Dear Fellow Shareholders,

Your company earned a record $17 billion in 2010, up 48% from $12 billion in 2009. As points of reference: In 2008 – which, as you know, was a year filled with unprecedented challenges – we earned $6 billion; and the year before, we earned $15 billion, a then-record for us. The performance of our JPMorgan Chase stock during this period of time – and over the past decade (including heritage company Bank One) – is shown in the chart on page 4.

Our return on tangible equity for 2010 was 15%. Given your company's earnings power, these returns should be higher. In a more normal environment, we believe we could earn approximately $22 billion to $24 billion. Your company's earnings, particularly because of the business we are in, will always be somewhat volatile. The main reason for the difference between what we *should be* earning and what we *are* earning is the extraordinarily high losses we still are bearing on mortgages and mortgage-related issues. These losses have been running at a rate of approximately $4 billion a year, after-tax, and, while they should come down over time, they, unfortunately, will continue at elevated levels for a while.

On the brighter side, we increased our annual dividend to $1 per share and have re-established the ability to buy back stock if and when we think it's appropriate to do so.

Looking at these results in the context of the last three difficult years, what particularly pleases me is how exceptionally our company performed, not in absolute financial terms but in human terms. No matter how tough the circumstances or how difficult the events, we were there for our clients and our communities – providing credit and raising capital. We provided credit and raised capital of approximately $1.6 trillion for our clients in 2010 alone. Those clients included hospitals, schools, local governments, municipalities, corporations, small businesses and individuals. While helping our clients – large and small – prepare for the future, we continued to actively support the economic recovery. At the same time, we continued to invest in your company's future and to build our businesses – opening branches and offices and adding bankers across the globe, including hiring more than 8,000 people in the United States alone. As a result, we gained market share and became a better competitor in almost every single business.

Jamie Dimon,
Chairman and
Chief Executive Officer

The outstanding efforts of our 240,000 employees around the world enabled our firm to weather the worst economic storm in recent history and to emerge stronger than ever. And — while we are proud of the many ways we rose to meet the untold challenges we faced — we also are keenly aware of the ongoing imperative to continually innovate and improve — to get smarter, better, faster — in service to our clients. This is the only way we will be able to thrive going forward and to overcome the challenges ahead.

I've asked the chief executive of each of our lines of business to write you a letter about his or her respective business, both to review the 2010 results and to offer an outlook for the future. I hope as you read their letters in the section following this letter that you get the same sense that I do: Across your company, we have talented leaders and great opportunities; we are performing well financially against our competition; we are investing in our organic growth; and, perhaps most important, we are focused on building quality businesses.

Stock and Book Value Performance

Stock Total Return Analysis if You Became a Shareholder of the Respective Firms at December 31, 2000

	Bank One	Chase	J.P. Morgan	S&P 500
10-Year Performance:				
Compounded Annual Gain	7.0%	2.5%	2.7%	1.4%
Overall Gain	97.4	28.1	30.1	15.1

This chart shows actual returns of the stock, with dividends included, for heritage shareholders of the company vs. the Standard & Poor's 500 Index (S&P 500).

Bank One/JPMorgan Chase Tangible Book Value per Share Performance vs. S&P 500 (2001-2010)

	Tangible Book Value per Share of Bank One/JPMorgan Chase with Dividends Included (A)	S&P 500 with Dividends Included (B)	Relative Results (A) – (B)
10-Year Performance:			
Compounded Annual Gain	13.6%	1.4%	12.2%
Overall Gain	256.5	15.1	241.4

In addition to stock performance, we looked at tangible book value performance over the past 10 years. Tangible book value over time captures the company's use of capital, balance sheet and profitability. In this chart, we are looking at heritage Bank One shareholders. The chart shows the increase in tangible book value per share; it is an after-tax number assuming all dividends were retained vs. the S&P 500 (a pretax number with dividends reinvested).

Quality business, to us, means good clients; excellent products; constant innovation; state-of-the-art systems; and dedicated, capable, well-trained employees who care about the customers we serve. It means building consistently, not overreacting to short-term factors, and being trusted and respected by our clients in all the communities where we do business. In a risk-taking business, it is easy to generate increasingly better results in the short run by taking on excessive risk or by building lower quality business – but you will pay for that in the long run. That is not what we are after.

In this letter, I will focus my comments on issues of great impact to our business:

I. The Post-crisis Environment: How We View the Significant Challenges Ahead

II. Big Opportunities: How We Will Grow in U.S. and International Markets

III. The Customer Experience: How We Will Continue to Improve It

IV. Global Financial Reform: How the Key Aspects Will Affect Our Businesses and Our Country

V. Conclusion

I. THE POST-CRISIS ENVIRONMENT: HOW WE VIEW THE SIGNIFICANT CHALLENGES AHEAD

As we enter 2011, we find ourselves having weathered an epic storm – not just the global financial crisis itself but its effect on the global financial system and our industry. As a nation, we may have averted disaster thanks to a great collective effort, but many challenges remain. A lot of work has been done – some of which has been excellent and necessary. Other aspects are less satisfactory and even potentially harmful, and we need to face and fix them in a thorough, balanced, intelligent manner. Suffice it to say that a good deal of work remains to be done.

In our meetings with shareholders, we often are asked the following tough questions:

- What will be the fallout from the European sovereign exposures and the geopolitical risks, particularly in the Middle East?
- How are we going to deal with all the litigation around mortgages, municipalities, Bear Stearns, the bankruptcies of Lehman Brothers, Washington Mutual (WaMu) and others?
- Will the American economy recover in the short run? How will abnormal monetary policies and looming fiscal deficits affect us? Does America have the capacity in the long run to deal effectively with other important problems it faces, including immigration, our energy policy, the environment, our education and health systems, our infrastructure and our still-unbalanced trade and capital flows?
- Will the role of banks change in this new environment? Will they be able to grow profitably? Will American banks be able to freely compete with increasingly formidable foreign banks, some of which are the beneficiaries of powerful state support?
- How will the mortgage and mortgage-related issues end up? How much will they cost us? And how will they be resolved? Charlie Scharf deals with some of these questions in his letter later in this Annual Report. These issues are extremely complex and will take years to resolve. There is plenty of misinformation and a number of misconceptions around mortgages, and your company is going to make a dedicated effort to describe in detail what we do, how we do it, what the right things to do are, what the mistakes we made are and how we will rectify them. I will not go into the details in this letter, but, rest assured, we are fully engaged on this issue of mortgages, and you will be hearing more from us about it in the future.

In thinking about the answers to the questions posed, it would be naive to be blindly and irrationally optimistic – or to be blindly and irrationally pessimistic. We cannot predict the future with any real certainty, but we can offer our shareholders some insight into how we think about these issues, what they mean for the company and how we manage through them. Remember, our goal is not to guess the future; our goal is to be prepared to thrive under widely variable conditions.

We Face the Future in a Strong Position

Our businesses and management team are among the best in the industry. It is difficult to replicate our franchises and the intelligence embedded in our expertise, in our systems and in the experience of our people. Our fortress balance sheet provides us with strong and growing capital – and we always are thinking far ahead about the best ways to deploy it.

