, and the components of net periodic benefit costs, for JPMorgan Chase Bank, N.A.'s U.S. and non-U.S. defined benefit pension plans and U.K. OPEB plan, as of and for the periods indicated.

Weighted-average assumptions used to determine benefit obligations

December 31,	U.S.		Non-U.S.	
	2010	2009	2010	2009
Discount rate:				
Defined benefit pension plans	5.50%	6.00%	1.60-5.50%	2.00-5.70%
OPEB plan	NA	NA	5.50	5.70
Rate of compensation increase	NA	4.00	3.00-4.50	3.00-4.50
Health care cost trend rate:				
Assumed for next year	NA	NA	6.50	5.40
Ultimate	NA	NA	6.00	4.50
Year when rate will reach ultimate	NA	NA	2015	2014

Weighted-average assumptions used to determine net periodic benefit costs

Year ended December 31,	U.S.			Non-U.S.		
	2010	2009	2008	2010	2009	2008
Discount rate:						
Defined benefit pension plans	6.00%	6.65%	6.60%	2.00-5.70%	2.00-6.20%	2.25-5.80%
OPEB plan	NA	NA	NA	5.70	6.20	5.80
Expected long-term rate of return on plan assets:						
Defined benefit pension plans	NA	NA	NA	2.40-6.20	2.50-6.90	3.25-5.75
OPEB plan	NA	NA	NA	NA	NA	NA
Rate of compensation increase	4.00	4.00	4.00	3.00-4.50	3.00-4.00	3.00-4.25
Health care cost trend rate:						
Assumed for next year	NA	NA	NA	5.40	7.00	5.75
Ultimate	NA	NA	NA	4.50	5.50	4.00
Year when rate will reach ultimate	NA	NA	NA	2014	2012	2010

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The following table presents the effect of a one-percentage-point change in the assumed health care cost trend rate on JPMorgan Chase Bank, N.A.'s total service and interest cost and accumulated postretirement benefit obligation.

Year ended December 31, 2010 (in millions)	1-Percentage- point increase	1-Percentage- point decrease
Effect on total service and interest cost	\$ —	\$ —
Effect on accumulated postretirement benefit obligation	4	(3)

At December 31, 2010, JPMorgan Chase Bank, N.A. decreased the discount rates used to determine its benefit obligations for the U.S. Excess Retirement Plan in light of current market interest rates, which will result in an immaterial increase in expense for 2011. To indicate the sensitivity of the U.S. Excess Retirement Plan to changes in the discount rate, a 25-basis point decline in the discount rate would result in an immaterial increase for 2011 and a \$5 million increase in the related projected benefit obligations.

As of December 31, 2010, the interest crediting rate assumption remained at 5.25%. A 25-point basis point increase in the interest crediting rate for the U.S. Excess Retirement Plan would result in an immaterial increase in 2011 U.S. defined benefit pension expense and an immaterial increase in the related projected benefit obligations.

JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans expense is also sensitive to changes in the discount rate. A 25-basis point decline in the discount rates for the non-U.S. plans would result in an increase in the 2011 non-U.S. defined benefit pension plan expense of approximately \$11 million.

Investment strategy and asset allocation

The investment policy for the U.K. defined benefit pension plans, which represent the most significant of the non-U.S. defined benefit pension plans, is to maximize returns subject to an appropriate level of risk relative to the plans' liabilities. In order to reduce the volatility in returns relative to the plans' liability profiles, the U.K. defined benefit pension plans' largest asset allocations are to debt securities of appropriate durations. Other assets, mainly equity securities, are then invested for capital appreciation, to provide long-term investment growth. Asset allocations for the U.K. defined benefit pension plans are reviewed and rebalanced on a regular basis.

As of December 31, 2010, assets held by JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans do not include JPMorgan Chase common stock, except in connection with the investments in third-party stock-index funds. The non-U.S. plans hold investments in funds that are sponsored or managed by affiliates of JPMorgan Chase Bank, N.A. in the amount of \$155 million and \$474 million as of December 31, 2010 and 2009, respectively.

The following table presents the weighted-average asset allocation of the fair values of total plan assets at December 31 for the years indicated, as well as the respective approved target allocation by

asset category, for JPMorgan Chase Bank, N.A.'s non-U.S. defined benefit pension plans.

December 31,	Non-U.S. defined benefit pension plans		
	Target Allocation	% of plan assets 2010	2009
Asset category			
Debt securities ^(a)	72%	71%	75%
Equity securities	26	28	23
Real estate	1	—	1
Alternatives	1	1	1
Total	100%	100%	100%

(a) Debt securities primarily include corporate debt and non-U.S. government debt securities.

Fair value measurement of the plans' assets and liabilities

The following details the instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy, as described in Note 4 on pages 12–29 of these Consolidated Financial Statements.

Cash and cash equivalents

Cash and cash equivalents includes currency on hand, demand deposits with banks or other financial institutions, and any short-term, highly liquid investments readily convertible into cash (i.e., investments with original maturities of three months or less). Due to the highly liquid nature of these assets, they are classified within level 1 of the valuation hierarchy.

Equity securities

Common and preferred stocks are valued at the closing price reported on the major market on which the individual securities are traded and are generally classified within level 1 of the valuation hierarchy. If quoted exchange prices are not available for the specific security, other independent pricing or broker quotes are consulted for valuation purposes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. Common and preferred stock that do not have quoted exchange prices are generally classified within level 2 of the valuation hierarchy.

Common/collective trust funds

These investments are public investment vehicles valued based on the calculated NAV of the fund. Where the funds produce a daily NAV that is validated by a sufficient level of observable activity (purchases and sales at NAV), the NAV is used to value the fund investment and it is classified in level 1 of the valuation hierarchy. Where adjustments to the NAV are required, for example, with respect to interests in funds subject to restrictions on redemption (such as withdrawal limitations) and/or observable activity for the fund investment is limited, investments are classified within level 2 of the valuation hierarchy.

Corporate debt securities and non-U.S. government debt securities

JPMorgan Chase Bank, N.A. estimates the value of debt instruments using a combination of observed transaction prices, independent pricing services and relevant broker quotes.

Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. JPMorgan Chase Bank, N.A. may also use pricing models or discounted cash flows. Such securities are generally classified within level 2 of the valuation hierarchy.

Derivative receivables and derivative payables

In the normal course of business, foreign exchange, credit, interest rate and equity derivative contracts are used to minimize fluctuations in the value of plan assets caused by exposure to credit or market risks. These instruments may also be used in lieu of investing in cash instruments. Derivative instruments are primarily valued using internally developed models that use as their basis readily observable market parameters and are therefore classified within level 2 of the valuation hierarchy.

Other

Other consists of exchange traded funds ("ETFs"), mutual fund investments, and insurance contracts. ETFs are valued at the closing price reported on the major market on which the individual securities are traded and are generally classified within level 1 of the valuation hierarchy. Mutual fund investments are valued using NAV. Those fund investments with a daily NAV that are validated by a sufficient level of observable activity (purchases and sales at NAV) are classified in level 1 of the valuation hierarchy. Where adjustments to the NAV are required, for example, for fund investments subject to restrictions on redemption (such as lock-up periods or withdrawal limitations), and/or observable activity for the fund investment is limited, the mutual fund investments are classified in level 2 of the valuation hierarchy. Insurance contracts are guaranteed return investments subject to the credit risk of the insurance company and are classified in level 2 of the valuation hierarchy.

Pension and OPEB plan assets and liabilities measured at fair value

December 31, 2010 (in millions)	Non-U.S. defined benefit pension plans			Total fair value
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 81	\$ —	\$ —	\$ 81
Equity securities:				
Capital equipment	68	13	—	81
Consumer goods	75	21	—	96
Banks and finance companies	113	9	—	122
Business services	53	10	—	63
Energy	59	6	—	65
Materials	50	13	—	63
Other	195	16	—	211
Total equity securities	613	88	—	701
Common/collective trust funds	46	180	—	226
Corporate debt securities	—	718	—	718
Non-U.S. government debt securities	—	864	—	864
Derivative receivables	—	3	—	3
Other	19	51	—	70
Total assets measured at fair value^{(a)(b)}	\$ 759	\$ 1,904	\$ —	\$ 2,663
Derivative payables	—	(25)	—	(25)
Total liabilities measured at fair value	\$ —	\$ (25)	\$ —	\$ (25)

December 31, 2009 (in millions)	Non-U.S. defined benefit pension plans			Total fair value
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 27	\$ —	\$ —	\$ 27
Equity securities:				
Capital equipment	49	16	—	65
Consumer goods	64	18	—	82
Banks and finance companies	90	12	—	102
Business services	39	13	—	52
Energy	45	13	—	58
Materials	35	3	—	38
Other	171	—	—	171
Total equity securities	493	75	—	568
Common/collective trust funds	23	185	—	208
Corporate debt securities	—	685	—	685
Non-U.S. government debt securities	—	841	—	841
Derivative receivables	—	5	—	5
Other	18	89	13	120
Total assets measured at fair value^{(a)(b)}	\$ 561	\$ 1,880	\$ 13	\$ 2,454
Derivative payables	—	(30)	—	(30)
Total liabilities measured at fair value	\$ —	\$ (30)	\$ —	\$ (30)

(a) At December 31, 2010 and 2009, excluded dividends and interest receivables of \$9 million and \$8 million, respectively.

(b) At December 31, 2010 and 2009, the fair value of investments valued at NAV were \$226 million and \$211 million, respectively, which were classified within the valuation hierarchy as follows: \$46 million and \$23 million in level 1 and \$180 million and \$188 million in level 2.

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Changes in level 3 fair value measurements using significant unobservable inputs

Year ended December 31, 2010 (in millions)	Fair value, January 1, 2010	Total realized/ unrealized gains/(losses)(a)	Purchases, sales and settlements, net	Transfers in and/or out of level 3	Fair value, December 31, 2010
Non-U.S. defined benefit pension plans					
Other	\$ 13	\$ (1)	\$ (12)	\$ —	\$ —
Total non-U.S. plans	\$ 13	\$ (1)	\$ (12)	\$ —	\$ —

Year ended December 31, 2009 (in millions)	Fair value, January 1, 2009	Total realized/ unrealized gains/(losses)(a)	Purchases, sales and settlements, net	Transfers in and/or out of level 3	Fair value, December 31, 2009
Non-U.S. defined benefit pension plans					
Other	\$ 14	\$ (1)	\$ —	\$ —	\$ 13
Total non-U.S. plans	\$ 14	\$ (1)	\$ —	\$ —	\$ 13

(a) For the years ended December 31, 2010 and 2009, respectively, total realized/unrealized gains/(losses) are the changes in unrealized gains or losses relating to assets held at December 31, 2010 and 2009, respectively.

Estimated future benefit payments

The following table presents benefit payments expected to be paid, which include the effect of expected future service, for the years indicated. The OPEB medical and life insurance payments are net of expected retiree contributions.

Year ended December 31, (in millions)	U.S. defined benefit pension plans	Non-U.S. defined benefit pension plans	U.K. OPEB plan
2011	\$ 35	\$ 84	\$ 2
2012	32	92	2
2013	28	98	2
2014	28	102	2
2015	28	111	2
Years 2016–2020	137	640	13

JPMorgan Chase defined benefit pension and OPEB plans

JPMorgan Chase Bank, N.A.'s U.S. employees are eligible to participate in JPMorgan Chase's U.S. qualified, noncontributory defined benefit pension plan. In addition, qualifying U.S. employees may receive medical and life insurance benefits that are provided through JPMorgan Chase's U.S. OPEB plan. Benefits vary with length of service and date of hire and provide for limits on JPMorgan Chase Bank, N.A.'s share of covered medical benefits. The medical and life insurance benefits are both contributory. Defined benefit pension expense and postretirement medical benefit expense are determined based upon participation and effected through an intercompany charge from JPMorgan Chase.

JPMorgan Chase Bank, N.A. was charged \$182 million, \$246 million and \$215 million in 2010, 2009 and 2008, respectively, for its share of the U.S. qualified defined benefit pension plan expense; and it was charged \$1 million, \$12 million and \$8 million in 2010, 2009 and 2008, respectively, for its share of the U.S. OPEB plan expense.

Consolidated disclosures of information about the defined benefit pension and OPEB plans of JPMorgan Chase, including the funded status of the plans, components of benefit cost and weighted-average actuarial assumptions are included in Note 9 on pages 201–210 of JPMorgan Chase's 2010 Annual Report on Form 10-K.

Note 11 – Employee stock-based incentives

Employee stock-based awards

JPMorgan Chase Bank, N.A.'s employees receive annual incentive compensation based on their performance, the performance of their business and JPMorgan Chase's consolidated operating results. JPMorgan Chase Bank, N.A.'s employees participate, to the extent they meet minimum eligibility requirements, in various stock-based incentive plans sponsored by JPMorgan Chase. For additional information regarding JPMorgan Chase's employee stock-based incentives, see Note 10 on pages 210–212 of JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2010.

In 2010, 2009, and 2008, JPMorgan Chase granted long-term stock-based awards to certain key employees under the 2005 Long-Term Incentive Plan (the "2005 Plan"). The 2005 Plan became effective on May 17, 2005, and was amended in May 2008. Under the terms of the amended 2005 plan, as of December 31, 2010, 113 million shares of common stock are available for issuance through May 2013. The amended 2005 Plan is the only active plan under which JPMorgan Chase is currently granting stock-based incentive awards. In the following discussion, the 2005 Plan, plus prior Firm plans and plans assumed as the result of acquisitions, are referred to collectively as the "LTI Plans," and such plans constitute JPMorgan Chase stock-based incentive plans.

Restricted stock units ("RSUs") are awarded at no cost to the recipi-

ent upon their grant. RSUs are generally granted annually and generally vest at a rate of 50% after two years and 50% after three years and convert into shares of JPMorgan Chase common stock at the vesting date. In addition, RSUs typically include full-career eligibility provisions, which allow employees to continue to vest upon voluntary termination, subject to post-employment and other restrictions based on age or service-related requirements. All of these awards are subject to forfeiture until vested. An RSU entitles the recipient to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding and, as such, are considered participating securities as discussed in Note 25 on page 269 of JPMorgan Chase's 2010 Annual Report on Form 10K.

Under the LTI Plans, stock options and stock appreciation rights ("SARs") have generally been granted with an exercise price equal to the fair value of JPMorgan Chase's common stock on the grant date. JPMorgan Chase typically awards SARs to certain key employees once per year, and it also periodically grants discretionary stock-based incentive awards to individual employees, primarily in the form of both employee stock options and SARs. The 2010, 2009 and 2008 grants of SARs to key employees vest ratably over five years (i.e., 20% per year). The 2010 grants of SARs contain full-career eligibility provisions; the 2009 and 2008 grants of SARs do not include any full-career eligibility provisions. SARs generally expire 10 years after the grant date.

JPMorgan Chase Bank, N.A. separately recognizes compensation expense for each tranche of each award as if it were a separate award with its own vesting date. Generally, for each tranche granted, compensation expense is recognized on a straight-line basis from the grant date until the vesting date of the respective

tranche, provided that the employees will not become full-career eligible during the vesting period. For awards with full-career eligibility provisions and awards granted with no future substantive service requirement, JPMorgan Chase Bank, N.A. accrues the estimated value of awards expected to be awarded to employees as of the grant date without giving consideration to the impact of post-employment restrictions. For each tranche granted to employees who will become full-career eligible during the vesting period, compensation expense is recognized on a straight-line basis from the grant date until the earlier of the employee's full-career eligibility date or the vesting date of the respective tranche.

In January 2008, JPMorgan Chase awarded to its Chairman and Chief Executive Officer up to 2 million SARs. The terms of this award are distinct from, and more restrictive than, other equity grants regularly awarded by JPMorgan Chase. The SARs, which have a 10-year term, will become exercisable no earlier than January 22, 2013, and have an exercise price of \$39.83. The number of SARs that will become exercisable (ranging from none to the full 2 million) and their exercise date or dates may be determined by the Board of Directors based on an annual assessment of the performance of both the CEO and JPMorgan Chase. JPMorgan Chase recognizes this award ratably over an assumed five-year service period, subject to a requirement to recognize changes in the fair value of the award through the grant date. JPMorgan Chase Bank, N.A. recognized \$4 million, \$9 million and \$1 million in compensation expense in 2010, 2009 and 2008, respectively, for this award.

RSU activity

Compensation expense for RSUs is measured based on the number of shares granted multiplied by the stock price at the grant date and is recognized in income as previously described. The following table summarizes JPMorgan Chase Bank, N.A.'s RSU activity for 2010.

Year ended December 31, 2010 (in thousands, except weighted average data)	Number of shares	Weighted-average grant date fair value
Outstanding, January 1	140,326	\$ 28.66
Granted	54,790	42.89
Vested	(36,458)	42.91
Forfeited	(6,138)	30.75
Transferred	(1,498)	28.66
Outstanding, December 31	151,022	\$ 30.28

The total fair value of shares that vested during the years ended December 31, 2010, 2009 and 2008, was \$1.5 billion, \$777 million and \$1.0 billion, respectively.

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Employee stock option and SARs activity

Compensation expense for employee stock options and SARs, which is measured at the grant date as the fair value of employee stock options and SARs, is recognized in net income as described above.

The following table summarizes JPMorgan Chase Bank, N.A.'s employee stock option and SARs activity for the year ended December 31, 2010, including awards granted to key employees and awards granted in prior years under broad-based plans.

Year ended December 31, 2010 (in thousands, except weighted-average data, and where otherwise noted)	Number of options/SARs	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, January 1	214,224	\$ 41.28		
Granted	16,092	42.90		
Exercised	(11,328)	30.74		
Forfeited	(2,557)	33.56		
Canceled	(30,771)	49.70		
Transferred	(902)	41.28		
Outstanding, December 31	184,758	\$ 40.91	3.3	\$ 960,445
Exercisable, December 31	143,596	42.37	2.0	648,775

The weighted-average grant date per share fair value of stock options and SARs granted during the years ended December 31, 2010, 2009 and 2008, was \$12.23, \$8.23 and \$9.94, respectively. The total intrinsic value of options exercised during the years ended December 31, 2010, 2009 and 2008, was \$135 million, \$130 million and \$315 million, respectively.

Compensation expense

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

Year ended December 31, (in millions)	2010	2009	2008
Cost of prior grants of RSUs and SARs that are amortized over their applicable vesting periods	\$ 1,559	\$ 1,538	\$1,367
Accrual of estimated costs of RSUs and SARs to be granted in future periods including those to full-career eligible employees	473	570	259
Total compensation expense related to employee stock-based incentive plans	\$ 2,032	\$ 2,108	\$1,626

At December 31, 2010, approximately \$1.0 billion (pretax) of compensation cost related to unvested awards had not yet been charged to net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 0.9 years. JPMorgan Chase Bank, N.A. does not capitalize any compensation cost related to share-based compensation awards to employees.

Tax benefits

Income tax benefits related to stock-based incentive arrangements recognized in JPMorgan Chase Bank, N.A.'s Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008, were \$793 million, \$822 million and \$651 million, respectively. Pursuant to a tax sharing agreement between

JPMorgan Chase Bank, N.A. and its parent, JPMorgan Chase, excess tax benefits related to stock-based incentive awards, are recorded by JPMorgan Chase. In addition, the above compensation expense allocated to JPMorgan Chase Bank, N.A. was cash settled in accordance with the aforementioned tax sharing arrangement through cash payments made by JPMorgan Chase Bank, N.A. to JPMorgan Chase.

Valuation assumptions

The following table presents the assumptions used to value employee stock options and SARs granted during the years ended December 31, 2010, 2009 and 2008, under the Black-Scholes valuation model.

Year ended December 31,	2010	2009	2008
Weighted-average annualized valuation assumptions			
Risk-free interest rate	3.89%	2.32%	3.80%
Expected dividend yield ^(a)	3.13	3.40	3.53
Expected common stock price volatility	37	56	34
Expected life (in years)	6.4	6.6	6.8

(a) In 2010 and 2009, the expected dividend yield was determined using historical dividend yields.

The expected volatility assumption is derived from the implied volatility of JPMorgan Chase's publicly traded stock options. The expected life assumption is an estimate of the length of time that an employee might hold an option or SAR before it is exercised or canceled, and the assumption is based on JPMorgan Chase's historic experience.

Note 12 – Noninterest expense

The following table presents the components of noninterest expense.

Year ended December 31, (in millions)	2010	2009	2008
Compensation expense ^(a)	\$ 20,811	\$ 19,791	\$ 17,122
Noncompensation expense:			
Occupancy expense	3,226	3,250	2,659
Technology, communications and equipment expense	4,155	4,029	3,663
Professional and outside services	4,728	4,335	4,277
Marketing	786	621	631
Other expense ^{(b)(c)(d)}	15,191	10,356	8,091
Amortization of intangibles	534	599	612
Total noncompensation expense	28,620	23,190	19,933
Merger costs	—	410	229
Total noninterest expense	\$ 49,431	\$ 43,391	\$ 37,284

(a) 2010 includes a payroll tax expense related to the United Kingdom ("U.K.") Bank Payroll Tax on certain compensation awarded from December 9, 2009, to April 5, 2010, to relevant banking employees.

(b) In 2010, 2009 and 2008, included litigation expense of \$6.2 billion, \$57 million and \$251 million, respectively.

(c) Includes foreclosed property expense of \$875 million, \$1.2 billion and \$157 million in 2010, 2009 and 2008, respectively.

(d) Expense for 2009 included a \$650 million FDIC special assessment.

Merger costs

Costs associated with the Bear Stearns merger and the Washington Mutual transaction in 2008 are reflected in the merger costs caption of the Consolidated Statements of Income. For a further discussion of the Bear Stearns merger and the Washington Mutual transaction, see Note 3 on pages 9–12 of these Consolidated Financial Statements. A summary of merger-related costs is shown in the following table.

Year ended December 31, (in millions)	2009			2008		
	Bear Stearns	Washington Mutual	Total	Bear Stearns	Washington Mutual	Total
Expense category						
Compensation	\$ (2)	\$ 255	\$ 253	\$ 32	\$ 113	\$ 145
Occupancy	(4)	15	11	40	—	40
Technology and communications and other	6	140	146	34	10	44
Total^{(a)(b)}	\$ —	\$ 410	\$ 410	\$ 106	\$ 123	\$ 229

(a) With the exception of occupancy- and technology-related write-offs, all of the costs in the table required the expenditure of cash.

(b) There were no merger costs for 2010.

The table below shows changes in the merger reserve balance related to costs associated with the above transactions.

Year ended December 31, (in millions)	2010			2009			2008		
	Bear Stearns	Washington Mutual	Total	Bear Stearns	Washington Mutual	Total	Bear Stearns	Washington Mutual	Total
Merger reserve balance, beginning of period	\$ —	\$ 57	\$ 57	\$ 64	\$ 441	\$ 505	\$ —	\$ —	\$ —
Recorded as merger costs ^(a)	—	—	—	—	410	410	106	123	229
Recorded as goodwill	—	—	—	—	—	—	—	430	430
Utilization of merger reserve	—	(57)	(57)	(64)	(794)	(858)	(42)	(112)	(154)
Merger reserve balance, end of period	\$ —	\$ —	\$ —	\$ —	\$ 57	\$ 57	\$ 64	\$ 441	\$ 505

(a) There were no merger costs for 2010.

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Note 13 – Securities

Securities are classified as AFS, held-to-maturity (“HTM”) or trading. Trading securities are discussed in Note 4 on pages 12–29 of these Consolidated Financial Statements. Securities are classified primarily as AFS when used to manage JPMorgan Chase Bank, N.A.’s exposure to interest rate movements or used for longer-term strategic purposes. AFS securities are carried at fair value on the Consolidated Balance Sheets. Unrealized gains and losses, after any applicable hedge accounting adjustments, are reported as net increases or decreases to accumulated other comprehensive income/(loss). The specific identification method is used to determine realized gains and losses on AFS securities, which are included in securities gains/(losses) on the Consolidated Statements of Income. Securities that JPMorgan Chase Bank, N.A. has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated Balance Sheets. JPMorgan Chase Bank, N.A. has not classified new purchases of securities as HTM for the past several years.

Other-than-temporary impairment

AFS debt and equity securities in unrealized loss positions are analyzed as part of JPMorgan Chase Bank, N.A.’s ongoing assessment of other-than-temporary impairment (“OTTI”). For debt securities, JPMorgan Chase Bank, N.A. considers a decline in fair value to be other-than-temporary when JPMorgan Chase Bank, N.A. does not expect to recover the entire amortized cost basis of the security. JPMorgan Chase Bank, N.A. also considers an OTTI to have occurred when there is an adverse change in cash flows to beneficial interests in securitizations that are rated below “AA” at their acquisition, or that can be contractually prepaid or otherwise settled in such a way that JPMorgan Chase Bank, N.A. would not recover substantially all of its recorded investment. For AFS equity securities, JPMorgan Chase Bank, N.A. considers a decline in fair value to be other-than-temporary if it is probable that JPMorgan Chase Bank, N.A. will not recover its amortized cost basis.

For debt securities, OTTI losses must be recognized in earnings if an investor has the intent to sell the debt security, or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost basis. However, even if an investor does not expect to sell a debt security, it must evaluate the expected cash flows to be received and determine if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in income. Amounts relating to factors other than credit losses are recorded in OCI.

When JPMorgan Chase Bank, N.A. intends to sell AFS debt or equity securities, it recognizes an impairment loss equal to the full difference between the amortized cost basis and the fair value of those securities.

When JPMorgan Chase Bank, N.A. does not intend to sell AFS debt or equity securities in an unrealized loss position, potential OTTI is considered using a variety of factors, including the length of time and extent to which the market value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. For debt securities, JPMorgan Chase Bank, N.A. estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist and, where applicable for purchased or retained beneficial interests in securitized assets, to determine if any adverse changes in cash flows have occurred. JPMorgan Chase Bank, N.A.’s cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period. For securities issued in a securitization, JPMorgan Chase Bank, N.A. also takes into consideration underlying loan-level data, and structural features of the securitization, such as subordination, excess spread, overcollateralization or other forms of credit enhancement, and compares the losses projected for the underlying collateral (“pool losses”) against the level of credit enhancement in the securitization structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the AFS debt security exists. JPMorgan Chase Bank, N.A. also performs other analyses to support its cash flow projections, such as first-loss analyses or stress scenarios.

For equity securities, JPMorgan Chase Bank, N.A. considers the above factors, as well as JPMorgan Chase Bank, N.A.’s intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value, and whether evidence exists to support a realizable value equal to or greater than the carrying value.

Realized gains and losses

The following table presents realized gains and losses from AFS securities.

Year ended December 31, (in millions)	2010	2009	2008
Realized gains	\$ 3,298	\$ 2,066	\$ 1,569
Realized losses	(317)	(559)	(241)
Net realized gains^(a)	2,981	1,507	1,328
Credit losses included in securities gains ^(b)	(6)	(138)	NA
Net securities gains	\$ 2,975	\$ 1,369	\$ 1,328

(a) Proceeds from securities sold were within approximately 3% of amortized cost in 2010 and 2009 and within approximately 2% of amortized cost in 2008.

(b) Includes other-than-temporary impairment losses recognized in income on certain prime mortgage-backed securities for the years ended December 31, 2010 and 2009.

The amortized costs and estimated fair values of AFS and HTM securities were as follows at December 31, 2010 and 2009.

December 31, (in millions)	2010				2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale debt securities								
Mortgage-backed securities:								
U.S. government agencies ^(a)	\$ 117,364	\$ 3,159	\$ 297	\$ 120,226	\$ 166,094	\$ 2,412	\$ 608	\$ 167,898
Residential:								
Prime and Alt-A	2,173	81	250 ^(d)	2,004	5,234	96	807 ^(d)	4,523
Non-U.S.	47,089	290	409	46,970	10,003	320	65	10,258
Commercial	4,650	498	4	5,144	4,506	132	63	4,575
Total mortgage-backed securities	171,276	4,028	960	174,344	185,837	2,960	1,543	187,254
U.S. Treasury and government agencies ^(a)								
	11,168	118	28	11,258	29,989	88	135	29,942
Obligations of U.S. states and municipalities								
	8,436	45	285	8,196	3,536	93	23	3,606
Certificates of deposit								
	3,642	1	2	3,641	2,649	1	—	2,650
Non-U.S. government debt securities								
	20,614	191	28	20,777	24,320	234	51	24,503
Corporate debt securities ^(b)								
	60,587	491	417	60,661	60,706	810	29	61,487
Asset-backed securities:								
Credit card receivables	8,469	392	5	8,856	18,692	436	20	19,108
Collateralized loan obligations	13,336	472	210	13,598	12,172	413	436	12,149
Other	8,694	91	8	8,777	6,255	98	38	6,315
Total available-for-sale debt securities	306,222	5,829	1,943^(d)	310,108	344,156	5,133	2,275^(d)	347,014
Available-for-sale equity securities	560	83	6	637	726	112	4	834
Total available-for-sale securities	306,782	5,912	1,949^(d)	310,745	344,882	5,245	2,279^(d)	347,848
Total held-to-maturity securities ^(c)	\$ 17	\$ 2	\$ —	\$ 19	\$ 25	\$ 2	\$ —	\$ 27

(a) Includes total U.S. government-sponsored enterprise obligations with fair values of \$94.2 billion and \$153.0 billion at December 31, 2010 and 2009, respectively, which were predominantly mortgage-related.

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

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

(d) Includes a total of \$133 million and \$368 million (before tax) of unrealized losses related to prime mortgage-backed securities for which credit losses have been recognized in income at December 31, 2010 and 2009, respectively. These unrealized losses are not credit-related and remain reported in AOCI.

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Securities impairment

The following table presents the fair value and gross unrealized losses for AFS securities by aging category at December 31, 2010 and 2009.

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

December 31, 2009 (in millions)	Securities with gross unrealized losses					
	Less than 12 months		12 months or more		Total fair value	Total gross unrealized losses
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses		
Available-for-sale debt securities						
Mortgage-backed securities:						
U.S. government agencies	\$ 43,235	\$ 603	\$ 644	\$ 5	\$ 43,879	\$ 608
Residential:						
Prime and Alt-A	183	27	3,032	780	3,215	807
Non-U.S.	391	1	1,773	64	2,164	65
Commercial	664	34	229	29	893	63
Total mortgage-backed securities	44,473	665	5,678	878	50,151	1,543
U.S. Treasury and government agencies	8,432	135	—	—	8,432	135
Obligations of U.S. states and municipalities	472	11	136	12	608	23
Certificates of deposit	—	—	—	—	—	—
Non-U.S. government debt securities	2,471	46	835	5	3,306	51
Corporate debt securities	1,525	11	4,634	18	6,159	29
Asset-backed securities:						
Credit card receivables	—	—	451	20	451	20
Collateralized loan obligations	42	1	7,883	435	7,925	436
Other	767	8	1,688	30	2,455	38
Total available-for-sale debt securities	58,182	877	21,305	1,398	79,487	2,275
Available-for-sale equity securities	1	1	3	3	4	4
Total securities with gross unrealized losses	\$ 58,183	\$ 878	\$ 21,308	\$ 1,401	\$ 79,491	\$ 2,279

Other-than-temporary impairment

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

Year ended December 31, (in millions)	2010	2009
Debt securities JPMorgan Chase Bank, N.A. does not intend to sell that have credit losses		
Total other-than-temporary impairment losses ^(a)	\$ —	\$ (506)
Losses recorded in/(reclassified from) other comprehensive income	(6)	368
Credit losses recognized in income^(b)	\$ (6)	\$ (138)

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

(b) Represents the credit loss component of certain prime mortgage-backed securities for the years ended December 31, 2010 and 2009, that JPMorgan Chase Bank, N.A. does not intend to sell. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value if there has been a decline in expected cash flows.

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

The following table presents a rollforward for the years ended December 31, 2010 and 2009, of the credit loss component of OTTI losses that were recognized in income related to debt securities that JPMorgan Chase Bank, N.A. does not intend to sell.

Year ended December 31, (in millions)	2010	2009
Balance, beginning of period	\$ 138	\$ —
Additions:		
Newly credit-impaired securities	—	138
Increase in losses on previously credit-impaired securities	—	—
Losses reclassified from other comprehensive income on previously credit-impaired securities	6	—
Reductions:		
Sales of credit-impaired securities	(31)	—
Impact of new accounting guidance related to VIEs	—	—
Balance, end of period	\$ 113	\$ 138

Gross unrealized losses

Gross unrealized losses have generally decreased since December 31, 2009, due primarily to market spread improvement and increased liquidity, driving asset prices higher. However, gross unrealized losses on certain securities have increased, including on certain corporate debt securities, which are primarily government-guaranteed positions that experienced credit spread widening. As of December 31, 2010, JPMorgan Chase Bank, N.A. does not intend to sell the securities with a loss position in AOCI, and it is not likely that JPMorgan Chase Bank, N.A. will be required to sell these securities before recovery of their amortized cost basis. Except for the securities reported in the table above for which credit losses have been recognized in income, JPMorgan Chase Bank, N.A. believes that the securities with an unrealized loss in AOCI are not other-than-temporarily impaired as of December 31, 2010.

Following is a description of JPMorgan Chase Bank, N.A.'s principal security investments with the most significant unrealized losses as of December 31, 2010, and the key assumptions used in JPMorgan

Chase Bank, N.A.'s estimate of the present value of the cash flows most likely to be collected from these investments.

Mortgage-backed securities – Prime and Alt-A nonagency

As of December 31, 2010, gross unrealized losses related to prime and Alt-A residential mortgage-backed securities issued by private issuers were \$250 million, all of which have been in an unrealized loss position for 12 months or more. Approximately 70% of the total portfolio (by amortized cost) are currently rated below investment-grade; JPMorgan Chase Bank, N.A. has recorded other-than-temporary impairment losses on 55% of the below investment-grade positions. In analyzing prime and Alt-A residential mortgage-backed securities for potential credit losses, JPMorgan Chase Bank, N.A. utilizes a methodology that focuses on loan-level detail to estimate future cash flows, which are then allocated to the various tranches of the securities. The loan-level analysis primarily considers current home value, loan-to-value ("LTV") ratio, loan type and geographical location of the underlying property to forecast prepayment, home price, default rate and loss severity. The forecasted weighted average underlying default rate on the positions was 21% and the related weighted average loss severity was 50%. Based on this analysis, an OTTI loss of \$6 million was recognized in 2010 related to securities that experienced increased delinquency rates associated with specific collateral types and origination dates. Overall losses have decreased since December 31, 2009, with the recovery in security prices resulting from increased demand for higher-yielding asset classes and a deceleration in the pace of home price declines due in part to the U.S. government programs to facilitate financing and to spur home purchases. The unrealized loss of \$250 million is considered temporary, based on management's assessment that the estimated future cash flows together with the credit enhancement levels for those securities remain sufficient to support JPMorgan Chase Bank, N.A.'s investment. The credit enhancements associated with the below investment-grade and investment-grade positions are 9% and 24%, respectively.

Asset-backed securities – Collateralized loan obligations

As of December 31, 2010, gross unrealized losses related to CLOs were \$210 million, of which \$200 million related to securities that were in an unrealized loss position for 12 months or more. Overall losses have decreased since December 31, 2009, mainly as a result of lower default forecasts and spread tightening across various asset classes. Substantially all of these securities are rated "AAA," "AA" and "A" and have an average credit enhancement of 30%. Credit enhancement in CLOs is primarily in the form of subordination, which is a form of structural credit enhancement where realized losses associated with assets held by an issuing vehicle are allocated to issued tranches considering their relative seniority. The key assumptions considered in analyzing potential credit losses were underlying loan and debt security defaults and loss severity. Based on current default trends, JPMorgan Chase Bank, N.A. assumed collateral default rates of 2.1% for 2010 and 5% thereafter. Further, loss severities were assumed to be 48% for loans and 78% for debt securities. Losses on collateral were estimated to occur approximately 18 months after default.

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Contractual maturities and yields

The following table presents the amortized cost and estimated fair value at December 31, 2010, of JPMorgan Chase Bank, N.A.'s AFS and HTM securities by contractual maturity.