We believe we have the foresight and fortitude to use our capital wisely. Our first priority was to restore a decent dividend – this is what our shareholders wanted (if it were up to me personally, I would reinvest

all the capital into our company and not pay any dividend – but this is not what most shareholders want). We would like to be completely clear about how we prioritize our use of capital. These priorities are:

- First and foremost, to invest in organic growth – building great, long-term profitable businesses. We see significant opportunities for organic growth in each of our businesses.
- Second, to make acquisitions – both small add-ons and larger ones, but only if the price is right and we have a clear ability to manage the risks and execute properly. (If we are not running our own businesses well, we should not be doing acquisitions.)
- And third, to buy back stock – as a discipline, we always will buy back the stock we issue for compensation. However, we will buy back additional stock only when, looking forward, we see few opportunities to invest in organic growth and acquisitions. And we will buy back stock only when we believe it benefits our remaining shareholders – not the ones who are selling (i.e., we will be price sensitive).

We also believe that strength creates good opportunities in bad times. And, yes, we know we have made and will continue to make mistakes – all businesses do – but we hope to catch them early, fix them quickly and learn from them.

We are not complacent about renewed, intense competition everywhere we operate – in fact, it's already here. Whatever the future brings – and it will bring both good and bad – we are prepared, and we expect to emerge among the leaders.

How We View European Sovereign and Geopolitical Risk

The European Union (EU) is one of the great collective endeavors of all time – where participating countries are striving to form a permanent union of nations for the benefit of all their citizens.

In the short run, i.e., in the next year or two, we believe that the Euro Zone, in fits and starts, will work through its problems. It has the will and wherewithal to do so. The politicians of Europe seem to be completely devoted to making this work – as their predecessors were for the past 60 years. The process will be messy, but the consequence of giving up could be far worse: Sovereign defaults could lead to a bank crisis with serious economic consequences. Since it is the same money (if sovereign nations default on their debt, the EU will have to recapitalize its banks by approximately the same amount), it is better to fix the problem without causing additional complications.

Once the short-term issues are addressed, there likely will be some restructuring of the fiscal and monetary agreements between the nations and possibly the restructuring of some of the nations' debt. We believe there are ways to do this with minimal damage – particularly if the EU is able to achieve economic growth.

When the sovereign crisis started, JPMorgan Chase's gross exposures to Greece, Ireland, Portugal, Spain and Italy totaled approximately $40 billion – but net of collateral and hedges, our real exposures were approximately $20 billion. We did not run or panic – we stayed the course. While we reduced some of our exposures (essentially, the investment of excess cash for the company), we did not reduce the exposures associated with serving our clients, and we continued to actively conduct business in those nations. Our position was clear and consistent: to be there for our clients, not just in good times, but in bad times as well.

Going forward, this mission will not change. We know the risks, and we are prepared to take them. For example, in the unlikely occurrence of extremely bad outcomes in all these countries, JPMorgan Chase ultimately

could lose approximately $3 billion, after-tax. But we are in the business of taking risks in support of our clients and believe that this is a risk worth bearing since we hope to be growing our business in these countries for decades to come.

Our broader perspective on geopolitical uncertainty is that it is a constant state of affairs, which has been and always will be there, whether immediately visible or not. Such uncertainty is one of the main reasons we control our credit exposures and maintain extremely strong capital and liquidity at all times.

Before turning to the economic impact of the crisis in the Middle East, we hope, first and foremost, that the outcome of these historic movements will be to enhance the life and rights of the people in the region.

For our company, in particular, our direct exposures are manageable. The key economic impact is if extreme turmoil leads to extraordinarily high oil prices, which then could cause a global recession. As you know, however, we always run this company to be prepared to deal with the effects of a global recession.

How We View Our Legal Exposures

Unfortunately, we will be dealing with legal issues – the detritus of the storm – for years to come. They range from mortgage-related litigation to lawsuits concerning Bear Stearns and the bankruptcies of WaMu, Lehman Brothers and others.

Our strategy is simple: When we are right, we will fight mightily to ensure a just outcome. When we are not, we will say so.

Some of the legal challenges we face stem from our acquisitions of Bear Stearns and WaMu, where we inherited some of their exposures. Had we not acquired these firms, there would be no lawsuits because there would be no money to pay – our deep pockets are an attractive target to plaintiffs. While the American legal system is one of the world's best, it also is one of the only legal systems that does not require the losing party to pay the winning party's legal costs. Large actions against big companies, whether justified or not, have the potential to deliver large payoffs. This lack of balance and fairness too often results in outrageous claims. Why not? Plaintiffs have little to lose. Our shareholders should know that we have set aside significant reserves to handle many of these exposures.

How We View the American Economy – Short Term and Long Term

Five years ago, very few people seemed to worry about outsized risk, black swans and fat tails. Today, people see a black swan with a fat tail behind every rock.

The U.S. economy was, is and will remain for the foreseeable future the mightiest economic machine on this planet. America is home to many of the best universities and companies in the world. It still is one of the greatest innovators. The volume and variation of our inventions created in America are extraordinary – from bold new technologies, like the Internet, to thousands of small, incremental improvements in processes and products that, in aggregate, dramatically improve productivity. America also has an exceptional legal system (notwithstanding my many reservations about the class-action and tort system) and the best and deepest capital markets. The American people have a great work ethic, from farmers and factory workers to engineers and businessmen (even bankers and CEOs). And it still has the most entrepreneurial population on earth. American ingenuity is alive and well.

I mention all this because we need to put our current problems – and they are real – into proper context. Our problems may be daunting, but they also are resolvable. As a nation, we have overcome far worse challenges, from the Civil War to the Great Depression to World War II. Even amid our current challenges, we have begun to see clear signs of stability and growth returning to the capital markets and the U.S. economy. Almost everything is better than it was a year or two ago.

It's conceivable that we are at the beginning of a self-sustaining recovery that could power through many of the negatives we've

been focusing on recently. Consumers are getting stronger, spending at levels similar to those two-and-a-half years ago, but, instead of spending more than their income, they now are saving 5% of their income. And consumer debt service costs, i.e., how much they spend of their income to service their debt, have returned to levels seen in the 1990s (due to debt repayment, charge-offs and debt forgiveness, lower interest rates, etc.).

Businesses, large and small, are getting stronger. Large companies have plenty of cash. Medium sized and small businesses are in better financial condition and are starting to borrow again. Global trade is growing – U.S. exports were up 16% in 2010. Job growth seems to have begun. Financial markets are wide open – and banks are lending more freely. U.S. businesses, large and small, are investing more than $2 trillion a year in capital expenditures and research and development. They have the ability to do more, and, at the end of the day, the growth in the economy ultimately is driven by increased capital investment.

The biggest negative that people point to is that home prices are continuing to decline, new home sales are at record lows and foreclosures are on the rise. Our data indicates that the rate of foreclosures will start to come down later this year. Approximately 30% of the homes in America do not have mortgages – and of those that do, approximately 90% of mortgage-holding homeowners are paying their loans on time. Housing affordability is at an all-time high. The U.S. population is growing at over 3 million a year, and those people eventually will need housing. Additionally, the fact that fewer homes are being built means that supply and demand will come into balance sooner than it otherwise would have. That said, housing prices likely will continue to go down modestly because of the continuous high levels of homes for sale. The ultimate recovery of the housing market and housing prices likely will follow job growth and a general recovery in the economy.

Yes, America still is facing headwinds and uncertainties – including abnormal monetary policy and looming fiscal deficits. And while we can't really predict what the economy will do in the next year or two (though we think it is getting stronger), we are confident that the world's greatest economy will regain its footing and grow over the ensuing decade.

But we must take serious action to ensure our success in the decades ahead

While our confidence in the next decade is high, for America to thrive after that, it soon must confront some of the serious issues facing it. We need to redouble our efforts to develop an immigration policy and a real, sustainable energy policy; protect our environment; improve our education and health systems; rebuild our infrastructure for the future; and find solutions for our still-unbalanced trade and capital flows.