By remaining maturity December 31, 2010 (in millions)	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years ^(c)	Total
Available-for-sale debt securities					
Mortgage-backed securities: ^(a)					
Amortized cost	\$ 15	\$ 259	\$ 2,667	\$ 168,335	\$ 171,276
Fair value	15	282	2,707	171,340	174,344
Average yield ^(b)	8.63%	6.25%	2.66%	3.85%	3.84 %
U.S. Treasury and government agencies: ^(a)					
Amortized cost	\$ 1,753	\$ 4,913	\$ 4,251	\$ 251	\$ 11,168
Fair value	1,760	5,007	4,260	231	11,258
Average yield ^(b)	1.75%	2.62%	3.84%	3.86%	2.97 %
Obligations of U.S. states and municipalities:					
Amortized cost	\$ 14	\$ 31	\$ 243	\$ 8,148	\$ 8,436
Fair value	14	31	255	7,896	8,196
Average yield ^(b)	0.14%	2.22%	5.39%	5.10%	5.09 %
Certificates of deposit:					
Amortized cost	\$ 3,642	\$ —	\$ —	\$ —	\$ 3,642
Fair value	3,641	—	—	—	3,641
Average yield ^(b)	5.16%	—%	—%	—%	5.16 %
Non-U.S. government debt securities:					
Amortized cost	\$ 5,666	\$ 13,557	\$ 1,388	\$ 3	\$ 20,614
Fair value	5,673	13,712	1,389	3	20,777
Average yield ^(b)	1.81%	2.23%	3.56%	5.34%	2.21 %
Corporate debt securities:					
Amortized cost	\$ 11,883	\$ 43,638	\$ 5,065	\$ 1	\$ 60,587
Fair value	11,966	43,598	5,096	1	60,661
Average yield ^(b)	2.34%	2.20%	4.81%	1.07%	2.44 %
Asset-backed securities:					
Amortized cost	\$ 38	\$ 4,249	\$ 13,875	\$ 12,337	\$ 30,499
Fair value	38	4,352	14,386	12,455	31,231
Average yield ^(b)	8.94%	1.89%	2.44%	2.19%	2.27 %
Total available-for-sale debt securities					
Amortized cost	\$ 23,011	\$ 66,647	\$ 27,489	\$ 189,075	\$ 306,222
Fair value	23,107	66,982	28,093	191,926	310,108
Average yield ^(b)	2.62%	2.23%	3.20%	3.80%	3.31 %
Available-for-sale equity securities					
Amortized cost	\$ —	\$ —	\$ —	\$ 560	\$ 560
Fair value	—	—	—	637	637
Average yield ^(b)	—%	—%	—%	0.57%	0.57 %
Total available-for-sale securities					
Amortized cost	\$ 23,011	\$ 66,647	\$ 27,489	\$ 189,635	\$ 306,782
Fair value	23,107	66,982	28,093	192,563	310,745
Average yield ^(b)	2.62%	2.23%	3.20%	3.79%	3.31 %
Total held-to-maturity securities					
Amortized cost	\$ —	\$ 6	\$ 10	\$ 1	\$ 17
Fair value	—	6	11	2	19
Average yield ^(b)	—%	6.97%	6.83%	6.49%	6.85 %

- (a) U.S. government agencies and U.S. government-sponsored enterprises were the only issuers whose securities exceeded 10% of JPMorgan Chase Bank, N.A.'s total stockholder's equity at December 31, 2010.
- (b) Average yield was based on amortized cost balances at the end of the period and did not give effect to changes in fair value reflected in accumulated other comprehensive income/(loss). Yields are derived by dividing interest/dividend income (including the effect of related derivatives on AFS securities and the amortization of premiums and accretion of discounts) by total amortized cost. Taxable-equivalent yields are used where applicable.
- (c) Includes securities with no stated maturity. Substantially all of JPMorgan Chase Bank, N.A.'s residential mortgage-backed securities and collateralized mortgage obligations are due in 10 years or more, based on contractual maturity. The estimated duration, which reflects anticipated future prepayments based on a consensus of dealers in the market, is approximately five years for agency residential mortgage-backed securities, three years for agency residential collateralized mortgage obligations and six years for nonagency residential collateralized mortgage obligations.

Note 14 – Securities financing activities

JPMorgan Chase Bank, N.A. enters into resale agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions (collectively, “securities financing agreements”) primarily to finance JPMorgan Chase Bank, N.A.’s inventory positions, acquire securities to cover short positions, accommodate customers’ financing needs, and settle other securities obligations.

Securities financing agreements are treated as collateralized financings on JPMorgan Chase Bank, N.A.’s Consolidated Balance Sheets. Resale and repurchase agreements are generally carried at the amounts at which the securities will be subsequently sold or repurchased, plus accrued interest. Securities borrowed and securities loaned transactions are generally carried at the amount of cash collateral advanced or received. Where appropriate under applicable accounting guidance, resale and repurchase agreements with the same counterparty are reported on a net basis. Fees received or paid in connection with securities financing agreements are recorded in interest income or interest expense.

JPMorgan Chase Bank, N.A. has elected the fair value option for certain securities financing agreements. For a further discussion of the fair value option, see Note 5 on pages 29–31 of these Consolidated Financial Statements. The securities financing agreements for which the fair value option has been elected are reported within securities purchased under resale agreements; securities loaned or sold under repurchase agreements; and securities borrowed on the Consolidated Balance Sheets. Generally, for agreements carried at fair value, current-period interest accruals are recorded within interest income and interest expense, with changes in fair value reported in principal transactions revenue. However, for financial instruments containing embedded derivatives that would be separately accounted for in accordance with accounting guidance for hybrid instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue.

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

December 31, (in millions)	2010	2009
Securities purchased under resale agreements ^(a)	\$174,592	\$ 165,620
Securities borrowed ^(b)	57,370	45,320
Securities sold under repurchase agreements ^(c)	\$ 158,688	\$ 172,740
Securities loaned	13,898	12,841

(a) Includes resale agreements of \$19.9 billion and \$20.1 billion accounted for at fair value at December 31, 2010 and 2009, respectively.

(b) Includes securities borrowed of \$14.0 billion and \$7.0 billion accounted for at fair value at December 31, 2010 and 2009, respectively.

(c) Includes repurchase agreements of \$2.6 billion and \$2.2 billion accounted for at fair value at December 31, 2010 and 2009, respectively.

The amounts reported in the table above have been reduced by \$54.8 billion and \$30.2 billion at December 31, 2010 and 2009, respectively, as a result of agreements in effect that meet the specified conditions for net presentation under applicable accounting guidance.

JPMorgan Chase Bank, N.A.’s policy is to take possession, where possible, of securities purchased under resale agreements and of securities borrowed. JPMorgan Chase Bank, N.A. monitors the market value of the underlying securities that it has received from its counterparties and either requests additional collateral or returns a portion of the collateral when appropriate in light of the market value of the underlying securities. Margin levels are established initially based upon the counterparty and type of collateral and monitored on an ongoing basis to protect against declines in collateral value in the event of default. JPMorgan Chase Bank, N.A. typically enters into master netting agreements and other collateral arrangements with its resale agreement and securities borrowed counterparties, which provide for the right to liquidate the purchased or borrowed securities in the event of a customer default. As a result of JPMorgan Chase Bank, N.A.’s credit risk mitigation practices, JPMorgan Chase Bank, N.A. did not hold any reserves for credit impairment on these agreements as of December 31, 2010 and 2009.

For a further discussion of assets pledged and collateral received in securities financing agreements see Notes 29 on page 115 of these Consolidated Financial Statements.

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Note 15 – Loans

Loan accounting framework

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

- Originated or purchased loans held-for-investment (other than purchased credit-impaired ("PCI") loans);
- Loans held-for-sale;
- Fair value loans;
- PCI loans held-for-investment

The following provides a detailed accounting discussion of these loan categories:

Loans held-for-investment (other than PCI loans)

Originated or purchased loans held-for-investment, other than PCI loans, are measured at the principal amount outstanding, net of the following: allowance for loan losses; net charge-offs; interest applied to principal (for loans accounted for on the cost recovery method); unamortized discounts and premiums; and deferred loan fees or cost.

Interest income

Interest income on performing loans held-for-investment, other than PCI loans, is accrued and recognized as interest income at the contractual rate of interest. Purchase price discounts or premiums, as well as net deferred loan fees or costs, are amortized into interest income over the life of the loan to produce a level rate of return.

Nonaccrual loans

Nonaccrual loans are those on which the accrual of interest has been suspended. Loans (other than credit card loans and certain consumer loans insured by U.S. government agencies) are placed on nonaccrual status and considered nonperforming when full payment of principal and interest is in doubt, which is generally determined when principal or interest is 90 days or more past due and collateral, if any, is insufficient to cover principal and interest. A loan is determined to be past due when the minimum payment is not received from the borrower by the contractually specified due date or for certain loans (e.g., residential real estate loans), when a monthly payment is due and unpaid for 30 days or more. All interest accrued but not collected is reversed against interest income at the date a loan is placed on nonaccrual status. In addition, the amortization of deferred amounts is suspended. In certain cases, interest income on nonaccrual loans may be recognized to the extent cash is received (e.g., cash basis) when the recorded loan balance is deemed fully collectible; however, if there is doubt regarding the ultimate collectability of the recorded loan balance, all interest cash receipts are applied to reduce the carrying value of the loan (the cost recovery method).

A loan may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loan.

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

Allowance for loan losses

The allowance for loan losses represents the estimated probable losses on held-for-investment loans. Changes in the allowance for loan losses are recorded in the provision for credit losses on JPMorgan Chase Bank, N.A.'s Consolidated Statements of Income. See Note 16 on pages 77–81 for further information on JPMorgan Chase Bank, N.A.'s accounting policies for the allowance for loan losses.

Charge-offs

Wholesale loans and risk-rated business banking and auto loans are charged off against the allowance for loan losses when it is highly certain that a loss has been realized. This determination includes many factors, including the prioritization of JPMorgan Chase Bank, N.A.'s claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity.

Consumer loans, other than risk-rated business banking and auto loans and PCI loans, are generally charged off to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council ("FFIEC") policy. Residential mortgage loans and scored business banking loans are generally charged down to estimated net realizable value at no later than 180 days past due. Certain consumer loans, including auto loans and non-government guaranteed student loans, are generally charged down to estimated net realizable value at 120 days past due. JPMorgan Chase Bank, N.A. regularly assesses the assumptions that it uses to estimate these net realizable values, and updates the underlying assumptions as necessary to further refine its estimates.

Credit card loans are charged off by the end of the month in which the account becomes 180 days past due, or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

Certain impaired loans are deemed collateral-dependent because repayment of the loan is expected to be provided solely by the underlying collateral, rather than by cash flows from the borrower's operations, income or other resources. Impaired collateral-dependent loans are charged-off to the fair value of the collateral, less costs to sell. See Note 16 on pages 77–81 for information on JPMorgan Chase Bank, N.A.'s charge-off and valuation policies for collateral-dependent loans.

Loans held-for-sale

Held-for-sale loans are measured at the lower of cost or fair value, with valuation changes recorded in noninterest revenue. For wholesale loans, the valuation is performed on an individual loan basis. For consumer loans, the valuation is performed on a portfolio basis.

Interest income on loans held-for-sale is accrued and recognized based on the contractual rate of interest.

Loan origination fees or costs and purchase price discounts or premiums are deferred in a contra loan account until the related loan is sold. The deferred fees and discounts or premiums are an adjustment to the basis of the loan and therefore are included in the periodic determination of the lower of cost or fair value adjustments and/or the gain or losses recognized at the time of sale.

Held-for-sale loans are subject to the nonaccrual policies described above.

Because held-for-sale loans are recognized at the lower of cost or fair value, JPMorgan Chase Bank, N.A.'s allowance for loan losses and charge-off policies do not apply to these loans.

Fair value loans

Loans used in a trading strategy or risk managed on a fair value basis are measured at fair value, with changes in fair value recorded in noninterest revenue.

For these loans, the earned current contractual interest payment is recognized in interest income. Changes in fair value are recognized in noninterest revenue. Loan origination fees are recognized upfront in noninterest revenue. Loan origination costs are recognized in the associated expense category as incurred.

Because these loans are recognized at fair value, JPMorgan Chase Bank, N.A.'s nonaccrual, allowance for loan losses, and charge-off policies do not apply to these loans.

See Note 5 on pages 29–31 of these Consolidated Financial Statements for further information on JPMorgan Chase Bank, N.A.'s elections of fair value accounting under the fair value option. See Note 4 and Note 5 on pages 12–29 and 29–31 of these Consolidated Financial Statements for further information on loans carried at fair value and classified as trading assets.

PCI loans

PCI loans held-for-investment are initially measured at fair value. PCI loans have evidence of credit deterioration since the loan's origination date and therefore it is probable, at acquisition, that all contractually required payments will not be collected. Because PCI loans are initially measured at fair value, which includes an estimate of future credit losses, no allowance for loan losses related to PCI loans is recorded at the acquisition date. See page 71 of this Note for information on accounting for PCI loans subsequent to their acquisition.

Loan classification changes

Loans in the held-for-investment portfolio that management decides to sell are transferred to the held-for-sale portfolio at the lower of cost or fair value on the date of transfer. Credit-related losses are charged against the allowance for loan losses; losses due to changes in interest rates or foreign currency exchange rates are recognized in noninterest revenue.

In certain limited cases, loans in the held-for-sale portfolio that management decides to retain are transferred to the held-for-investment portfolio at the lower of cost or fair value on the date of transfer. These loans are subsequently assessed for impairment based on JPMorgan Chase Bank, N.A.'s allowance methodology. For a further discussion of the methodologies used in establishing JPMorgan Chase Bank, N.A.'s allowance for loan losses, see Note 16 on pages 77–81 of these Consolidated Financial Statements.

Loan modifications

JPMorgan Chase Bank, N.A. seeks to modify certain loans in conjunction with its loss-mitigation activities. Through the modification, JPMorgan Chase Bank, N.A. grants one or more concessions to a borrower who is experiencing financial difficulty in order to minimize JPMorgan Chase Bank, N.A.'s economic loss, avoid foreclosure or repossession of the collateral and to ultimately maximize payments received by JPMorgan Chase Bank, N.A. from the borrower. The concessions granted vary by program and by borrower-specific characteristics, and may include interest rate reductions, term extensions, payment deferrals, or the acceptance of equity or other assets in lieu of payments. In certain limited circumstances, loan modifications include principal forgiveness.

Such modifications are accounted for and reported as troubled debt restructurings ("TDRs"). A loan that has been modified in a TDR is generally considered to be impaired until it matures, is repaid, or is otherwise liquidated, regardless of whether the borrower performs under the modified terms. In certain limited cases, the effective interest rate applicable to the modified loan is at or above the current market rate at the time of the restructuring. In such circumstances, and assuming that the loan subsequently performs under its modified terms and JPMorgan Chase Bank, N.A. expects to collect all contractual principal and interest cash flows, the loan is disclosed as impaired and as a TDR only during the year of the modification; in subsequent years, the loan is not disclosed as an impaired loan or as a TDR so long as repayment of the restructured loan under its modified terms is reasonably assured.

Loans, except for credit card loans, modified in a TDR are generally placed on nonaccrual status, although in most cases such loans were already on nonaccrual status prior to modification. These loans may be returned to performing status (resuming the accrual of interest) if the following criteria are met: (a) the borrower has performed under the modified terms for a minimum of six months and/or six payments, and (b) JPMorgan Chase Bank, N.A. has an expectation that repayment of the modified loan is reasonably assured based on, for example, the borrower's debt

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capacity and level of future earnings, collateral values, LTV ratios, and other current market considerations.

Because TDRs are considered to be impaired, these loans are evaluated for an asset-specific allowance, which considers the expected re-default rates for the modified loans and is determined based on the same methodology used to estimate JPMorgan Chase Bank, N.A.'s asset-specific allowance component regardless of whether the loan is performing and has been returned to accrual status. For further discussion of the methodology used to estimate JPMorgan Chase Bank, N.A.'s asset-specific allowance, see Note 16 on pages 77-81 of these Consolidated Financial Statements.

Loan Portfolio

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

Wholesale ^(a)	Consumer, excluding credit card ^(b)	Credit Card
<ul style="list-style-type: none"> • Commercial and industrial • Real estate • Financial institutions • Government agencies • Other 	<p><u>Residential real estate – excluding PCI</u></p> <ul style="list-style-type: none"> • Home equity - senior lien • Home equity - junior lien • Prime mortgage, including option ARMs • Subprime mortgage <p><u>Other consumer loans</u></p> <ul style="list-style-type: none"> • Auto^(c) • Business banking^(c) • Student and other <p><u>Residential real estate – PCI</u></p> <ul style="list-style-type: none"> • Home equity • Prime mortgage • Subprime mortgage • Option ARMs 	<ul style="list-style-type: none"> • Credit card

(a) Includes loans reported in the investment banking business, the commercial banking business, the treasury and security services business, the asset management business and the corporate business.

(b) Includes the retail financial services business and residential real estate loans reported in the corporate.

(c) Includes risk-rated loans that apply JPMorgan Chase Bank, N.A.'s wholesale methodology for determining the allowance for loan losses; these loans are managed by the retail financial services business, and therefore for consistency in presentation, are included with the other consumer loan classes.

Foreclosed property

JPMorgan Chase Bank, N.A. acquires property from borrowers through loan restructurings, workouts, and foreclosures. Property acquired may include real property (e.g., residential real estate, land, buildings, and fixtures) and commercial and personal property (e.g., aircraft, railcars, and ships).

At the time JPMorgan Chase Bank, N.A. takes physical possession, the property is recorded in other assets on the Consolidated Balance Sheets at fair value less estimated costs to sell. Each quarter the fair value of the acquired property is reviewed and adjusted, if necessary. Subsequent changes to fair value are charged/credited to noninterest revenue. Operating expense, such as real estate taxes and maintenance, are charged to other expense.

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

December 31, 2010 (in millions)	Wholesale	Consumer, excluding credit card	Credit Card	Total
Retained ^(a)	\$ 219,829	\$ 307,185	\$ 21,665	\$ 548,679 ^(b)
Held-for-sale	3,139	154	59	3,352
At fair value	973	—	—	973
Total	\$ 223,941	\$ 307,339	\$ 21,724	\$ 553,004

December 31, 2009 (in millions)	Wholesale	Consumer, excluding credit card	Credit Card	Total
Retained	\$ 196,815	\$ 338,256	\$ 17,992	\$ 553,063 ^(b)
Held-for-sale	2,666	2,142	—	4,808
At fair value	553	—	—	553
Total	\$ 200,034	\$ 340,398	\$ 17,992	\$ 558,424

(a) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated \$15.1 billion of wholesale loans; and \$3.1 billion of loans associated with certain other consumer securitization entities, primarily mortgage-related, and \$2.0 billion of loans associated with its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

(b) Loans (other than PCI loans and those for which the fair value option has been selected) are presented net of unamortized discounts and premiums, unearned income and net deferred loan costs of \$1.8 billion and \$803 million at December 31, 2010 and 2009, respectively.

On an on-going basis, JPMorgan Chase Bank, N.A. manages its exposure to credit risk. Selling loans is one way that JPMorgan Chase Bank, N.A. reduces its credit exposures. The following table provides information about JPMorgan Chase Bank, N.A.'s loan sales by portfolio segment.

Year ended December 31, (in millions)	2010	2009	2008
Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)^(a)			
Wholesale	\$ 204	\$ 234	\$ (2,713)
Consumer, excluding credit card	265	127	(11)
Credit Card	2	10	60
Total net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)^(a)	\$ 471	\$ 371	\$ (2,664)

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

Wholesale loan portfolio

Wholesale loans include loans made to a variety of customers from large corporate and institutional clients to certain high-net worth individuals.

The primary credit quality indicator for wholesale loans is the risk rating assigned each loan. Risk ratings are used to identify the credit quality of loans and differentiate risk within the portfolio. Risk ratings on loans consider the probability of default ("PD") and the loss given default ("LGD"). PD is the likelihood that a loan will not be repaid at default. The LGD is the estimated loss on the loan that would be realized upon the default of the borrower and takes into consideration collateral and structural support for each credit facility.

Management considers several factors to determine an appropriate risk rating, including the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. Risk ratings generally represent ratings profiles similar to those defined by S&P and

Moody's. Investment grade ratings range from "AAA/Aaa" to "BBB-/Baa3". Noninvestment grade ratings are further classified as noncriticized ("BB+/Ba1 and B-/B3") and criticized ("CCC+/"Caa1 and lower"), and the criticized portion is further subdivided into performing and nonaccrual loans, representing management's assessment of the collectibility of principal and interest. Criticized loans have a higher probability of default than noncriticized loans.

Risk ratings are reviewed on a regular and ongoing basis by Credit Risk Management and are adjusted as necessary for updated information affecting the obligor's ability to fulfill its obligations.

As noted above, the risk rating of a loan considers the industry in which the obligor conducts its operations. As part of the overall credit risk management framework, JPMorgan Chase Bank, N.A. focuses on the management and diversification of its industry and client exposures, with particular attention paid to industries with actual or potential credit concern. See Note 6 on pages 31–32 in these Consolidated Financial Statements for further detail on industry concentrations.

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

As of or for the year ended December 31, (in millions, except ratios)	Commercial and industrial		Real estate	
	2010	2009	2010	2009
Loans by risk ratings				
Investment grade	\$ 30,729	\$ 30,520	\$ 28,378	\$ 31,959
Noninvestment grade:				
Noncriticized	29,612	28,535	16,289	14,556
Criticized performing	2,290	5,933	5,720	7,795
Criticized-total nonaccrual	1,598	2,191	2,934	2,885
Total noninvestment grade	33,500	36,659	24,943	25,236
Total retained loans	\$ 64,229	\$ 67,179	\$ 53,321	\$ 57,195
% of total criticized to total retained loans	6.05%	12.09%	16.23%	18.67%
% of nonaccrual loans to total retained loans	2.49	3.26	5.50	5.04
Loans by geographic distribution^(a)				
Total non-U.S.	\$ 17,720	\$ 18,781	\$ 1,963	\$ 2,227
Total U.S.	46,509	48,398	51,358	54,968
Total retained loans	\$ 64,229	\$ 67,179	\$ 53,321	\$ 57,195
Net charge-offs	\$ 403	\$ 1,219	\$ 859	\$ 688
% of net charge-offs to retained loans ^(b)	0.63%	1.81%	1.61%	1.20%
Loan delinquency^(c)				
Current and less than 30 days past due and still accruing	\$ 62,190	\$ 64,684	\$ 49,988	\$ 53,532
30–89 days past due and still accruing	434	275	290	668
90 or more days past due and still accruing ^(d)	7	29	109	110
Nonaccrual	1,598	2,191	2,934	2,885
Total retained loans	\$ 64,229	\$ 67,179	\$ 53,321	\$ 57,195

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

(b) Ratios were calculated using end-of-period retained loans.

(c) For wholesale loans, the past due status of a loan is generally not a significant indicator of credit quality due to the ongoing review and monitoring of an obligor's ability to meet contractual obligations. For a discussion of more significant factors, see page 61 of this Note.

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

(e) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated \$15.1 billion of wholesale loans. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

(f) Other primarily includes loans to special purpose entities and loans to private banking clients. See Note 1 on page 6–8 of these Consolidated Financial Statements for additional information on SPEs.

The following table presents additional information on the real estate class of loans within the wholesale portfolio segment for the periods ended December 31, 2010 and 2009. The real estate class primarily consists of secured commercial loans mainly to borrowers for multi-family and commercial lessor properties. Multi-family lending specifically finances apartment buildings. Commercial lessors receive financing specifically for real estate leased to retail, office and industrial tenants. The commercial construction and development loans represent financing for the construction of apartments, office and professional buildings and malls. Other real estate loans include lodging, real estate investment trusts ("REITs"), single-family, homebuilders and other real estate.

December 31, (in millions, except ratios)	Multi-family		Commercial lessors	
	2010	2009	2010	2009
Real estate retained loans	\$ 30,595	\$ 31,077	\$ 15,620	\$ 15,170
Criticized exposure	3,798	3,942	3,546	3,798
% of total real estate retained loans	12.41%	12.68%	22.70%	25.04%
Criticized nonaccrual	\$ 1,016	\$ 1,109	\$ 1,546	\$ 687
% of total real estate retained loans	3.32%	3.57%	9.90%	4.53%

(table continued from previous page)

Financial institutions		Government agencies		Other ^{(e)(f)}		Total retained loans ^(e)	
2010	2009	2010	2009	2010	2009	2010	2009
\$ 22,692	\$ 14,936	\$ 5,980	\$ 5,766	\$ 55,484	\$ 33,053	\$ 143,263	\$ 116,234
8,358	8,236	377	423	7,809	6,543	62,445	58,293
317	1,107	3	28	320	997	8,650	15,860
136	729	22	4	781	619	5,471	6,428
8,811	10,072	402	455	8,910	8,159	76,566	80,581
\$ 31,503	\$ 25,008	\$ 6,382	\$ 6,221	\$ 64,394	\$ 41,212	\$ 219,829	\$ 196,815
1.44%	7.34%	0.39%	0.51%	1.71%	3.92%	6.42%	11.32%
0.43	2.92	0.34	0.06	1.21	1.50	2.49	3.27
\$ 20,043	\$ 11,754	\$ 874	\$ 1,519	\$ 25,753	\$ 18,767	\$ 66,353	\$ 53,048
11,460	13,254	5,508	4,702	38,641	22,445	153,476	143,767
\$ 31,503	\$ 25,008	\$ 6,382	\$ 6,221	\$ 64,394	\$ 41,212	\$ 219,829	\$ 196,815
\$ 72	\$ 671	\$ 2	\$ —	\$ 387	\$ 407	\$ 1,723	\$ 2,985
0.23%	2.68%	0.03%	—%	0.60%	0.99%	0.78%	1.52%
\$ 31,334	\$ 24,206	\$ 6,345	\$ 6,202	\$ 62,832	\$ 39,908	\$ 212,689	\$ 188,532
31	67	15	15	541	510	1,311	1,535
2	6	—	—	240	175	358	320
136	729	22	4	781	619	5,471	6,428
\$ 31,503	\$ 25,008	\$ 6,382	\$ 6,221	\$ 64,394	\$ 41,212	\$ 219,829	\$ 196,815

(table continued from previous page)

Commercial construction and development		Other		Total real estate loans	
2010	2009	2010	2009	2010	2009
\$ 3,395	\$ 4,599	\$ 3,711	\$ 6,349	\$ 53,321	\$ 57,195
618	1,359	692	1,581	8,654	10,680
18.20%	29.55%	18.65%	24.90%	16.23%	18.67%
\$ 173	\$ 313	\$ 199	\$ 776	\$ 2,934	\$ 2,885
5.10%	6.81%	5.36%	12.22%	5.50%	5.04%

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Wholesale impaired loans and loan modifications

Wholesale impaired loans include loans that have been placed on nonaccrual status and/or that have been modified in a TDR. All impaired loans are evaluated for an asset-specific allowance as described in Note 16 on pages 77–81 of these Consolidated Financial Statements.

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

December 31, (in millions)	Commercial and industrial		Real estate		Financial institutions		Government agencies		Other		Total retained loans	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Impaired loans												
With an allowance	\$ 1,482	\$ 2,125	\$ 2,508	\$ 2,995	\$ 127	\$ 579	\$ 22	\$ 4	\$ 697	\$ 523	\$ 4,836	\$ 6,226
Without an allowance ^(a)	151	79	445	362	8	149	—	—	8	13	612	603
Total impaired loans	\$ 1,633	\$ 2,204	\$ 2,953	\$ 3,357	\$ 135	\$ 728	\$ 22	\$ 4	\$ 705	\$ 536	\$ 5,448	\$ 6,829
Allowance for loan losses related to impaired loans ^(b)	\$ 431	\$ 442	\$ 825	\$ 1,211	\$ 61	\$ 165	\$ 14	\$ 1	\$ 238	\$ 214	\$ 1,569	\$ 2,033
Unpaid principal balance of impaired loans ^(c)	2,406	2,985	3,483	3,645	244	918	30	4	1,046	688	7,209	8,240

(a) When the discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, then the loan does not require an allowance.

This typically occurs when the impaired loans have been partially charged-off and/or there have been interest payments received and applied to the loan balance.

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

(c) Represents the contractual amount of principal owed at December 31, 2010 and 2009. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the carrying value; net deferred loan fees or costs; and discount or premiums on purchased loans.

The following table presents JPMorgan Chase Bank, N.A.'s average impaired loans for the years ended 2010, 2009 and 2008.

For the year ended December 31, (in millions)	Impaired loans (average)		
	2010	2009	2008
Commercial and industrial	\$ 1,618	\$ 1,737	\$ 332
Real estate	3,082	2,416	387
Financial institutions	304	646	49
Government agencies	5	4	—
Other	855	457	119
Total^(a)	\$ 5,864	\$ 5,260	\$ 887

(a) The related interest income on accruing impaired loans, largely in real estate, was \$21 million, \$15 million and zero for the years ended December 31, 2010, 2009 and 2008. The interest income recognized on a cash basis was not material for the years 2010, 2009 and 2008.

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

December 31, (in millions)	Commercial and industrial		Real estate		Financial institutions		Government agencies		Other		Total retained loans	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Loans modified in troubled debt restructurings ^(a)	\$ 211	\$ 225	\$ 907	\$ 856	\$ 1	\$ —	\$ 22	\$ —	\$ 1	\$ —	\$ 1,142	\$ 1,081
TDRs on nonaccrual status	162	194	830	269	1	—	22	—	1	—	1,016	463
Additional commitments to lend to borrowers whose loans have been modified in TDRs	1	33	—	6	—	—	—	—	—	—	1	39

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

Consumer loan portfolio

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

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

December 31, (in millions)	2010	2009
Residential real estate – excluding PCI		
Home equity:		
Senior lien ^(a)	\$ 21,076	\$ 27,376
Junior lien ^(b)	56,991	74,049
Mortgages:		
Prime, including option ARMs ^(c)	66,123	65,351
Subprime	9,849	12,522
Other consumer loans		
Auto ^(c)	48,367	46,031
Business banking	16,799	16,956
Student and other ^(c)	15,217	14,726
Residential real estate – PCI		
Home equity	24,459	26,520
Prime mortgage	17,322	19,693
Subprime mortgage	5,398	5,993
Option ARMs	25,584	29,039
Total retained loans	\$307,185	\$ 338,256

(a) Represents loans where JPMorgan Chase Bank, N.A. holds the first security interest on the property.

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

(c) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated \$3.1 billion of certain consumer loan securitization entities, primarily mortgage-related. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

Delinquency rates are a primary credit quality indicator for consumer loans. Loans that are more than 30 days past due provide an early warning of borrowers that may be experiencing financial difficulties and/or who may be unable or unwilling to repay the loan. As the loan continues to age, it becomes more clear that the borrower is likely either unable or unwilling to pay. In the case of residential real estate loans, late-stage delinquencies (greater than 150 days past due) are a strong indicator of loans

that will ultimately result in a short sale or foreclosure. In addition to delinquency rates, other credit quality indicators for consumer loans vary based on the class of loan, as follows:

- For residential real estate loans, including both non-PCI and PCI portfolios, the current estimated loan-to-value (“LTV”) ratio, or the combined LTV ratio in the case of loans with a junior lien, is an indicator of the potential loss severity in the event of default. Additionally, LTV or combined LTV can provide insight into a borrower’s continued willingness to pay, as the delinquency rate of high LTV loans tends to be greater than that for loans where the borrower has equity in the collateral. The geographic distribution of the loan collateral also provides insight as to the credit quality of the portfolio, as factors such as the regional economy, home price changes and specific events such as hurricanes, earthquakes, etc. will affect credit quality. The borrower’s current or “refreshed” FICO score is a secondary credit-quality indicator for certain loans, as FICO scores are an indication of the borrower’s credit payment history. Thus, a loan to a borrower with a low FICO score (660 or below) is considered to be of higher risk than a loan to a borrower with a high FICO score. Further, a loan to a borrower with a high LTV ratio and a low FICO score is at greater risk of default than a loan to a borrower that has both a high LTV ratio and a high FICO score.
- For auto, scored business banking and student loans, geographic distribution is an indicator of the credit performance of the portfolio. Similar to residential real estate loans, geographic distribution provides insight into the portfolio performance based on regional economic activity and events.
- Risk-rated business banking and auto loans are similar to wholesale loans in that the primary credit quality indicators are the risk rating that is assigned to the loan and whether the loans are considered to be criticized and/or nonaccrual. Risk ratings are reviewed on a regular and ongoing basis by Credit Risk Management and are adjusted as necessary for updated information affecting borrowers’ ability to fulfill their obligations. Consistent with other classes of consumer loans, the geographic distribution of the portfolio provides insights into portfolio performance based on the regional economic activity and events.

Notes to consolidated financial statements

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

Residential real estate – excluding PCI loans

The tables below provide information by class for residential real estate (excluding PCI) retained loans in the consumer, excluding credit card portfolio segment.

As of or for the year ended December 31, (in millions, except ratios)	Home equity			
	Senior lien		Junior lien	
	2010	2009	2010	2009
Net charge-offs	\$ 262	\$ 234	\$ 3,182	\$ 4,448
% of net charge-offs to retained loans	1.02%	0.80%	4.69%	5.62%
Loan delinquency				
Current and less than 30 days past due	\$ 20,316	\$ 26,543	\$ 55,301	\$ 71,534
30 – 149 days past due	414	512	1,504	2,224
150 or more days past due	346	321	186	291
Total retained loans	\$ 21,076	\$ 27,376	\$ 56,991	\$ 74,049
% of 30+days past due to total retained loans	3.61%	3.04%	2.97%	3.40%
90 or more days past due and still accruing	\$ —	\$ —	\$ —	\$ —
Nonaccrual loans ^(a)	479	477	784	1,188
Current estimated LTV ratios^{(b)(c)(d)}				
Greater than 125% and refreshed FICO scores:				
Equal to or greater than 660	\$ 528	\$ 472	\$ 6,927	\$ 6,788
Less than 660	238	235	2,494	2,703
101% to 125% and refreshed FICO scores:				
Equal to or greater than 660	963	933	9,377	10,616
Less than 660	325	319	2,873	3,277
80% to 100% and refreshed FICO scores:				
Equal to or greater than 660	2,439	3,038	11,259	16,098
Less than 660	737	825	3,147	3,657
Less than 80% and refreshed FICO scores:				
Equal to or greater than 660	13,136	18,591	17,634	27,225
Less than 660	2,710	2,963	3,280	3,685
U.S. government guaranteed	—	—	—	—
Total retained loans	\$ 21,076	\$ 27,376	\$ 56,991	\$ 74,049
Geographic region				
California	\$ 3,257	\$ 3,658	\$ 13,967	\$ 16,990
New York	2,575	3,438	10,710	13,456
Texas	3,392	4,306	1,791	2,711
Florida	1,013	1,198	3,341	4,123
Illinois	1,221	1,795	3,516	4,849
Ohio	1,655	2,338	1,247	1,865
New Jersey	538	777	3,072	4,090
Michigan	1,001	1,329	1,474	1,900
Arizona	1,215	1,648	2,735	3,582
Washington	759	868	2,046	2,481
All other ^(e)	4,450	6,021	13,092	18,002
Total retained loans	\$ 21,076	\$ 27,376	\$ 56,991	\$ 74,049

(a) At December 31, 2010 and 2009, nonaccrual loans excluded mortgage loans insured by U.S. government agencies of \$10.5 billion and \$9.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

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

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

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

(e) At December 31, 2010 and 2009, includes prime mortgage loans insured by U.S. government agencies of \$12.9 billion and \$10.5 billion, respectively.

(f) At December 31, 2010 and 2009, included 30+ day delinquent mortgage loans that are insured by U.S. government agencies of \$11.3 billion and \$9.7 billion, respectively. These amounts are considered current as reimbursement of insured amounts is proceeding normally.

(table continued from previous page)

Mortgages				Total residential real estate (excluding PCI)	
Prime, including option ARMs		Subprime			
2010	2009	2010	2009	2010	2009
\$ 1,485	\$ 1,913	\$ 1,347	\$ 1,648	\$ 6,276	\$ 8,243
2.24%	2.74%	12.14%	11.86%	3.67%	4.29%
\$ 61,809 ^(f)	\$ 60,183 ^(f)	\$ 7,262	\$ 8,291	\$ 144,688	\$ 166,551
1,337	2,086	1,088	1,883	4,343	6,705
2,977	3,082	1,499	2,348	5,008	6,042
\$ 66,123	\$ 65,351	\$ 9,849	\$ 12,522	\$ 154,039	\$ 179,298
6.52%	7.91%	26.27%	33.79%	6.07%	7.11%
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
3,773	4,308	2,047	3,247	7,083	9,220
\$ 3,000	\$ 2,412	\$ 332	\$ 335	\$ 10,787	\$ 10,007
1,583	1,334	1,137	1,169	5,452	5,441
4,324	4,458	489	593	15,153	16,600
1,641	1,845	1,459	1,902	6,298	7,343
8,924	10,825	845	1,094	23,467	31,055
2,265	2,686	1,830	2,662	7,979	9,830
27,840	27,441	1,640	2,061	60,250	75,318
3,627	3,819	2,117	2,706	11,734	13,173
12,919	10,531	—	—	12,919	10,531
\$ 66,123	\$ 65,351	\$ 9,849	\$ 12,522	\$ 154,039	\$ 179,298
\$ 15,584	\$ 17,164	\$ 1,509	\$ 1,719	\$ 34,317	\$ 39,531
8,513	8,516	1,205	1,535	23,003	26,945
2,392	1,985	301	407	7,876	9,409
4,281	4,636	1,240	1,625	9,875	11,582
3,477	2,919	408	584	8,622	10,147
437	432	240	299	3,579	4,934
1,738	1,879	466	617	5,814	7,363
925	966	257	324	3,657	4,519
1,203	1,284	213	301	5,366	6,815
1,580	1,620	216	274	4,601	5,243
25,993	23,950	3,794	4,837	47,329	52,810
\$ 66,123	\$ 65,351	\$ 9,849	\$ 12,522	\$ 154,039	\$ 179,298

Notes to consolidated financial statements

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

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

JPMorgan Chase Bank, N.A. is participating in the U.S. Treasury's Making Home Affordable ("MHA") programs and is continuing to expand its other loss-mitigation efforts for financially distressed borrowers who do not qualify for the MHA programs.

MHA, as well as JPMorgan Chase Bank, N.A.'s other loss-mitigation programs, generally provide various concessions to financially troubled borrowers including, but not limited to, interest rate reductions, term or payment extensions and deferral of principal payments that would otherwise have been required under the terms of the original agreement. Principal forgiveness has been limited to a specific modification program for option ARMs.

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

Modifications of residential real estate loans other than PCI loans are generally accounted for and reported as TDRs. For further discussion of the accounting for loan modifications and TDRs, see Loan modifications on pages 59–60 of this Note.

The tables below set forth information about JPMorgan Chase Bank, N.A.'s residential real estate impaired loans, excluding PCI. These loans are considered to be impaired as they have been modified in a TDR. All impaired loans are evaluated for an asset-specific allowance as described in Note 16 on pages 77–81 of these Consolidated Financial Statements.

December 31, (in millions)	Home equity				Mortgages				Total residential real estate (excluding PCI)	
	Senior lien		Junior lien		Prime		Subprime		2010	2009
	2010	2009	2010	2009	2010	2009	2010	2009		
Impaired loans^{(a)(b)}										
With an allowance	\$ 211	\$ 167	\$ 258	\$ 221	\$ 1,436	\$ 534	\$ 2,490	\$ 1,952	\$ 4,395	\$ 2,874
Without an allowance ^(c)	15	1	25	1	508	65	178	46	726	113
Total impaired loans^(d)	\$ 226	\$ 168	\$ 283	222	\$ 1,944	\$ 599	\$ 2,668	\$ 1,998	\$ 5,121	\$ 2,987
Allowance for loan losses related to impaired loans	\$ 77	\$ 73	\$ 82	\$ 100	\$ 88	\$ 66	\$ 532	\$ 494	\$ 779	\$ 733
Unpaid principal balance of impaired loans ^(e)	265	178	402	273	2,582	739	3,674	2,303	6,923	3,493
Impaired loans on nonaccrual status	38	30	63	43	487	233	611	598	1,199	904

(a) Represents loans modified in a TDR. These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.

(b) There are no additional commitments to lend to borrowers whose loans have been modified in TDRs as of December 31, 2010 and 2009.

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

(d) At December 31, 2010 and 2009, \$3.0 billion and \$296 million, respectively, of loans modified subsequent to repurchase from Ginnie Mae were excluded from loans accounted for as TDRs. When such loans perform subsequent to modification they are generally sold back into Ginnie Mae loan pools. Modified loans that do not re-perform become subject to foreclosure. Substantially all amounts due under the terms of these loans continue to be insured and, where applicable, reimbursement of insured amounts is proceeding normally.

(e) Represents the contractual amount of principal owed at December 31, 2010 and 2009. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the principal balance; net deferred loan fees or costs; and discounts or premiums on purchased loans.

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

For the year ended December 31, (in millions)	Impaired loans (average)			Interest income on impaired loans ^(a)			Interest income on impaired loans on a cash basis ^(a)		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Home equity									
Senior lien	\$ 207	\$ 142	\$ 39	\$ 15	\$ 7	\$ 2	\$ 1	\$ 1	\$ —
Junior lien	266	187	39	10	9	3	1	1	—
Mortgages									
Prime including option ARMs	1,446	463	41	68	32	2	13	8	—
Subprime	2,466	1,948	690	119	98	47	19	6	2
Total residential real estate (excluding PCI)	\$ 4,385	\$ 2,740	\$ 809	\$ 212	\$ 146	\$ 54	\$ 34	\$ 16	\$ 2

(a) Generally, interest income on loans modified in a TDR is recognized on a cash basis until such time as the borrower has made a minimum of six payments under the new terms. As of December 31, 2010 and 2009, loans of \$537 million and \$247 million, respectively, are TDRs for which the borrowers have not yet made six payments under their modified terms.

Other consumer loans

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

As of or for the year ended

December 31, (in millions, except ratios)	Auto ^(c)		Business banking		Student and other ^(c)		Total other consumer	
	2010	2009	2010	2009	2010	2009	2010	2009
Net charge-offs	\$ 298	\$ 627	\$ 707	\$ 842	\$ 469	\$ 365	\$ 1,474	\$ 1,834
% of net charge-offs to retained loans	0.63%	1.44%	4.23%	4.73%	2.93%	2.39%	1.84%	2.39%

Loan delinquency

Current and less than 30 days past due	\$ 47,778	\$ 45,281	\$ 16,227	\$ 16,262	\$ 14,980 ^(d)	\$ 14,479 ^(d)	\$ 78,985	\$ 76,022
30 – 119 days past due	579	720	351	424	232	240	1,162	1,384
120 or more days past due	10	30	221	270	5	7	236	307
Total retained loans	\$ 48,367	\$ 46,031	\$ 16,799	\$ 16,956	\$ 15,217	\$ 14,726	\$ 80,383	\$ 77,713

% of 30+ days past due to total retained loans	1.22%	1.63%	3.40%	4.09%	1.56%	1.68%	1.74%	2.18%
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90 or more days past due and still accruing	\$ —	\$ —	\$ —	\$ —	\$ 625	\$ 542	\$ 625	\$ 542
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Nonaccrual loans ^(a)	141	177	819	814	67	74	1,027	1,065
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Geographic region

California	\$ 4,307	\$ 4,440	\$ 851	\$ 515	\$ 1,327	\$ 1,304	\$ 6,485	\$ 6,259
New York	3,875	3,756	2,876	3,039	1,299	1,243	8,050	8,038
Texas	4,505	4,330	2,547	2,482	1,247	1,197	8,299	8,009
Florida	1,923	1,750	220	166	720	715	2,863	2,631
Illinois	2,608	2,440	1,319	1,379	935	868	4,862	4,687
Ohio	2,961	3,153	1,645	1,781	1,003	957	5,609	5,891
New Jersey	1,842	1,776	422	426	501	475	2,765	2,677
Michigan	2,434	2,108	1,399	1,611	722	686	4,555	4,405
Arizona	1,499	1,479	1,218	1,209	379	366	3,096	3,054
Washington	716	627	115	84	276	266	1,107	977
All other	21,697	20,172	4,187	4,264	6,808	6,649	32,692	31,085
Total retained loans	\$ 48,367	\$ 46,031	\$ 16,799	\$ 16,956	\$ 15,217	\$ 14,726	\$ 80,383	\$ 77,713

Loans by risk ratings^(b)

Noncriticized	\$ 5,803	\$ 4,564	\$ 10,831	\$ 10,450	NA	NA	\$ 16,634	\$ 15,014
Criticized performing	265	448	502	517	NA	NA	767	965
Criticized nonaccrual	12	39	574	542	NA	NA	586	581

(a) At December 31, 2010 and 2009, excludes student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP"), of \$625 million and \$542 million, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

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

(c) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon the adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated certain consumer loan securitization entities. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

(d) Includes 30+ day delinquent loans that are 30 days or more past due and still accruing, which are insured by U.S. government agencies under the FFELP, of \$1.1 billion and \$942 million at December 31, 2010 and 2009, respectively. These amounts are considered current as reimbursement of insured amounts is proceeding normally.

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

Other consumer impaired loans

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

December 31, (in millions)	Auto		Business banking		Total other consumer ^(c)	
	2010	2009	2010	2009	2010	2009
Impaired loans						
With an allowance	\$ 102	\$ 118	\$ 774	\$ 500	\$ 876	\$ 618
Without an allowance ^(a)	—	—	—	—	—	—
Total impaired loans	\$ 102	\$ 118	\$ 774	\$ 500	\$ 876	\$ 618
Allowance for loan losses related to impaired loans	\$ 16	\$ 30	\$ 248	\$ 129	\$ 264	\$ 159
Unpaid principal balance of impaired loans ^(b)	132	137	899	577	1,031	714

- (a) When discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, then the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged-off and/or there have been interest payments received and applied to the loan balance.
- (b) Represents the contractual amount of principal owed at December 31, 2010 and 2009. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the principal balance; net deferred loan fees or costs; and discounts or premiums on purchased loans.
- (c) There were no student and other loans modified in TDRs at December 31, 2010 and 2009.

The following table presents average impaired loans.

For the year ended December 31, (in millions)	Impaired loans (average) ^(b)		
	2010	2009	2008
Auto	\$ 120	\$ 100	\$ 71
Business banking	682	396	200
Total other consumer^(a)	\$ 802	\$ 496	\$ 271

- (a) There were no student and other loans modified in TDRs at December 31, 2010, 2009 and 2008.
- (b) The related interest income on impaired loans, including those on cash basis, were not material for the years 2010, 2009 and 2008.

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

December 31, (in millions)	Auto		Business banking		Total other consumer ^(c)	
	2010	2009	2010	2009	2010	2009
Loans modified in troubled debt restructurings ^{(a)(b)}	\$ 91	\$ 79	\$ 395	\$ 17	\$ 486	\$ 96
TDRs on nonaccrual status	39	30	268	16	307	46

- (a) These modifications generally provided interest rate concessions to the borrower or deferral of principal repayments.
- (b) Additional commitments to lend to borrowers whose loans have been modified in TDRs as of December 31, 2010 and 2009 are immaterial.
- (c) There were no student and other loans modified in TDRs at December 31, 2010 and 2009.

Purchased credit-impaired (“PCI”) loans

PCI loans were determined to be credit-impaired upon acquisition based on specific risk characteristics of the loan, including product type, loan-to-value ratios, FICO scores, and past-due status. Upon acquisition, credit-impaired loans acquired in the same fiscal quarter may be aggregated into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. With respect to the Washington Mutual transaction, all of the consumer loans were aggregated into pools of loans with common risk characteristics.

PCI loans are initially recorded at fair value upon acquisition. For each PCI loan, or pool of loans, JPMorgan Chase Bank, N.A. is required to estimate the total cash flows (both principal and interest) expected to be collected over the remaining life of the loan or pool. These estimates incorporate assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that reflect then-current market conditions.

The excess of cash flows expected to be collected over the carrying value of the underlying loans is referred to as the accretible yield. This amount is not reported on JPMorgan Chase Bank, N.A.’s Consolidated Balance Sheets but is accreted into interest income at a level rate of return over the remaining estimated lives of the underlying pools of loans. For variable-rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

On a quarterly basis, JPMorgan Chase Bank, N.A. updates the amount of loan principal and interest cash flows expected to be collected. Probable decreases in expected loan principal cash flows trigger the recognition of impairment, which is then measured as the present value of the expected principal loss plus any related forgone interest cash flows, discounted at the pool’s effective interest rate. Impairments are recognized through the provision and allowance for loan losses. Probable and significant increases in expected cash flows (e.g., decreased principal credit losses, the net benefit of modifications) would first reverse any previously recorded allowance for loan losses with any remaining increases recognized prospectively as a yield adjustment over the remaining estimated lives of the underlying loans. The impacts of

(i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income. Disposals of loans – which may include sales of loans, receipt of payments in full by the borrower, or foreclosure – result in removal of the loan from the PCI portfolio.

If the timing and/or amounts of expected cash flows on PCI loans were determined not to be reasonably estimable, no interest would be accreted and the loans would be reported as nonaccrual loans; however, since the timing and amounts of expected cash flows for JPMorgan Chase Bank, N.A.’s PCI consumer loans are reasonably estimable, interest is being accreted and the loans are being reported as performing loans.

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

The PCI portfolio affects JPMorgan Chase Bank, N.A.’s results of operations primarily through: (i) contribution to net interest margin; (ii) expense related to defaults and servicing resulting from the liquidation of the loans; and (iii) any provision for loan losses. The PCI loans acquired in the Washington Mutual transaction were funded based on the interest rate characteristics of the loans. For example, variable-rate loans were funded with variable-rate liabilities and fixed-rate loans were funded with fixed-rate liabilities with a similar maturity profile. A net spread will be earned on the declining balance of the portfolio, which is estimated as of December 31, 2010, to have a remaining weighted-average life of 7.0 years.

JPMorgan Chase Bank, N.A. continues to modify certain PCI loans. The impact of these modifications is incorporated into JPMorgan Chase Bank, N.A.’s quarterly assessment of whether a probable and significant change in expected cash flows has occurred, and the loans continue to be accounted for and reported as PCI loans. The impact of modifications on expected cash flows is estimated using JPMorgan Chase Bank, N.A.’s experience with previously modified loans and other relevant data. Additionally, JPMorgan Chase Bank, N.A. monitors the performance of modified loans and updates and/or refines assumptions as experience and changes in circumstances or data warrant.

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

Residential real estate – PCI loans

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

December 31, (in millions, except ratios)	Home equity		Prime mortgage	
	2010	2009	2010	2009
Carrying value ^(a)	\$ 24,459	\$ 26,520	\$ 17,322	\$ 19,693
Related allowance for loan losses ^(b)	1,583	—	1,766	1,090
Loan delinquency (based on unpaid principal balance)				
Current and less than 30 days past due	\$ 25,783	\$ 29,697	\$ 13,035	\$ 15,404
30 – 149 days past due	1,348	2,117	1,468	2,026
150 or more days past due	1,181	1,144	4,425	4,542
Total loans	\$ 28,312	\$ 32,958	\$ 18,928	\$ 21,972
% of 30+ days past due to total loans	8.93%	9.89%	31.13%	29.89%
Current estimated LTV ratios (based on unpaid principal balance)^{(c)(d)}				
Greater than 125% and refreshed FICO scores:				
Equal to or greater than 660	\$ 6,324	\$ 6,139	\$ 2,400	\$ 1,935
Less than 660	4,052	4,401	2,744	2,244
101% to 125% and refreshed FICO scores:				
Equal to or greater than 660	6,097	6,875	3,815	4,566
Less than 660	2,701	3,141	3,011	3,213
80% to 100% and refreshed FICO scores:				
Equal to or greater than 660	4,019	5,713	1,970	3,364
Less than 660	1,483	1,930	1,857	2,594
Lower than 80% and refreshed FICO scores:				
Equal to or greater than 660	2,539	3,330	1,443	1,832
Less than 660	1,097	1,429	1,688	2,224
Total unpaid principal balance	\$ 28,312	\$ 32,958	\$ 18,928	\$ 21,972
Geographic region (based on unpaid principal balance)				
California	\$ 17,012	\$ 19,749	\$ 10,891	\$ 12,657
New York	1,316	1,495	1,111	1,239
Texas	525	616	194	231
Florida	2,595	3,045	1,519	1,801
Illinois	627	723	562	650
Ohio	38	47	91	106
New Jersey	540	625	486	540
Michigan	95	113	279	307
Arizona	539	653	359	438
Washington	1,535	1,766	451	533
All other	3,490	4,126	2,985	3,470
Total unpaid principal balance	\$ 28,312	\$ 32,958	\$ 18,928	\$ 21,972

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

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

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

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

(table continued from previous page)

Subprime mortgage		Option ARMs		Total PCI	
2010	2009	2010	2009	2010	2009
\$ 5,398	\$ 5,993	\$ 25,584	\$ 29,039	\$ 72,763	\$ 81,245
98	—	1,494	491	4,941	1,581
\$ 4,312	\$ 4,531	\$ 18,672	\$ 23,709	\$ 61,802	\$ 73,341
1,020	1,383	2,215	4,010	6,051	9,536
2,710	3,107	9,904	9,660	18,220	18,453
\$ 8,042	\$ 9,021	\$ 30,791	\$ 37,379	\$ 86,073	\$ 101,330
46.38%	49.77%	39.36%	36.57%	28.20%	27.62%
\$ 432	\$ 409	\$ 2,681	\$ 4,081	\$ 11,837	\$ 12,564
2,129	2,084	6,330	6,761	15,255	15,490
424	481	4,292	5,518	14,628	17,440
1,663	1,877	5,005	6,291	12,380	14,522
374	497	4,152	4,925	10,515	14,499
1,477	1,917	3,551	4,213	8,368	10,654
186	179	2,281	2,549	6,449	7,890
1,357	1,577	2,499	3,041	6,641	8,271
\$ 8,042	\$ 9,021	\$ 30,791	\$ 37,379	\$ 86,073	\$ 101,330
\$ 1,971	\$ 2,244	\$ 16,130	\$ 19,637	\$ 46,004	\$ 54,287
736	774	1,703	1,848	4,866	5,356
435	476	155	191	1,309	1,514
906	1,049	3,916	5,106	8,936	11,001
438	480	760	896	2,387	2,749
122	135	131	156	382	444
316	350	1,064	1,166	2,406	2,681
214	245	345	448	933	1,113
165	194	528	708	1,591	1,993
178	200	745	877	2,909	3,376
2,561	2,874	5,314	6,346	14,350	16,816
\$ 8,042	\$ 9,021	\$ 30,791	\$ 37,379	\$ 86,073	\$ 101,330

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The table below sets forth the accretable yield activity for JPMorgan Chase Bank, N.A.'s PCI consumer loans for the years ended December 31, 2010, 2009 and 2008.

Year ended December 31, (in millions, except ratios)	Total PCI		
	2010	2009	2008
Balance, January 1	\$ 25,544	\$ 32,619	\$ —
Washington Mutual acquisition	—	—	39,454
Accretion into interest income	(3,232)	(4,363)	(1,292)
Changes in interest rates on variable rate loans	(819)	(4,849)	(5,543)
Other changes in expected cash flows ^(a)	(2,396)	2,137	—
Balance, December 31	\$ 19,097	\$ 25,544	\$ 32,619
Accretable yield percentage	4.35%	5.14%	5.81%

(a) Other changes in expected cash flows may vary from period to period as JPMorgan Chase Bank, N.A. continues to refine its cash flow model and periodically updates model assumptions. For the years ended December 31, 2010 and 2009, other changes in expected cash flows were principally driven by changes in prepayment assumptions as well as reclassification to the nonaccretable difference. Such changes are expected to have an insignificant impact on the accretable yield percentage.

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

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

Credit card loans

The credit card portfolio segment includes credit card loans originated and purchased by JPMorgan Chase Bank, N.A. In addition, an affiliate of JPMorgan Chase Bank, N.A. has a participation agreement with a subsidiary of JPMorgan Chase Bank, N.A. under which the affiliate sells credit card receivables to the subsidiary on an ongoing basis. The credit card receivables purchased by the subsidiary may subsequently be sold to credit card securitization trusts sponsored by the affiliate; those trusts, which are not consolidated by JPMorgan Chase Bank, N.A., are discussed further in Note 17 on pages 82–97 of these Consolidated Financial Statements.

Delinquency rates are the primary credit quality indicator for credit card loans as they provide an early warning that borrowers may be experiencing difficulties (30-days past due), as well as information on those borrowers that have been delinquent for a longer period of time (90-days past due). In addition to delin-

quency rates, the geographic distribution of the loans provides insight as to the credit quality of the portfolio based on the regional economy.

The borrower's credit score is another general indicator of credit quality. Because the borrower's credit score tends to be a lagging indicator of credit quality, JPMorgan Chase Bank, N.A. does not use credit scores as a primary indicator of credit quality. However, the distribution of such scores provides a general indicator of credit quality trends within the portfolio. Refreshed FICO score information for a random sample of the credit card portfolio is indicated in the table below, as FICO is considered to be the industry benchmark for credit scores.

JPMorgan Chase Bank, N.A. generally originates new card accounts to prime consumer borrowers. However, certain cardholders' refreshed FICO scores may change over time, depending on the performance of the cardholder and changes in credit score technology.

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

As of or for the year ended December 31, (in millions, except ratios)	Credit Card	
	2010	2009
Net charge-offs	\$ 1,643	\$ 2,670
% of net charge-offs to retained loans	9.44%	12.45%
Loan delinquency^(a)		
Current and less than 30 days past due and still accruing	\$ 20,825	\$ 16,788
30 – 89 days past due and still accruing	397	528
90 or more days past due and still accruing	443	676
Nonaccrual loans	—	—
Total retained loans	\$ 21,665	\$ 17,992
Loan delinquency ratios		
% of 30 plus days past due to total retained loans	3.88%	6.69%
% of 90 plus days past due to total retained loans	2.04%	3.76%
Credit card loans by geographic region		
California	\$ 2,455	\$ 2,020
New York	1,530	1,235
Texas	1,481	1,179
Florida	1,116	1,020
Illinois	1,110	857
Ohio	807	686
New Jersey	792	633
Pennsylvania	722	610
Michigan	623	534
Virginia	464	380
Georgia	464	425
All other	7,393	6,256
Canada	2,708	2,157
Total retained loans^{(b)(c)}	\$ 21,665	\$ 17,992
Percentage of portfolio based on carrying value with estimated refreshed FICO scores^(d)		
Equal to or greater than 660	80.6%	72.6%
Less than 660	19.4	27.4

(a) JPMorgan Chase Bank, N.A.'s policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the FFIEC, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

(b) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted accounting guidance related to VIEs. Upon adoption of the guidance, JPMorgan Chase Bank, N.A. consolidated \$2.0 billion of loans associated with its JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements.

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

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

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Credit card impaired loans

JPMorgan Chase Bank, N.A. may offer one of a number of loan modification programs to credit card borrowers who are experiencing financial difficulty. JPMorgan Chase Bank, N.A. has short-term programs for borrowers who may be in need of temporary relief, and long-term programs for borrowers who are experiencing a more fundamental level of financial difficulties. Most of JPMorgan Chase Bank, N.A.'s modified credit card loans have been modified under the long-term programs. Modifications under JPMorgan Chase Bank, N.A.'s long-term programs involve placing the customer on a fixed payment plan not exceeding 60 months. Modifications under all of these programs typically include reducing the interest rate on the card. Also in all cases, JPMorgan Chase Bank, N.A. cancels the customer's available line of credit on the credit card. Substantially all of these modifications, both long-term and short-term are considered to be troubled debt restructurings.

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

JPMorgan Chase Bank, N.A. measures the allowance for loan losses related to impaired credit card loans as the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected, discounted at the loan's original contractual interest rate and, therefore, does not consider any incremental penalty rate in this measurement.

The tables below set forth information about JPMorgan Chase Bank, N.A.'s impaired credit card loans. All of these loans are considered to be impaired as they have been modified in troubled debt restructurings.

December 31, (in millions)	Credit Card	
	2010	2009
Impaired loans with an allowance^{(a)(b)}		
Credit card loans with modified payment terms ^(c)	\$ 1,195	\$ 1,221
Modified credit card loans that have reverted to pre-modification payment terms ^(d)	267	282
Total impaired loans	\$ 1,462	\$ 1,503
Allowance for loan losses related to impaired loans	571	708

- (a) The carrying value and the unpaid principal balance are the same for credit card impaired loans.
- (b) There are no impaired loans without an allowance.
- (c) Represents credit card loans outstanding to borrowers enrolled in a credit card modification program.
- (d) Represents credit card loans that were modified in troubled debt restructurings but that have subsequently reverted back to the loans' pre-modification payment terms. Of the \$267 million total loan amount at December 31, 2010, approximately \$167 million of loans have reverted back to the pre-modification payment terms of the loans due to non-compliance with the terms of the modified loans. A substantial portion of these loans is expected to be charged-off in accordance with JPMorgan Chase Bank, N.A.'s standard charge-off policy. The remaining \$100 million of loans are to borrowers who have successfully completed a short-term modification program. JPMorgan Chase Bank, N.A. continues to report these loans as troubled debt restructurings since the borrowers' credit lines remain closed. Prior-period amounts have been revised to conform to the current presentation.

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

For the year ended December 31, (in millions)	2010	2009	2008
Impaired loans:			
Impaired loans – average balance	\$ 1,117	\$ 1,017	\$ 930
Interest income on impaired loans ^(a)	61	60	65

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

Note 16 – Allowance for credit losses

JPMorgan Chase Bank, N.A.'s allowance for loan losses covers the wholesale and consumer, including credit card loan portfolios, and represents management's estimate of probable credit losses inherent in JPMorgan Chase Bank, N.A.'s loan portfolio. Management also computes an allowance for wholesale and consumer lending-related commitments using methodologies similar to those used to compute the allowance on the underlying loans. During 2010, JPMorgan Chase Bank, N.A. did not make any significant changes to the methodologies or policies used to determine its allowance for credit losses, which policies are described in the following paragraphs.

The allowance for loan losses includes an asset-specific component, a formula-based component and a component related to PCI loans.

The asset-specific component relates to loans considered to be impaired, which includes loans that have been modified in a troubled debt restructuring as well as risk-rated loans that have been placed on nonaccrual status. An asset-specific allowance for impaired loans is established when the loan's discounted cash flows (or, in certain cases, the loan's observable market price) is lower than the recorded investment in the loan. To compute the asset-specific component of the allowance, larger loans are evaluated individually, while smaller loans are evaluated as pools using historical loss experience for the respective class of assets. Risk-rated loans (primarily wholesale loans) are pooled by risk rating, while scored loans (i.e., consumer loans) are pooled by product type.

JPMorgan Chase Bank, N.A. generally measures the asset-specific allowance as the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected, discounted at the loan's original effective interest rate. Subsequent changes in impairment due to the impact of discounting are reported as an adjustment to the provision for loan losses, not as an adjustment to interest income. An asset-specific allowance for an impaired loan that is determined using an observable market price is measured as the difference between the recorded investment in the loan and the loan's fair value.

Certain loans are deemed collateral-dependent because repayment of the loan is expected to be provided solely by the underlying collateral, rather than by cash flows from the borrower's operations, income or other resources. Impaired collateral-dependent loans are charged-off to the fair value of the collateral, less costs to sell, rather than being subject to an asset-specific reserve as for other impaired loans.

The determination of the fair value of the collateral depends on the type of collateral (e.g., securities, real estate). In cases where the collateral is in the form of liquid securities, the fair value is based on quoted market prices or broker quotes. For illiquid securities or other financial assets, the fair value of the collateral is estimated using a discounted cash flow model.

For residential real estate loans, collateral values are based upon external valuation sources. When it becomes likely that a borrower is either unable or unwilling to pay, JPMorgan Chase Bank, N.A. obtains a broker's price opinion of the home based on an exterior-only valuation ("exterior opinions"). As soon as practicable after taking physical possession of the property through foreclosure, JPMorgan Chase Bank, N.A. obtains an appraisal based on an inspection that includes the interior of the home ("interior appraisals"). Exterior opinions and interior appraisals are discounted based upon JPMorgan Chase Bank, N.A.'s experience with actual liquidation values as compared to the estimated values provided by exterior opinions and interior appraisals, considering state- and product-specific factors.

For commercial real estate loans, the collateral value is generally based on appraisals from internal and external valuation sources. Collateral values are typically updated every six to twelve months, either by obtaining a new appraisal or by performing an internal analysis, in accordance with JPMorgan Chase Bank, N.A.'s policies. JPMorgan Chase Bank, N.A. also considers both borrower- and market-specific factors, which may result in obtaining appraisal updates or broker price opinions at more frequent intervals.

See Note 4 on pages 12–29 of these Consolidated Financial Statements for further information on the fair value hierarchy for impaired collateral-dependent loans.

The formula-based component is based on a statistical calculation to provide for probable principal losses inherent in performing risk-rated loans and consumer loans, except for loans restructured in troubled debt restructurings and PCI loans. See Note 15 on pages 58–76 of these Consolidated Financial Statements for more information on PCI loans.

For risk-rated loans, the statistical calculation is the product of an estimated probability of default and an estimated loss given default. These factors are differentiated by risk rating and expected maturity. In assessing the risk rating of a particular loan, among the factors considered are the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based on an evaluation of historical and current information, and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could impact the risk rating assigned by JPMorgan Chase Bank, N.A. to that loan. PD estimates are based on observable external through-the-cycle data, using credit-rating agency default statistics. LGD estimates are based on JPMorgan Chase Bank, N.A.'s history of actual credit losses over more than one credit cycle.

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For scored loans, the statistical calculation is performed on pools of loans with similar risk characteristics (e.g., product type) and generally computed as the product of actual outstandings, an expected-loss factor and an estimated-loss coverage period. Expected-loss factors are statistically derived and consider historical factors such as loss frequency and severity. In developing loss frequency and severity assumptions, JPMorgan Chase Bank, N.A. considers known and anticipated changes in the economic environment, including changes in housing prices, unemployment rates and other risk indicators.

A nationally recognized home price index measure is used to develop loss severity estimates on defaulted residential real estate loans at the metropolitan statistical areas ("MSA") level. These loss severity estimates are regularly validated by comparison to actual losses recognized on defaulted loans, market-specific real estate appraisals and property sales activity. Real estate broker price opinions are obtained when the loan is being evaluated for charge-off and at least every six months thereafter. When foreclosure is determined to be probable, a third-party appraisal is obtained as soon as practicable. Forecasting methods are used to estimate expected-loss factors, including credit loss forecasting models and vintage-based loss forecasting.

The economic impact of potential modifications of residential real estate loans is not included in the formula-based allowance because of the uncertainty regarding the type and results of such modifications. As discussed in Note 15 on pages 58–76 of these Consolidated Financial Statements, modified residential real estate loans are generally accounted for as troubled debt restructurings upon contractual modification and are evaluated for an asset-specific allowance at and subsequent to modification. Assumptions regarding the loans' expected re-default rates are incorporated into the measurement of the asset-specific allowance.

Management applies judgment within an established framework to adjust the results of applying the statistical calculation described above. The determination of the appropriate adjustment is based on management's view of uncertainties that have occurred but are not yet reflected in the loss factors and that relate to current macroeconomic and political conditions, the quality of underwriting standards and other relevant internal and external factors affecting the credit quality of the portfolio. In addition, for the risk-rated portfolios, any adjustments made to the statistical calculation also consider concentrated and deteriorating industries. For the scored loan portfolios, adjustments to the statistical calculation are accomplished in part by analyzing the historical loss experience for each major product segment. Factors related to unemployment, housing prices, borrower behavior and lien position are incorporated into the calculation, where relevant.

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

Year ended December 31, (in millions)	2010			
	Wholesale	Consumer, excluding credit card	Credit Card	Total
Allowance for loan losses				
Beginning balance at January 1,	\$ 7,137	\$ 14,663	\$ 1,966	\$ 23,766
Cumulative effect of change in accounting principles(a)	14	76	65	155
Gross charge-offs(a)	1,984	8,213	1,818	12,015
Gross (recoveries)(a)	(261)	(463)	(175)	(899)
Net charge-offs(a)	1,723	7,750	1,643	11,116
Provision for loan losses:				
Excluding accounting conformity(a)	(761)	9,200	1,172	9,611
Accounting conformity(b)	—	—	—	—
Total provision for loan losses	(761)	9,200	1,172	9,611
Acquired allowance resulting from Washington Mutual transaction	—	—	—	—
Other(c)	3	10	6	19
Ending balance at December 31	\$ 4,670	\$ 16,199	\$ 1,566	\$ 22,435
Allowance for loan losses by impairment methodology				
Asset-specific(d)(e)(f)	\$ 1,569	\$ 1,043	\$ 571	\$ 3,183
Formula-based(a)(f)	3,101	10,215	995	14,311
PCI	—	4,941	—	4,941
Total allowance for loan losses	\$ 4,670	\$ 16,199	\$ 1,566	\$ 22,435
Loans by impairment methodology				
Asset-specific(c)	\$ 5,448	\$ 5,997	\$ 1,462	\$ 12,907
Formula-based	214,337	228,425	20,203	462,965
PCI	44	72,763	—	72,807
Total retained loans	\$ 219,829	\$ 307,185	\$ 21,665	\$ 548,679

Management establishes an asset-specific allowance for lending-related commitments that are considered impaired and computes a formula-based allowance for performing wholesale and consumer lending-related commitments. These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowances for loan losses and lending-related commitments in future periods.

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

(table continued from previous page)

2009				2008			
Wholesale	Consumer, excluding credit card	Credit Card	Total	Wholesale	Consumer, excluding credit card	Credit Card	Total
\$ 6,419	\$ 8,927	\$ 1,807	\$ 17,153	\$ 3,103	\$ 2,672	\$ 1,240	\$ 7,015
—	—	—	—	—	—	—	—
3,075	10,377	2,851	16,303	505	5,083	1,837	7,425
(90)	(300)	(181)	(571)	(112)	(207)	(220)	(539)
2,985	10,077	2,670	15,732	393	4,876	1,617	6,886
3,660	15,793	2,980	22,433	2,810	9,912	2,200	14,922
—	—	—	—	641	350	586	1,577
3,660	15,793	2,980	22,433	3,451	10,262	2,786	16,499
—	—	—	—	229	897	1,409	2,535
43	20	(151)	(88)	29	(28)	(2,011)	(2,010)
\$ 7,137	\$ 14,663	\$ 1,966	\$ 23,766	\$ 6,419	\$ 8,927	\$ 1,807	\$ 17,153
\$ 2,033	\$ 892	\$ 708	\$ 3,633	\$ 712	\$ 332	\$ 512	\$ 1,556
5,104	12,190	1,258	18,552	5,707	8,595	1,295	15,597
—	1,581	—	1,581	—	—	—	—
\$ 7,137	\$ 14,663	\$ 1,966	\$ 23,766	\$ 6,419	\$ 8,927	\$ 1,807	\$ 17,153
\$ 6,829	\$ 3,605	\$ 1,503	\$ 11,937	\$ 2,061	\$ 2,086	\$ 1,075	\$ 5,222
189,851	253,406	16,489	459,746	238,934	285,057	30,066	554,057
135	81,245	—	81,380	224	88,813	—	89,037
\$ 196,815	\$ 338,256	\$ 17,992	\$ 553,063	\$ 241,219	\$ 375,956	\$ 31,141	\$ 648,316

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Year ended December 31, (in millions)	2010			
	Wholesale	Consumer, excluding credit card	Credit Card	Total
Allowance for lending-related commitments				
Beginning balance at January 1,	\$ 923	\$ 12	\$ —	\$ 935
Cumulative effect of change in accounting principles(a)	(18)	—	—	(18)
Provision for lending-related commitments:				
Excluding accounting conformity(a)	(199)	(6)	—	(205)
Accounting conformity(b)	—	—	—	—
Total provision for lending-related commitments	(199)	(6)	—	(205)
Acquired allowance resulting from Washington Mutual transaction	—	—	—	—
Other(c)	(21)	—	—	(21)
Ending balance at December 31	\$ 685	\$ 6	\$ —	\$ 691
Allowance for lending-related commitments by impairment methodology				
Asset-specific	\$ 180	\$ —	\$ —	\$ 180
Formula-based	505	6	—	511
Total allowance for lending-related commitments	\$ 685	\$ 6	\$ —	\$ 691
Lending-related commitments by impairment methodology				
Asset-specific	\$ 1,071	\$ —	\$ —	\$ 1,071
Formula-based	343,710	55,969	19,506	419,185
Total lending-related commitments	\$ 344,781	\$ 55,969	\$ 19,506	\$ 420,256
Impaired collateral-dependent loans				
Net charge-offs	\$ 269	\$ 285	\$ —	\$ 554
Loans measured at fair value of collateral less cost to sell	806	830	—	1,636

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

(b) Represents adjustments to the provision for credit losses recognized in the corporate business related to the Washington Mutual transaction in 2008.