The sooner we address these issues, the better – America does not have a divine right to success, and it can't rely on wishful thinking and its great heritage alone to get the country where it needs to go. But I remain, perhaps naively, optimistic. As Winston Churchill once said, "You can always count on Americans to do the right thing – after they've tried everything else."

Will the Role of Banks Change in This New Environment?

Banks serve a critical function in society, but it often is difficult to describe that function in basic terms. When I was traveling in Ghana with one of our daughters (yes, the same daughter who asked me what a financial crisis was three years ago), she pointed out all the buildings and projects that had been started but never finished.

All the money that went into Ghana's unfinished buildings was needlessly wasted and, in fact, had damaged the citizens of the country. This sorry sight provided me with a concrete example of how to describe what banks actually should do. I explained to our daughter that had banks (or investors) been doing their job, they would have made sure that before money was invested in a project or enterprise, it had good prospects of success: It would be built for good

reasons, it would be appropriately utilized, it would be properly constructed, it would be insured and, if something went wrong, the asset would be put to the best possible use afterward. At the microlevel of one building or one small business, it is easy to understand what banks do. They lend or invest, having done their homework, to maximize the chance of success. Sometimes they are wrong, and unforeseen circumstances can derail that success, but if they do their job well, this lending improves the general health of an economy.

At the macrolevel, we talk about having lent, invested or raised approximately $1.6 trillion for companies, not-for-profits and individuals over the course of 2010. But at the human level, here's some of what we did last year:

- We originated mortgages to over 720,000 people.
- We provided new credit cards to more than 11 million people.
- We lent or increased credit to nearly 30,000 small businesses.
- We lent to over 1,500 not-for-profit and government entities, including states, municipalities, hospitals and universities.
- We extended or increased loan limits to approximately 6,500 middle market companies.
- We lent to or raised capital for more than 8,500 corporations.

We take calculated risks when we do this lending, and sometimes we make mistakes. But I can assure you that this never is our intent. We do this banking activity in all 50 states in the United States and in more than 140 countries around the world. To ensure that we do it right and comply with the laws of the land, we have risk committees, credit committees, underwriting committees, compliance and legal reviews, and more.

Banks play a critical role in our economic system by properly allocating, underwriting and understanding risk as credit is given to various entities and by helping to manage, move and invest capital for clients. The key question is how will all the regulatory changes affect the banks' ability to do this?

What will not change: Clients still will need our services

From the point of view of the customer – always the best way to look at a business – the services we offer, which are not easy to duplicate, will remain essential. Economies, markets, technology and trends will change, but we know companies and consumers still will need the financial services we provide.

When consumers walk into our retail branches, they still will need checking and savings accounts, mortgages, investments, and credit and debit cards.

When small business customers walk into our branches, they still will need cash management services, loans and investment advice.

When the CEOs of middle market companies are called upon by our bankers, they still will need cash management, loans, trade finance and investment advice. Some even may require derivatives or foreign exchange services to help manage their exposures.

Finally, when large companies work with our bankers, they will continue to need merger and acquisition or other financial advice and access to the global equity and debt markets. Given the increasing complexity of their business, they also will require derivatives to help manage various exposures, e.g., the changing prices of interest rates, foreign currencies and commodities.

In fact, the opportunities are large. A growing world still will need large-scale capital creation and bank lending and will increasingly require financial services. Several factors underscore just how pressing these capital-intensive needs will be in the future:

- Global credit outstanding will grow by approximately $100 trillion over the next 10 years across both emerging markets and developed nations, an 80% increase.
- Analysts from McKinsey and the World Economic Forum suggest that global financial wealth could grow by approximately $160 trillion over the next 10 years, a 100% increase.
- U.S. financial wealth is expected to increase by more than $30 trillion over the next 10 years, a 70% increase.

- Global gross domestic product is expected to grow by approximately $50 trillion in nominal terms ($25 trillion in real 2010 dollar-value terms) over the next 10 years, an approximately 80% increase.
- Annual corporate investments in plant and equipment (globally running at approximately $8 trillion a year) should at least double over the next 10 years – our multinational clients account for approximately 50% of this.

Effectively delivering on this growing demand requires strong, healthy financial institutions. This bodes well for JPMorgan Chase – we are in exactly the right place.

What will not change: Banks will continue to need to earn adequate market-demanded returns on capital

Like all businesses, banks must continue to earn adequate returns on capital – investors demand it. Some argue, however, that if regulation results in better capitalized banks and a more stable financial system, returns demanded on capital would be lower to reflect the lower risk involved. This probably is true but not likely to be materially significant.

What will change: New regulation *will* affect products and their pricing

A likely outcome of the new regulations is that products and their pricing will change. Some products will go away, some will be redesigned and some will be repriced.

Last year, we spoke about how we would adjust our products and services for the new credit card pricing rules and new overdraft rules. So I will not repeat them here. In a later section, I will talk about how we will adjust to the new restrictions on the pricing of debit cards.

Higher capital and liquidity standards that are required under Basel III likely will affect the pricing of many products and services.

Two examples come to mind:

Current Basel III rules require banks to hold more capital and maintain more liquidity to support the revolving credit they provide to both middle market and large institutions. In some cases, the liquidity rules alone require us to hold 100% of highly liquid assets to support a revolver. For example, to support a $100 million revolver, we would be required to own $100 million of highly liquid securities with very short maturities. We estimate this would increase our incremental cost on a three-year revolver by approximately 60 basis points a year. That leaves us with three options: 1) pass the cost on to the customer, 2) lose money on that revolver, or 3) not make the loan. In the real world, the likely outcome is that some borrowers will have less or no access to credit, some borrowers will pay a lot more for credit, some would pay only a little bit more and some highly rated companies might find it cheaper to provide liquidity on their own, i.e., hold more excess cash on their balance sheet as opposed to relying on banks for credit liquidity backup.

Certain products may disappear completely because they simply are too expensive to provide. (Some, like the "CDO-squares" will not be missed.) For example, capital charges on certain securitizations will be so high for banks that either these transactions no longer will be done or they will migrate to other credit intermediaries (think hedge funds) that can more cheaply invest in them. I will have more to say on regulation in the fourth section of this letter.

What we don't know (and we have a healthy fear of unintended consequences)

Around the world and all at once, policymakers and regulators are making countless changes, from guidelines around market-making, derivatives rules, capital and liquidity standards, and more. Many of the rules have yet to be defined in detail, and it is likely that they will not be applied evenly around the world. The combined impact of so much change – so much unknown about the interplay among all these factors and an uneven

global playing field – potentially is large. These unpredictable outcomes and unintended consequences could affect far more than products and pricing. For example, if a business cannot sell certain products or if the cost of selling them is so high that it cannot be adequately recouped, that business risks losing all of its clients. A simple analogy: If a restaurant that sells burgers can't sell french fries, it risks losing all of its customers.

Like it or not, we will adjust to the impact of new regulation on financial products and pricing. But we will remain vigilant about the changes that could threaten or undermine entire businesses. Three of our main concerns are:

First, and most important, we want to ensure that our clients are not negatively affected in a material way and that our ability to properly serve them is not unduly compromised.

Second, we need to be cautious about the creation of non-banks or new shadow banks. This could happen if the cumulative effect of all the regulations not only hampers banks from conducting their business but restricts them so much that the business slowly and inevitably moves to non-banks.