(c) The 2009 amount predominantly represents a reclassification related to the issuance and retention of securities from the Chase Issuance Trust. For further information, see Note 17 on pages 82–97 of these Consolidated Financial Statements. The 2008 amount predominantly represents a transfer of allowance between the corporate business and the credit card business.

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

(e) At December 31, 2010, 2009 and 2008 the asset-specific consumer excluding card allowance for loan losses included troubled debt restructuring reserves of \$953 million, \$749 million and \$258 million respectively. The asset-specific credit card allowance for loan losses is related to loans modified in troubled debt restructurings.

(f) At December 31, 2010, JPMorgan Chase Bank, N.A.'s allowance for loan losses on all impaired credit card loans was reclassified to the asset-specific allowance. This reclassification had no incremental impact on JPMorgan Chase Bank, N.A.'s allowance for loan losses. Prior periods have been revised to reflect the current presentation.

(table continued from previous page)

2009				2008			
Wholesale	Consumer, excluding credit card	Credit card	Total	Wholesale	Consumer, excluding credit card	Credit card	Total
\$ 631	\$ 25	\$ —	\$ 656	\$ 834	\$ 15	\$ —	\$ 849
—	—	—	—	—	—	—	—
289	(10)	—	279	(217)	(1)	—	(218)
—	—	—	—	5	(48)	—	(43)
289	(10)	—	279	(212)	(49)	—	(261)
—	—	—	—	—	66	—	66
3	(3)	—	—	9	(7)	—	2
\$ 923	\$ 12	\$ —	\$ 935	\$ 631	\$ 25	\$ —	\$ 656
\$ 297	\$ —	\$ —	\$ 297	\$ 29	\$ —	\$ —	\$ 29
626	12	—	638	602	25	—	627
\$ 923	\$ 12	\$ —	\$ 935	\$ 631	\$ 25	\$ —	\$ 656
\$ 1,556	\$ —	\$ —	\$ 1,556	\$ 220	\$ —	\$ —	\$ 220
343,441	74,827	19,675	437,943	375,468	117,805	25,742	519,015
\$ 344,997	\$ 74,827	\$ 19,675	\$ 439,499	\$ 375,688	\$ 117,805	\$ 25,742	\$ 519,235
\$ 905	\$ 166	\$ —	\$ 1,071	\$ 117	\$ 22	\$ —	\$ 139
1,127	186	—	1,313	1,032	33	—	1,065

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Note 17 – Variable interest entities

For a further description of JPMorgan Chase Bank, N.A.'s accounting policies regarding consolidation of VIEs, see Note 1 on pages 6–8 of these Consolidated Financial Statements.

The following table summarizes the most significant types of JPMorgan Chase Bank, N.A.-sponsored VIEs by each JPMorgan Chase Bank, N.A. business. JPMorgan Chase Bank, N.A. considers a "sponsored" VIE to include any entity where: (1) JPMorgan Chase Bank, N.A. is the principal beneficiary of the structure; (2) the VIE is used by JPMorgan Chase Bank, N.A. to securitize JPMorgan Chase Bank, N.A.'s assets; (3) the VIE issues financial instruments with the JPMorgan Chase Bank, N.A. name; or (4) the entity is a JPMorgan Chase Bank, N.A.-administered asset-backed commercial paper ("ABCP") conduit.

JPMorgan Chase Bank, N.A. business	Transaction type	Activity	Consolidated Financial Statements page reference
Retail financial services	Mortgage and other securitization trusts	Securitization of originated and purchased residential mortgages, automobile and student loans	83–86
Investment banking	Mortgage and other securitization trusts	Securitization of both originated and purchased residential and commercial mortgages, automobile and student loans	83–86
	Multi-seller conduits	Assisting clients in accessing the financial markets in a cost-efficient manner and structures transactions to meet investor needs	87–88
	Investor intermediation activities:		
	Municipal bond vehicles		88–89
	Credit-linked note vehicles		89–90
	Asset swap vehicles		90–91
Card services	Credit card securitization trust	Securitization of both originated and purchased credit card receivables	86–87

JPMorgan Chase Bank, N.A.'s other businesses are also involved with VIEs, but to a lesser extent, as follows:

- **Asset management business:** Sponsors and manages a limited number of funds that are deemed VIEs. As asset manager of the funds, the asset management business earns a fee based on assets managed; the fee varies with each fund's investment objective and is competitively priced. For those limited number of fund entities that qualify as VIEs, the asset management business's interests are, in certain cases, considered to be significant variable interests that result in consolidation of the financial results of these entities.
- **Treasury and securities services business:** Provides services to a number of VIEs that are similar to those provided to non-VIEs. The treasury and securities services business earns market-based fees for the services it provides. The treasury and securities services business's interests are generally not considered to be significant variable interests and/or do not control these VIEs; therefore, the treasury and securities services business does not consolidate these VIEs.
- **Commercial banking business:** The commercial banking business makes investments in and provides lending to community development entities that may meet the definition of a VIE. In addition, the commercial banking business provides financing and lending-related services to certain client sponsored VIEs. In general, the commercial banking business does not control the activities of these entities and does not consolidate these entities.
- **Corporate business:** The corporate business uses VIEs to issue guaranteed capital debt securities. See Note 22 on pages 102–103 of these Consolidated Financial Statements for further information.

JPMorgan Chase Bank, N.A. also invests in and provides financing and other services to VIEs sponsored by third parties, as described on page 91 of this Note.

New consolidation accounting guidance for VIEs

On January 1, 2010, JPMorgan Chase Bank, N.A. implemented consolidation accounting guidance related to VIEs. The following table summarizes the incremental impact at adoption:

(in millions)	GAAP assets	GAAP liabilities	Stockholder's equity	Tier 1 capital
As of December 31, 2009	\$ 1,627,684	\$ 1,500,390	\$ 127,294	9.52%
Impact of new accounting guidance for consolidation of VIEs				
Multi-seller conduits ^(a)	17,724	17,744	(20)	—
Mortgage & other ^{(b)(c)}	4,528	4,572	(44)	(0.02)%
Credit card ^(d)	393	348	45	0.30
Total impact of new guidance	22,645	22,664	(19)	0.28^(e)
Beginning balance as of January 1, 2010	\$ 1,650,329	\$ 1,523,054	\$ 127,275	9.80%

- (a) The assets and liabilities of the JPMorgan Chase Bank, N.A.-administered multi-seller conduits which were consolidated were initially measured at their carrying values, primarily amortized cost, as this method is consistent with the business's intent to hold the assets for the longer-term. The assets were recorded primarily in loans and in other assets on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets.
- (b) The retail financial services business consolidated certain mortgage and other consumer securitizations, which resulted in a net increase in both assets and liabilities of \$3.0 billion (\$1.8 billion related to residential mortgage securitizations and \$1.2 billion related to other consumer securitizations). These assets were initially measured at their unpaid principal balance and recorded primarily in loans on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets. This method was elected as a practical expedient.
- (c) The investment banking business consolidated certain mortgage and other consumer securitizations, which resulted in a net increase in both assets and liabilities of \$1.5 billion (generally related to residential mortgage securitizations). These assets were initially measured at their fair value, as this method is consistent with the approach that the investment banking business utilizes to manage similar assets. These assets were recorded primarily in trading assets on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets.
- (d) The assets and liabilities of the JPMorgan Chase Bank, N.A.-sponsored SCORE credit card securitization trust that was consolidated were initially measured at their carrying values, primarily amortized cost, as this method is consistent with the approach that the card services business utilizes to manage its other assets. These assets are primarily recorded in loans on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets. In addition, the card services business established an allowance for loan losses of \$65 million (pretax) which was reported as a transition adjustment in stockholder's equity. The impact to stockholder's equity also includes a decrease to AOCI of \$10 million as a result of the reversal of the fair value adjustments taken on retained AFS securities that were eliminated in consolidation.
- (e) The U.S. GAAP consolidation of these VIEs increased the Tier 1 capital ratio by 28 basis points. The impact to the Tier 1 capital ratio predominantly reflects JPMorgan Chase Bank, N.A. no longer being required to consolidate, for regulatory capital purposes, its portion of the Chase Issuance Trust (the "Trust") as a result of actions taken in the second quarter of 2009. As of the adoption date of the new accounting guidance, the Trust was fully consolidated, for regulatory capital and U.S. GAAP purposes, by its sponsor (an affiliate of JPMorgan Chase Bank, N.A.). In addition, JPMorgan Chase Bank, N.A. elected a two-quarter regulatory implementation deferral of the effect of this accounting guidance on risk-weighted assets and risk-based capital requirements, as permitted for its JPMorgan Chase Bank, N.A.-administered multi-seller conduits and certain mortgage-related and other securitization entities. The deferral period ended July 1, 2010, and JPMorgan Chase Bank, N.A. consolidated, for regulatory purposes, the deferred amounts, which had a negligible impact on risk-weighted assets and risk-based capital ratios.

JPMorgan Chase Bank, N.A.-sponsored mortgage and other securitization trusts

JPMorgan Chase Bank, N.A. securitizes originated and purchased residential mortgages, commercial mortgages and other consumer loans (including automobile and student loans) primarily in its retail financial services business and the investment banking business. Depending on the particular transaction, as well as the respective business involved, JPMorgan Chase Bank, N.A. may act as the servicer of the loans and/or retain certain beneficial interests in the securitization trusts.

Effective January 1, 2010, JPMorgan Chase Bank, N.A. consolidated certain mortgage securitization trusts (both residential and commercial) and JPMorgan Chase Bank, N.A.-sponsored automobile and student loan trusts as a result of the implementation of the accounting guidance. The consolidation determination was based on JPMorgan Chase Bank, N.A.'s ability to direct the activities of these VIEs through its servicing responsibilities and duties, including making decisions related to loan modifications and workouts. Additionally, the nature and extent of JPMorgan Chase Bank, N.A.'s continuing economic involvement with these trusts obligates JPMorgan Chase Bank, N.A. to absorb losses and gives JPMorgan

Chase Bank, N.A. the right to receive benefits from the VIEs that could potentially be significant.

Prior to January 1, 2010, JPMorgan Chase Bank, N.A. accounted for its residential and commercial mortgage, automobile, and certain student loan securitizations as QSPes and therefore did not consolidate these entities; only JPMorgan Chase Bank, N.A.'s retained interests in these entities were recorded on its Consolidated Balance Sheets. In addition, JPMorgan Chase Bank, N.A. previously consolidated certain other student loan securitizations in accordance with the accounting treatment under prior accounting guidance.

The following table presents the total unpaid principal amount of assets held in JPMorgan Chase Bank, N.A.-sponsored securitization entities in which JPMorgan Chase Bank, N.A. has continuing involvement, including those JPMorgan Chase Bank, N.A.-sponsored securitization entities that are consolidated by JPMorgan Chase Bank, N.A. and those that are not consolidated by JPMorgan Chase Bank, N.A. Continuing involvement includes servicing the loans; holding senior interests or subordinated interests, recourse or guarantee arrangements; and derivative transactions. In certain instances, JPMorgan Chase Bank, N.A.'s only continuing involvement is servicing the loans. In the table below, the amount of

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beneficial interests held by JPMorgan Chase Bank, N.A. does not equal the assets held in nonconsolidated VIEs because of the existence of beneficial interests held by third parties, which are reflected at their current outstanding par amounts; and because a portion of JPMorgan Chase Bank, N.A.'s retained interests (trading

assets and AFS securities) are reflected at their fair values. See Securitization activity on pages 93–97 of this Note for further information regarding JPMorgan Chase Bank, N.A.'s cash flows with and interests retained in nonconsolidated VIEs.

JPMorgan Chase Bank, N.A.-sponsored mortgage and other consumer securitization trusts

December 31, 2010 ^(a) (in billions)	Principal amount outstanding			JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs ^{(d)(e)(f)(g)(h)}			Total interests held by JPMorgan Chase Bank, N.A.
	Total assets held by securitization VIEs	Assets held in consolidated securitization VIEs	Assets held in nonconsolidated securitization VIEs with continuing involvement	Trading assets	AFS securities	Other assets	
Securitization-related							
Residential mortgage:							
Prime ^(b)	\$ 85.0	\$ 1.3	\$ 83.5	\$ 0.2	\$ —	\$ —	\$ 0.2
Subprime	29.6	—	28.2	—	—	—	—
Option ARMs	36.1	0.3	35.8	—	—	—	—
Commercial and other ^(c)	104.6	—	84.4	—	0.7	—	0.7
Credit card	0.5	0.5	—	—	—	—	—
Student	4.5	4.5	—	—	—	—	—
Auto	—	—	—	—	—	—	—
Total	\$ 260.3	\$ 6.6	\$ 231.9	\$ 0.2	\$ 0.7	\$ —	\$ 0.9

December 31, 2009 ^(a) (in billions)	Principal amount outstanding			JPMorgan Chase Bank, N.A. interest in securitized assets in nonconsolidated VIEs ^{(d)(e)(f)(g)(h)}			Total interests held by JPMorgan Chase Bank, N.A.
	Total assets held by securitization VIEs	Assets held in consolidated securitization VIEs	Assets held in nonconsolidated securitization VIEs with continuing involvement	Trading assets	AFS securities	Other assets	
Securitization-related							
Residential mortgage:							
Prime ^(b)	\$ 102.2	\$ —	\$ 102.1	\$ 0.1	\$ 0.2	\$ —	\$ 0.3
Subprime	34.4	—	32.4	—	—	—	—
Option ARMs	42.0	—	42.0	—	0.1	—	0.1
Commercial and other ^(c)	99.5	—	19.3	—	0.7	—	0.7
Credit card	0.5	—	0.5	—	—	0.1	0.1
Student	4.8	3.8	1.0	—	—	0.1	0.1
Auto	0.2	—	0.2	—	—	—	—
Total	\$ 283.6	\$ 3.8	\$ 197.5	\$ 0.1	\$ 1.0	\$ 0.2	\$ 1.3

(a) Excludes loan sales to U.S. government agencies. See page 95 of this Note for information on JPMorgan Chase Bank, N.A.'s loan sales to U.S. government agencies.

(b) Includes Alt-A loans.

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

(d) Excludes retained servicing (for a discussion of MSRs, see Note 18 on page 98–100 of these Consolidated Financial Statements) and securities retained from loan sales to U.S. government agencies.

(e) Excludes senior and subordinated securities of \$38 million and \$42 million, respectively, at December 31, 2009, which JPMorgan Chase Bank, N.A. purchased in connection with the investment banking business' secondary market-making activities. There were no secondary market-making activities at December 31, 2010.

(f) Includes investments acquired in the secondary market that are predominantly held-for-investment purposes of \$78 million and \$124 million as of December 31, 2010 and 2009, respectively. This comprises of \$39 million and \$76 million of AFS securities, related to commercial and other; and \$39 million and \$48 million of investments classified as trading assets—debt and equity instruments, including \$39 million and \$47 million of residential mortgages, and zero and \$1 million of commercial and other, all respectively, at December 31, 2010 and 2009.

(g) Excludes \$1.4 billion and \$9.0 billion of retained interests, including investments acquired in the secondary market, that are predominantly held-for-investment purposes, and \$6.9 billion and \$5.3 billion of undivided interests related to nonconsolidated credit card securitizations sponsored by an affiliate as of December 31, 2010 and 2009, respectively.

(h) Excludes interest rate and foreign exchange derivatives primarily used to manage the interest rate and foreign exchange risks of the securitization entities. See Note 7 on pages 33–41 of these Consolidated Financial Statements for further information on derivatives.

Residential mortgage

JPMorgan Chase Bank, N.A. securitizes residential mortgage loans originated by the retail financial services business, as well as residential mortgage loans purchased from third parties by either the retail financial services business or the investment banking business. The retail financial services business generally retains servicing for all residential mortgage loans originated or purchased by the retail financial services business, and for certain mortgage loans purchased by the investment banking business.

For securitizations serviced by the retail financial services business, JPMorgan Chase Bank, N.A. has the power to direct the significant activities of the VIE because it is responsible for decisions related to loan modifications and workouts. In a limited number of these securitizations, the retail financial services business also retains an interest in the VIE that could potentially be significant to the VIE. In these instances, JPMorgan Chase Bank, N.A. is deemed to be the primary beneficiary. At December 31, 2010, approximately \$1.5 billion of assets and \$1.6 billion of liabilities of JPMorgan Chase Bank, N.A.-sponsored residential mortgage securitization trusts were consolidated on-balance sheet. For JPMorgan Chase Bank, N.A.-sponsored securitizations serviced by unrelated third parties, JPMorgan Chase Bank, N.A. does not consolidate the VIE as the power to direct the significant activities resides with the third party servicer. At December 31, 2009, the retail financial services business did not consolidate any VIEs in accordance with the accounting treatment under prior accounting rules. The retail financial services business held retained interests of approximately \$42 million and \$392 million as of December 31, 2010 and 2009, respectively, in nonconsolidated residential mortgage securitization entities. See pages 96–97 of this Note for further information on retained interests held in nonconsolidated VIEs; these retained interests are classified as trading assets or AFS securities.

JPMorgan Chase Bank, N.A.'s mortgage loan sales are primarily nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. However, for a limited number of loan sales, JPMorgan Chase Bank, N.A. is obligated to share a portion of the credit risk associated with the sold loans with the purchaser. See Note 28 on pages 109–115 of these Consolidated Financial Statements for additional information on loans sold with recourse, as well as information on indemnification liability for breaches of representations and warranties. See page 95 of this Note for further information on loans sold to U.S. government agencies.

The investment banking business engages in underwriting and trading activities involving securities issued by JPMorgan Chase Bank, N.A.-sponsored securitization trusts. As a result, the investment banking business at times retains senior and/or subordinated interests (including residual interests) in residential mortgage securitizations upon securitization, and/or reacquires positions in the secondary market in the normal course of business. In certain instances, as a result of the positions retained or reacquired by the investment banking business, when considered together with the servicing arrange-

ments entered into by the retail financial services business, JPMorgan Chase Bank, N.A. is deemed to be the primary beneficiary of certain securitization trusts. At December 31, 2010, there were no consolidated assets and liabilities due to the investment banking business's involvement with such trusts. The investment banking business did not consolidate any residential securitization VIEs at December 31, 2009, in accordance with the accounting treatment under prior accounting rules. The investment banking business held approximately \$114 million, and zero of senior and subordinated interests at December 31, 2010 and 2009, respectively, in nonconsolidated residential mortgage securitization entities. See pages 96–97 of this Note for further information on interests held in nonconsolidated securitizations. These retained interests are accounted for at fair value and classified as trading assets.

Commercial mortgages and other consumer securitizations

The investment banking business originates and securitizes commercial mortgage loans, and engages in underwriting and trading activities involving the securities issued by securitization trusts. The investment banking business may retain unsold senior and/or subordinated interests in commercial mortgage securitizations at the time of securitization but, generally, JPMorgan Chase Bank, N.A. does not service commercial loan securitizations. For commercial mortgage securitizations the power to direct the significant activities of the VIE generally is held by the servicer or investors in a specified class of securities ("controlling class"). As of December 31, 2010, JPMorgan Chase Bank, N.A. did not consolidate any commercial mortgage securitization trusts. The investment banking business did not consolidate any commercial mortgage securitizations trusts at December 31, 2009, in accordance with the accounting treatment under prior accounting rules. At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. held \$4 million and \$1 million, respectively, of retained interests in nonconsolidated commercial mortgage securitizations. At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. did not have any residual interests in nonconsolidated commercial mortgage securitizations.

JPMorgan Chase Bank, N.A. also securitizes automobile and student loans originated by the retail financial services business, and consumer loans (including automobile and student loans) purchased by the investment banking business. JPMorgan Chase Bank, N.A. retains servicing responsibilities for all originated and certain purchased student and automobile loans and has the power to direct the activities of these VIEs through these servicing responsibilities. At December 31, 2010, \$4.5 billion of assets and \$3.2 billion of liabilities of student loan securitizations were consolidated due to the combination of retained interests held by JPMorgan Chase Bank, N.A. and servicing responsibilities. Auto loans previously securitized were repurchased by JPMorgan Chase Bank, N.A. during 2010 as these securitization entities were terminated. As of December 31, 2009, JPMorgan Chase Bank, N.A. held \$9 million and \$49 million of retained interests in securitized automobile and student loan securitizations, respectively, which were not consolidated in accordance with the accounting treatment under prior

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accounting rules. These retained interests were reported in other assets. In addition, at December 31, 2009, JPMorgan Chase Bank, N.A. held interests in other student loans which resulted in \$3.8 billion of other student loans being consolidated on the balance sheet in accordance with the accounting treatment under prior accounting rules.

Credit card securitizations

Consolidation of JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust

JPMorgan Chase Bank, N.A. securitizes originated and purchased credit card loans in a JPMorgan Chase Bank, N.A.-sponsored entity. JPMorgan Chase Bank, N.A.'s primary continuing involvement after securitization includes servicing the receivables, retaining an undivided seller's interest in the receivables, retaining certain senior and subordinated securities and maintaining escrow accounts.

Additionally, JPMorgan Chase Bank, N.A. also retains a participation interest in the undivided seller's interest in receivables and certain senior securities resulting from securitizations sponsored by a nonconsolidated affiliate of JPMorgan Chase Bank, N.A. ("participating securitizations"). JPMorgan Chase Bank, N.A. receives

servicing fees from participating securitizations. As servicer and transferor, JPMorgan Chase Bank, N.A. receives contractual servicing fees based on the securitized loan balance plus excess servicing fees, which are recorded in credit card income as discussed in Note 8 on page 42 of these Consolidated Financial Statements.

Effective January 1, 2010, JPMorgan Chase Bank, N.A. was deemed to be the primary beneficiary of the SCORE trust, a JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, and consolidated the assets and liabilities of the trust. The primary beneficiary determination was based on JPMorgan Chase Bank, N.A.'s ability to direct the activities of the VIE through its servicing responsibilities and other duties, including making decisions as to the receivables that are transferred into the trust and as to any related modifications and workouts. Additionally, the nature and extent of JPMorgan Chase Bank, N.A.'s other continuing involvement with the trust, including the retention of an undivided seller's interest in the receivables and the maintenance of escrow accounts, obligates JPMorgan Chase Bank, N.A. to absorb losses and gives JPMorgan Chase Bank, N.A. the right to receive certain benefits from the VIE that could potentially be significant.

The following table summarizes the assets and liabilities of the consolidated JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust at December 31, 2010:

(in billions)	Loans	Other assets	Total assets held by the consolidated JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust	Beneficial interests issued to third parties
December 31, 2010	\$ 0.5	\$ —	\$ 0.5	\$ 0.4

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

The agreement with the SCORE trust requires JPMorgan Chase Bank, N.A. to maintain a minimum undivided interest in the receivables transferred to the trust of 12%. As of December 31, 2010, JPMorgan Chase Bank, N.A. held an undivided interest in the SCORE trust of \$121 million which was eliminated in consolidation. The credit card receivables in the SCORE trust underlying this undivided interest are classified within loans. JPMorgan Chase Bank, N.A. did not retain any senior and subordinated securities from the SCORE trust as of December 31, 2010.

Upon implementation of the consolidation accounting guidance related to VIEs at January 1, 2010, JPMorgan Chase Bank, N.A. recorded a net increase in GAAP assets of \$393 million on the Consolidated Balance Sheets. In addition, JPMorgan Chase Bank, N.A. recognized \$348 million of liabilities primarily representing the SCORE trust's beneficial interests issued to third parties.

Prior to January 1, 2010, JPMorgan Chase Bank, N.A. accounted for its credit card securitizations as QSPEs and therefore these entities were not consolidated.

JPMorgan Chase Bank, N.A. involvement with credit card-affiliated securitization entities sponsored by an affiliate

In addition to the JPMorgan Chase Bank, N.A.-sponsored credit card securitization trust, on an ongoing basis, JPMorgan Chase Bank, N.A. sells credit card receivables to various credit card securitization trusts ("Trusts") sponsored by an affiliate. The consideration received for the sales is an undivided interest in the respective Trusts. These credit card securitizations trusts were consolidated by an affiliate at December 31, 2010, due to the change in the consolidation accounting guidance.

During 2009, the overall performance of certain Trusts declined primarily due to the increase in credit losses incurred on the underlying credit card receivables and certain actions were taken by the Trust's sponsor, as permitted by the Trust agreements, to enhance the performance of the Trust, including increasing the required credit enhancement level of each tranche of outstanding notes issued by the Trust and increasing the excess spread for the Trust. JPMorgan Chase Bank, N.A. had a retained participation interest in the undivided seller's interest in the receivables of the Chase Issuance Trust. These actions resulted in the addition of approximately \$20.0 billion of risk-weighted assets for regulatory capital purposes, which decreased JPMorgan Chase Bank, N.A.'s Tier 1 capital ratio by approximately 20 basis points, but did not have a material impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or financial performance.

Retained interests in nonconsolidated credit card securitizations sponsored by an affiliate

At December 31, 2009, the principal amount outstanding of credit card receivables sold by JPMorgan Chase Bank, N.A. to various nonconsolidated credit card securitizations trusts sponsored by an affiliate was \$47.4 billion. These credit card securitizations trusts were consolidated by an affiliate on January 1, 2010, in accordance with the new accounting guidance. The consideration received for the sale is an undivided interest in the respective Trusts. At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had \$6.9 billion and \$5.3 billion, respectively, related to its undivided interests in the Trusts. These undivided interests are measured at fair value and classified in other assets beginning January 1, 2010. Prior to January 1, 2010, these undivided interests were carried at historical cost and classified in loans. JPMorgan Chase Bank, N.A. also retains senior and subordinated securities issued from the Trusts. The retained securities totaled \$1.4 billion at December 31, 2010, of which \$1.3 billion was classified as AFS securities and \$105 million classified as trading assets, and \$9.0 billion at December 31, 2009, of which \$8.9 billion was classified as AFS securities and \$104 million as trading assets. The decline in AFS securities from December 31, 2009, was the result of the maturities of certain senior AFS securities which were used by JPMorgan Chase Bank, N.A. as collateral for a secured financing transaction.

Multi-seller conduits

JPMorgan Chase Bank, N.A. is an active participant in the asset-backed securities business, and it helps customers meet their financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. Multi-seller conduit entities are separate bankruptcy remote entities that purchase interests in, and make loans secured by, pools of receivables and other financial assets pursuant to agreements with customers of JPMorgan Chase Bank, N.A. The conduits fund their purchases and loans through the issuance of highly rated commercial paper to third-party investors. The primary source of repayment of the commercial paper is the cash flows from the pools of assets. In most instances, the assets are structured with deal-specific credit enhancements provided by the customers (i.e., sellers) to the conduits or other third parties. Deal-specific credit enhancements is generally structured to cover a multiple of historical losses expected on the pool of assets, and are typically in the form of overcollateralization provided by the seller, but also may include any combination of the following: recourse to the seller or originator, cash collateral accounts, letters of credit, excess spread, retention of subordinated interests or third-party guarantees. The deal-specific credit enhancements mitigate JPMorgan Chase Bank, N.A.'s potential losses on its agreements with the conduits.

To ensure timely repayment of the commercial paper, each asset pool financed by the conduits has a minimum 100% deal-specific liquidity facility associated with it. Deal-specific liquidity facilities are the primary source of liquidity support for the conduits and are typically in the form of asset purchase agreements. They are generally structured so the liquidity that will be provided by JPMorgan Chase Bank, N.A. (as liquidity provider) will be affected by JPMorgan Chase Bank, N.A. purchasing, or lending against, a pool of nondefaulted, performing assets. In limited circumstances, JPMorgan Chase Bank, N.A. may provide unconditional liquidity.

The conduit's administrative agent can require the liquidity provider to perform under its asset purchase agreement with the conduit at any time. These agreements may cause the liquidity provider, which is generally JPMorgan Chase Bank, N.A., to purchase an asset from the conduit at an amount above the asset's then current fair value – in effect, providing a guarantee of the asset's initial value.

JPMorgan Chase Bank, N.A. also provides the multi-seller conduit vehicles with program-wide liquidity facilities in the form of uncommitted short-term revolving facilities established to handle funding increments too small to be funded by commercial paper and that can be accessed by the conduits only in the event of short-term disruptions in the commercial paper market.

Because the majority of the deal-specific liquidity facilities will only fund nondefaulted assets, program-wide credit enhancement is required to absorb losses on defaulted receivables in excess of losses absorbed by any deal-specific credit enhancement. Program-wide credit enhancement may be provided by JPMorgan Chase Bank, N.A. in the form of standby letters of credit or by third-party surety bond providers. The amount of program-wide credit enhancement required varies by conduit and ranges between 5% and 10% of the applicable commercial paper that is outstanding. JPMorgan Chase Bank, N.A. provided \$2.0 billion and \$2.4 billion of program-wide credit enhancement at December 31, 2010 and 2009, respectively.

JPMorgan Chase Bank, N.A. receives compensation from the multi-seller conduits for its role as administrative agent, liquidity provider, and provider of program-wide credit enhancement.

Effective January 1, 2010, JPMorgan Chase Bank, N.A. consolidated its JPMorgan Chase Bank, N.A.-administered multi-seller conduits as it had both the power to direct the significant activities of the conduits and a potentially significant economic interest. JPMorgan Chase Bank, N.A. directs the economic performance of the conduits as administrative agent and in its role in structuring transactions for the conduits. In these roles, JPMorgan Chase Bank, N.A. makes decisions regarding concentration of asset types and credit quality of transactions, and is responsible for managing the commercial paper funding needs of the conduits. JPMorgan Chase Bank, N.A.'s interests that could potentially be significant to the VIEs include the fees received as administrative agent, liquidity provider and provider of program-wide credit enhancement, as well as JPMorgan Chase Bank, N.A.'s potential exposure as a result of the liquidity and credit enhancement facilities provided to the conduits.

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December 31, 2010 (in billions)	Loans	Other assets	Total assets held by JPMorgan Chase Bank, N.A.-administered multi-seller conduits	Commercial paper issued to third parties
Consolidated ^(a)	\$ 21.1	\$ 0.6	\$ 21.7	\$ 21.6

(a) JPMorgan Chase Bank, N.A. provided certain deal-specific liquidity facilities (primarily asset purchase agreements); program-wide liquidity facilities; and program-wide enhancements that were eliminated in consolidation.

Accounting Treatment Prior to January 1, 2010

Prior to January 1, 2010, JPMorgan Chase Bank, N.A. had consolidated one of its multi-seller conduits; all other JPMorgan Chase Bank, N.A.-administered multi-seller conduits were not consolidated in accordance with prior accounting rules. Under prior accounting rules, the party that absorbed the majority of the entity's expected losses, received a majority of the entity's residual returns, or both, would consolidate. Each nonconsolidated multi-seller conduit administered by JPMorgan Chase Bank, N.A. at December 31, 2009, had issued Expected Loss Notes ("ELNs"), the holders of which were committed to absorbing the majority of the expected loss of each respective conduit. The total amounts of ELNs outstanding for nonconsolidated conduits at December 31, 2009, was \$96 million.

At December 31, 2009, total assets funded and commercial paper issued by JPMorgan Chase Bank, N.A.-sponsored multi-seller conduits were as follows.

December 31, 2009 (in billions)	Total assets funded	Commercial paper issued
Consolidated	\$ 5.1	\$ 5.1
Non-consolidated ^(a)	17.8	17.8

(a) JPMorgan Chase Bank, N.A. provided certain deal-specific liquidity facilities (primarily asset purchase agreements) of \$24.2 billion. Additionally, JPMorgan Chase Bank, N.A. provided program-wide liquidity facilities of \$13.0 billion and program-wide credit enhancements of \$2.0 billion.

JPMorgan Chase Bank, N.A.'s maximum exposure to loss on nonconsolidated Firm-administered multi-seller conduits was \$24.8 billion at December 31, 2009. The maximum exposure to loss, calculated separately for each multi-seller conduit, included JPMorgan Chase Bank, N.A.'s exposure to both deal-specific liquidity facilities and program-wide credit enhancements. For purposes of calculating maximum exposure to loss, JPMorgan Chase Bank, N.A.-provided program-wide credit enhancement was limited to deal-specific liquidity facilities provided to third parties.

VIEs associated with investor intermediation activities

As a financial intermediary, JPMorgan Chase Bank, N.A. creates certain types of VIEs and also structures transactions, typically using derivatives, with these VIEs to meet investor needs. JPMorgan Chase Bank, N.A. may also provide liquidity and other support. The risks inherent in the derivative instruments or liquidity commitments are managed similarly to other credit, market or liquidity risks to which JPMorgan Chase Bank, N.A. is exposed. The principal types of VIEs for which JPMorgan Chase Bank, N.A. is engaged in on behalf of clients are municipal bond vehicles, credit-related note vehicles and asset swap vehicles.

Municipal bond vehicles

JPMorgan Chase Bank, N.A. has created a series of trusts that provide short-term investors with qualifying tax-exempt investments, and that allow investors in tax-exempt securities to finance their investments at short-term tax-exempt rates. In a typical transaction, the vehicle purchases fixed-rate longer-term highly rated municipal bonds and funds the purchase by issuing two types of securities: (1) puttable floating-rate certificates and (2) inverse floating-rate residual interests ("residual interests"). The maturity of each of the puttable floating-rate certificates and the residual interests is equal to the life of the vehicle, while the maturity of the underlying municipal bonds is longer. Holders of the puttable floating-rate certificates may "put," or tender, the certificates if the remarketing agent cannot successfully remarket the floating-rate certificates to another investor. A liquidity facility conditionally obligates the liquidity provider to fund the purchase of the tendered floating-rate certificates. If funded, the liquidity facility would be repaid by the proceeds from the sale of the underlying municipal bonds upon termination of the vehicle. In certain transactions, if the proceeds from the sale of the underlying municipal bonds are not sufficient to repay the liquidity facility, the liquidity provider has recourse to the residual interest holders for reimbursement.

The holders of the residual interests in these vehicles could experience losses if the face amount of the puttable floating-rate certificates exceeds the market value of the municipal bonds upon termination of the vehicle. Certain vehicles require a smaller initial investment by the residual interest holders and thus do not result in excess collateralization. For these vehicles there exists a reimbursement obligation which requires the residual interest holders to post, during the life of the vehicle, additional collateral to JPMorgan Chase Bank, N.A., as liquidity provider, on a daily basis should the market value of the municipal bonds decline.

JPMorgan Chase Bank, N.A. often serves as the sole liquidity provider of the puttable floating-rate certificates. The liquidity provider's obligation to perform is conditional and is limited by certain termination events, which include bankruptcy or failure to pay by the municipal bond issuer or credit enhancement provider, an event of taxability on the municipal bonds or the immediate downgrade of the municipal bond to below investment-grade. A downgrade of JPMorgan Chase Bank, N.A.'s short-term rating does not affect JPMorgan Chase Bank, N.A.'s obligation under the liquidity facility. However, in the event of a downgrade in JPMorgan Chase Bank, N.A.'s credit ratings, holders of the puttable floating-rate certificates supported by those liquidity facility commitments might choose to sell their instruments, which could increase the likelihood that the liquidity commitments could be drawn. In vehicles in which third-party investors own

the residual interests, in addition to the termination events, JPMorgan Chase Bank, N.A.'s exposure as liquidity provider is further limited by the high credit quality of the underlying municipal bonds, the excess collateralization in the vehicle or, in certain transactions, the reimbursement agreements with the residual interest holders.

The long-term credit ratings of the putable floating-rate certificates are directly related to the credit ratings of the underlying municipal bonds, and to the credit rating of any insurer of the underlying municipal bond. A downgrade of a bond insurer would result in a downgrade of the insured municipal bonds, which would affect the rating of the putable floating-rate certificates. This could cause demand for these certificates by investors to decline or disappear, as putable floating-rate certificate holders typically require an "AA-" bond rating. At December 31, 2010 and 2009, 96% and 98%, respectively, of the municipal bonds held by vehicles for which JPMorgan Chase Bank, N.A. served as liquidity provider were rated "AA-" or

better, based on either the rating of the underlying municipal bond itself or the bond rating including any credit enhancement. At December 31, 2010 and 2009, \$3.4 billion and \$2.3 billion, respectively, of the bonds were insured by monoline bond insurers.

JPMorgan Chase Bank, N.A. consolidates municipal bond vehicles if it owns the residual interest. The residual interest generally allows the owner to make decisions that significantly impact the economic performance of the municipal bond vehicle, primarily by directing the sale of the municipal bonds owned by the vehicle. In addition, the residual interest owners have the right to receive benefits and bear losses that could potentially be significant to the municipal bond vehicle. JPMorgan Chase Bank, N.A. does not consolidate municipal bond vehicles if it does not own the residual interests, since JPMorgan Chase Bank, N.A. does not have the power to make decisions that significantly impact the economic performance of the municipal bond vehicle.

JPMorgan Chase Bank, N.A.'s exposure to nonconsolidated municipal bond VIEs at December 31, 2010 and 2009, including the ratings profile of the VIEs' assets was as follows.

December 31, (in billions)	Fair value of assets held by VIEs	Liquidity facilities ^(b)	Excess/(deficit) ^(c)	Maximum exposure
Nonconsolidated municipal bond vehicles(a)				
2010	\$ 13.7	\$ 8.8	\$ 4.9	\$ 8.8
2009	13.2	8.4	4.8	8.4

December 31, (in billions, except where otherwise noted)	Ratings profile of VIE assets ^(d)					Fair value of assets held by VIEs	Wt. avg. expected life of assets (years)
	Investment-grade				Noninvestment -grade		
	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below		
Nonconsolidated municipal bond vehicles(a)							
2010	\$ 1.9	\$ 11.2	\$ 0.6	\$ —	\$ —	\$ 13.7	15.5
2009	1.6	11.4	0.2	—	—	13.2	10.1

(a) Excluded \$427 million and \$196 million, as of December 31, 2010 and 2009, respectively, which were consolidated due to JPMorgan Chase Bank, N.A. owning the residual interests.

(b) JPMorgan Chase Bank, N.A. may serve as credit enhancement provider to municipal bond vehicles in which it serves as liquidity provider. JPMorgan Chase Bank, N.A. provided insurance on underlying municipal bonds, in the form of letters of credit, of \$10 million at both December 31, 2010 and 2009.

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

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

Credit-linked note vehicles

JPMorgan Chase Bank, N.A. structures transactions with credit-related note vehicles in which the VIE purchases highly rated assets, such as asset-backed securities, and enters into a credit derivative contract with JPMorgan Chase Bank, N.A. to obtain exposure to a referenced credit which the VIE otherwise does not hold. The VIE then issues credit-linked notes ("CLNs") with maturities predominantly ranging from one to 10 years in order to transfer the risk of the referenced credit to the VIE's investors. Clients and investors often prefer using a CLN vehicle since the CLNs issued by the VIE generally carry a higher credit rating than such notes would if issued directly by JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A.'s exposure to the CLN vehicles is generally limited to its rights and obligations under the credit derivative contract with the VIE, as JPMorgan Chase Bank, N.A. does not provide any additional contractual financial support to the VIE. In addition, JPMorgan

Chase Bank, N.A. has not historically provided any financial support to the CLN vehicles over and above its contractual obligations. Accordingly, JPMorgan Chase Bank, N.A. typically does not consolidate the CLN vehicles. As a derivative counterparty in a credit-related note structure, JPMorgan Chase Bank, N.A. has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. The collateral purchased by such VIEs is largely investment-grade, with a significant amount being rated "AAA." JPMorgan Chase Bank, N.A. divides its credit-related note structures broadly into two types: static and managed.

In a static credit-related note structure, the CLNs and associated credit derivative contract either reference a single credit (e.g., a multinational corporation), or all or part of a fixed portfolio of credits. JPMorgan Chase Bank, N.A. generally buys protection from the VIE under the credit derivative. In a managed credit-related note structure, the CLNs and associated credit derivative generally reference all

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or part of an actively managed portfolio of credits. An agreement exists between a portfolio manager and the VIE that gives the portfolio manager the ability to substitute each referenced credit in the portfolio for an alternative credit. By participating in a structure where a portfolio manager has the ability to substitute credits within pre-agreed terms, the investors who own the CLNs seek to reduce the risk that any single credit in the portfolio will default. JPMorgan Chase Bank, N.A. does not act as portfolio manager; its involvement with the VIE is generally limited to being a derivative counterparty. As a net buyer of credit protection, in both static and managed credit-related note structures, JPMorgan Chase Bank, N.A. pays a premium to the VIE in return for the receipt of a payment (up to the notional of the derivative) if one or more of the credits within the portfolio de-

faults, or if the losses resulting from the default of reference credits exceed specified levels. Since each CLN is established to the specifications of the investors, the investors have the power over the activities of that VIE that most significantly affect the performance of the CLN. Accordingly, JPMorgan Chase Bank, N.A. does not generally consolidate these credit-related note entities. Furthermore, JPMorgan Chase Bank, N.A. does not have a variable interest that could potentially be significant. As a derivative counterparty, JPMorgan Chase Bank, N.A. has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. Substantially all of the assets purchased by such VIEs are investment-grade.

Exposure to nonconsolidated credit-linked note VIEs at December 31, 2010 and 2009, was as follows.

December 31, 2010 (in billions)	Net derivative receivables	Trading assets ^(b)	Total exposure ^(c)	Par value of collateral held by VIEs ^(d)
Credit-linked notes^(a)				
Static structure	\$ 1.0	\$ —	\$ 1.0	\$ 9.5
Managed structure	2.8	—	2.8	10.7
Total	\$ 3.8	\$ —	\$ 3.8	\$ 20.2

December 31, 2009 (in billions)	Net derivative receivables	Trading assets ^(b)	Total exposure ^(c)	Par value of collateral held by VIEs ^(d)
Credit-linked notes^(a)				
Static structure	\$ 1.9	\$ 0.7	\$ 2.6	\$ 10.8
Managed structure	5.0	0.6	5.6	15.2
Total	\$ 6.9	\$ 1.3	\$ 8.2	\$ 26.0

(a) Excluded collateral with a fair value of \$142 million and \$855 million at December 31, 2010 and 2009, respectively, which was consolidated, as JPMorgan Chase Bank, N.A., in its role as secondary market-maker, held a majority of the issued credit-linked notes of certain vehicles.

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

(c) On-balance sheet exposure that includes net derivative receivables and trading assets—debt and equity instruments.

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

Asset swap vehicles

JPMorgan Chase Bank, N.A. structures and executes transactions with asset swap vehicles on behalf of investors. In such transactions, the VIE purchases a specific asset or assets and then enters into a derivative with JPMorgan Chase Bank, N.A. in order to tailor the interest rate or foreign exchange currency risk, or both, according to investors' requirements. Generally, the assets are held by the VIE to maturity, and the tenor of the derivatives would match the maturity of the assets. Investors typically invest in the notes issued by such VIEs in order to obtain exposure to the credit risk of the specific assets, as well as exposure to foreign exchange and interest rate risk that is tailored to their specific needs. The derivative transaction between JPMorgan Chase Bank, N.A. and the VIE may include currency swaps to hedge assets held by the VIE denominated in foreign currency into the investors' local currency or interest rate swaps to hedge the interest rate risk of assets held by the VIE; to add addi-

tional interest rate exposure into the VIE in order to increase the return on the issued notes, or to convert an interest-bearing asset into a zero-coupon bond.

JPMorgan Chase Bank, N.A.'s exposure to asset swap vehicles is generally limited to its rights and obligations under the interest rate and/or foreign exchange derivative contracts. JPMorgan Chase Bank, N.A. historically has not provided any financial support to the asset swap vehicles over and above its contractual obligations. JPMorgan Chase Bank, N.A. does not generally consolidate these asset swap vehicles, since JPMorgan Chase Bank, N.A. does not have the power to direct the significant activities of these entities and does not have a variable interest that could potentially be significant. As a derivative counterparty, JPMorgan Chase Bank, N.A. has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. Substantially all of the assets purchased by such VIEs are investment-grade.

Exposure to nonconsolidated asset swap VIEs at December 31, 2010 and 2009, was as follows.

December 31, (in billions)	Net derivative receivables	Trading assets ^(b)	Total exposure ^(c)	Par value of collateral held by VIEs ^(d)
2010 ^(a)	\$ 0.3	\$ —	\$ 0.3	\$ 7.6
2009 ^(a)	0.1	—	0.1	10.2

(a) Excluded the fair value of collateral of zero and \$623 million at December 31, 2010 and 2009, respectively, which was consolidated as JPMorgan Chase Bank, N.A., in its role as secondary market-maker, held a majority of the issued notes of certain vehicles.

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

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

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

VIEs sponsored by third parties

Investment in a third-party credit card securitization trust

JPMorgan Chase Bank, N.A. holds two interests in a third-party-sponsored VIE, which is a credit card securitization trust that owns credit card receivables issued by a national retailer. JPMorgan Chase Bank, N.A. is not the primary beneficiary of the trust, as JPMorgan Chase Bank, N.A. does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance. The first note is structured so that the principal amount can float up to 47% of the principal amount of the receivables held by the trust, not to exceed \$4.2 billion. JPMorgan Chase Bank, N.A. accounts for its investment at fair value within AFS securities. At December 31, 2010 and 2009, the amortized cost of the note was \$3.0 billion and \$3.5 billion, respectively, and the fair value was \$3.1 billion and \$3.5 billion, respectively. JPMorgan Chase Bank, N.A. accounts for its other interest with the trust, which is not subject to the limits noted above, as a loan at amortized cost. This senior loan had an amortized cost and fair value of approximately \$1.0 billion at both December 31, 2010 and 2009. For more information on AFS securities and loans, see Notes 13 and 15 on pages 52–56 and 58–76, respectively, of these Consolidated Financial Statements.

Other VIEs sponsored by third parties

JPMorgan Chase Bank, N.A. enters into transactions with VIEs structured by other parties. These include, for example, acting as a derivative counterparty, liquidity provider, investor, underwriter, placement agent, trustee or custodian. These transactions are conducted at arm's length, and individual credit decisions are based on the analysis of the specific VIE, taking into consideration the quality of the underlying assets. Where JPMorgan Chase Bank, N.A. does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, or a variable interest that could potentially be significant, JPMorgan Chase Bank, N.A. records and reports these positions on its Consolidated Balance Sheets similarly to the way it would record and report positions in respect of any other third-party transaction.

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Consolidated VIE assets and liabilities

The following table presents information on assets and liabilities related to VIEs that are consolidated by JPMorgan Chase Bank, N.A. as of December 31, 2010 and 2009.

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

December 31, 2009 (in billions)	Assets			Liabilities			
	Trading assets – debt and equity instruments	Loans	Other ^(a)	Total assets ^(b)	Beneficial interests in VIE assets ^(c)	Other ^(d)	Total liabilities
VIE program type							
JPMorgan Chase Bank, N.A.-administered							
multi-seller conduits	\$ —	\$ 2.2	\$ 2.9	\$ 5.1	\$ 5.1	\$ —	\$ 5.1
Mortgage securitization entities	—	—	—	—	—	—	—
Other	2.4	4.2	0.5	7.1	3.3	1.2	4.5
JPMorgan Chase Bank, N.A.-sponsored							
credit card trust	—	—	—	—	—	—	—
Total	\$ 2.4	\$ 6.4	\$ 3.4	\$ 12.2	\$ 8.4	\$ 1.2	\$ 9.6

(a) Included assets classified as cash, resale agreements, derivative receivables, AFS securities, and other assets within the Consolidated Balance Sheets.

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

(c) The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item on the Consolidated Balance Sheets titled, "Beneficial interests issued by consolidated variable interest entities." The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase Bank, N.A. Included in beneficial interests in VIE assets are long-term beneficial interests of \$4.5 billion and \$3.3 billion at December 31, 2010 and 2009, respectively. The maturities of the long-term beneficial interests as of December 31, 2010, were as follows: zero under one year, \$969 million between one and five years, and \$3.5 billion over 5 years.

(d) Included liabilities predominantly classified as other liabilities as of December 31, 2010, and predominantly classified as other liabilities and other borrowed funds as of December 31, 2009.

Supplemental information on loan securitizations

For loan securitizations in which JPMorgan Chase Bank, N.A. is not required to consolidate the trust, JPMorgan Chase Bank, N.A. records the transfer of the loan receivable to the trust as a sale when the accounting criteria for a sale are met. Those criteria are: (1) the transferred financial assets are legally isolated from JPMorgan Chase Bank, N.A.'s creditors; (2) the transferee or beneficial interest holder can pledge or exchange the transferred financial assets; and (3) JPMorgan Chase Bank, N.A. does not maintain effective control over the transferred financial assets (e.g., JPMorgan Chase Bank, N.A. cannot repurchase the transferred assets before their maturity and it does not have the ability to unilaterally cause the holder to return the transferred assets).

For loan securitizations accounted for as a sale, JPMorgan Chase Bank, N.A. recognizes a gain or loss based on the difference between the value of proceeds received (including cash, beneficial interests, or servicing assets received) and the carrying value of the assets sold. Gains and losses on securitizations are reported in noninterest revenue. The value of the proceeds received is determined under JPMorgan Chase Bank, N.A.'s valuation policies described in Note 4 on pages 12–29 of these Consolidated Financial Statements.

The accounting for retained interests is dependent upon several factors, including the form and economic characteristics of the retained interest. Interests retained by the investment banking business are classified as trading assets. Interests retained in other JPMorgan Chase Bank, N.A. businesses, including the retail financial services business and the corporate treasury business, may be classified as AFS securities or trading assets. See Note 13 on pages 52–56 of these Consolidated Financial Statements for more information on AFS securities.

Securitization activity

The following tables provide information related to JPMorgan Chase Bank, N.A.'s securitization activities for years ended December 31, 2010, 2009 and 2008, related to assets held in JPMorgan Chase Bank, N.A.-sponsored securitization entities that were not consolidated by it, for the periods presented. For years ended December 31, 2009 and 2008, there were no residential mortgage loans that were securitized, and there were no cash flows from JPMorgan Chase Bank, N.A. to the SPEs related to recourse or guarantee arrangements. Effective January 1, 2010, all of JPMorgan Chase Bank, N.A.-sponsored credit card, student loan and auto securitization trusts were consolidated as a result of the accounting guidance related to VIEs, and accordingly, are not included in the securitization activity tables below for the year ended December 31, 2010.

Year ended December 31, 2010 (in millions)	Residential mortgage				Commercial and other
	Credit card ^(f)	Prime ^(g)	Subprime	Option ARMs	
Principal securitized	\$ 1,150	\$ 35	\$ —	\$ —	\$ 2,237
Pretax gains	16	—	—	—	— ^(h)
All cash flows during the period^(a):					
Proceeds from new securitizations ^(b)	\$ 1,150	\$ 35	\$ —	\$ —	\$ 2,326
Servicing fees collected	—	254	117	413	4
Other cash flows received	—	—	—	—	—
Proceeds from collections reinvested in revolving securitizations	44,587	—	—	—	—
Purchases of previously transferred financial assets (or the underlying collateral) ^(c)	—	163	109	1	—
Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A. ^(d)	24,035	33	—	5	48
Key assumptions used to measure retained interests originated during the year (rates per annum)					
Prepayment rate ^(e)	19.6%	—	—	—	—
	PPR	—	—	—	—
Weighted-average life (in years)	0.4	—	—	—	—
Expected credit losses	9.8	—	—	—	—
Discount rate	12.0%	—	—	—	—

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Year ended December 31, 2009

(in millions, except for ratios and where otherwise noted)

	Residential mortgage				Commercial and other	Student loans	Auto
	Credit card ^(f)	Prime ^(g)	Subprime	Option ARMs			
Principal securitized	\$ 13,868	\$ —	\$ —	\$ —	\$ 500	\$ —	\$ —
Pretax gains	10	—	—	—	— ^(h)	—	—
All cash flows during the period: (a)							
Proceeds from new securitizations ^(b)	\$ 13,868	\$ —	\$ —	\$ —	\$ 542	\$ —	\$ —
Servicing fees collected	540	324	126	483	11	3	4
Other cash flows received	2,180	—	—	—	—	—	—
Proceeds from collections reinvested in revolving securitizations	71,856	—	—	—	—	—	—
Purchases of previously transferred financial assets (or the underlying collateral) ^(c)	—	136	—	29	—	—	167
Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A. ^(d)	184	389	2	38	64	7	4
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate ^(e)	16.7%				100% ⁽ⁱ⁾		
	PPR				CPY		
Weighted-average life (in years)	0.5				9.0		
Expected credit losses	8.9%				—% ⁽ⁱ⁾		
Discount rate	16.0%				10.7%		

Year ended December 31, 2008

(in millions, except for ratios and where otherwise noted)

	Residential mortgage				Commercial and other	Student loans	Auto
	Credit card ^(f)	Prime ^(g)	Subprime	Option ARMs			
Principal securitized	\$ 10,716	\$ —	\$ —	\$ —	\$ 1,023	\$ —	\$ —
Pretax gains	60	—	—	—	— ^(h)	—	—
All cash flows during the period: (a)							
Proceeds from new securitizations ^(b)	\$ 10,716	\$ —	\$ —	\$ —	\$ 989	\$ —	\$ —
Servicing fees collected	459	192	107	129	11	4	12
Other cash flows received	2,056	—	—	—	—	—	—
Proceeds from collections reinvested in revolving securitizations	62,998	—	—	—	—	—	—
Purchases of previously transferred financial assets (or the underlying collateral) ^(c)	—	217	13	6	—	—	234
Cash flows received on the interests that continue to be held by JPMorgan Chase Bank, N.A. ^(d)	45	165	8	53	368	—	31
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate ^(e)	19.3%				1.5%		
	PPR				CPR		
Weighted-average life (in years)	0.4				2.1		
Expected credit losses	4.4%				1.5%		
Discount rate	12.0%				25.0%		

(a) Excludes loan sales for which JPMorgan Chase Bank, N.A. did not securitize (including loans sold to U.S. government agencies).

(b) Proceeds from new securitizations received as cash for the years ended December 31, 2010, 2009 and 2008, except for \$3.5 billion and \$3.6 billion received as securities from credit card securitization trust classified in level 2 of the valuation hierarchy for the years ended December 31, 2009 and 2008, respectively.

(c) Includes cash paid by JPMorgan Chase Bank, N.A. to reacquire assets from the off-balance sheet, nonconsolidated entities – for example, servicer clean-up calls.

(d) Includes cash flows received on retained interests – including, for example, principal repayments and interest payments.

(e) PPR: principal payment rate; CPR: constant prepayment rate; CPY: constant prepayment yield.

(f) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card securitization trusts that are sponsored by a JPMorgan Chase affiliate.

(g) Includes Alt-A loans.

(h) JPMorgan Chase Bank, N.A. elected the fair value option for loans pending securitization. The carrying value of these loans accounted for at fair value approximated the proceeds received from securitization.

(i) Represents a senior interest-only security that is expected to prepay in full as soon as permitted, as such there is no expected credit loss on this security. Market convention is to utilize a 100% prepayment rate for this type of interest.

Loans sold to U.S. government agencies and other third-party sponsored securitization entities

In addition to the amounts reported in the securitization activity tables above, JPMorgan Chase Bank, N.A., in the normal course of business, sells originated and purchased mortgage loans, predominantly to U.S. government agencies. These loans are sold primarily for the purpose of securitization by U.S. government agencies, which also provide credit enhancement of the loans through certain guarantee provisions. JPMorgan Chase Bank, N.A. does not consolidate these securitization vehicles as it is not the primary beneficiary. In connection with these loan sales, JPMorgan Chase Bank, N.A. makes certain representations and warranties. For additional information about JPMorgan Chase Bank, N.A.'s loan sale- and securitization-related indemnifications, see Note 28 on pages 109–115 of these Consolidated Financial Statements.

JPMorgan Chase Bank, N.A. generally retains the right to service the mortgage loans in accordance with the respective servicing guidelines and standards, and records a servicing asset at the time of sale.

The following table summarizes these loan sale activities.

Year ended December 31, (in millions)	2010	2009	2008
Carrying value of loans sold ^{(a)(b)}	\$156,615	\$ 154,571	\$ 132,111
Proceeds received from loan sales as cash	3,887	1,702	7,112
Proceeds received from loan sales as securities ^(c)	149,786	149,343	121,947
Total proceeds received from loan sales	\$153,673	\$151,045	\$ 129,059
Gains on loan sales	212	89	30

(a) Predominantly to U.S. government agencies.

(b) MSR's were excluded from the above table. See Note 18 on pages 98–100 of these Consolidated Financial Statements for further information on originated MSR's.

(c) Predominantly includes securities from U.S. government agencies that are generally sold shortly after receipt.

JPMorgan Chase Bank, N.A. has the option to repurchase certain loans sold to U.S. government agencies (predominantly loans securitized in Ginnie Mae pools) if they reach certain delinquency triggers. Once the delinquency trigger has been met, regardless of whether the repurchase option has been exercised, JPMorgan Chase Bank, N.A. recognizes the loan on the Consolidated Balance Sheet. JPMorgan Chase Bank, N.A. also recognizes an offsetting liability in accounts payable and other liabilities for any loans subject to the repurchase option, but for which the option to repurchase has not been exercised. As of December 31, 2010 and 2009, loans repurchased or with the option to repurchase were \$13.0 billion and \$10.6 billion, respectively. Additionally, real estate owned resulting from repurchases of loans sold to U.S. government agencies was \$1.9 billion and \$579 million as of December 31, 2010 and 2009, respectively. Substantially all of these loans and real estate continue to be insured or guaranteed by U.S. government agencies and, where applicable, reimbursement is proceeding normally.

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JPMorgan Chase Bank, N.A.'s interests in JPMorgan Chase Bank, N.A.-sponsored securitized assets

The following table summarizes JPMorgan Chase Bank, N.A.'s interests in JPMorgan Chase Bank, N.A.-sponsored non-consolidated securitizations, which are carried at fair value on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets at December 31, 2010 and 2009. The risk ratings are periodically reassessed as information becomes available. As of December 31, 2010 and 2009, 10% and 77%, respectively, of JPMorgan Chase Bank, N.A.'s retained securitization interests in JPMorgan Chase Bank, N.A.-sponsored securitizations were risk-rated "A" or better.

December 31, (in billions)	Ratings profile of interests held(c)(d)(e)					
	2010			2009		
	Investment-grade	Noninvestment-grade	Retained interests	Investment-grade	Noninvestment-grade	Retained interests(f)
Asset types:						
Credit card(a)	\$ 1.4	\$ 6.9	\$ 8.3	\$ 9.0	\$ 2.3	\$ 11.3
Residential mortgage:						
Prime(b)	0.1	0.1	0.2	0.3	—	0.3
Subprime	—	—	—	—	—	—
Option ARMs	—	—	—	0.1	—	0.1
Commercial and other	0.7	—	0.7	0.7	—	0.7
Total	\$ 2.2	\$ 7.0	\$ 9.2	\$ 10.1	\$ 2.3	\$ 12.4

(a) Includes securitization activity related to JPMorgan Chase Bank, N.A.'s undivided interests in nonconsolidated credit card securitization trusts that are sponsored by a JPMorgan Chase affiliate. At December 31, 2009, excludes undivided interests in the trust of \$5.3 billion and unencumbered cash amounts and deposits of \$3.0 billion carried at historical costs which were settled during the period.

(b) Includes retained interests in Alt-A loans.

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

(d) Includes \$1.4 billion and \$2.0 billion of investments acquired in the secondary market, but predominantly held for investment purposes, as of December 31, 2010 and 2009, respectively. Of this amount, \$1.4 billion and \$1.9 billion is classified as investment-grade as of December 31, 2010 and 2009, respectively.

(e) Excludes senior and subordinated securities of zero and \$80 million at December 31, 2010 and 2009, respectively, which JPMorgan Chase Bank, N.A. purchased in connection with the investment banking business's secondary market-making activities.

(f) Excludes \$49 million of retained interests in student loans at December 31, 2009.

The table below outlines the key economic assumptions used to determine the fair value as of December 31, 2010 and 2009, of certain of JPMorgan Chase Bank, N.A.'s retained interests in nonconsolidated JPMorgan Chase Bank, N.A.-sponsored securitizations, other than MSRs, that are valued using modeling techniques. The table below also outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in assumptions used to determine fair value. For a discussion of MSRs, see Note 18 on pages 98–100 of these Consolidated Financial Statements.

December 31, 2010 (in millions, except rates and where otherwise noted)	Residential mortgage				Commercial and other(g)
	Credit card(d)(e)	Prime(f)	Subprime	Option ARMs	
JPMorgan Chase Bank, N.A. interests in securitized assets(a)(b)	\$ 6,886	\$ 166	\$ —	\$ 29	\$ 689
Weighted-average life (in years)	0.4	7.3	—	7.7	4.2
Weighted-average constant prepayment rate(c)	21.8%	7.3%	—%	8.4%	—%
	PPR	CPR	CPR	CPR	CPR
Impact of 10% adverse change	\$ (5)	\$ (4)	\$ —	\$ —	\$ —
Impact of 20% adverse change	(10)	(8)	—	(1)	—
Weighted-average loss assumption	7.0%	0.6%	—%	30.0%	—%
Impact of 10% adverse change	\$ (67)	\$ (1)	\$ —	\$ —	\$ —
Impact of 20% adverse change	(91)	(1)	—	(1)	—
Weighted-average discount rate	12.0%	6.4%	—%	6.3%	9.0%
Impact of 10% adverse change	\$ —	\$ (6)	\$ —	\$ (1)	\$ (10)
Impact of 20% adverse change	—	(11)	—	(2)	(21)

December 31, 2009 (in millions, except rates, and where otherwise noted)	Residential mortgage						
	Credit card(d)(e)	Prime(f)	Subprime	Option ARMs	Commercial and other(g)	Student	Auto
JPMorgan Chase Bank, N.A. interests in securitized assets(b)	\$ 1,822	\$ 320	\$ 6	\$ 113	\$ 734	\$ 51	\$ 9
Weighted-average life (in years)	0.6	7.1	7.4	5.1	5.2	8.1	0.6
Weighted-average prepayment rate(c)	14.3% PPR	7.8% CPR	7.0% CPR	15.7% CPR	—% CPR	5.0% CPR	1.4% ABS
Impact of 10% adverse change	\$ (1)	\$ (4)	\$ —	\$ —	\$ —	\$ (1)	\$ —
Impact of 20% adverse change	(2)	(8)	—	(1)	—	(2)	(1)
Weighted-average loss assumption	6.8%	2.3%	3.4%	0.7%	—%	—%(h)	0.8%
Impact of 10% adverse change	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Impact of 20% adverse change	(3)	—	—	—	—	—	—
Weighted-average discount rate	12.0%	6.3%	14.5%	5.4%	7.8%	9.0%	2.8%
Impact of 10% adverse change	\$ (5)	\$ (6)	\$ —	\$ (1)	\$ (22)	\$ (2)	\$ —
Impact of 20% adverse change	(9)	(12)	—	(3)	(43)	(4)	—

(a) Effective January 1, 2010, all of JPMorgan Chase Bank, N.A.-sponsored credit card, student loan and auto securitization trusts were consolidated as a result of the accounting guidance related to VIEs and, accordingly, are not included in the table above for the year ended December 31, 2010.

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

(c) PPR: principal payment rate; ABS: absolute prepayment speed; CPR: constant prepayment rate.

(d) Excludes JPMorgan Chase Bank, N.A.'s retained senior and subordinated AFS securities in its credit card securitization trust, which are discussed on pages 86–87 of this Note.

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

(f) Includes retained interests in Alt-A.

(g) The anticipated credit losses, including expected static pool losses, are immaterial for JPMorgan Chase Bank, N.A.'s retained interests on commercial and other securitizations that had occurred during 2010, 2009 and 2008.

(h) Expected losses for student loans securitizations are minimal and are incorporated into other assumptions.

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

Loan delinquencies and net charge-offs

The table below includes information about delinquencies, net charge-offs and components of off-balance sheet securitized financial assets as of December 31, 2010 and 2009.

As of or for the year ended December 31, (in millions)	Credit exposure		90 days past due and still accruing		Nonaccrual loans		Net loan charge-offs(d)	
	2010	2009	2010	2009	2010	2009	2010	2009
Securitized loans(a)								
Residential mortgage:								
Prime mortgage(b)	\$ 83,530	\$ 102,070	\$ —	\$ —	\$ 14,132	\$ 13,178	\$ 2,020	\$ 2,110
Subprime mortgage	28,158	32,451	—	—	10,222	13,086	2,725	5,617
Option ARMs	35,786	41,983	—	—	10,788	10,973	2,305	2,287
Commercial and other	84,389	19,297	—	—	4,472	1,085	583	15
Credit card	NA	38,347	NA	1,078	NA	—	NA	2,454
Student	NA	1,008	NA	64	NA	—	NA	1
Automobile	NA	218	NA	—	NA	1	NA	4
Total loans securitized(c)	\$ 231,863	\$ 235,374	\$ —	\$ 1,142	\$ 39,614	\$ 38,323	\$ 7,633	\$ 12,488

(a) Total assets held in securitization-related SPEs, including credit card securitization trusts, were \$260.3 billion and \$330.5 billion at December 31, 2010 and 2009, respectively. The \$231.9 billion and \$235.4 billion of loans securitized at December 31, 2010 and 2009, respectively, excludes: \$21.8 billion and \$82.3 billion of securitized loans in which JPMorgan Chase Bank, N.A. has no continuing involvement, zero and \$5.3 billion of seller's interests in the credit card master trust, zero and \$3.7 billion cash amounts on deposit and escrow accounts, and \$6.6 billion and \$3.8 billion of loan securitizations consolidated on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets at December 31, 2010 and 2009, respectively.

(b) Includes Alt-A loans.

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

(d) Net charge-offs represent losses realized upon liquidation of the assets held by off-balance sheet securitization entities.

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Note 18 – Goodwill and other intangible assets

Goodwill and other intangible assets consist of the following.

December 31, (in millions)	2010	2009	2008
Goodwill	\$ 27,348	\$ 27,510	\$ 27,371
Mortgage servicing rights	13,440	15,342	9,236
Other intangible assets			
Purchased credit card relationships	\$ 103	\$ 122	\$ 128
Other credit card-related intangibles	576	657	698
Core deposit intangibles	879	1,207	1,597
Other intangibles	409	973	1,051
Total other intangible assets	\$ 1,967	\$ 2,959	\$ 3,474

Goodwill

Goodwill is recorded upon completion of a business combination as the difference between the purchase price and the fair value of the net assets acquired. Subsequent to initial recognition, goodwill is not amortized but is tested for impairment during the fourth quarter of each fiscal year, or more often if events or circumstances, such as adverse changes in the business climate, indicate there may be impairment.

The decrease in goodwill during 2010 was primarily due to transfers of certain strategic businesses related to the asset management business within JPMorgan Chase Bank N.A. to a JPMorgan Chase affiliate, partially offset by the acquisition of RBS Sempra Commodities' businesses, and foreign currency translation adjustments related to JPMorgan Chase Bank, N.A.'s credit card business. The increase in goodwill during 2009 was primarily due to foreign currency translation adjustments related to JPMorgan Bank, N.A.'s credit card business. The increase in goodwill during 2008 was primarily due to the dissolution of the Chase Paymentech Solutions joint venture and the tax-related purchase accounting adjustments associated with the Bank One Merger.

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

Year ended December 31, (in millions)	2010	2009	2008
Beginning balance at January 1, (a):	\$ 27,510	\$ 27,371	\$ 25,819
Changes from:			
Business combinations	125	44	1,249
Dispositions	(318)	—	(38)
Other (b)	31	95	341
Balance at December 31, (a)	\$ 27,348	\$ 27,510	\$ 27,371

(a) Reflects gross goodwill balances as JPMorgan Chase Bank, N.A. has not recognized any impairment losses to date.

(b) Includes foreign currency translation adjustments and other tax-related adjustments.

Impairment testing

Goodwill was not impaired at December 31, 2010 or 2009, nor was any goodwill written off due to impairment during 2010, 2009 or 2008.

The goodwill impairment test is performed in two steps. In the first step, the current fair value of each reporting unit is compared with its carrying value, including goodwill. If the fair value is in excess of the carrying value (including goodwill), then the reporting unit's goodwill is considered not to be impaired. If the fair value is less than the carrying value (including goodwill), then a second step is performed. In the second step, the implied current fair value of the reporting unit's goodwill is determined by comparing the fair value of the

reporting unit (as determined in step one) to the fair value of the net assets of the reporting unit, as if the reporting unit were being acquired in a business combination. The resulting implied current fair value of goodwill is then compared with the carrying value of the reporting unit's goodwill. If the carrying value of the goodwill exceeds its implied current fair value, then an impairment charge is recognized for the excess. If the carrying value of goodwill is less than its implied current fair value, then no goodwill impairment is recognized.

Mortgage servicing rights

Mortgage servicing rights represent the fair value of future cash flows for performing specified mortgage servicing activities (predominantly with respect to residential mortgage) for others. MSRs are either purchased from third parties or retained upon sale or securitization of mortgage loans. Servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to the investors of the mortgage-backed securities.

JPMorgan Chase Bank, N.A. made the determination to treat its MSRs as one class of servicing assets based on the availability of market inputs used to measure its MSR asset at fair value and its treatment of MSRs as one aggregate pool for risk management purposes. As permitted by U.S. GAAP, JPMorgan Chase Bank, N.A. elected to account for this one class of servicing assets at fair value. JPMorgan Chase Bank, N.A. estimates the fair value of MSRs using an OAS valuation model, which projects MSR cash flows over multiple interest rate scenarios in conjunction with JPMorgan Chase Bank, N.A.'s prepayment model and then discounts these cash flows at risk-adjusted rates. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue and costs to service, and other economic factors. JPMorgan Chase Bank, N.A. reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. During 2010 and 2009, JPMorgan Chase Bank, N.A. continued to refine its proprietary prepayment model based on a number of market-related factors, including a downward trend in home prices, general tightening of credit underwriting standards and the associated impact on refinancing activity. JPMorgan Chase Bank, N.A. compares fair value estimates and assumptions to observable market data where available, and to recent market activity and actual portfolio experience.

The fair value of MSRs is sensitive to changes in interest rates, including their effect on prepayment speeds. JPMorgan Chase Bank, N.A. uses combinations of derivatives and securities to manage changes in the fair value of MSRs. The intent is to offset any changes in the fair value of MSRs with changes in the fair value of the related risk management instruments. MSRs decrease in value when interest rates decline. Conversely, securities (such as mortgage-backed securities), principal-only certificates and certain

derivatives (when JPMorgan Chase Bank, N.A. receives fixed-rate interest payments) increase in value when interest rates decline.

The following table summarizes MSR activity for the years ended December 31, 2010, 2009 and 2008.

Year ended December 31, (in millions, except where otherwise noted)	2010	2009	2008
Fair value at beginning of period	\$ 15,342	\$ 9,236	\$ 8,632
MSR activity:			
Originations of MSRs	3,153	3,615	3,021
Purchase of MSRs	26	2	6,382 ^(f)
Disposition of MSRs	(402)	(10)	—
Total net additions	2,777	3,607	9,403
Change in valuation due to inputs and assumptions ^(a)	(2,325)	5,735	(6,772)
Other changes in fair value ^(b)	(2,354)	(3,236)	(2,027)
Total change in fair value of MSRs^(c)	(4,679)	2,499	(8,799)
Fair value at December 31^(d)	\$ 13,440	\$ 15,342	\$ 9,236
Change in unrealized gains/ (losses) included in income related to MSRs held at December 31	\$ (2,325)	\$ 5,735	\$ (6,772)
Contractual service fees, late fees and other ancillary fees included in income	\$ 4,256	\$ 4,447	\$ 3,111
Third-party mortgage loans serviced at December 31 (in billions)	\$ 922	\$ 1,030	\$ 1,112
Servicer advances, net at December 31 (in billions) ^(e)	\$ 7.6	\$ 5.8	\$ 4.0

(a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model. "Total realized/unrealized gains/(losses)" columns in the Changes in level 3 recurring fair value measurements tables in Note 4 on pages 12–29 of these Consolidated Financial Statements include these amounts.

(b) Includes changes in MSR value due to modeled servicing portfolio runoff (or time decay). "Purchases, issuances, settlements, net" columns in the Changes in level 3 recurring fair value measurements tables in Note 4 on pages 12–29 of these Consolidated Financial Statements include these amounts.

(c) Includes changes related to commercial real estate of \$(1) million, \$(4) million and \$(4) million for the years ended December 31, 2010, 2009 and 2008, respectively.