And, third, we need to ensure that American banks are not significantly disadvantaged relative to their global counterparts. The cumulative effect of higher capital standards, too restrictive market-making and derivatives rules, price control and arbitrary bank taxes could significantly impede our ability to compete over the long run.

We don't expect any of these three outcomes to occur – nor do we believe that it was or is the intent of the lawmakers or regulators – but it bears paying close attention.

Although we tend to focus on the downside of unintended consequences, we should recognize that there may be some positive consequences. For example, large changes in business regulations and dynamics often lead to new businesses, innovations and new products. Also, our ability to compete may be hampered in some instances but actually helped in others. For example, the cost and complexity of all the recent regulations, ironically, could create greater barriers for new entrants and new competitors.

II. BIG OPPORTUNITIES: HOW WE WILL GROW IN U.S. AND INTERNATIONAL MARKETS

Each of our business heads has articulated compelling growth strategies for his or her respective business (see their letters on pages 34–47 of this Annual Report). Across the firm, the opportunities to grow organically are huge. And we intend to pursue them aggressively – every day, every quarter and every year by building new branches; launching new products and tools and introducing new technology; and relentlessly hiring and developing good people.

We know that building our businesses organically can be challenging to execute, but it is critical – and the potential payoff is enormous. Organic growth also will continue to fuel cross line-of-business opportunities. For example, when Retail Financial Services opens a branch, it provides Card Services with the opportunity to offer more credit cards. And when Commercial Banking develops a new client relationship, these clients often require Investment Banking services. These are just two examples – there are many more.

In addition to "normal" growth, we want to highlight a few specific initiatives – each of which could add $500 million or more to profits over the next five to ten years. These include:

- Accelerating Commercial Banking's and Business Banking's growth in the heritage WaMu footprint: Essentially, WaMu did not do this type of business. Ultimately, we will have added more than 1,500 bankers in states from California and Washington to Florida. We already are well on our way to building into this branch network the same kind of middle market banking and small business banking that we have established in other markets across the country.
- Expanding out our Commodities franchise: In our commodities business, we now have a full array of physical trading and financial products and services to support our 3,000 clients who trade in these markets around the world. When all our efforts are completely integrated and are running at full capacity, profits of this business will grow even more strongly. (And this should happen in the next two to three years.)
- Dramatically increasing our branch openings: We will move from an average of 120 new branches a year to more than 200 in 2011 and probably more than that in subsequent years. This aggressive build-out is a coordinated effort between our real estate teams; our technology and operations teams; and our management, development and training staff. New branches typically break even by the end of the second year, and, when fully established, which takes several more years, each branch ultimately should earn more than $1 million in profits a year. Yes, we are concerned about technology reducing the need for physical branches, but all our research shows that we still will need branches to serve our customers. While use of the Internet and ATMs has skyrocketed, branch traffic essentially has remained steady. Over time, branches may become smaller, but we still think they will remain essential.
- Growing our Chase Private Client Services business: We estimate that approximately 2 million customers who use our branches are fairly affluent and need investment services tailored to the high-net-worth segment. We have tested this concept, and it seems to be working well. Therefore, we intend to open approximately 150 Private Client Services locations over the next few years to better support our affluent clients. At these offices, dedicated bankers will work with customers and provide them with investment products that are tailored to their needs.
- Continuing to expand our international wholesale businesses, including our Global Corporate Bank (GCB): This effort is described in the next section.

Our Resolute Commitment to Expanding Our International Wholesale Businesses

One of the greatest opportunities before us is to grow our wholesale businesses globally. This opportunity exists not just in developed markets but also in developing, emerging and even the so-called "frontier" markets. The reasons are simple: As the world grows, our clients generally grow even faster, as do trade volumes, capital, cross-border investing and global wealth.

A recent McKinsey study estimates that global investment, with accompanying growth in credit and capital needs, will grow by two times or some $13 trillion over the next 20 years in real terms – a multiple of what we saw in the early 1980s. Global investment will amount to $24 trillion in 2030 compared with $11 trillion in recent years. Developing economies are embarking on one of the biggest building booms in history. Rapid urbanization is increasing demand for new roads and other public infrastructure. Companies are building new plants and buying machinery. The McKinsey report, in fact, warns of potential capital and credit shortages as this exponential growth occurs.

Banks will play a vital role in financing these investments and in connecting savers and borrowers around the world. Much of this capital and investing will be cross-border and will be done by the very institutions that our bank already serves, i.e., multinational corporations, large investors, sovereign wealth funds and others.

Rest assured, we are going about this effort with our eyes open. We do not harbor any false notions that it is easy or risk free. And you cannot have stop-and-start strategies. Countries will want to know you are there for the long run – you cannot be a fair-weather friend!

International expansion is a long, tough and sometimes tedious job. Execution often requires lengthy lead times, and differences in cultures and laws present many challenges. By necessity, we end up bearing additional sovereign and political risk. But the effort clearly is worth it: The opportunities are great, and the risk can be managed. Here's how and why we think so.

We essentially are following our customers around the world

Our wholesale bankers around the world do business with essentially most of the global Fortune 2000 plus some 400 of large sovereign wealth funds and public or quasi-public entities (these include governments, central banks, government pension plans and government infrastructure entities).

As these entities expand globally – adding countries and locations to where these organizations do business – we essentially grow with them. We already bank these companies and simply need to be where they are going to need us.

We will grow by adding bankers, branches and products

The overwhelming majority of our worldwide expansion will come through organic growth – adding bankers, branches and products. Some examples of our recent efforts include:

- Our GCB has hired 100 bankers since January 1, 2010, and, by the end of 2012, we expect to grow to 300 bankers covering more than 3,000 clients globally.
- In Brazil, China and India, we continue to enhance the firm's presence by adding bankers and increasing our client coverage. Five years ago, we covered approximately 200 clients in those countries, and, today, we cover approximately 700 clients in those three countries. We are expanding this kind of coverage in many other countries, too.
- In China, over the last two years, we added two new branches (Guangzhou and Chengdu) to our existing three (Shanghai, Tianjin and Beijing), and we are continuing our expansion with more branch openings planned for 2011. Our expanded footprint enhances our ability to serve both local companies and foreign multinationals as they grow their businesses in China. In addition to the domestic renminbi capabilities, J.P. Morgan is at the forefront of the internationalization of the renminbi, a product that more and more clients are demanding for cross-border trade.
- Around the world, we opened new branches in Australia, Bangladesh, Brazil, China, Great Britain, Japan, the Netherlands, Qatar, Switzerland and the United Arab Emirates, among others, and we plan nearly 20 more to be added by 2013.

This build-out of our additional locations results in a huge network effect. For example, Chinese capital is moving into Brazil – and we already are on the ground in both places. When we build out our capabilities in Africa, we also are improving our service to European clients who may be looking at investing in Africa.

Alongside these expansion efforts, we are adding many products. For example:

- We are building our capability to provide local credit – by establishing capital lines for subsidiaries of multinational companies and providing credit to large local companies.
- We also are able to offer our clients sophisticated supply chain finance products (we recently helped finance Caterpillar's suppliers around the world).

Of course, we also are building the proper systems, legal teams and operational capabilities to support this bigger network.

In addition to these organic efforts, we are on the lookout for smaller acquisitions that can help us accelerate our strategy. For example, our acquisition of the world-class Brazilian hedge fund Gávea Investimentos, as part of our Highbridge business, dramatically improves our ability to manage money both for local investors and for those around the world seeking to invest in Brazil and emerging markets.

We see global growth opportunities for decades to come

In the business community and across the media, we have seen a tremendous focus on the emerging markets in advanced stages of development; specifically, Brazil, Russia, India and China. But this opportunity also is large in countries like Turkey, Indonesia, Malaysia and many others – in fact, some parts of the world are on the brink of meaningful development.

A quick look at sub-Saharan Africa provides a bit of perspective on the opportunities before us over the next 20 years. Economic activity in the region is expected to grow annually by approximately 4.7% over the next 20 years, from $800 billion to $2 trillion, as its population grows by 370 million to 1.2 billion.

Many nations in sub-Saharan Africa are adopting better and stronger governance, and they are fortified by great natural and other resources, which will benefit their future prosperity.

We estimate that more than 80% of our top multinational clients are doing business in sub-Saharan Africa and expect their number and footprint to grow steadily over the next 20 years. While we currently do business in 21 of the 49 sub-Saharan nations, we are on the ground only in South Africa and Nigeria. We anticipate that our clients will need us on the ground in Angola, Kenya, Tanzania and several other African countries over the next couple of decades. The investments we make over the years to enter sub-Saharan Africa will not materially affect profits in the short run but will produce a real payoff in decades to come. We will start planting the field now, to be reaped by future generations.

While Developing Consumer and Commercial Banking Operations Abroad Is an Option, It Is Not a Strategic Imperative

Over the long term, expanding our consumer and commercial banking footprint outside the United States is the next logical step. This aspiration is a strategic option – not a necessity. Some businesses need to be competitive internationally to be successful – think investment banking, commercial aircraft and mobile device manufacturers. But some businesses do not need to be – think retail and commercial banking. We can be very successful in the United States in retail and commercial banking and never take them internationally. Therefore, this aspiration is a strategic option, not a strategic imperative, to be carried out only if and when it makes sense.

International acquisitions are riskier than U.S. acquisitions: There are far fewer opportunities for cost savings, terms for investing vary from country to country, there is higher legal and cultural risk, and execution is more difficult. Therefore, we will acquire these businesses internationally only if we can do it right, which means the price needs to be right, we need to have an adequate margin for error and we have to have the ability to execute properly.

The WaMu Acquisition: A Bit Worse than Expected but Clearly Still Worth It

With more than two years' perspective, I'd like to take a look back at how we did with the acquisition of Washington Mutual – particularly relative to how we thought the deal would play out at the time of the acquisition.

WaMu's ongoing operating earnings were approximately what we expected – but not in the way we expected

When we completed the WaMu acquisition on September 25, 2008, we thought it was financially compelling and immediately accretive to earnings, though clearly not without risk. We acquired WaMu's 2,200 branches, 5,000 ATMs and 12.6 million checking accounts, as well as savings, mortgage and credit card accounts. At that time, we estimated that it would add $3 billion to 2010 net income.

Operating Earnings, Excluding One-Time Items
(in billions)

	Initial Expectations	Actual
2009	$2.4	$2.8
2010	3.0	2.7
2011	3.4	3.1*

* 2011 budget

The chart above shows what we said would happen over time vs. what actually happened. These numbers do not include one-time gains or losses, which I describe in the following paragraph. In the numbers above, the mortgage origination and servicing business did better than expected, mostly due to higher volumes and spreads. And the retail business did significantly worse, mostly due to curtailing fees on nonsufficient funds and overdrafts. We expect the business to perform in the future as we originally thought.

One-time, after-tax gains and losses are a negative and still could get slightly worse

One-Time Items (After-Tax)

- $3.2 billion higher mortgage losses
- $1.0 billion lower credit card losses
- $1.0 billion gain on purchase

When we acquired WaMu, we acquired approximately $240 billion of mortgage and credit card loans, which we immediately wrote down by $30 billion. We knew when we did the transaction that the depth and severity of the recession in the housing market could drive mortgage losses even higher than our estimates (which, at the time, we thought were conservative). We thought losses could wind up being $10 billion worse (pretax), and we have experienced about half of that. We anticipate some further potential downside, depending on the health of the U.S. economy, as well as some other one-time gains and losses relating to litigation and other unresolved matters. The heritage WaMu credit card business essentially is liquidating with approximately the results we expected.

The WaMu acquisition has created future opportunities that we would not have had if we did not do this acquisition – and these are better than we anticipated

The expansion of our Middle Market Commercial Banking business, within the WaMu footprint, which we are managing and growing carefully, can deliver more than $500 million in pretax profits annually, though this could take more than five years. And the Commercial Term Lending Business, which essentially is making mortgage loans on multifamily houses – a business we previously didn't know very well – also will be able to grow its earnings to more than $500 million a year – significantly better than we expected. We think the Small Business Banking opportunity is even larger than we thought and could be as much as $1 billion pretax annually over the long term.

III. THE CUSTOMER EXPERIENCE: HOW WE WILL CONTINUE TO IMPROVE IT

We are only in business to serve our clients – and this is true of every aspect of our business. Every loan we make or service, every account we maintain, every financing we do and any investing we do is to serve our clients. Our job is to consistently strive to do a better job for all our clients – and to do it faster, smarter and better.

Doing a great job for our clients requires us to be discerning about who our clients are and clear about what doing a good job means. In our business in particular, client selection is critical. Unlike other businesses, we often have to turn away clients. Sometimes we, by necessity, are put in the uncomfortable position of advising or even requiring our clients to do things they don't want to do, such as: restructuring or selling assets or making payments to avoid penalties. Careful client selection leads to quality clients. And in conjunction with conservative accounting, it leads to a high-quality business. J.P. Morgan, Jr., said it best when he declared the firm's mission was to do "first-class business in a first-class way."

Below are some of the ways we will strive to continue delivering on that promise.

Doing a Better Job Serving Complex Global Corporate Clients

We do a good job advising and servicing our complex global corporate clients. But we want to do an even better job – a great job – under all circumstances. So we are redoubling our efforts by:

- Improving our information: We are building robust systems to put key information about our corporate client relationships at our fingertips – for example, all the services we provide them, which markets they are in and what their needs are.
- Coordinating global coverage: Better information and coordination enable us to do a better – and, often, more cost-effective – job for the client. As a global financial institution, we may have 30 to 40 bankers from our offices globally calling on a large corporate client. That's because we provide such a broad set of products and services in multiple locations around the world: M&A and advisory services; asset management; sales and trading or pension plans; management of cash flows, foreign exchange and interest rate exposure; and more.
- Building out our coverage: We are systematically expanding the depth and breadth of our international coverage of the large, multinational companies that we cover around the world. We are embarking on a granular, detailed review, name by name and subsidiary by subsidiary, of the multinational companies we support for the purpose of developing a game plan – from the ground up – for how we will build out our coverage going forward.
- Bringing the whole firm to bear: For all our clients, we want to make available the best that JPMorgan Chase has to offer everywhere. We want these clients to know that the full force and power of the company are behind them and their goals, that we will be there in good times and bad, and that our advice is unconflicted and trustworthy.
- Ensuring that solutions and innovations are client driven: We recognize that our business works only if it works for the client, not just for JPMorgan Chase. Cross-selling, for example, is good only when it benefits the client.

Doing a Better Job Serving Consumers and Small Business Customers

All businesses claim to focus on better serving their clients. Most can show you the service metrics by which they judge themselves – as can we. We intend to do more than that by taking a step back and looking at the customer experience holistically – from every angle, including:

- Product design: In a business as complex as ours, often we find ourselves adding more features and complexity without going back to see how it looks from the customer's standpoint. We strive to follow the example set by companies like Apple, which always aims to make its products and services as simple and intuitive as possible for the customer.