(d) Includes \$40 million, \$41 million and \$55 million related to commercial real estate at December 31, 2010, 2009 and 2008, respectively.

Other intangible assets

Other intangible assets are recorded at their fair value upon completion of a business combination or certain other transactions, and generally represent the value of customer relationships or arrangements. Subsequently, JPMorgan Chase Bank, N.A.'s intangible assets with finite lives, including core deposit intangibles, purchased credit card relationships, and other intangible assets, are amortized over their useful lives in a manner that best reflects the economic benefits of the intangible asset. The decrease in other intangible assets during 2010 was primarily due to transfers of other intangible assets related to the asset management business within JPMorgan Chase Bank N.A. to a JPMorgan Chase affiliate and amortization expense associated with credit card-related intangibles, core deposit intangibles and other intangibles.

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

December 31, (in millions)	2010			2009		
	Gross amount	Accumulated amortization	Net carrying value	Gross amount	Accumulated amortization	Net carrying value
Purchased credit card relationships	\$ 249	\$ 146	\$ 103	\$ 243	\$ 121	\$ 122
Other credit card–related intangibles	828	252	576	816	159	657
Core deposit intangibles	4,280	3,401	879	4,280	3,073	1,207
Other intangibles	911	502	409	1,488	515	973

(e) Represents amounts JPMorgan Chase Bank, N.A. pays as the servicer (e.g., scheduled principal and interest to a trust, taxes and insurance), which will generally be reimbursed within a short period of time after the advance from future cash flows from the trust or the underlying loans. JPMorgan Chase Bank, N.A.'s credit risk associated with these advances is minimal because reimbursement of the advances is senior to all cash payments to investors. In addition, JPMorgan Chase Bank, N.A. maintains the right to stop payment if the collateral is insufficient to cover the advance.

(f) Includes MSRs acquired as a result of the Washington Mutual transaction (of which \$59 million related to commercial real estate). For further discussion, see Note 3 on pages 9–12 of these Consolidated Financial Statements.

The table below outlines the key economic assumptions used to determine the fair value of JPMorgan Chase Bank, N.A.'s MSRs at December 31, 2010, and 2009; and it outlines the sensitivities of those fair values to immediate adverse changes in those assumptions, as defined below.

Year ended December 31, (in millions, except rates)	2010	2009
Weighted-average prepayment speed assumption (CPR)	10.67%	10.65%
Impact on fair value of 10% adverse change	\$ (795)	\$ (880)
Impact on fair value of 20% adverse change	(1,541)	(1,702)
Weighted-average option adjusted spread	3.92%	4.61%
Impact on fair value of 100 basis points adverse change	\$ (571)	\$ (633)
Impact on fair value of 200 basis points adverse change	(1,097)	(1,218)

CPR: Constant prepayment rate.

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

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Amortization expense

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

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

Year ended December 31, (in millions)	2010	2009	2008
Purchased credit card relationships	\$ 25	\$ 25	\$ 29
All other intangibles:			
Other credit card-related intangibles	93	84	23
Core deposit intangibles	328	390	469
Other intangibles	88	100	91
Total amortization expense	\$ 534	\$ 599	\$ 612

Future amortization expense

The following table presents estimated future amortization expense related to credit card relationships, core deposits and all other intangible assets at December 31, 2010.

Year ended December 31, (in millions)	Purchased credit card relationships	Other credit card-related intangibles	Core deposit intangibles	All other intangible assets	Total
2011	\$ 24	\$ 96	\$ 284	\$ 65	\$ 469
2012	23	100	240	62	425
2013	21	101	195	59	376
2014	18	101	100	46	265
2015	17	95	25	28	165

Impairment testing

JPMorgan Chase Bank, N.A.'s intangible assets are tested for impairment if events or changes in circumstances indicate that the asset might be impaired, and, for intangible assets with indefinite lives, on an annual basis.

The impairment test for a finite-lived intangible asset compares the undiscounted cash flows associated with the use or disposition of the intangible asset to its carrying value. If the sum of the undiscounted cash flows exceeds its carrying value, then no impairment charge is recorded. If the sum of the undiscounted cash flows is less than its carrying value, then an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value.

The impairment test for indefinite-lived intangible assets compares the fair value of the intangible asset to its carrying amount. If the carrying value exceeds the fair value, then an impairment charge is recognized for the difference.

Note 19 – Premises and equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. JPMorgan Chase Bank, N.A. computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, JPMorgan Chase Bank, N.A. uses the straight-line method computed over the lesser of the remaining term of the leased facility or the estimated useful life of the leased asset. JPMorgan Chase Bank, N.A. has recorded immaterial asset retirement obligations related to asbestos remediation in those cases where it has sufficient information to estimate the obligations' fair value.

JPMorgan Chase Bank, N.A. capitalizes certain costs associated with the acquisition or development of internal-use software. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's expected useful life and reviewed for impairment on an ongoing basis.

Note 20 – Deposits

At December 31, 2010 and 2009, noninterest-bearing and interest-bearing deposits were as follows.

December 31, (in millions)	2010	2009
U.S. offices		
Noninterest-bearing	\$ 230,412	\$ 205,723
Interest-bearing:		
Demand ^(a)	41,640	15,957
Savings ^(b)	334,620	297,942
Time (included \$2,691 and \$1,463 at fair value at December 31, 2010 and 2009, respectively) ^(c)	66,776	110,605
Total interest-bearing deposits	443,036	424,504
Total deposits in U.S. offices	673,448	630,227
Non-U.S. offices		
Noninterest-bearing	11,002	8,273
Interest-bearing:		
Demand	246,119	257,055
Savings	607	660
Time (included \$1,636 and \$2,992 at fair value at December 31, 2010 and 2009, respectively) ^(c)	88,817	127,821
Total interest-bearing deposits	335,543	385,536
Total deposits in non-U.S. offices	346,545	393,809
Total deposits	\$ 1,019,993	\$ 1,024,036

- (a) 2010 and 2009 includes Negotiable Order of Withdrawal (“NOW”) accounts. 2010 includes certain trust accounts.
(b) Includes Money Market Deposit Accounts (“MMDAs”).
(c) See Note 5 on pages 29–31 of these Consolidated Financial Statements for further information on structured notes classified as deposits for which the fair value option has been elected.

At December 31, 2010 and 2009, time deposits in denominations of \$100,000 or more were as follows.

December 31, (in millions)	2010	2009
U.S.	\$ 40,628	\$ 77,400
Non-U.S.	72,627	105,958 ^(a)
Total	\$ 113,255	\$ 183,358^(a)

(a) The prior period amount has been revised.

At December 31, 2010, the maturities of interest-bearing time deposits were as follows.

December 31, 2010 (in millions)	U.S.	Non-U.S.	Total
2011	\$ 51,469	\$ 73,602	\$ 125,071
2012	7,382	2,447	9,829
2013	4,281	3,523	7,804
2014	1,432	4,335	5,767
2015	2,074	2,796	4,870
After 5 years	138	2,114	2,252
Total	\$ 66,776	\$ 88,817	\$ 155,593

On November 21, 2008, the FDIC released final rules on the FDIC Temporary Liquidity Guarantee Program (the “TLG Program”). One component of this program, the Transaction Account Guarantee Program (the “TAG Program”), provided unlimited deposit insurance through December 31, 2009, on certain noninterest-bearing transaction accounts at FDIC-insured participating institutions. JPMorgan Chase Bank, N.A. elected to participate in the TLG Program and, as a result, was required to pay additional insurance premiums to the FDIC in an amount equal to an annualized 10 basis points on balances in noninterest-bearing transaction accounts that exceeded the \$250,000 FDIC deposit insurance limits. The expiration date of the program was extended to December 31, 2010, to provide continued support to those institutions most affected by the financial crisis and to enable the program to be phased-out in an orderly manner. Beginning January 1, 2010, JPMorgan Chase Bank, N.A. no longer participated in the TAG Program. As a result, funds held in noninterest-bearing transaction accounts after December 31, 2009, were no longer guaranteed in full. Instead, they are insured up to \$250,000 under the FDIC’s general deposit rules.

Note 21 – Other borrowed funds

The following table details the components of other borrowed funds.

December 31, (in millions)	2010	2009
Advances from Federal Home Loan Banks ^(a)	\$ 4,284	\$ 22,847
Other	23,119	21,082
Total^{(b)(c)}	\$ 27,403	\$ 43,929

- (a) Advances from the FHLBs of \$2.6 billion, \$20 million, \$723 million, \$25 million and \$5 million matures in each of the 12-month periods ending December 31, 2011, 2012, 2013, 2014, and 2015, respectively, and \$928 million matures after December 31, 2015.
(b) Includes other borrowed funds of \$7.1 billion and \$4.8 billion accounted for at fair value at December 31, 2010 and 2009, respectively. See Note 4 on pages 12–29 of these Consolidated Financial Statements for further information.
(c) Includes other borrowed funds of \$16.3 billion and \$24.9 billion secured by assets totaling \$77.3 billion and \$134.2 billion at December 31, 2010 and 2009, respectively.

As of December 31, 2010 and 2009 JPMorgan Chase Bank, N.A. had no significant lines of credit for general corporate purposes.

Notes to consolidated financial statements

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

Note 22 – Long-term debt

JPMorgan Chase Bank, N.A. issues long-term debt denominated in various currencies, although predominantly U.S. dollars, with both fixed and variable interest rates. Included in senior debt below are various equity-linked or other indexed instruments, which JPMorgan Chase Bank, N.A. has elected to measure at fair value. These hybrid securities are classified in the line item of the host contract on the Consolidated Balance Sheets. Changes in fair value are recorded in principal transactions revenue in the Consolidated Statements of Income. The following table is a summary of long-term debt carrying values (including unamortized original issue discount, valuation adjustments and fair value adjustments, where applicable) by remaining contractual maturity as of December 31, 2010.

By remaining maturity at December 31, 2010 (in millions, except rates)		2010				2009 Total
		Under 1 year	1–5 years	After 5 years	Total	
Long-term debt issued to unrelated parties						
Senior debt:	Fixed rate	\$ 488	\$ 1,714	\$ 2,705	\$ 4,907	\$ 3,145
	Variable rate	6,475	17,262	5,792	29,529	36,620
	Interest rates ^(a)	0.26–0.30%	0.21–3.75%	0.32–14.21%	0.21–14.21%	0.16–14.21%
Subordinated debt:	Fixed rate	\$ —	\$ —	\$ 8,605	\$ 8,605	\$ 8,655
	Variable rate	—	—	1,150	1,150	1,150
	Interest rates ^(a)	—%	—%	0.63–8.25%	0.63–8.25%	0.58–8.25%
	Subtotal	\$ 6,963	\$ 18,976	\$ 18,252	\$ 44,191	\$ 49,570
Long-term debt payable to JPMorgan Chase & Co. and affiliates						
Subordinated debt:	Fixed rate	\$ —	\$ 4,500	\$ —	\$ 4,500	\$ 4,500
	Variable rate	—	—	14,009	14,009	14,009
	Interest rates ^(a)	—%	5.75%	0.66–1.11%	0.66–5.75%	0.87–5.75%
	Subtotal	\$ —	\$ 4,500	\$ 14,009	\$ 18,509	\$ 18,509
Junior subordinated debt payable to affiliates:						
	Fixed rate	\$ —	\$ —	\$ 600	\$ 600	\$ 600
	Variable rate	—	—	—	—	—
	Interest rates ^(a)	—%	—%	7.00–8.20%	7.00–8.20%	7.00–8.20%
	Subtotal	\$ —	\$ —	\$ 600	\$ 600	\$ 600
Total long-term debt^{(b)(c)(d)}		\$ 6,963	\$ 23,476	\$ 32,861	\$ 63,300^{(f)(g)}	\$ 68,679
Long-term beneficial interests:						
	Fixed rate	\$ —	\$ 568	\$ 90	\$ 658	\$ 272
	Variable rate	—	401	3,401	3,802	2,979
	Interest rates	—%	0.25–11.00%	0.05–1.00%	0.05–11.00%	0.25–7.00%
Total long-term beneficial interests^(e)		\$ —	\$ 969	\$ 3,491	\$ 4,460	\$ 3,251

(a) The interest rates shown are the range of contractual rates in effect at year-end, including non-U.S. dollar fixed- and variable-rate issuances, which excludes the effects of the associated derivative instruments used in hedge accounting relationships, if applicable. The use of these derivative instruments modifies JPMorgan Chase Bank, N.A.'s exposure to the contractual interest rates disclosed in the table above. Including the effects of the hedge accounting derivatives, the range of modified rates in effect at December 31, 2010, for total long-term debt was 0.21% to 14.21%, versus the contractual range of 0.21% to 14.21% presented in the table above. The interest rate ranges shown exclude structured notes accounted for at fair value.

(b) Included long-term debt of \$8.2 billion and \$7.5 billion secured by assets totaling \$11.6 billion and \$11.4 billion at December 31, 2010 and 2009, respectively. Excludes amounts related to hybrid instruments.

(c) Included \$20.8 billion and \$27.9 billion of outstanding structured notes accounted for at fair value at December 31, 2010 and 2009, respectively.

(d) Included \$639 million and \$3.2 billion of outstanding zero-coupon notes at December 31, 2010, and 2009, respectively. The aggregate principal amount of these notes at their respective maturities was \$2.0 billion and \$5.9 billion, respectively.

(e) Included on the Consolidated Balance Sheets in beneficial interests issued by consolidated VIEs. Also included \$354 million and \$736 million of outstanding structured notes accounted for at fair value at December 31, 2010, and 2009, respectively. Excluded short-term commercial paper and other short-term beneficial interests of \$21.6 billion and \$5.1 billion at December 31, 2010 and 2009, respectively.

(f) At December 31, 2010, long-term debt aggregating \$9.2 billion was redeemable at the option of JPMorgan Chase Bank, N.A., in whole or in part, prior to maturity, based on the terms specified in the respective notes.

(g) The aggregate carrying values of debt that matures in each of the five years subsequent to 2010 is \$7.0 billion in 2011, \$9.5 billion in 2012, \$3.0 billion in 2013, \$9.0 billion in 2014 and \$2.1 billion in 2015.

The weighted-average contractual interest rates for total long-term debt excluding structured notes accounted for at fair value were 2.36% and 2.45% as of December 31, 2010 and 2009, respectively. In order to modify exposure to interest rate and currency

exchange rate movements, JPMorgan Chase Bank, N.A. utilizes derivative instruments, primarily interest rate and cross-currency interest rate swaps, in conjunction with some of its debt issues. The use of these instruments modifies JPMorgan Chase Bank, N.A.

interest expense on the associated debt. The modified weighted-average interest rates for total long-term debt, including the effects of related derivative instruments, were 1.68% and 1.70% as of December 31, 2010 and 2009, respectively.

JPMorgan Chase Bank, N.A. has guaranteed certain debt of its subsidiaries, including both long-term debt and structured notes sold as part of JPMorgan Chase Bank, N.A.'s market-making activities. These guarantees rank on parity with all of JPMorgan Chase Bank, N.A.'s other unsecured and unsubordinated indebtedness. Guaranteed liabilities totaled \$13.5 billion and \$21.0 billion at December 31, 2010 and 2009, respectively.

JPMorgan Chase Bank, N.A. unsecured debt does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, provide any limitations on future borrowings or require additional collateral, based on unfavorable changes in JPMorgan Chase Bank, N.A. credit ratings, financial ratios or earnings.

Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities

At December 31, 2010, JPMorgan Chase Bank, N.A. had established two wholly-owned Delaware statutory business trusts ("issuer trusts") that had issued guaranteed capital debt securities.

The junior subordinated deferrable interest debentures issued by JPMorgan Chase Bank, N.A. to the issuer trusts, totaling \$600 million at both December 31, 2010 and 2009, respectively, were reflected in JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets in long-term debt, and in the table on the preceding page under the caption "Junior subordinated debt" (i.e., trust preferred capital debt securities). JPMorgan Chase Bank, N.A. also records the common capital securities issued by the issuer trusts in other assets on the Consolidated Balance Sheets at December 31, 2010, and 2009. The debentures issued to the issuer trusts by JPMorgan Chase Bank, N.A., less the common capital securities of the issuer trusts, qualified as Tier 1 capital as of December 31, 2010.

The following is a summary of the outstanding trust preferred capital debt securities, including unamortized original issue discount, issued by each trust, and the junior subordinated deferrable interest debenture issued to each trust, as of December 31, 2010.

December 31, 2010 (in millions)	Amount of trust preferred capital debt securities issued by trust (a)	Issue date	Stated maturity of trust preferred capital securities and debentures	Earliest redemption date	Interest rate of trust preferred capital securities and debentures	Interest payment/distribution dates
Bank One Capital I, LLC	\$ 300	2000	2030	Any time	8.20%	Semiannually
Bank One Capital II, LLC	300	2002	2032	Any time	7.00%	Semiannually
Total	\$ 600					

(a) Represents the amount of trust preferred capital debt securities issued to the public by each trust, including unamortized original issue discount.

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Note 23 – Related party transactions

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

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

Year ended December 31,

(in millions)	2010	2009	2008
Interest income from affiliates			
Deposits with affiliated banks	\$ 8	\$ 10	\$ 18
Available-for-sale securities with affiliates	93	—	—
Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates	30	40	1,759
Loans to affiliates	27	30	53
Interest expense to affiliates			
Interest-bearing deposits of affiliates	298	457	2,117
Federal funds purchased and securities loaned or sold under repurchase agreements, and other borrowed funds due to affiliates	133	319	2,415
Long-term debt payable to JPMorgan Chase & Co. and affiliates	396	580	772
Guaranteed capital debt securities issued to nonbank affiliates	46	46	46
Servicing agreements and fee arrangements with affiliates			
Noninterest revenue	3,976	3,362	3,534
Noninterest expense	4,006	4,596	4,638

Significant balances with related parties are listed below.

December 31, (in millions)	2010	2009
Assets		
Deposits with affiliated banks	\$ 1,059	\$ 748
Available-for-sale securities with affiliates	1,248	—
Federal funds sold and securities purchased under resale agreements, and securities borrowed with affiliates	57,932	64,253
Loans to affiliates	2,213	2,651
Accrued interest and accounts receivable, and other assets due from affiliates	17,040	8,573
Liabilities		
Noninterest-bearing deposits of affiliates	2,158	2,057
Interest-bearing deposits of affiliates	102,883	107,751
Federal funds purchased and securities loaned or sold with affiliates under repurchase agreements, and other borrowed funds due to affiliates	48,204	40,684
Accounts payable and other liabilities payable to affiliates	5,216	4,025
Long-term debt payable to JPMorgan Chase & Co. and affiliates	18,509	18,870
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities to nonblank affiliates	600	600

At December 31, 2010 and 2009, net derivative payables to affiliates were \$7.3 billion and \$7.6 billion, respectively.

Note 24 – Accumulated other comprehensive income/(loss)

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

As of or for the year ended December 31, (in millions)	Unrealized gains/(losses) on AFS securities ^(b)	Translation adjustments, net of hedges	Cash flow hedges	Net loss and prior service costs/(credit) of defined benefit pension and OPEB plans	Accumulated other comprehensive income/(loss)
Balance at December 31, 2007	\$ 376	\$ 17	\$ (816)	\$ (263)	\$ (686)
Net change	(2,191) ^(c)	(237)	577	(44)	(1,895)
Balance at December 31, 2008	(1,815)	(220)	(239)	(307)	(2,581)
Net change	3,634 ^(d)	347	364	(126)	4,219
Balance at December 31, 2009	1,819 ^(e)	127	125	(433)	1,638
Cumulative effect of changes in accounting principles ^(a)	(38)	—	—	—	(38)
Net change	670 ^(f)	263	293	50	1,276
Balance at December 31, 2010	\$ 2,451^(e)	\$ 390	\$ 418	\$ (383)	\$ 2,876

(a) Reflects the effect of adoption of new accounting guidance related to the consolidation of VIEs, and to embedded credit derivatives in beneficial interests in securitized financial assets. AOCI decreased by \$23 million due to the adoption of the new accounting guidance related to VIEs as a result of the reversal of the fair value adjustments taken on retained AFS securities that were eliminated in consolidation; for further discussion see Note 17 on pages 82–97 of these Consolidated Financial Statements. AOCI decreased by \$15 million due to the adoption of the new guidance related to credit derivatives embedded in certain of JPMorgan Chase Bank, N.A.'s AFS securities; for further discussion, see Note 7 on pages 33–41 of these Consolidated Financial Statements.

(b) Represents the after-tax difference between the fair value and amortized cost of the AFS securities portfolio and retained interests in securitizations recorded in other assets.

(c) The net change during 2008 was due primarily to spread widening related to credit card asset-backed securities, nonagency MBS and collateralized loan obligations.

(d) The net change during 2009 was due primarily to overall market spread and market liquidity improvement as well as changes in the composition of investments.

(e) Includes after-tax unrealized losses of \$(81) million and \$(226) million not related to credit on debt securities for which credit losses have been recognized in income at December 31, 2010 and 2009, respectively.

(f) The net change during 2010 was due primarily to the narrowing of spreads on commercial and nonagency MBS as well as on collateralized loan obligations; also reflects increased market value on pass-through MBS due to narrowing of spreads and other market factors.

The following table presents the before- and after-tax changes in net unrealized gains/(losses) arising during the period and reclassification adjustments for realized (gains)/losses on AFS securities and cash flow hedges; changes resulting from foreign currency translation adjustments (including the impact of related derivatives); net gains/(losses) and prior service costs/(credits) from pension and OPEB plans and amortization of pension and OPEB amounts into net income. Reclassification adjustments include amounts recognized in net income that had been recorded previously in other comprehensive income/(loss).

Year ended December 31, (in millions)	2010			2009			2008		
	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Unrealized gains/(losses) on AFS securities:									
Net unrealized gains/(losses) arising during the period	\$ 4,051	\$ (1,547)	\$ 2,504	\$ 7,309	\$ (2,824)	\$ 4,485	\$ (2,599)	\$ 996	\$ (1,603)
Reclassification adjustment for realized (gains)/losses included in net income	(2,992)	1,158	(1,834)	(1,388)	537	(851)	(977)	389	(588)
Net change	1,059	(389)	670	5,921	(2,287)	3,634	(3,576)	1,385	(2,191)
Translation adjustments:									
Translation	491	(179)	312	931	(346)	585	(1,109)	416	(693)
Hedges	(82)	33	(49)	(389)	151	(238)	758	(302)	456
Net change	409	(146)	263	542	(195)	347	(351)	114	(237)
Cash flow hedges:									
Net unrealized gains/(losses) arising during the period	671	(260)	411	723	(284)	439	570	(227)	343
Reclassification adjustment for realized (gains)/losses included in net income	(192)	74	(118)	(122)	47	(75)	389	(155)	234
Net change	479	(186)	293	601	(237)	364	959	(382)	577
Net gains (losses) and prior service cost/(credits) of defined benefit pension and OPEB plans:									
Net gains/(losses) and prior service credits arising during the period	26	(11)	15	(240)	89	(151)	(101)	41	(60)
Reclassification adjustment for net loss and prior service credits included in net income	58	(23)	35	48	(23)	25	27	(11)	16
Net change	84	(34)	50	(192)	66	(126)	(74)	30	(44)
Total other comprehensive income/(loss)	\$ 2,031	\$ (755)	\$ 1,276	\$ 6,872	\$ (2,653)	\$ 4,219	\$ (3,042)	\$ 1,147	\$ (1,895)

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Note 25 – Income taxes

The results of operations of JPMorgan Chase Bank, N.A. are included in the consolidated federal, combined New York State and New York City, and certain other state income tax returns filed by JPMorgan Chase. A tax sharing arrangement between JPMorgan Chase and JPMorgan Chase Bank, N.A. requires intercompany payments to or from JPMorgan Chase for outstanding current tax assets and liabilities. JPMorgan Chase allocates to JPMorgan Chase Bank, N.A. its share of the consolidated and combined income tax expense or benefit based upon statutory rates applied to JPMorgan Chase Bank, N.A.'s earnings as if it were filing separate income tax returns.

JPMorgan Chase Bank, N.A. uses the asset and liability method to provide income taxes on all transactions recorded in the Consolidated Financial Statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax asset or liability for each temporary difference is determined based upon the tax rates that JPMorgan Chase Bank, N.A. expects to be in effect when the underlying items of income and expense are realized. JPMorgan Chase Bank, N.A.'s expense for income taxes includes the current and deferred portions of that expense. A valuation allowance is established to reduce deferred tax assets to the amount JPMorgan Chase Bank, N.A. expects to realize.

Due to the inherent complexities arising from the nature of JPMorgan Chase Bank, N.A.'s businesses, and from conducting business and being taxed in a substantial number of jurisdictions, significant judgments and estimates are required to be made. Agreement of tax liabilities between JPMorgan Chase Bank, N.A. and the many tax jurisdictions in which JPMorgan Chase Bank, N.A. files tax returns may not be finalized for several years. Thus, JPMorgan Chase Bank, N.A.'s final tax-related assets and liabilities may ultimately be different from those currently reported.

The components of income tax expense/(benefit) included in the Consolidated Statements of Income were as follows for each of the years ended December 31, 2010, 2009 and 2008.

Year ended December 31, (in millions)	2010	2009	2008
Current income tax expense			
U.S. federal	\$ 2,943	\$ 3,429	\$ 4,034
Non-U.S.	2,343	2,251	792
U.S. state and local	596	1,198	815
Total current income tax expense	5,882	6,878	5,641
Deferred income tax (benefit)			
U.S. federal	(1,829)	(2,401)	(3,164)
Non-U.S.	168	(478)	10
U.S. state and local	(290)	(460)	224
Total deferred income tax (benefit)	(1,951)	(3,339)	(2,930)
Total income tax expense before extraordinary gain	\$ 3,931	\$ 3,539	\$ 2,711

Total income tax expense includes \$485 million, \$218 million and \$55 million of tax benefits recorded in 2010, 2009 and 2008, respectively, as a result of tax audit resolutions.

The preceding table does not reflect the tax effect of certain items that are recorded each period directly in stockholder's equity. The tax effect of all items recorded directly to stockholder's equity resulted in a decrease of \$719 and \$2.7 billion in 2010 and 2009, respectively, and an increase of \$1.1 billion in 2008.

U.S. federal income taxes have not been provided on the undistributed earnings of certain non-U.S. subsidiaries, to the extent that such earnings have been reinvested abroad for an indefinite period of time. During 2008, as part of JPMorgan Chase Bank, N.A.'s periodic review of the business requirements and capital needs of its non-U.S. subsidiaries, combined with the formation of specific strategies and steps taken to fulfill these requirements and needs, JPMorgan Chase Bank, N.A. determined that the undistributed earnings of certain of its subsidiaries, for which U.S. federal income taxes had been provided, would be indefinitely reinvested to fund the current and future growth of the related businesses. As management does not intend to use the earnings of these subsidiaries as a source of funding for its U.S. operations, such earnings will not be distributed to the U.S. in the foreseeable future. This determination resulted in the release of deferred tax liabilities and the recognition of an income tax benefit of \$1.1 billion associated with these undistributed earnings in 2008. For 2010, pretax earnings of approximately \$3.5 billion were generated that will be indefinitely reinvested in these subsidiaries. At December 31, 2010, the cumulative amount of undistributed pretax earnings in these subsidiaries approximated \$19.2 billion. If JPMorgan Chase Bank, N.A. were to record a deferred tax liability associated with these undistributed earnings, the amount would be \$4.3 billion at December 31, 2010.

Tax expense applicable to securities gains and losses for the years 2010, 2009 and 2008 was \$1.2 billion, \$531 million, and \$529 million, respectively.

A reconciliation of the applicable statutory U.S. income tax rate to the effective tax rate for each of the years ended December 31, 2010, 2009 and 2008, is presented in the following table.

Year ended December 31,	2010	2009	2008
Statutory U.S. federal tax rate	35.0%	35.0%	35.0%
Increase/(decrease) in tax rate resulting from:			
U.S. state and local income taxes, net of U.S. federal income tax benefit	1.3	4.0	6.0
Tax-exempt income	(1.6)	(2.0)	(0.8)
Non-U.S. subsidiary earnings ^(a)	(4.4)	(3.8)	(13.2)
Business tax credits	(4.2)	(5.0)	(3.4)
Other, net	(1.2)	1.6	0.6
Effective tax rate	24.9%	29.8%	24.2%

(a) Includes earnings deemed to be reinvested indefinitely in non-U.S. subsidiaries.

Deferred income tax expense/(benefit) results from differences between assets and liabilities measured for financial reporting versus income-tax return purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. If a deferred tax asset is determined to be unrealizable, a valuation allowance is established. The significant components of deferred tax assets and liabilities are reflected in the following table as of December 31, 2010 and 2009.

December 31, (in millions)	2010	2009
Deferred tax assets		
Allowance for loan losses	\$ 8,954	\$ 9,650
Employee benefits	1,371	1,463
Allowance for other than loan losses	3,958	2,428
Non-U.S. operations	—	727
Fee income	67	—
Fair value adjustments ^(a)	13	52
Other, net	613	354
Gross deferred tax assets	\$ 14,976	\$ 14,674
Deferred tax liabilities		
Depreciation and amortization	\$ 2,360	\$ 4,683
Leasing transactions	1,912	1,658
Non-U.S. operations	2,457	1,129
Fee income	—	639
Gross deferred tax liabilities	\$ 6,729	\$ 8,109
Valuation allowance	825	532
Net deferred tax asset	\$ 7,422	\$ 6,033

A valuation allowance has been recorded for certain state and local tax benefits.

At December 31, 2010, 2009 and 2008, JPMorgan Chase Bank, N.A.'s unrecognized tax benefits, excluding related interest expense and penalties, were \$4.6 billion, \$4.1 billion and \$3.7 billion, respectively, of which \$1.9 billion, \$1.7 billion and \$1.5 billion, respectively, if recognized, would reduce the annual effective tax rate. As JPMorgan Chase Bank, N.A. is presently under audit by a number of tax authorities, it is reasonably possible that significant changes in the gross balance of unrecognized tax benefits may occur within the next 12 months. JPMorgan Chase Bank, N.A. does not expect that any changes over the next twelve months in its gross balance of unrecognized tax benefits caused by such audits would result in a significant change in its annual effective tax rate.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2010, 2009 and 2008.

Unrecognized tax benefits

Year ended December 31, (in millions)	2010	2009	2008
Balance at January 1,	\$ 4,076	\$ 3,661	\$ 3,255
Increases based on tax positions related to the current period	471	322	676
Decreases based on tax positions related to the current period	(5)	(6)	(57)
Increases based on tax positions related to prior periods	1,537	301	319
Decreases based on tax positions related to prior periods	(1,345)	(115)	(501)
Decreases related to settlements with taxing authorities	(70)	(45)	(19)
Decreases related to a lapse of applicable statute of limitations	(39)	(42)	(12)
Balance at December 31,	\$ 4,625	\$ 4,076	\$ 3,661

After-tax interest expense/(benefit) and penalties related to income tax liabilities recognized in income tax expense were \$(74) million, \$196 million and \$209 million in 2010, 2009 and 2008, respectively.

Included in accounts payable and other liabilities at December 31, 2010 and 2009, in addition to JPMorgan Chase Bank, N.A.'s liability for unrecognized tax benefits, was \$1.4 billion and \$1.6 billion, respectively, for income tax-related interest and penalties.

JPMorgan Chase Bank, N.A. is subject to ongoing tax examinations by the tax authorities of the various jurisdictions in which it operates, including U.S. federal, state and local, and non-U.S. jurisdictions. JPMorgan Chase Bank, N.A.'s consolidated federal income tax returns are presently under examination by the Internal Revenue Service ("IRS") for the years 2003, 2004 and 2005. This examination is expected to conclude in 2011.

The IRS audits of the consolidated federal income tax returns of JPMorgan Chase Bank, N.A. for the years 2006, 2007 and 2008 are expected to commence in 2011. Administrative appeals are pending with the IRS relating to prior periods that were examined for JPMorgan Chase Bank, N.A. and for certain of its predecessor entities. For 2002 and prior years, refund claims relating to income and credit adjustments, and to tax attribute carrybacks, for JPMorgan Chase Bank, N.A. have been filed. Refund claims have been filed for Bank One for the period January 1, 2004, through July 31, 2004, and for prior years primarily to reflect income adjustments.

The following table presents the U.S. and non-U.S. components of income before income tax expense and extraordinary gain for the years ended December 31, 2010, 2009 and 2008.

Year ended December 31, (in millions)	2010	2009	2008
U.S.	\$ 9,909	\$ 3,013	\$ 4,218
Non-U.S. ^(a)	5,848	8,872	7,006
Income before income tax expense and extraordinary gain	\$ 15,757	\$ 11,885	\$ 11,224

(a) For purposes of this table, non-U.S. income is defined as income generated from operations located outside the U.S.

Note 26 – Restrictions on cash and intercompany funds transfers

The business of JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A.") is subject to examination and regulation by the OCC. JPMorgan Chase Bank, N.A. is a member of the U.S. Federal Reserve System, and its deposits in the U.S. are insured by the FDIC.

The Board of Governors of the Federal Reserve System (the "Federal Reserve") requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The average amount of reserve balances deposited by JPMorgan Chase Bank, N.A. with various Federal Reserve Banks was approximately \$803 million and \$821 million in 2010 and 2009, respectively.

Restrictions imposed by U.S. federal law prohibit JPMorgan Chase Bank, N.A. and certain of its affiliates from borrowing from banking

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subsidiaries unless the loans are secured in specified amounts. Such secured loans are generally limited to 10% of the banking subsidiary's total capital, as determined by the risk-based capital guidelines; the aggregate amount of all such loans is limited to 20% of the banking subsidiary's total capital.

In addition to dividend restrictions set forth in statutes and regulations, the OCC, the FDIC and the Federal Reserve have authority under the Financial Institutions Supervisory Act to prohibit or to limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase Bank, N.A. if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

At January 1, 2011, JPMorgan Chase Bank, N.A. could pay zero in dividends to JPMorgan Chase without the prior approval of its relevant banking regulators. The capacity to pay dividends in 2011 will be supplemented by JPMorgan Chase Bank, N.A.'s earnings during the year.

In compliance with rules and regulations established by U.S. and non-U.S. regulators, as of December 31, 2010 and 2009, cash in the amount of \$15.5 billion and \$14.6 billion, respectively, and securities with a fair value of \$2.3 million and \$1.7 million, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

Note 27 – Capital

JPMorgan Chase Bank, N.A.'s banking regulator, the OCC, establishes capital requirements, including well-capitalized standards for national banks.

There are two categories of risk-based capital: Tier 1 capital, and Tier 2 capital. Tier 1 capital consists of common stockholder's equity, perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities, less goodwill and certain other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1, subordinated long-term debt and other instruments qualifying as Tier 2, and the aggregate allowance for credit losses up to a certain percentage of risk-weighted assets. Total capital is Tier 1 capital plus Tier 2 capital. Under the risk-based capital guidelines of the OCC, JPMorgan Chase Bank, N.A. is required to maintain minimum ratios of Tier 1 and Total capital to risk-weighted assets, as well as minimum leverage ratios (which are defined as Tier 1 capital divided by adjusted quarterly average assets). Failure to meet these minimum requirements could cause the OCC and the Federal Reserve to take action. As of December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. was well-capitalized and met all capital requirements to which it was subject.

Basel II

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

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

Basel III

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

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

JPMorgan Chase Bank, N.A. fully expects to be in compliance with the higher Basel III capital standards as announced by the Basel Committee when they become effective on January 1, 2019, as well as additional Dodd-Frank Act requirements when they are implemented. The Basel III revisions governing liquidity and capital requirements are subject to prolonged observation and transition periods. The observation period for the liquidity coverage ratio and term funding standards begins in 2011, with implementation in 2015 and 2018, respectively. The transition period for banks to meet the revised common equity requirement will begin in 2013, with implementation on January 1, 2019. JPMorgan Chase Bank, N.A. will continue to monitor the ongoing rule-making process to assess both the timing and the impact of Basel III on its businesses and financial condition.

The following table presents the regulatory capital, assets and risk-based capital ratios for JPMorgan Chase Bank, N.A. at December 31, 2010 and 2009. These amounts are determined in accordance with regulations issued by the OCC and/or the Federal Reserve.