  For example, at one point, our customers were getting notifications from us in the mail and by phone. Then we innovated the process by reaching out to them in real time through text alerts whenever their account balance fell below a specified amount. However, at first, our customers could not respond to these alerts. Then we developed Chase Instant Action Alerts℠, our two-way text alerts that allow customers to send a text back to us in order to transfer money between accounts and help avoid overdraft fees. This product has been wildly successful. We currently have more than 10 million mobile customers, and we are adding over 500,000 new mobile banking customers each month.

- Selling and cross-selling: The goal of cross-selling is to better and more completely serve customers' needs and help them realize their goals in ways that save them time, money and aggravation. Properly done, what we sell our customers should be good for them because we are listening to them, figuring out their needs, and trying to meet those needs in the most efficient and effective manner possible. Getting customers into the right accounts, the right credit cards, online bill payment and alert systems allows us to give our customers more and be more efficient. But selling and cross-selling must work for the customer – improperly done, these efforts are annoyances and, at worst, do customers a great disservice. To do this right, we need to educate our salespeople and constantly try to align our incentive systems to support doing what is right for the customer.

- Consumer advocacy: In each of our consumer businesses, we've created Consumer Practice groups, managed by very senior people. We expect these groups to review all our policies, products and procedures – ranging from pricing and fee decisions to clear disclosure and transparency of terms associated with each product – and to ensure we are treating our customers fairly and are delivering great service. These Consumer Practice teams have the power both to right a wrong for any of our customers and to help change processes going forward.

- Streamlined customer communications: We are striving to be as clear and simple as possible and not get caught up in legalese in our communications. (Of course, we need to provide the proper legal disclosures, many of which are required by regulators.)

- Systems upgrades: All the above improvements require changes to our systems, both those that are visible to our customers and those that are helpful to our employees to better serve those customers. We have improved customer convenience on everyday needs such as completing the rollout of over 10,000 Deposit Friendly ATMs, which take cash and check deposits without deposit slips or envelopes. Additionally, the system our bankers use has been enhanced to quickly access a customer's account history, including any issues reported by customers or actions taken on the customer's behalf by branch employees in the last 90 days.

- Learning more from customer complaints and employee suggestions: We also are redoubling our efforts to learn from customer complaints and employee ideas. Customer complaints often can be gifts: They frequently tell us how we can improve our products and services. As for employees, they often have great ideas on what can be done better but usually aren't asked. We will use this feedback from customers and employees to improve products and services across the firm.

Innovating for Our Customers

Financial services have been highly innovative over the past 20 years.

On the consumer side, we have seen ATMs and debit cards lead the way to online bill paying and other Internet-enabled technologies. We also are particularly proud of our most recent consumer innovations, including:

- Our new credit card products include Chase Blueprint℠, a flexible payment tool that allows our card customers to better manage expenses on their own terms; Ink℠ from Chase for business card users; and Chase Sapphire℠ and Palladium for the affluent market.
- Our Chase QuickDeposit℠ iPhone banking application allows customers to deposit checks simply by taking a picture from their iPhones. This app was the winner of nine Best of 2010 smartphone awards. In 2010, 336,000 customers made deposits via QuickDeposit, and 46,000 business customers made deposits with our Classic QuickDeposit scanner. We also recently have added the QuickDeposit app to Android phones.
- Our Internet bill payment system allows customers to make payments in a variety of ways, including Quick Pay for electronic person-to-person payments and traditional online bill payments. In 2010, 16.3 million customers made 445 million payments using chase.com.
- For Private Banking and high-net-worth clients, we launched an iPad application that lets customers see, in one place, their credit card, checking and investment accounts. Soon these clients will be able to buy and sell securities online through this application.

In wholesale banking, innovation has been equally apparent over time:

- Treasurers can accumulate global cash and move it with the flick of a finger to where it can be most productive.
- Last November, we launched the J.P. Morgan Research iPad app, which gives clients reports and analysis from more than 1,000 analysts on economic indicators, markets, companies and asset classes around the world. Unlike other research apps of its kind, users will be able to access content offline and receive instant alerts when new content they pre-select becomes available.
- Corporations now have the ability to raise money quickly and often simultaneously in markets around the world.
- Corporations have the ability to hedge, quickly and cost-effectively, large exposures like interest rates, foreign exchange, commodity prices, credit exposures, etc.
- Stocks now can be bought and sold virtually instantaneously on markets around the world, at a cost of pennies or less a share.

Acknowledging and Fixing Mistakes

Unfortunately, we make mistakes. They range from innocuous errors to some egregious ones. They range from paperwork errors to systems failures to rude service. Sometimes we make loans we shouldn't make, and sometimes we don't make loans that we should. Some of these are individual mistakes, and some are more systemic.

There always are reasons for these mistakes. Sometimes they are readily understandable. Other times, they leave you shaking your head. But we never should make these mistakes deliberately or with venal intent. Some mistakes are made out of a simple misjudgment. And, unfortunately, and very infrequently – sometimes someone in our company knowingly does something wrong. Of course, such activity would never, ever be condoned or permitted by senior management. And when it does happen, we take immediate and firm action.

We know that when we make mistakes, we should hold ourselves accountable, and we should rectify them.

Here are the principles we abide by in dealing with our mistakes:

Senior management should actively be on the lookout for problems

At all times, senior management must be vigilant about errors made across the firm – we ask lots of questions, read customer complaints, and make sure our own people are allowed to question our products and services. Generally, we all know how we would want to be treated, and management should strive to treat our customers this way.

This particularly applies to long-standing practices. Just because something always has been done a certain way does not mean that it is still right.

We need to acknowledge mistakes to ourselves

We cannot fix problems if we deny them. Acknowledging an error, however, isn't enough. We need to figure out why it happened. Was it isolated or embedded in one of our systems? Was it the result of poor training of our people? Or, perhaps, in our desire to keep up with the competition, did we start doing things with which we were uncomfortable?

There is one error, in particular, from our recent past that I would like to highlight: the mistakes we made in servicing mortgages held by U.S. military families. Our firm has a great history of honoring our military and veterans, and the errors we made on these loans, including foreclosures, were a painful aberration from that track record. We deeply regret this, we have apologized to our military customers and their families, and we have tried to rectify these mistakes as best we can. I want to reiterate that apology here and now.

We recently have announced a new program for the military and veteran community that includes many initiatives, from recruiting veterans into our firm, with our corporate partners, to providing enhanced products and services for the military and their families. As a company, we aim to serve members of our armed services with the respect and special benefits they deserve because we recognize the sacrifice and hardships they bear to protect our nation and our freedoms.

We should acknowledge our mistakes to our customers

Customers know that any company can make mistakes. What they hate is when the company denies it. If we make a mistake with a customer, we should acknowledge it and take the proper remedial action.

When we find mistakes, we should fully disclose them to those who should know

When we make mistakes, we self-report them, as appropriate, to our regulators and to our Board of Directors as appropriate.

We also take appropriate and timely action with those involved

This can mean fixing an error-prone system, retraining our people, or modifying products or services. Unfortunately, this sometimes means firing an individual or replacing management, but only if such action is warranted due to bad behavior or real incompetence.

IV. GLOBAL FINANCIAL REFORM: HOW THE KEY ASPECTS WILL AFFECT OUR BUSINESSES AND OUR COUNTRY

The crisis of the last few years was proof enough that many aspects of our financial system needed to be fixed and reformed to minimize the chance of such a crisis reoccurring.

As I have discussed in prior letters, a multitude of issues caused, or contributed to, this crisis: structural issues, such as a critical lack of liquidity in some of our country's money market funds and in short-term financing markets; high leverage, which was omnipresent in the system; unregulated shadow banking; poor mortgage underwriting; huge trade imbalances; and ineffective regulation of Fannie Mae and Freddie Mac, among other factors.

A great number of the regulatory changes adopted in 2010 were essential. Foremost among them were higher capital and liquidity standards and the establishment of a Financial Stability Oversight Council. This body has the critical mandate of monitoring the financial system in its entirety, eliminating gaps and ensuring that all financial firms are properly regulated while anticipating future problems. Resolution Authority also was necessary in order to give regulators both the legal authority and the capability to manage and unwind large financial firms, just as the Federal Deposit Insurance Corporation (FDIC) has done with smaller U.S. banks for years. We also supported stress testing and well-managed clearinghouses for standard derivatives.

In addition, we have been very supportive of certain changes in compensation rules. In fact, long before they were mandated, JPMorgan Chase already had instituted most of these compensation practices. One particularly good new rule, a practice we had established but only for our Operating Committee, was the ability to clawback compensation from senior executives when appropriate. We now have extended these clawback rules to cover more senior managers at our firm. Had this clawback regime been in place before the crisis, many senior executives who ultimately were responsible for the failure of their companies would have had to return much of their ill-gotten gains.

With regard to the Dodd-Frank Wall Street Reform and Consumer Protection Act, however, we do have some concerns. The extensive reforms introduced by this legislation represent the most wide-ranging changes to the U.S. regulatory framework for financial services since the 1930s, and we likely will have to live with these reforms for the next 50 years. Dodd-Frank is a significant and thorough rewrite of the rules that our industry must follow. The impact of this legislation will be significant, and the outcomes – both positive and negative – will be a function of how the reforms are implemented.

It is of vital importance that Dodd-Frank implementation – along with the finalization of Basel Committee capital standards and other regulatory changes affecting our industry – is thoughtful and proportionate and takes into account the cumulative effect of the major changes that already have taken place since the crisis began. This is the only way we can hope to avoid unintended negative consequences, nurture a stable economic recovery, build a strong financial system and create a fair playing field for all.

Our System Was on the Edge of Chaos, and Governments and Regulators Deserve Enormous Credit for Preventing the Collapse

I have long been on record giving huge credit to the U.S. government and governments around the world for the drastic, bold actions they took to stop this rapidly moving crisis from getting considerably worse. A great number of the actions that the Treasury and the Federal Reserve took, both directly and indirectly, helped sustain numerous institutions and probably prevented many

from failure and bankruptcy. These actions were done to save the economy and to safeguard jobs. While we should try to do everything in our power to stop a crisis from happening again, we should recognize two critical points. Markets can be rational or irrational, and fear could freeze markets again. And when there are severe problems, only the government, in some form, has the wherewithal, power and liquidity to be the backstop of last resort.

Effectively changing our exceedingly complex global economic system requires great care

When this crisis began, it looked as "normal" as any crisis can, but it quickly careened into a global catastrophe. Most observers pinpoint the key moment as Lehman Brothers' failure in September 2008. But one of the things that made Lehman's failure so bad was that it came after the failure of Bear Stearns, Fannie Mae and Freddie Mac, among others. It was the cumulative effect of the collapse of all these institutions, many of which were overleveraged, that was so damaging. Had Lehman's failure occurred at another time, and been an isolated event, its failure would not likely have been so devastating.

Complex systems – and our global economic system surely is one – often oscillate within relatively normal confines. Our complex economic system regularly has produced "normal" recessions and booms and occasionally a devastating one like the Great Depression or the recent economic crisis. The factors that occasionally and devastatingly derail a system at any point in time may have contributed only because the table already had been set; at other times, the same factor would have had no effect at all. This phenomenon shows up in complex systems throughout nature.

Scientists dealing with complex systems try to isolate the impact of changing one input while holding all other elements constant. They know that if they change everything at once, it may be impossible to identify cause and effect.

As we try to remake our complex economic system, we need to be cautious and respectful of what the cumulative effect will be of making multiple changes at the same time.

A Great Deal Already Has Been Done to Improve the System – by Regulators and Governments – and by the Market Itself

As all the rules and regulations of Dodd-Frank and Basel III are being completed, a tremendous amount already has been done to strengthen the financial system.

Capital and liquidity standards already have been strengthened

Before the crisis, we believe the thresholds for capital and liquidity requirements were far too low. This was one of the key underlying causes of the crisis (and the reason JPMorgan Chase always held far more capital than was required). It clearly needed to be fixed.

These standards already have been increased several times: When the Treasury conducted the stress test in February of 2009, it raised the minimum Tier 1 Common Capital requirement from 2% to 4%. The recent stress test raised the capital requirement to 5% and imposed a more stringent test: Banks now must demonstrate that they can maintain a capital level of 5% throughout a highly stressed environment. The new Basel III requirements effectively will raise the 5% to 10%. (I will talk more about capital standards later in this section.)

Substantial improvements already have been made in the standards for residential and commercial mortgages and secured financing, among others

The marketplace, investors, banks, regulators and rating agencies already have significantly upgraded the standards by which many products and institutions operate. For example:

- All new mortgages are being written to comply with standards that existed many years ago, before the worst of the past decade's excesses. These mortgages include sensible features such as loan-to-value ratios mostly below 80%, true income verification and more conservative home-value appraisals.
- Money market funds now are required to disclose more information, hold higher-rated paper and maintain much more liquidity as a safeguard against potential runs. This was a critical systemic flaw around the Lehman collapse.

- Financial firms now disclose a great deal more information. Some of the information provided is quite useful, such as disclosures on funding, liquidity of assets and greater detail on credit. (Unfortunately, much of this information is of little use to anybody.)
- The repurchase agreement or repo markets – in which large investors, institutions and financial firms use short-term, collateralized borrowing to finance some of their investments – now require more conservative "haircuts," and no longer finance exotic securities.

Shadow banking essentially is gone

People mean very different things when they talk about the "shadow banking system." When discussing it, I divide this so-called system into two pieces: The first piece is one most observers barely knew existed. It consisted of largely off-balance sheet instruments like structured investment vehicles (SIV). The second piece is comprised of on-balance sheet instruments that were fairly well-known, such as asset-backed commercial paper, money market funds and repos.

The off-balance sheet vehicles, like SIVs, essentially are gone. The on-balance sheet instruments like money market funds, repos and asset-backed commercial paper are smaller in size, less leveraged, more conservatively managed and far more transparent.

There are more regulators with proper Resolution Authority and comprehensive oversight

Today, a greater number of regulatory bodies are providing an unprecedented level of oversight. New resolution laws and living wills will give regulators even more tools to use in handling a future crisis.

Banks' trading businesses are far more conservative

Banks in the United States have effectively eliminated proprietary trading. In addition, exotic products are smaller in size and more transparent, and trading books require far more capital and liquidity to support.

Standardized derivatives already are moving to clearinghouses

It is a common misperception that derivatives were not regulated. They actually were: by the U.S. Commodity Futures Trading Commission (CFTC), the U.S. Securities and Exchange Commission (SEC) and various other bank regulators. It also is a misconception that derivatives pricing lacked transparency; accurate market data on the vast majority of all derivatives were readily available and easy to access.

Nonetheless, we agree it is a good thing that standardized derivatives are moving to clearinghouses. This will help standardize contracts, simplify operational procedures, improve regulatory transparency and reduce aggregate counterparty risk. I will discuss this issue in more detail later.