December 31, (in millions, except ratios)	JPMorgan Chase Bank, N.A. ^(e)		Well- capitalized ratios ^(e)	Minimum capital ratios ^(e)
	2010	2009		
Regulatory capital				
Tier 1	\$ 91,764	\$ 96,372		
Total	130,444	136,646		
Assets				
Risk-weighted ^{(a)(b)}	965,897	1,011,995		
Adjusted average ^(c)	1,611,486	1,609,081		
Capital ratios				
Tier 1	9.5% ^(d)	9.5%	6.0%	4.0%
Total	13.5	13.5	10.0	8.0
Tier 1 leverage	5.7	6.0	5.0 ^(f)	3.0 ^(g)

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

(b) Includes off-balance sheet risk-weighted assets at December 31, 2010 and 2009, of \$274.2 billion and \$312.3 billion, respectively.

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

(d) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted new guidance that amended the accounting for the consolidation of VIEs, which resulted in a decrease in the Tier 1 capital ratio of 28 basis points. See Note 17 on pages 82–97 of these Consolidated Financial Statements for further information.

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

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

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

Note: Rating agencies allow measures of capital to be adjusted upward for deferred tax liabilities, which have resulted from both nontaxable business combinations and from tax-deductible goodwill. JPMorgan Chase Bank, N.A. had deferred tax liabilities resulting from nontaxable business combinations totaling \$458 million and \$691 million at December 31, 2010 and 2009, respectively; and deferred tax liabilities resulting from tax-deductible goodwill of \$958 million and \$845 million at December 31, 2010 and 2009, respectively.

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

December 31, (in millions)	2010	2009
Tier 1 capital		
Total stockholder's equity	\$ 123,217	\$ 127,294
Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 capital	(2,486)	(1,510)
Qualifying hybrid securities and noncontrolling interests ^(a)	783	1,019
Less: Goodwill ^(b)	26,389	26,665
Fair value DVA on derivative and structured note liabilities related to JPMorgan Chase Bank, N.A.'s credit quality	881	540
Investments in certain subsidiaries and other	1	1
Other intangible assets ^(b)	2,479	3,225
Total Tier 1 capital	91,764	96,372
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	26,415	27,359
Qualifying allowance for credit losses	12,230	12,866
Adjustment for investments in certain subsidiaries and other	35	49
Total Tier 2 capital	38,680	40,274
Total qualifying capital	\$ 130,444	\$ 136,646

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

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

Note 28 – Off-balance sheet lending-related financial instruments, guarantees and other commitments

JPMorgan Chase Bank, N.A. utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financ-

ing needs of its customers. The contractual amount of these financial instruments represents JPMorgan Chase Bank, N.A.'s maximum possible credit risk should the counterparty draw upon the commitment or JPMorgan Chase Bank, N.A. be required to fulfill its obligation under the guarantee, and should the counterparty subsequently fail to perform according to the terms of the contract.

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Most of these commitments and guarantees expire without being drawn or a default. As a result, the total contractual amount of these instruments is not, in JPMorgan Chase Bank, N.A.'s view, representative of its actual future credit exposure or funding requirements.

To provide for the risk of loss inherent in wholesale and consumer (excluding credit card) related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 16 on pages 77–81 of these Consolidated Financial Statements for further discussion regarding the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts and carrying values of off-balance sheet lending-related financial instruments,

guarantees and other commitments at December 31, 2010 and 2009. The amounts in the table below for credit card and home equity lending-related commitments represent the total available credit for these products. JPMorgan Chase Bank, N.A. has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. JPMorgan Chase Bank, N.A. can reduce or cancel credit card lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law. JPMorgan Chase Bank, N.A. may reduce or close home equity lines of credit when there are significant decreases in the value of the underlying property or when there has been a demonstrable decline in the credit-worthiness of the borrower.

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

December 31, (in millions)	Contractual amount		Carrying value ⁽ⁿ⁾	
	2010	2009	2010	2009
Lending-related				
Consumer, excluding credit card:				
Home equity — senior lien	\$ 13,533	\$ 19,246	\$ —	\$ —
Home equity — junior lien	25,643	37,231	—	—
Prime mortgage	1,266	1,654	—	—
Subprime mortgage	—	—	—	—
Auto	5,246	5,467	2	7
Business banking	9,702	9,040	4	5
Student and other	579	2,189	—	—
Total consumer, excluding credit card	55,969	74,827	6	12
Credit card	19,506	19,675	—	—
Total consumer	75,475	94,502	6	12
Wholesale:				
Other unfunded commitments to extend credit ^{(a)(b)(c)(d)}	199,604	191,063	348	355
Asset purchase agreements ^{(c)(e)}	—	22,685	—	126
Standby letters of credit and other financial guarantees ^{(a)(d)(f)(g)}	94,282	90,846	695	916
Unused advised lines of credit	44,232	35,236	—	—
Other letters of credit ^{(a)(g)}	6,663	5,167	2	1
Total wholesale	344,781	344,997	1,045	1,398
Total lending-related	\$ 420,256	\$ 439,499	\$ 1,051	\$ 1,410
Other guarantees and commitments				
Securities lending indemnifications ^(h)	\$ 193,701	\$ 185,427	\$ NA	\$ NA
Derivatives qualifying as guarantees ⁽ⁱ⁾	87,749	98,052 ^(m)	295	897 ^(m)
Unsettled reverse repurchase and securities borrowing agreements	32,332	31,685	—	—
Equity investment commitments ^(l)	969	738	—	—
Other guarantees and commitments ^(k)	3,766	3,671	(6)	(6)
Building purchase commitments	258	—	—	—
Loan sale and securitization-related indemnifications:				
Repurchase liability ^(l)	NA	NA	3,000	1,449
Loans sold with recourse	10,162	12,637	147	260

(a) At December 31, 2010 and 2009, represents the contractual amount net of risk participations totaling \$437 million and \$540 million, respectively, for other unfunded commitments to extend credit; \$22.4 billion and \$24.6 billion, respectively, for standby letters of credit and other financial guarantees; and \$1.1 billion and \$690 million, respectively, for other letters of credit. In regulatory filings with the Federal Reserve Board these commitments are shown gross of risk participations.

(b) At December 31, 2010 and 2009, includes commitments to affiliates of \$70 million and \$92 million, respectively.

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

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

(e) The carrying value of asset purchase agreements of \$126 million at December 31, 2009 was comprised of \$18 million for the allowance for lending-related commitments; and \$108 million for the guarantee liability and corresponding asset.

(f) At December 31, 2010 and 2009, includes unissued standby letters of credit commitments of \$41.4 billion and \$38.2 billion, respectively.

(g) At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. held collateral relating to \$37.7 billion and \$31.5 billion, respectively, of standby letters of credit; and \$2.1 billion and \$1.3 billion, respectively, of other letters of credit.

- (h) At December 31, 2010 and 2009, collateral held by JPMorgan Chase Bank, N.A. in support of securities lending indemnification agreements was \$196.2 billion and \$186.9 billion, respectively. Securities lending collateral comprises primarily cash, and securities issued by governments that are members of the Organisation for Economic Co-operation and Development ("OECD") and U.S. government agencies.
- (i) Represents notional amounts of derivatives qualifying as guarantees. The carrying value at December 31, 2010 and 2009, reflects derivative payables of \$390 million and \$974 million, respectively, less derivative receivables of \$95 million and \$77 million, respectively.
- (j) At December 31, 2010 and 2009, includes commitments of \$36 million and \$57 million, respectively, related to investments that are generally fair valued at net asset value as discussed in Note 4 on pages 12–29 of these Consolidated Financial Statements.
- (k) Amounts include letters of credit hedged by derivative transactions and managed on a market risk basis.
- (l) Represents estimated repurchase liability related to indemnifications for breaches of representations and warranties in loan sale and securitization agreements. For additional information, see Loan sale and securitization-related indemnifications on pages 113–114 of this Note.
- (m) The prior period has been revised to conform to current presentation.
- (n) For lending-related products the carrying value represents the allowance for lending-related commitments and the fair value of the guarantee liability; for derivative-related products the carrying value represents the fair value. For all other products the carrying value represents the valuation reserve.

Other unfunded commitments to extend credit

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

Also included in other unfunded commitments to extend credit are commitments to noninvestment-grade counterparties in connection with leveraged and acquisition finance activities which were \$5.8 billion and \$6.8 billion at December 31, 2010 and 2009, respectively. For further information, see Note 4 and Note 5 on pages 12–29 and 29–31 respectively, of these Consolidated Financial Statements.

Guarantees

U.S. GAAP requires that a guarantor recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee. U.S. GAAP defines a guarantee as a contract that contingently requires the guarantor to pay a guaranteed party based upon: (a) changes in an underlying asset, liability or equity security of the guaranteed party; or (b) a third party's failure to perform under a specified agreement.

JPMorgan Chase Bank, N.A. considers the following off-balance sheet lending-related arrangements to be guarantees under U.S. GAAP: certain asset purchase agreements, standby letters of credit and financial guarantees, securities lending indemnifications, certain indemnification agreements included within third-party contractual arrangements and certain derivative contracts.

As required by U.S. GAAP, JPMorgan Chase Bank, N.A. initially records guarantees at the inception date fair value of the obligation assumed (e.g., the amount of consideration received, the net present value of the premium receivable). For certain types of guarantees, JPMorgan Chase Bank, N.A. records this fair value amount in other liabilities with an offsetting entry recorded in cash (for premiums received), or other assets (for premiums receivable). Any

premium receivable recorded in other assets is reduced as cash is received under the contract, and the fair value of the liability recorded at inception is amortized into income as lending- and deposit-related fees over the life of the guarantee contract. For indemnifications provided in sales agreements, a portion of the sale proceeds is allocated to the guarantee, which adjusts the gain or loss that would otherwise result from the transaction. For these indemnifications, the initial liability is amortized to income as JPMorgan Chase Bank, N.A.'s risk is reduced (i.e., over time or when the indemnification expires). Any contingent liability that exists as a result of issuing the guarantee or indemnification is recognized when it becomes probable and reasonably estimable. The contingent portion of the liability is not recognized if the estimated amount is less than the carrying amount of the liability recognized at inception (adjusted for any amortization). The recorded amounts of the liabilities related to guarantees and indemnifications at December 31, 2010 and 2009, excluding the allowance for credit losses on lending-related commitments, are discussed below in this Note on pages 111–115 and in footnote (e) to the table above.

Standby letters of credit

Standby letters of credit ("SBLC") and other financial guarantees are conditional lending commitments issued by JPMorgan Chase Bank, N.A. to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. The carrying values of standby and other letters of credit were \$697 million and \$917 million at December 31, 2010 and 2009, respectively, which were classified in accounts payable and other liabilities on the Consolidated Balance Sheets; these carrying values include \$337 million and \$550 million, respectively, for the allowance for lending-related commitments, and \$360 million and \$367 million, respectively, for the guarantee liability and corresponding asset.

The following table presents standby letters of credit and other letters of credit arrangements by the ratings profiles of JPMorgan Chase Bank, N.A.'s customers as of December 31, 2010 and 2009.

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

December 31, (in millions)	2010		2009	
	Standby letters of credit and other financial guarantees	Other letters of credit	Standby letters of credit and other financial guarantees	Other letters of credit
Investment-grade ^(a)	\$ 69,759	\$ 5,289	\$ 66,324	\$ 3,861
Noninvestment-grade ^(a)	24,523	1,374	24,522	1,306
Total contractual amount^(b)	94,282^(c)	6,663	90,846^(c)	5,167
Allowance for lending-related commitments	335	2	549	1
Commitments with collateral	37,749	2,127	31,454	1,315

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- (a) The ratings scale is based on JPMorgan Chase Bank, N.A.'s internal ratings which generally correspond to ratings as defined by S&P and Moody's.
- (b) At December 31, 2010 and 2009, represents the contractual amount net of risk participations totaling \$22.4 billion and \$24.6 billion, respectively, for standby letters of credit and other financial guarantees; and \$1.1 billion and \$690 million, respectively, for other letters of credit. In regulatory filings with the Federal Reserve these commitments are shown gross of risk participations.
- (c) At December 31, 2010 and 2009, includes unissued standby letters of credit commitments of \$41.4 billion and \$38.2 billion, respectively.

Indemnification agreements – general

In connection with issuing securities to investors, JPMorgan Chase Bank, N.A. may enter into contractual arrangements with third parties that require JPMorgan Chase Bank, N.A. to make a payment to them in the event of a change in tax law or an adverse interpretation of tax law. In certain cases, the contract also may include a termination clause, which would allow JPMorgan Chase Bank, N.A. to settle the contract at its fair value in lieu of making a payment under the indemnification clause. JPMorgan Chase Bank, N.A. may also enter into indemnification clauses in connection with the licensing of software to clients ("software licensees") or when it sells a business or assets to a third party ("third-party purchasers"), pursuant to which it indemnifies software licensees for claims of liability or damages that may occur subsequent to the licensing of the software, or third-party purchasers for losses they may incur due to actions taken by JPMorgan Chase Bank, N.A. prior to the sale of the business or assets. It is difficult to estimate JPMorgan Chase Bank, N.A.'s maximum exposure under these indemnification arrangements, since this would require an assessment of future changes in tax law and future claims that may be made against JPMorgan Chase Bank, N.A. that have not yet occurred. However, based on historical experience, management expects the risk of loss to be remote.

Securities lending indemnification

Through JPMorgan Chase Bank, N.A.'s securities lending program, customers' securities, via custodial and non-custodial arrangements, may be lent to third parties. As part of this program, JPMorgan Chase Bank, N.A. provides an indemnification in the lending agreements which protect the lender against the failure of the third-party borrower to return the lent securities in the event JPMorgan Chase Bank, N.A. did not obtain sufficient collateral. To minimize its liability under these indemnification agreements, JPMorgan Chase Bank, N.A. obtains cash or other highly liquid collateral with a market value exceeding 100% of the value of the securities on loan from the borrower. Collateral is marked to market daily to help assure that collateralization is adequate. Additional collateral is called from the borrower if a shortfall exists, or collateral may be released to the borrower in the event of overcollateralization. If a borrower defaults, JPMorgan Chase Bank, N.A. would use the collateral held to purchase replacement securities in the market or to credit the lending customer with the cash equivalent thereof. Also, as part of this program, JPMorgan Chase Bank, N.A. invests cash collateral received from the borrower in accordance with approved guidelines.

Derivatives qualifying as guarantees

In addition to the contracts described above, JPMorgan Chase Bank, N.A. transacts certain derivative contracts that meet the characteristics of a guarantee under U.S. GAAP. These contracts include written put options that require JPMorgan Chase Bank, N.A. to purchase assets upon exercise by the option holder at a specified price by a specified date in the future. JPMorgan Chase Bank, N.A. may enter

into written put option contracts in order to meet client needs, or for trading purposes. The terms of written put options are typically five years or less. Derivative guarantees also include contracts such as stable value derivatives that require JPMorgan Chase Bank, N.A. to make a payment of the difference between the market value and the book value of a counterparty's reference portfolio of assets in the event that market value is less than book value and certain other conditions have been met. Stable value derivatives, commonly referred to as "stable value wraps", are transacted in order to allow investors to realize investment returns with less volatility than an unprotected portfolio and are typically longer-term or may have no stated maturity, but allow JPMorgan Chase Bank, N.A. to terminate the contract under certain conditions.

Derivative guarantees are recorded on the Consolidated Balance Sheets at fair value in trading assets and trading liabilities. The total notional amount of the derivatives that JPMorgan Chase Bank, N.A. deems to be guarantees was \$87.7 billion and \$98.1 billion at December 31, 2010 and 2009, respectively. The notional amount generally represents JPMorgan Chase Bank, N.A.'s maximum exposure to derivatives qualifying as guarantees. However, exposure to certain stable value derivatives is contractually limited to a substantially lower percentage of the notional amount; the notional amount on these stable value contracts was \$25.9 billion and \$24.8 billion and the maximum exposure to loss was \$2.7 billion and \$2.5 billion, at December 31, 2010 and 2009, respectively. The fair values of the contracts reflects the probability of whether JPMorgan Chase Bank, N.A. will be required to perform under the contract. The fair values related to derivative guarantees were derivative payables of \$390 million and \$974 million and derivative receivables of \$95 million and \$77 million at December 31, 2010 and 2009, respectively. JPMorgan Chase Bank, N.A. reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

In addition to derivative contracts that meet the characteristics of a guarantee, JPMorgan Chase Bank, N.A. is both a purchaser and seller of credit protection in the credit derivatives market. For a further discussion of credit derivatives, see Note 7 on pages 33–41 of these Consolidated Financial Statements.

Unsettled reverse repurchase and securities borrowing agreements

In the normal course of business, JPMorgan Chase Bank, N.A. enters into reverse repurchase agreements and securities borrowing agreements that settle at a future date. At settlement, these commitments require that JPMorgan Chase Bank, N.A. advance cash to and accept securities from the counterparty. These agreements generally do not meet the definition of a derivative, and therefore, are not recorded on the Consolidated Balance Sheets until settlement date. At December 31, 2010 and 2009, the amount of commitments related to forward starting reverse repurchase

agreements and securities borrowing agreements were \$6.8 billion and \$6.3 billion, respectively. Commitments related to unsettled reverse repurchase agreements and securities borrowing agreements with regular way settlement periods were \$25.5 billion and \$25.4 billion at December 31, 2010 and 2009, respectively.

Building purchase commitments

On December 15, 2010, JPMorgan Chase Bank, N.A. entered into an agreement to purchase the leasehold property at 60 Victoria Embankment in London, a building JPMorgan Chase Bank, N.A. has leased since 1991, for approximately \$253 million. The purchase of this building is expected to close in the second quarter of 2011.

Loan sale and securitization-related indemnifications

Indemnifications for breaches of representations and warranties

In connection with JPMorgan Chase Bank, N.A.'s loan sale and securitization activities with U.S. government-sponsored enterprises (the "GSEs") and other loan sale and private-label securitization transactions, as described in Notes 15 and 17 on pages 58–76 and 82–97, respectively, of these Consolidated Financial Statements, JPMorgan Chase Bank, N.A. has made representations and warranties that the loans sold meet certain requirements. For transactions with the GSEs, these representations include type of collateral, underwriting standards, validity of certain borrower representations in connection with the loan, that primary mortgage insurance is in force for any mortgage loan with an LTV ratio greater than 80%, and the use of the GSEs' standard legal documentation. JPMorgan Chase Bank, N.A. may be, and has been, required to repurchase loans and/or indemnify the GSEs and other investors for losses due to material breaches of these representations and warranties; however, predominantly all of the repurchase demands received by JPMorgan Chase Bank, N.A. and JPMorgan Chase Bank, N.A.'s losses realized to date are related to loans sold to the GSEs. Generally, the maximum amount of future payments JPMorgan Chase Bank, N.A. would be required to make for breaches of these representations and warranties would be equal to the unpaid principal balance of such loans that are deemed to have defects sold to purchasers (including securitization-related SPEs) plus, in certain circumstances, accrued and unpaid interest on such loans and certain expense.

Subsequent to JPMorgan Chase Bank, N.A.'s acquisition of certain assets and liabilities of Washington Mutual from the FDIC in September 2008, JPMorgan Chase Bank, N.A. resolved and/or limited certain current and future repurchase demands for loans sold to the GSEs by Washington Mutual, although it remains JPMorgan Chase Bank, N.A.'s position that such obligations remain with the FDIC receivership. Nevertheless, certain payments have been made with respect to certain of the then current and future repurchase demands, and JPMorgan Chase Bank, N.A. will continue to evaluate and may pay certain future repurchase demands related to individual loans. In addition to the payments already made, JPMorgan Chase Bank, N.A. has a remaining repurchase liability of approximately \$190 million as of December 31, 2010, relating to unresolved and future demands on the Washington Mutual portfolio.

The primary reasons for repurchase demands from the GSEs relate to alleged misrepresentations primarily driven by: (i) credit quality and/or

undisclosed debt of the borrower; (ii) income level and/or employment status of the borrower; and (iii) appraised value of collateral. Ineligibility of the borrower for the particular product, mortgage insurance rescissions and missing documentation are other reasons for repurchase demands.

Beginning in 2009, mortgage insurers more frequently rescinded mortgage insurance coverage. The successful rescission of mortgage insurance typically results in a violation of representations and warranties made to the GSEs and, therefore, have been a significant cause of repurchase demands from the GSEs. JPMorgan Chase Bank, N.A. actively reviews all rescission notices from mortgage insurers and contests them when appropriate. In addition, JPMorgan Chase Bank, N.A. is engaged in discussions with various mortgage insurers on their rights and practices related to rescinding mortgage insurance coverage. JPMorgan Chase Bank, N.A. has entered into agreements with two mortgage insurers to make processes more efficient and reduce exposure on claims on certain portfolios for which JPMorgan Chase Bank, N.A. is a servicer. The impact of these agreements is reflected in the repurchase liability as of December 31, 2010.

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

To estimate JPMorgan Chase Bank, N.A.'s repurchase liability arising from breaches of representations and warranties, JPMorgan Chase Bank, N.A. considers:

- (i) the level of current unresolved repurchase demands and mortgage insurance rescission notices,
- (ii) estimated probable future repurchase demands based upon loans that are or ever have been 90 days past due considering historical experience,
- (iii) the potential ability of JPMorgan Chase Bank, N.A. to cure the defects identified in the repurchase demands,
- (iv) the estimated severity of loss upon repurchase of the loan or collateral, make-whole settlement, or indemnification,
- (v) JPMorgan Chase Bank, N.A.'s potential ability to recover its losses from third-party originators, and
- (vi) the terms of agreements with certain mortgage insurers and other parties.

Based on these factors, JPMorgan Chase Bank, N.A. has recognized a repurchase liability of \$3.0 billion and \$1.4 billion, including the Washington Mutual liability described above, as of December 31, 2010 and 2009, respectively, which is reported in accounts payable and other liabilities net of probable recoveries from third parties.

Substantially all of the estimates and assumptions underlying JPMorgan Chase Bank, N.A.'s established methodology for computing its recorded repurchase liability – including factors such as the amount of probable future demands from purchasers, the ability of JPMorgan Chase Bank, N.A. to cure identified defects, the severity of loss upon repurchase or foreclosure, and recoveries from third parties – require application of a significant level of management judgment. Estimating the repurchase liability is further complicated by limited and rapidly changing historical data and uncertainty

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surrounding numerous external factors, including: (i) macro-economic factors, and (ii) the level of future demands, which is dependent, in part, on actions taken by third parties such as the GSEs and mortgage insurers. While JPMorgan Chase Bank, N.A. uses the best information available to it in estimating its repurchase liability, the estimation process is inherently uncertain and imprecise and, accordingly, losses in excess of the amounts accrued as of December 31, 2010 are reasonably possible.

JPMorgan Chase Bank, N.A. believes the estimate of the range of reasonably possible losses, in excess of reserves established, for its repurchase liability is from \$0 to approximately \$2 billion at December 31, 2010. This estimated range of reasonably possible loss is based on an assumed peak to trough decline in home prices of 46%, which is an additional 12 percentage point decline in home prices beyond JPMorgan Chase Bank, N.A.'s current assumptions. Such a decline could increase the level of loan delinquencies, thereby potentially increasing the repurchase demand rate from the GSEs and increasing loss severity on repurchased loans, each of which could affect JPMorgan Chase Bank, N.A.'s repurchase liability. JPMorgan Chase Bank, N.A. does not consider such a further decline in home prices to be likely to occur, and actual repurchase losses could vary significantly from JPMorgan Chase Bank, N.A.'s recorded repurchase liability or this estimate of reasonably possible additional losses, depending on the outcome of various factors, including those considered above.

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

Summary of changes in repurchase liability

Year ended December 31, (in millions)	2010	2009	2008
Repurchase liability at beginning of period	\$ 1,449	\$ 1,012	\$ 15
Realized losses ^(a)	(1,361)	(1,175) ^(c)	(155)
Provision for repurchase losses	2,912	1,612	1,152 ^(d)
Repurchase liability at end of period	\$ 3,000^(b)	\$ 1,449	\$ 1,012

(a) Includes principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expense.

For the years ended December 31, 2010, 2009 and 2008, make-whole settlements were \$580 million, \$227 million and \$34 million, respectively.

(b) Includes \$190 million at December 31, 2010, related to future demands on loans sold by Washington Mutual to the GSEs.

(c) Includes JPMorgan Chase Bank, N.A.'s resolution of certain current and future repurchase demands for certain loans sold by Washington Mutual.

(d) Includes a repurchase liability assumed for certain loans sold by Washington Mutual; this assumed liability was reported as a reduction of the extraordinary gain rather than as a charge to the provision for credit losses.

Loans sold with recourse

JPMorgan Chase Bank, N.A. provides servicing for mortgages and certain commercial lending products on both a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to JPMorgan Chase Bank, N.A. is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans, such as Fannie Mae or Freddie Mac or a private investor, insurer or guarantor. Losses on recourse servicing predominantly occur when foreclosure sales proceeds of

the property underlying a defaulted loan are less than the sum of the outstanding principal balance, plus accrued interest on the loan and the cost of holding and disposing of the underlying property. JPMorgan Chase Bank, N.A.'s securitizations are predominantly nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. At December 31, 2010 and 2009, the unpaid principal balance of loans sold with recourse totaled \$10.2 billion and \$12.6 billion, respectively. The carrying value of the related liability that JPMorgan Chase Bank, N.A. has recorded, which is representative of JPMorgan Chase Bank, N.A.'s view of the likelihood it will have to perform under this guarantee, was \$147 million and \$260 million at December 31, 2010 and 2009, respectively.

Credit card charge-backs

Prior to November 1, 2008, JPMorgan Chase Bank, N.A. was a partner with one of the leading companies in electronic payment services in a joint venture operating under the name of Chase Paymentech Solutions, LLC (the "joint venture"). The joint venture provided merchant processing services in the U.S. and Canada. The dissolution of the joint venture was completed on November 1, 2008, and JPMorgan Chase Bank, N.A. retained approximately 51% of the business under the Chase Paymentech name.

Under the rules of Visa USA, Inc., and MasterCard International, JPMorgan Chase Bank, N.A., is liable primarily for the amount of each processed credit card sales transaction that is the subject of a dispute between a cardmember and a merchant. If a dispute is resolved in the cardmember's favor, Chase Paymentech will (through the cardmember's issuing bank) credit or refund the amount to the cardmember and will charge back the transaction to the merchant. If Chase Paymentech is unable to collect the amount from the merchant, Chase Paymentech will bear the loss for the amount credited or refunded to the cardmember. Chase Paymentech mitigates this risk by withholding future settlements, retaining cash reserve accounts or by obtaining other security. However, in the unlikely event that: (1) a merchant ceases operations and is unable to deliver products, services or a refund; (2) Chase Paymentech does not have sufficient collateral from the merchant to provide customer refunds; and (3) Chase Paymentech does not have sufficient financial resources to provide customer refunds, JPMorgan Chase Bank, N.A., would be liable for the amount of the transaction. For the year ended December 31, 2010, Chase Paymentech incurred aggregate credit losses of \$12 million on \$469.3 billion of aggregate volume processed, and at December 31, 2010, it held \$189 million of collateral. For the year ended December 31, 2009, Chase Paymentech incurred aggregate credit losses of \$11 million on \$409.7 billion of aggregate volume processed, and at December 31, 2009, it held \$213 million of collateral. For the year ended December 31, 2008, Chase Paymentech incurred aggregate credit losses of \$13 million on \$713.9 billion of aggregate volume processed, and at December 31, 2008, it held \$222 million of collateral. JPMorgan Chase Bank, N.A. believes that, based on historical experience and the collateral held by Chase Paymentech, the fair value of JPMorgan Chase Bank, N.A.'s charge back-related

obligations, which are representative of the payment or performance risk to JPMorgan Chase Bank, N.A. is immaterial.

Exchange and clearinghouse guarantees

JPMorgan Chase Bank, N.A. is a member of several securities and futures exchanges and clearinghouses, both in the U.S. and other countries. Membership in some of these organizations requires JPMorgan Chase Bank, N.A. to pay a pro rata share of the losses incurred by the organization as a result of the default of another member. Such obligations vary with different organizations. These obligations may be limited to members who dealt with the defaulting member or to the amount (or a multiple of the amount) of JPMorgan Chase Bank, N.A.'s contribution to a member's guarantee fund, or, in a few cases, the obligation may be unlimited. It is difficult to estimate JPMorgan Chase Bank, N.A.'s maximum exposure under these membership agreements, since this would require an assessment of future claims that may be made against JPMorgan Chase Bank, N.A. that have not yet occurred. However, based on historical experience, management expects the risk of loss to be remote.

Note 29 – Commitments, pledged assets, collateral and contingencies

Lease commitments

At December 31, 2010, JPMorgan Chase Bank, N.A. and its subsidiaries were obligated under a number of noncancelable operating leases for premises and equipment used primarily for banking purposes, and for energy-related tolling service agreements. Certain leases contain renewal options or escalation clauses providing for increased rental payments based on maintenance, utility and tax increases, or they require JPMorgan Chase Bank, N.A. to perform restoration work on leased premises. No lease agreement imposes restrictions on JPMorgan Chase Bank, N.A.'s ability to pay dividends, engage in debt or equity financing transactions or enter into further lease agreements.

The following table presents required future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2010.

Year ended December 31, (in millions)	
2011	\$ 1,259
2012	1,260
2013	1,177
2014	1,080
2015	971
After 2015	5,808
Total minimum payments required^(a)	11,555
Less: Sublease rentals under noncancelable subleases	(1,205)
Net minimum payment required	\$ 10,350

(a) Lease restoration obligations are accrued in accordance with U.S. GAAP, and are not reported as a required minimum lease payment.

Total rental expense was as follows.

Year ended December 31, (in millions)	2010	2009	2008
Gross rental expense	\$ 1,611	\$ 1,614	\$ 1,395
Sublease rental income	(140)	(140)	(138)
Net rental expense	\$ 1,471	\$ 1,474	\$ 1,257

Pledged assets

At December 31, 2010, assets were pledged to collateralize repurchase agreements, other securities financing agreements, derivative transactions and for other purposes, including to secure borrowings and public deposits. Certain of these pledged assets may be sold or repledged by the secured parties and are identified as financial instruments owned (pledged to various parties) on the Consolidated Balance Sheets. In addition, at December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had pledged \$193.2 billion and \$265.3 billion, respectively, of financial instruments it owns that may not be sold or repledged by the secured parties.

The significant components of the JPMorgan Chase Bank, N.A.'s pledged assets were as follows.

December 31, (in billions)	2010	2009
Securities	\$ 112.1	\$ 156.5
Loans	158.7	244.7
Trading assets and other	36.5	28.3
Total assets pledged^(a)	\$ 307.3	\$ 429.5

(a) Total assets pledged do not include assets of consolidated VIEs; these assets are used to settle the liabilities of those entities. See Note 17 on pages 82–97 of these Consolidated Financial Statements for additional information on assets and liabilities of consolidated VIEs.

Collateral

At December 31, 2010 and 2009, JPMorgan Chase Bank, N.A. had accepted assets as collateral that it could sell or repledge, deliver or otherwise use with a fair value of approximately \$360.8 billion and \$335.0 billion, respectively. This collateral was generally obtained under resale agreements, securities borrowing agreements, customer margin loans and derivative agreements. Of the collateral received, approximately \$296.1 billion and \$226.1 billion were sold or repledged, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales and to collateralize deposits and derivative agreements. The reporting of collateral sold or repledged was revised in 2010 to include certain securities used to cover short sales and to collateralize deposits and derivative agreements. Prior period amounts have been revised to conform to the current presentation. This revision had no impact on JPMorgan Chase Bank, N.A.'s Consolidated Balance Sheets or its financial performance.

Contingencies

In 2008, JPMorgan Chase Bank, N.A. resolved with the IRS issues related to compliance with reporting and withholding requirements for certain accounts transferred to The Bank of New York Mellon Corporation ("BNYM") in connection with JPMorgan Chase Bank, N.A.'s sale to BNYM of its corporate trust business. The resolution of these issues did not have a material effect on JPMorgan Chase Bank, N.A.

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Note 30 – Litigation

As of December 31, 2010, JPMorgan Chase Bank, N.A. and its subsidiaries are defendants or putative defendants in thousands of legal proceedings, in the form of regulatory/government investigations as well as private, civil litigations. The litigations range from individual actions involving a single plaintiff to class action lawsuits with potentially millions of class members. Investigations involve both formal and informal proceedings, by both governmental agencies and self-regulatory organizations. These legal proceedings are at varying stages of adjudication, arbitration or investigation, and involve JPMorgan Chase Bank, N.A.'s various businesses and geographies and a wide variety of claims (including common law tort and contract claims and statutory antitrust, securities and consumer protection claims), some of which present novel claims or legal theories.

Estimates of reasonably possible losses for legal proceedings are analyzed and managed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). JPMorgan Chase believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for its legal proceedings is from \$0 to approximately \$4.5 billion at December 31, 2010. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which JPMorgan Chase is involved, taking into account JPMorgan Chase's best estimate of such losses for those cases for which such estimate can be made. For certain cases, JPMorgan Chase does not believe that an estimate can currently be made. JPMorgan Chase's estimate involves significant judgment, given the varying stages of the proceedings (including the fact that many of them are currently in preliminary stages), the existence of multiple defendants (including JPMorgan Chase or one or more of its subsidiaries, including JPMorgan Chase Bank, N.A.) in many of such proceedings whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims), and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, JPMorgan Chase's estimate will change from time to time, and actual losses may be more than the current estimate.

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

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

JPMorgan Chase, on behalf of itself and affiliates, agreed to a settlement in principle with the New York Attorney General's Office which provided, among other things, that JPMorgan Chase would offer to purchase at par certain auction-rate securities purchased

from J.P. Morgan Securities LLC ("JPMorgan Securities", formerly J.P. Morgan Securities Inc.), Chase Investment Services Corp. and Bear, Stearns & Co. Inc. by individual investors, charities and small- to medium-sized businesses. JPMorgan Chase also agreed to a substantively similar settlement in principle with the Office of Financial Regulation for the State of Florida and the North American Securities Administrator Association ("NASAA") Task Force, which agreed to recommend approval of the settlement to all remaining states, Puerto Rico and the U.S. Virgin Islands. JPMorgan Chase has finalized the settlement agreements with the New York Attorney General's Office and the Office of Financial Regulation for the State of Florida. The settlement agreements provide for the payment of penalties totaling \$25 million to all states. JPMorgan Chase is currently in the process of finalizing consent agreements with NASAA's member states; over 40 of these consent agreements have been finalized to date.

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

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

Bear Stearns Hedge Fund Matters. Bear Stearns, certain current or former subsidiaries of Bear Stearns, including Bear Stearns Asset Management, Inc. ("BSAM") and Bear, Stearns & Co. Inc., and certain current or former Bear Stearns employees are named defendants (collectively the "Bear Stearns defendants") in multiple civil actions and arbitrations relating to alleged losses of more than \$1 billion resulting from the failure of the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd. (the "High Grade Fund") and the Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (the "Enhanced Leverage Fund") (collectively, the "Funds"). BSAM served as investment manager for both of the Funds, which were organized such that

there were U.S. and Cayman Islands “feeder funds” that invested substantially all their assets, directly or indirectly, in the Funds. The Funds are in liquidation.

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

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

Bear Stearns Shareholder Litigation and Related Matters. Various shareholders of Bear Stearns have commenced purported class actions against Bear Stearns and certain of its former officers and/or directors on behalf of all persons who purchased or otherwise acquired common stock of Bear Stearns between December 14, 2006, and March 14, 2008 (the “Class Period”). During the Class Period Bear Stearns had between 115 and 120 million common shares outstanding, and the price of those securities declined from a high of \$172.61 to a low of \$30 at the end of the period. The actions, originally commenced in several federal courts, allege that the defendants issued materially false and misleading statements regarding Bear Stearns’ business and financial results and that, as a result of those false statements, Bear Stearns’ common stock traded at artificially inflated prices during the Class Period. Separately, several individual shareholders of Bear Stearns have commenced or threatened to commence arbitration proceedings and lawsuits asserting claims similar to those in the putative class actions. In addition, Bear Stearns and certain of its former officers

and/or directors have also been named as defendants in a number of purported class actions commenced in the United States District Court for the Southern District of New York seeking to represent the interests of participants in the Bear Stearns Employee Stock Ownership Plan (“ESOP”) during the time period of December 2006 to March 2008. These actions, brought under the Employee Retirement Income Security Act (“ERISA”), allege that defendants breached their fiduciary duties to plaintiffs and to the other participants and beneficiaries of the ESOP by (a) failing to manage prudently the ESOP’s investment in Bear Stearns securities; (b) failing to communicate fully and accurately about the risks of the ESOP’s investment in Bear Stearns stock; (c) failing to avoid or address alleged conflicts of interest; and (d) failing to monitor those who managed and administered the ESOP.

Bear Stearns, former members of Bear Stearns’ Board of Directors and certain of Bear Stearns’ former executive officers have also been named as defendants in two purported shareholder derivative suits, subsequently consolidated into one action, pending in the United States District Court for the Southern District of New York. Plaintiffs are asserting claims for breach of fiduciary duty, violations of federal securities laws, waste of corporate assets and gross mismanagement, unjust enrichment, abuse of control and indemnification and contribution in connection with the losses sustained by Bear Stearns as a result of its purchases of subprime loans and certain repurchases of its own common stock. Certain individual defendants are also alleged to have sold their holdings of Bear Stearns common stock while in possession of material nonpublic information. Plaintiffs seek compensatory damages in an unspecified amount. Plaintiffs later filed a second amended complaint asserting, for the first time, purported class action claims, as well as new allegations concerning events that took place in March 2008.

All of the above-described actions filed in federal courts were ordered transferred and joined for pre-trial purposes before the United States District Court for the Southern District of New York. Defendants moved to dismiss the purported securities class action, the shareholders’ derivative action and the ERISA action. In January 2011, the District Court granted the motions to dismiss the derivative and ERISA actions, and denied the motion as to the securities action. Plaintiffs in the derivative action have filed a motion for reconsideration of the dismissal. Discovery will now commence in the securities action.

City of Milan Litigation and Criminal Investigation. In January 2009, the City of Milan, Italy (the “City”) issued civil proceedings against (among others) JPMorgan Chase Bank, N.A. and J.P. Morgan Securities Ltd. in the District Court of Milan. The proceedings relate to (a) a bond issue by the City in June 2005 (the “Bond”) and (b) an associated swap transaction, which was subsequently restructured on a number of occasions between 2005 and 2007 (the “Swap”). The City seeks damages and/or other remedies against JPMorgan Chase (among others) on the grounds of alleged “fraudulent and deceitful acts” and alleged breach of advisory obligations by JPMorgan Chase (among others) in connection with the Swap and the Bond, together with related swap transactions with other counterparties. The civil proceedings continue and there

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will be an initial hearing on March 9, 2011. JPMorgan Chase Bank, N.A. will seek an adjournment on the grounds that it has filed a challenge to the Italian Supreme Court's jurisdiction over JPMorgan Chase Bank, N.A., which has yet to be decided. The judge directed four current and former JPMorgan Chase personnel and JPMorgan Chase Bank, N.A. (as well as other individuals and three other banks) to go forward to a full trial that started in May 2010. Although JPMorgan Chase is not charged with any crime and does not face criminal liability, if one or more of its employees were found guilty, JPMorgan Chase could be subject to administrative sanctions, including restrictions on its ability to conduct business in Italy and monetary penalties. In the initial hearings, the City successfully applied to join some of the claims in the civil proceedings against the individuals and JPMorgan Chase Bank, N.A. to the criminal proceedings. In addition, a consumer association has also been given leave to join the criminal proceedings to seek damages from the defendant banks.

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

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

In addition to the consolidated class action complaint, plaintiffs filed supplemental complaints challenging the initial public offer-

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

Investment Management Litigation. Four cases have been filed claiming that investment portfolios managed by JPMorgan Investment Management Inc. ("JPMorgan Investment Management") were inappropriately invested in securities backed by subprime residential real estate collateral. Plaintiffs claim that JPMorgan Investment Management and related defendants are liable for losses of more than \$1 billion in market value of these securities. The first case was filed by NM Homes One, Inc. in federal District Court in New York, and the Court granted JPMorgan Chase Bank, N.A.'s motion to dismiss nine of plaintiff's ten causes of action, leaving a breach of contract claim. The Court thereafter granted the plaintiff's motion for reconsideration and reinstated the common law non-fraud claims for breach of fiduciary duty, negligence, and gross negligence. The plaintiff withdrew its claim for negligent misrepresentation. JPMorgan Chase Bank, N.A. has filed a renewed motion to dismiss the common law non-fraud claims and a motion for judgment on the pleadings as to the breach of contract claim. In the second case, which was filed by Assured Guaranty (U.K.) in New York state court, the New York State Appellate Division allowed plaintiff to proceed with its claims for breach of fiduciary duty and gross negligence, and for breach of contract based on alleged violations of the Delaware Insurance Code. JPMorgan Chase Bank, N.A. sought and has obtained leave to appeal to the New York State Court of Appeals the decision by the Appellate Division to allow the breach of fiduciary duty and gross negligence claims to proceed. In the third case, filed by Ambac Assurance UK Limited in New York state court, the lower court granted JPMorgan Investment Management's motion to dismiss, and plaintiff has filed a notice of appeal. The fourth case was filed by CMMF LLP in New York state court; the lower court granted JPMorgan Investment Management's motion to dismiss the claims, other than claims for breach of contract and negligent misrepresentation. The Appellate Division affirmed the lower court's decision. Plaintiff has since filed an amended complaint seeking to assert claims under New York law for breach of fiduciary duty, gross negligence, breach of contract and negligent misrepresentation.

Lehman Brothers Bankruptcy Proceedings. In March 2010, the Examiner appointed by the Bankruptcy Court presiding over the Chapter 11 bankruptcy proceedings of Lehman Brothers Holdings Inc ("LBHI") and several of its subsidiaries (collectively, "Lehman") released a report as to his investigation into Lehman's failure and related matters. The Examiner concluded that one common law claim potentially could be asserted against JPMorgan Chase for contributing to Lehman's failure, though he characterized the claim as "not strong." The Examiner also opined that certain cash and securities collateral provided by LBHI to JPMorgan Chase in the

weeks and days preceding LBHI's demise potentially could be challenged under the Bankruptcy Code's fraudulent conveyance or preference provisions, though JPMorgan Chase is of the view that its right to such collateral is protected by the Bankruptcy Code's safe harbor provisions. In May 2010, LBHI and its Official Committee of Unsecured Creditors filed an adversary proceeding against JPMorgan Chase Bank, N.A. in the United States Bankruptcy Court for the Southern District of New York. The complaint asserts both federal bankruptcy law and state common law claims, and seeks, among other relief, to recover \$8.6 billion in collateral that was transferred to JPMorgan Chase Bank, N.A. in the week preceding LBHI's bankruptcy. The complaint also seeks unspecified damages on the grounds that JPMorgan Chase Bank, N.A.'s collateral requests hastened LBHI's demise. JPMorgan Chase Bank, N.A. has moved to dismiss plaintiffs' amended complaint in its entirety. JPMorgan Chase Bank, N.A. also filed counterclaims against LBHI alleging that LBHI fraudulently induced JPMorgan Chase Bank, N.A. to make large clearing advances to Lehman against inappropriate collateral, which left JPMorgan Chase Bank, N.A. with more than \$25 billion in claims against the estate of Lehman's broker-dealer, which could be unpaid if JPMorgan Chase Bank, N.A. is required to return any collateral to Lehman. The case is in the early stages, with a trial scheduled for 2012. In addition, JPMorgan Chase Bank, N.A. may also face claims in the liquidation proceeding pending before the same Bankruptcy Court under the Securities Investor Protection Act ("SIPA") for LBHI's U.S. broker-dealer subsidiary, Lehman Brothers Inc. ("LBI"). The SIPA Trustee has advised JPMorgan Chase Bank, N.A. that certain of the securities and cash pledged as collateral for JPMorgan Chase Bank, N.A.'s claims against LBI may be customer property free from any security interest in favor of JPMorgan Chase Bank, N.A. JPMorgan Chase Bank, N.A. has also responded to various regulatory inquiries regarding the Lehman matter.

Madoff Litigation. JPMorgan Chase & Co., JPMorgan Chase Bank, N.A., JPMorgan Securities LLC, and JPMorgan Securities Ltd. have been named as defendants in a lawsuit brought by the trustee for the liquidation of Bernard L. Madoff Investment Securities LLC (the "Trustee"). The Trustee asserts 28 causes of action against JPMorgan Chase, 16 of which seek to avoid certain transfers (direct or indirect) made to JPMorgan Chase that are alleged to have been preferential or fraudulent under the federal Bankruptcy Code and the New York Debtor and Creditor Law. The remaining causes of action are for, among other things, aiding and abetting fraud, aiding and abetting breach of fiduciary duty, conversion and unjust enrichment. The complaint generally alleges that JPMorgan Chase, as Madoff's long-time bank, facilitated the maintenance of Madoff's Ponzi scheme and overlooked signs of wrongdoing in order to obtain profits and fees. The complaint purports to seek approximately \$6 billion in damages from JPMorgan Chase, and to recover approximately \$425 million in transfers that JPMorgan Chase allegedly received directly or indirectly from Bernard Madoff's brokerage firm. JPMorgan Chase has filed a motion to return the case from the Bankruptcy Court to the District Court, and intends to seek the dismissal of all or most of the Trustee's claims once that motion is decided.

Separately, J.P. Morgan Trust Company (Cayman) Limited, JPMorgan (Suisse) SA, and J.P. Morgan Securities Ltd. have been named as defendants in several suits in Bankruptcy Court and state and federal courts in New York arising out of the liquidation proceedings of Fairfield Sentry Limited and Fairfield Sigma Limited (together, "Fairfield"), so-called Madoff feeder funds. These actions advance theories of mistake and restitution and seek to recover payments previously made to defendants by the funds totaling approximately \$140 million.

Mortgage-Backed Securities Litigation and Regulatory Investigations. JPMorgan Chase and affiliates, Bear Stearns and affiliates and Washington Mutual and affiliates have been named as defendants in a number of cases in their various roles as issuer and/or underwriter in mortgage-backed securities ("MBS") offerings. These cases include purported class action suits, actions by individual purchasers of securities and actions by insurance companies that guaranteed payments of principal and interest for particular tranches. Although the allegations vary by lawsuit, these cases generally allege that the offering documents for more than \$100 billion of securities issued by dozens of securitization trusts contained material misrepresentations and omissions, including statements regarding the underwriting standards pursuant to which the underlying mortgage loans were issued.

In the actions against JPMorgan Chase as an MBS issuer (and, in some cases, also as an underwriter of its own MBS offerings), three purported class actions are pending against JPMorgan Chase and Bear Stearns, and/or certain of their affiliates and current and former employees, in the United States District Courts for the Eastern and Southern Districts of New York. Defendants have moved to dismiss these actions. In addition, Washington Mutual affiliates, WaMu Asset Acceptance Corp. and WaMu Capital Corp., are defendants, along with certain former officers or directors of WaMu Asset Acceptance Corp., have been named as defendants in three now-consolidated purported class action cases pending in the Western District of Washington. Defendants' motion to dismiss was granted in part to dismiss all claims relating to MBS offerings in which a named plaintiff was not a purchaser. Discovery is ongoing.

In other actions brought against JPMorgan Chase as an MBS issuer (and, in some cases, also as an underwriter) certain JPMorgan Chase entities, several Bear Stearns entities, and certain Washington Mutual affiliates are defendants in nine separate individual actions commenced by the Federal Home Loan Banks of Pittsburgh, Seattle, San Francisco, Chicago, Indianapolis and Atlanta in various state courts around the country; and certain JPMorgan Chase, Bear Stearns and Washington Mutual entities are also among the defendants named in separate individual actions commenced by Cambridge Place Investment Management Inc. in Massachusetts state court, by The Charles Schwab Corporation in state court in California and by Allstate in state court in New York.

EMC Mortgage Corporation ("EMC"), a subsidiary of JPMorgan Chase & Co., is a defendant in four pending actions commenced by bond insurers that guaranteed payments of principal and interest on approximately \$3.6 billion of certain classes of seven different MBS offerings sponsored by EMC. Three of those actions, com-

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menced by Assured Guaranty Corp., Ambac Assurance Corporation and Syncora Guarantee, Inc., respectively, are pending in the United States District Court for the Southern District of New York. The fourth action, commenced by CIG Assurances North America, Inc., is pending in state court in Texas. In each action, plaintiff claims that the underlying mortgage loans had origination defects that purportedly violate certain representations and warranties given by EMC to plaintiffs, and that EMC has breached the relevant agreements between the parties by failing to repurchase allegedly defective mortgage loans. Each action seeks unspecified damages and an order compelling EMC to repurchase those loans.

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

In addition to the above-described litigation, JPMorgan Chase has also received, and responded to, a number of subpoenas and informal requests for information from federal authorities concerning mortgage-related matters, including inquiries concerning a number of transactions involving JPMorgan Chase's underwriting and issuance of MBS and its participation in offerings of certain collateralized debt obligations.

In addition to the above mortgage-related matters, JPMorgan Chase is now a defendant in an action commenced by Deutsche

Bank, described in more detail below with respect to the Washington Mutual Litigations.

Mortgage Foreclosure Investigations and Litigation. Multiple state and federal officials have announced investigations into the procedures followed by mortgage servicing companies and banks, including JPMorgan Chase & Co. and its affiliates, relating to foreclosure and loss mitigation processes. JPMorgan Chase is cooperating with these investigations, and these investigations could result in material fines, penalties, equitable remedies (including requiring default servicing or other process changes), or other enforcement actions, as well as significant legal costs in responding to governmental investigations and additional litigation. Three purported class action lawsuits have also been filed against JPMorgan Chase relating to its mortgage foreclosure procedures.

These investigations and actions follow JPMorgan Chase's decision in late September 2010 to commence a temporary suspension of obtaining mortgage foreclosure judgments in the states and territories that require a judicial foreclosure process. Subsequently, JPMorgan Chase extended this temporary suspension to foreclosure sales in those states and territories that require a judicial foreclosure process, and to foreclosures and foreclosure sales in the majority of remaining states where a judicial process is not required, but where affidavits signed by JPMorgan Chase personnel may have been used as part of the foreclosure process. In mid-October, JPMorgan Chase also temporarily suspended evictions in the states and territories in which it had suspended foreclosures and foreclosure sales, as well as in certain additional states in which an affidavit signed by JPMorgan Chase personnel may have been used in connection with eviction proceedings.

JPMorgan Chase's temporary suspension arose out of certain questions about affidavits of indebtedness prepared by local foreclosure counsel, signed by JPMorgan Chase employees and filed or used in mortgage foreclosure proceedings in certain states. Although JPMorgan Chase believes, based on its work to date, that the statements in those affidavits of indebtedness regarding the fact of default and amount of indebtedness were materially accurate, in certain instances, the underlying review and verification of this information was performed by JPMorgan Chase personnel other than the affiants, or the affidavits may not have been properly notarized.

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

Municipal Derivatives Investigations and Litigation. The Department of Justice (in conjunction with the Internal Revenue Service), the Securities and Exchange Commission ("SEC"), a group of state

attorneys general and the Office of the Comptroller of the Currency ("OCC") have been investigating JPMorgan Chase and Bear Stearns for possible antitrust, securities and tax-related violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers. The Philadelphia Office of the SEC provided notice to JPMorgan Securities that it intends to recommend that the SEC bring civil charges in connection with its investigation. JPMorgan Securities has responded to that notice, as well as to a separate notice that the Philadelphia Office of the SEC provided to Bear, Stearns & Co. Inc. JPMorgan Chase has been cooperating with all of these investigations, and is seeking to resolve them on a negotiated basis.

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

Following JPMorgan Securities' settlement with the SEC in connection with certain Jefferson County, Alabama (the "County") warrant underwritings and swap transactions, the County filed a complaint against JPMorgan Chase and several other defendants in the Circuit Court of Jefferson County, Alabama. The suit alleges that JPMorgan Chase made payments to certain third parties in exchange for being chosen to underwrite more than \$3 billion in warrants issued by the County and chosen as the counterparty for certain swaps executed by the County. In its complaint, Jefferson County alleges that JPMorgan Chase concealed these third-party payments and that, but for this concealment, the County would not have entered into the transactions. The County further alleges that the transactions increased the risks of its capital structure and that, following the downgrade of certain insurers that insured the warrants, the County's interest obligations increased and the principal due on a portion of its outstanding warrants was accelerated. The Court denied JPMorgan Chase's motion to dismiss the complaint. JPMorgan Chase filed a mandamus petition with the Alabama Supreme Court, seeking immediate appellate review of this decision. The petition is now fully briefed and all proceedings have been stayed pending adjudication of the petition.

A putative class action was filed on behalf of sewer ratepayers against JPMorgan Chase and Bear Stearns and numerous other defendants, based on substantially the same alleged conduct described above. JPMorgan Chase's motion to dismiss the complaint for lack of standing was denied in January 2011.

Two insurance companies that guaranteed the payment of principal and interest on warrants issued by Jefferson County have filed separate actions against JPMorgan Chase (and one of the insurers has also named Jefferson County) in New York state court asserting that defendants fraudulently misled them into issuing the insurance coverage, based upon substantially the same alleged conduct described above and other alleged non-disclosures. One insurer claims that it insured an aggregate principal amount of nearly \$1.2 billion in warrants, and seeks unspecified damages in excess of \$400 million, as well as unspecified punitive damages. The other insurer claims that it insured an aggregate principal amount of more than \$378 million and seeks recovery of \$4 million that it alleges it paid under the policies to date as well as any payments it will make in the future and unspecified punitive damages. In December 2010, the court denied JPMorgan Chase's motions to dismiss each of the complaints and the parties are currently engaged in discovery.

The Alabama Public Schools and College Authority ("APSCA") brought a declaratory judgment action in the United States District Court for the Northern District of Alabama claiming that certain interest rate swaption transactions entered into with JPMorgan Chase Bank, N.A. are void on the grounds that the APSCA purportedly did not have the authority to enter into the transactions or, alternatively, are voidable at the APSCA's option because of its alleged inability to issue refunding bonds in relation to the swaption. The action was settled in December 2010 for a payment by APSCA to JPMorgan Chase and, pursuant to the settlement, the court dismissed the action by order dated December 27, 2010.

Overdraft Fee/Debit Posting Order Litigation. JPMorgan Chase Bank, N.A. has been named as a defendant in several purported class actions relating to its practices in posting debit card transactions to customers' deposit accounts. Plaintiffs allege that JPMorgan Chase improperly re-ordered debit card transactions from the highest amount to lowest amount before processing these transactions in order to generate unwarranted overdraft fees. Plaintiffs contend that JPMorgan Chase should have processed such transactions in the chronological order they were authorized. Plaintiffs seek the disgorgement of all overdraft fees paid to JPMorgan Chase by plaintiffs, since approximately 2003, as a result of the re-ordering of debit card transactions. The claims against JPMorgan Chase have been consolidated with numerous complaints against other national banks in Multi-District Litigation pending in the United States District Court for the Southern District of Florida. JPMorgan Chase's motion to compel arbitration of certain plaintiffs' claims was denied by the District Court. That ruling is currently on appeal. Discovery is proceeding in the District Court. Plaintiffs' motion for class certification is due to be filed in April 2011.

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Petters Bankruptcy and Related Matters. JPMorgan Chase and certain of its affiliates, including One Equity Partners, LLC ("OEP"), have been named as defendants in several actions filed in connection with the receivership and bankruptcy proceedings pertaining to Thomas J. Petters and certain entities affiliated with Petters (collectively, "Petters") and the Polaroid Corporation. The principal actions against JPMorgan Chase and its affiliates have been brought by the receiver and bankruptcy trustee for Petters and generally seek to avoid, on fraudulent transfer and preference grounds, certain purported transfers in connection with (i) the 2005 acquisition of Polaroid by Petters, which at the time was majority-owned by OEP; (ii) two credit facilities that JPMorgan Chase and other financial institutions entered into with Polaroid; and (iii) a credit line and investment accounts held by Petters. The actions collectively seek recovery of approximately \$450 million.

Securities Lending Litigation. JPMorgan Chase Bank, N.A. has been named as a defendant in four putative class actions asserting ERISA and other claims pending in the United States District Court for the Southern District of New York brought by participants in JPMorgan Chase's securities lending business. A fifth lawsuit was filed in New York state court by an individual participant in the program. Three of the purported class actions, which have been consolidated, relate to investments of approximately \$500 million in medium-term notes of Sigma Finance Inc. ("Sigma"). In August 2010, the Court certified a plaintiff class consisting of all securities lending participants that held Sigma medium-term notes on September 30, 2008, including those that held the notes by virtue of participation in the investment of cash collateral through a collective fund, as well as those that held the notes by virtue of the investment of cash collateral through individual accounts. All discovery has been completed. The Court has set a schedule for filing summary judgment briefs, pursuant to which JPMorgan Chase's motion is to be fully briefed by April 2011.

The fourth putative class action concerns investments of approximately \$500 million in Lehman Brothers medium-term notes. JPMorgan Chase has moved to dismiss the amended complaint and is awaiting a decision. The Magistrate Judge ordered discovery to proceed while the motion is pending, but this ruling is on appeal to the District Judge and also is awaiting a decision. The New York state court action, which is not a class action, concerns the plaintiff's alleged loss of money in both Sigma and Lehman Brothers medium-term notes. JPMorgan Chase has answered the complaint. The Court denied JPMorgan Chase's motion to stay this action pending resolution of the proceedings in federal court, and discovery has commenced.

Service Members Civil Relief Act and Housing and Economic Recovery Act Investigations and Litigation. Multiple government officials have announced their intent to commence, or have commenced, inquiries into JPMorgan Chase's procedures related to the Service Members Civil Relief Act ("SCRA") and the Housing and Economic Recovery Act of 2008 ("HERA"). These inquiries have been prompted by JPMorgan Chase's public statements about its SCRA and HERA compliance and actions to remedy certain instances in which JPMorgan Chase mistakenly charged active or recently-active

military personnel mortgage interest and fees in excess of that permitted by SCRA and HERA, and in a number of instances, foreclosed on borrowers protected by SCRA and HERA. JPMorgan Chase has implemented a number of procedural enhancements and controls to strengthen its SCRA and HERA compliance and is still reviewing the circumstances under which these issues arose. In addition, an individual borrower has filed a purported nationwide class action in United States District Court for South Carolina against JPMorgan Chase alleging violations of the SCRA.

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

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

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

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

The Bankruptcy Court considered confirmation of the Plan, including the Global Settlement Agreement, in hearings in early December 2010. In early January 2011, the Bankruptcy Court issued an opinion in which it concluded that the Global Settlement Agreement is fair and reasonable, but that the Plan cannot be confirmed until the parties correct certain deficiencies, which include the scope of releases. None of these deficiencies relate to the Disputed Assets. The Equity Committee, which represents shareholders of WMI, has filed a petition seeking a direct appeal to the United States Court of Appeals for the Third Circuit from so much of the Bankruptcy Court's ruling that found the settlement to be fair and reasonable. A revised Plan was filed with the Bankruptcy Court in February 2011, and the Bankruptcy Court has scheduled a hearing for May 2, 2011. If the Global Settlement is effected and the Plan is confirmed, JPMorgan Chase currently estimates it will not incur additional obligations beyond those already reflected in its liabilities for the numerous disputes covered by the Global Settlement.

Other proceedings related to Washington Mutual's failure are pending before the United States District Court for the District of Columbia, including a lawsuit brought by Deutsche Bank National Trust Company, initially against the FDIC, asserting an estimated \$6 billion to \$10 billion in damages based upon alleged breach of various mortgage securitization agreements and alleged violation of certain representations and warranties given by certain WMI subsidiaries in connection with those securitization agreements. Deutsche Bank filed an amended complaint in August 2010, adding JPMorgan Chase Bank, N.A. as a party. The amended complaint includes assertions that JPMorgan Chase may have assumed liabilities relating to the mortgage securitization agreements. In November 2010, JPMorgan Chase and the FDIC moved to dismiss the complaint. JPMorgan Chase also moved for a partial summary judgment holding that the FDIC retained liability for Deutsche Bank's claims.

In addition, JPMorgan Chase was sued in an action originally filed in State District Court in Texas (the "Texas Action") by certain holders of WMI common stock and debt of WMI and Washington Mutual Bank who seek unspecified damages alleging that JPMorgan Chase acquired substantially all of the assets of Washington Mutual Bank from the FDIC at an allegedly too-low price. The Texas Action was transferred to the United States District Court for the District of Columbia, which ultimately granted JPMorgan Chase's and the FDIC's motions to dismiss the complaint. Plaintiffs have appealed this dismissal to the United States Court of Appeals for the District of Columbia Circuit. Oral argument is currently scheduled for April 5, 2011.

* * *

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

JPMorgan Chase Bank, N.A. has established reserves for several hundred of its currently outstanding legal proceedings. JPMorgan Chase Bank, N.A. accrues for potential liability arising from such proceedings when it is probable that such liability has been incurred and the amount of the loss can be reasonably estimated. JPMorgan Chase Bank, N.A. evaluates its outstanding legal proceedings each quarter to assess its litigation reserves, and makes adjustments in such reserves, upwards or downwards, as appropriate, based on management's best judgment after consultation with counsel. During the years ended December 31, 2010, 2009 and 2008, JPMorgan Chase Bank, N.A. incurred \$6.2 billion, \$57 million and \$251 million, respectively, of litigation expense. There is no assurance that JPMorgan Chase Bank, N.A.'s litigation reserves will not need to be adjusted in the future.

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

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Note 31 – International operations

Financial information regarding international operations is accumulated, managed and discussed at the JPMorgan Chase level and not at the subsidiary level (i.e., JPMorgan Chase Bank, N.A.). For financial reporting purposes, JPMorgan Chase Bank, N.A. is viewed by JPMorgan Chase as a legal entity only; financial information for international operations is not used to manage JPMorgan Chase Bank, N.A.

Note 32 – Business segments

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

Supplementary information

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Selected quarterly financial data (unaudited)

(in millions, except ratio data)	2010				2009			
As of or for the period ended	4th	3rd	2nd	1st	4th	3rd	2nd	1st
Selected income statement data								
Noninterest revenue	\$ 10,207	\$ 7,920	\$ 10,331	\$ 10,205	\$ 8,097	\$ 10,110	\$ 9,434	\$ 10,756
Net interest income	8,638	8,982	8,887	9,424	9,570	9,714	9,844	10,463
Total net revenue	18,845	16,902	19,218	19,629	17,667	19,824	19,278	21,219
Provision for credit losses	2,742	1,941	1,292	3,431	5,626	5,209	5,799	6,078
Total noninterest expense	12,947	11,655	12,150	12,679	9,687	10,934	11,379	11,391
Income before income tax expense and extraordinary gain								
	3,156	3,306	5,776	3,519	2,354	3,681	2,100	3,750
Income tax expense	570	751	1,825	785	475	1,173	644	1,247
Income before extraordinary gain	2,586	2,555	3,951	2,734	1,879	2,508	1,456	2,503
Extraordinary gain ^(a)	—	—	—	—	—	76	—	—
Net income	\$ 2,586	\$ 2,555	\$ 3,951	\$ 2,734	\$ 1,879	\$ 2,584	\$ 1,456	\$ 2,503
Selected ratios								
Tier 1 capital ^(b)	9.5%	10.2%	10.5%	10.0%	9.5%	9.1%	9.3%	9.0%
Total capital	13.5	14.3	14.6	14.1	13.5	12.9	13.1	12.8
Tier 1 leverage	5.7	6.3	6.1	6.0	6.0	5.9	6.2	6.1
Tier 1 common capital ^(c)	9.4	10.2	10.4	9.9	9.4	9.0	9.2	8.9
Selected balance sheet data (period-end)								
Trading assets	\$ 358,150	\$ 355,575	\$ 293,927	\$ 325,713	\$ 302,589	\$ 314,434	\$ 276,837	\$ 299,428
Securities	310,762	334,447	307,380	339,922	347,873	359,903	334,618	323,980
Loans	553,004	559,220	559,219	566,013	558,424	576,908	596,605	628,358
Allowance for credit losses	(23,126)	(23,147)	(23,363)	(24,473)	(24,701)	(23,621)	(22,740)	(20,977)
Total assets	1,631,621	1,642,691	1,568,093	1,674,523	1,627,684	1,669,868	1,663,998	1,688,164
Deposits	1,019,993	984,210	969,042	1,020,582	1,024,036	962,505	974,480	979,696
Long-term debt	63,300	65,259	65,643	68,649	68,679	66,734	68,267	66,374
Total stockholder's equity	123,217	132,170	130,905	127,370	127,294	128,046	131,130	130,548

- (a) On September 25, 2008, JPMorgan Chase Bank, N.A. acquired the banking operations of Washington Mutual Bank. The Washington Mutual acquisition resulted in negative goodwill, and accordingly, JPMorgan Chase Bank, N.A. recorded an extraordinary gain. For additional information on this transaction, see Note 3 on pages 9–12 of these Consolidated Financial Statements.
- (b) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted new guidance that amended the accounting for the consolidation of VIEs, which resulted in a decrease in the Tier 1 capital ratio of 28 basis points. See Note 17 on pages 82–97 of these Consolidated Financial Statements for further information.
- (c) In connection with the U.S. Government's Supervisory Capital Assessment Program in 2009, U.S. banking regulators developed a new measure of capital, Tier 1 common, which is defined as Tier 1 capital less elements of Tier 1 capital not in the form of common equity – such as perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities. Tier 1 common, a non-GAAP financial measure, is used by banking regulators, investors and analysts to assess and compare the quality and composition of JPMorgan Chase Bank, N.A.'s capital with the capital of other financial services companies. JPMorgan Chase Bank, N.A. uses Tier 1 common along with the other capital measures presented in this table to assess and monitor its capital position.

Supplementary information

JPMorgan Chase Bank, National Association
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Selected annual financial data (unaudited)

(in millions, except ratio data)

As of or for the year ended December 31,	2010	2009	2008 ^(c)	2007	2006
Selected income statement data					
Noninterest revenue	\$ 38,663	\$ 38,397	\$ 33,229	\$ 31,630	\$ 29,191
Net interest income	35,931	39,591	31,517	23,137	18,135
Total net revenue	74,594	77,988	64,746	54,767	47,326
Provision for credit losses	9,406	22,712	14,704	4,672	1,809
Provision for credit losses – accounting conformity ^(a)	—	—	1,534	—	—
Total noninterest expense	49,431	43,391	37,284	33,998	31,909
Income from continuing operations before income tax expense					
Income tax expense	15,757	11,885	11,224	16,097	13,608
Income tax expense	3,931	3,539	2,711	5,365	4,487
Income from continuing operations	11,826	8,346	8,513	10,732	9,121
Income from discontinued operations ^(b)	—	—	—	—	798
Income before extraordinary gain	11,826	8,346	8,513	10,732	9,919
Extraordinary gain ^(c)	—	76	1,906	—	—
Net income	\$ 11,826	\$ 8,422	\$ 10,419	\$ 10,732	\$ 9,919
Selected ratios					
Tier 1 capital ^(d)	9.5%	9.5%	8.7%	8.3%	8.2%
Total capital	13.5	13.5	12.5	11.8	11.4
Tier 1 leverage	5.7	6.0	5.9	6.2	5.9
Tier 1 common capital ^(e)	9.4	9.4	8.6	8.1	8.1
Selected balance sheet data (period-end)					
Trading assets	\$ 358,150	\$ 302,589	\$ 365,365	\$ 390,459	\$ 284,282
Securities	310,762	347,873	199,744	82,511	88,487
Loans	553,004	558,424	662,312	461,662	421,833
Allowance for credit losses	(23,126)	(24,701)	(17,809)	(7,864)	(5,693)
Total assets	1,631,621	1,627,684	1,746,242	1,318,888	1,179,390
Deposits	1,019,993	1,024,036	1,055,765	772,087	640,466
Long-term debt	63,300	68,679	72,462	88,175	71,869
Total stockholder's equity	123,217	127,294	128,767	106,346	96,010

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

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

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

(d) Effective January 1, 2010, JPMorgan Chase Bank, N.A. adopted new guidance that amended the accounting for the consolidation of VIEs, which resulted in a decrease in the Tier 1 capital ratio of 28 basis points. See Note 17 on pages 82–97 of these Consolidated Financial Statements for further information.

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

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

Bear Stearns merger: Effective May 30, 2008, JPMorgan Chase merged with The Bear Stearns Companies Inc. ("Bear Stearns"), and Bear Stearns became a wholly-owned subsidiary of JPMorgan Chase. The final total purchase price to complete the merger was \$1.5 billion. For additional information, see Note 2 on pages 166–170 of this Annual Report.

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

Benefit obligation: Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

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

Discontinued operations: A component of an entity that is classified as held-for-sale or that has been disposed of from ongoing operations in its entirety or piecemeal, and for which the entity will not have any significant, continuing involvement. A discontinued operation may be a separate major business segment, a component of a major business segment or a geographical area of operations of the entity that can be separately distinguished operationally and for financial reporting purposes.

FASB: Financial Accounting Standards Board.

FDIC: Federal Deposit Insurance Corporation.

FICO: Fair Isaac Corporation.

Forward points: Represents the interest rate differential between two currencies, which is either added to or subtracted from the current exchange rate (i.e., "spot rate") to determine the forward exchange rate.

Interchange income: A fee that is paid to a credit card issuer in the clearing and settlement of a sales or cash advance transaction.

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

LLC: Limited liability company

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

Origination date LTV ratio

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

Current estimated LTV ratio

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

Combined LTV ratio

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

Mark-to-market exposure: A measure, at a point in time, of the value of a derivative or foreign exchange contract in the open market. When the MTM value is positive, it indicates the counterparty owes JPMorgan Chase Bank, N.A. and, therefore, creates credit risk for JPMorgan Chase Bank, N.A. When the MTM value is negative, JPMorgan Chase Bank, N.A. owes the counterparty; in this situation, JPMorgan Chase Bank, N.A. has liquidity risk.

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

Merger costs: Reflects costs associated with the Bear Stearns merger and the Washington Mutual transaction in 2008.

Mortgage product types:

Alt-A

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

Option ARMs

The option ARM real estate loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only, or minimum payment. The minimum payment on an option ARM loan is based on the interest rate charged during the introductory period. This introductory rate is

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usually significantly below the fully indexed rate. The fully indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully indexed rate and adjusts monthly to reflect movements in the index. The minimum payment is typically insufficient to cover interest accrued in the prior month, and any unpaid interest is deferred and added to the principal balance of the loan. Option ARM loans are subject to payment recast, which converts the loan to a variable-rate fully amortizing loan upon meeting specified loan balance and anniversary date triggers.

Prime

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

Subprime

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

MSR risk management revenue: Includes changes in MSR asset fair value due to market-based inputs, such as interest rates and volatility, as well as updates to assumptions used in the MSR valuation model; and derivative valuation adjustments and other, which represents changes in the fair value of derivative instruments used to offset the impact of changes in the market-based inputs to the MSR valuation model.

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

Net charge-off ratio: Represents net charge-offs (annualized) divided by average retained loans for the reporting period.

Nonconforming mortgage loans: Mortgage loans that do not meet the requirements for sale to U.S. government agencies and U.S. government sponsored enterprises. These requirements include limits on loan-to-value ratios, loan terms, loan amounts, down payments, borrower creditworthiness and other requirements.

OPEB: Other postretirement employee benefits.

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

Purchased credit-impaired ("PCI") loans: Acquired loans deemed to be credit-impaired under the FASB guidance for PCI loans. The guidance allows purchasers to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics (e.g., FICO score, geographic location). A pool is then accounted for as a

single asset with a single composite interest rate and an aggregate expectation of cash flows. Wholesale loans are determined to be credit-impaired if they meet the definition of an impaired loan under U.S. GAAP at the acquisition date. Consumer loans are determined to be credit-impaired based on specific risk characteristics of the loan, including product type, LTV ratios, FICO scores, and past due status.

Real estate investment trust ("REIT"): A special purpose investment vehicle that provides investors with the ability to participate directly in the ownership or financing of real-estate related assets by pooling their capital to purchase and manage income property (i.e., equity REIT) and/or mortgage loans (i.e., mortgage REIT). REITs can be publicly- or privately-held and they also qualify for certain favorable tax considerations.

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

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

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

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

U.S. government and federal agency obligations: Obligations of the U.S. government or an instrumentality of the U.S. government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

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

Washington Mutual transaction: On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank ("Washington Mutual") from the FDIC for \$1.9 billion. The final allocation of the purchase price resulted in the recognition of negative goodwill and an extraordinary gain of \$2.0 billion. For additional information, see Note 3 on pages 9–12 of these Consolidated Financial Statements.