Boards, management and regulators are more attentive to risk

At the corporate board and management levels, risk management now involves much greater attention to detail. Risk reviews are increasingly thorough, risk disclosures are deeper and any executive responsible for risk taking is the recipient of extensive oversight.

Collectively, these substantial changes have materially reduced risk to each individual financial institution and to the system as a whole. While some of the improvements still need to be codified, they may go a long way in creating the very strong kind of financial system we all want.

We Need to Get the Rest of It Right – Based on Facts and Analysis, Not Anger or Specious Arguments

In their book, *This Time Is Different: Eight Centuries of Financial Folly*, economists Carmen Reinhart and Kenneth Rogoff studied eight large economic crises over the past 800 years. These crises generally emanated from trade imbalances, foreign exchange issues and real estate speculation. Included among their observations was the fact that when the crisis also involved the collapse of the financial system – in four of the eight crises they studied – recovery took longer than expected (on average, four years instead of two years). But we should not assume that this historic pattern is preordained or predictive. It also seems likely that bad policy decisions made inadvertently and without forethought – during and after these crises – may very well have increased the level, length and severity of the economic stress attributed to these crises.

For the implementation of Dodd-Frank to be effective, it must recognize the improvements that already have been made and focus on resolving what remains to be done. Dodd-Frank creates several additional regulators and sets forth more than 400 rules and regulations that need to be implemented by various regulatory bodies. In addition to these rules, there will be rules from European governments and new capital and liquidity requirements emanating from Basel.

We all have a huge interest in both the stability and growth of the system. And we know that our chances for a strong global recovery are maximized if we get the rest of the regulatory reform effort right. We're getting close – let's not blow it. Moving forward, here are some important issues that need to be handled carefully.

The new oversight board — the Financial Stability Oversight Council — needs to require coordination among all the regulators, both domestic and global

Ideally, America should have streamlined its regulatory system. Instead, our legislators have created several additional regulators. This makes domestic and international coordination both more complex and even more critical. In fact, many of the regulators are setting up departments to deal with the other regulatory departments (if that is not the very definition of bureaucracy, I don't know what is).

It makes it all the more important that the new oversight board, the Financial Stability Oversight Council (FSOC), fosters true coordination among the regulators' activities. Unfortunately, there already is some evidence that the CFTC and the SEC are moving in different directions in their regulation of like products. The FSOC should nip this problem in the bud.

In addition to domestic coordination, the FSOC must ensure that the rules and regulations coming from Basel and the G20 are implemented in a consistent and coordinated fashion. The FSOC also must be vigilant in identifying imbalances within the system that generate excessive risk – and be ready to take rapid action to fix such imbalances. Finally, it needs to be aware of the development of new shadow banks and be prepared to intervene when they pose potential risks to the system.

Regulators should build a system that creates continuous improvement

There are implicit difficulties in trying to create "perfect" rules. What regulators need to do is put a system in place that can respond in real time to changes in the marketplace, create a culture that promotes continuous improvement, and design effective tools that operate as both gas pedals and brakes. This is what will enable them to do a better job managing the economy.

Here are just a few examples of effective tools and uses: The ability of regulators to change mortgage loan-to-value ratios up or down if they thought the housing market was becoming too frothy; change capital requirements immediately on specific loans, investments or securities when specific asset classes showed signs of becoming problematic; and dial up or down certain liquidity requirements and repo haircuts when excesses were taking place.

The Volcker Rule needs to leave ample room for market-making — the lifeblood of our capital markets

The Volcker Rule has various components. We have no issue with two of these: the component eliminating pure proprietary trading; and the component limiting banks from investing substantial amounts of their own capital into hedge funds.

Our concern largely is with a third aspect regarding capital and market-making. It's critical that the rules regarding market-making allow properly priced risk to be taken so we can serve clients and maintain liquidity. The recently proposed higher capital and liquidity standards for market-making operations – the new Basel II and Basel III capital rules – approximately triple the amount of regulatory capital for trading portfolios inclusive of market-making and hedging activities. For the most part, these capital rules protect against excessive risk taking. We don't believe any additional rules are needed, under the Volcker Rule or otherwise. However, if there must be more rules, these rules need to be carefully constructed (e.g., they should distinguish between liquid and illiquid securities, allow for hedging either on a specific-name or portfolio basis,

etc.). When market-makers are able to aggressively buy and sell securities in size, investors are able to get the best possible prices for their securities.

Derivatives regulation must allow for true end-user exemptions and for transparency rules that don't restrict liquidity

As I already stated, we completely agree with the creation of clearinghouses for standard derivatives. That said, clearinghouses do not eliminate risk; they standardize and concentrate it. Therefore, it is essential that these clearinghouses be strong, operate under sound rules and have well-capitalized member institutions. We do not want weak clearinghouses to become the next systemic problem.

It's also important to maintain a category of non-standardized derivatives contracts. These contracts are not fit for a clearinghouse because the clearinghouse cannot adequately value, margin or settle them. However, these custom, over-the-counter contracts are important to very sophisticated institutions (of course, such contracts should be fully disclosed to the regulators and properly regulated).

Additionally, client margin requirements need to be clarified. If clients are required to post margin, either their liquidity will be reduced or these clients will migrate their derivatives trades to overseas markets that do not have such posting requirements.

Regulators also must seek to strike the right balance between the need for transparency and the need to protect investors' interests. To the extent that transparency rules reduce liquidity and widen spreads, they actually can damage the very investors the regulators are trying to help. If market-makers are required to quickly disclose the price at which they are buying a large amount of securities or a small amount of very illiquid securities, they will necessarily be more conservative about the amount of risk they take. As a result, they will bid for less and price the risk higher since the whole world will know their position.

Finally, there is a truly misguided element of Dodd-Frank regarding derivatives. This so-called "spin-out provision" requires firms like ours to move credit, equity and commodity derivatives outside the bank. This requirement necessitates our creating a separately capitalized subsidiary and requiring our clients to establish new legal contracts with this new subsidiary. This is an operational nightmare (which we can handle) but makes it harder to service clients. It runs completely counter to recent efforts by regulators to reduce banks' exposure to counterparty default. This provision creates a lot of costs and *no* benefits. We believe that it makes our system riskier – not safer.

We need to create a Consumer Financial Protection Bureau that is effective for both consumers and banks

It has been widely reported that we were against the creation of a Consumer Financial Protection Bureau (CFPB). We were not – we were against the creation of a standalone CFPB, operating separately and apart from whatever regulatory agency already had oversight authority over banks. We thought that a CFPB should have been housed within the banking regulators and with proper authority within that regulator. This would have avoided the overlap, confusion and bureaucracy created by competing agencies.

However, we fully acknowledge that there were many good reasons that led to the creation of the CFPB and believe that if the CFPB does its job well, the agency will benefit American consumers and the system. Strong regulatory standards, adequate review of new products and transparency to consumers all are good things. Indeed, had there been stronger standards in the mortgage markets, one huge cause of the recent crisis might have been avoided. Other countries with stricter limits on mortgages, such as higher loan-to-value ratios, didn't experience a mortgage crisis comparable with ours. As recently as five years ago, most Americans would have called the U.S. mortgage market one of the best in the world – boy, was that wrong! What happened to our system did not work well for any market participant – lender or borrower – and a careful rewriting of the rules would benefit all.

The Durbin Amendment was passed with no fact-finding, analysis or debate, had nothing to do with the crisis and potentially will harm consumers

The Durbin Amendment, which regulates debit interchange fees, was added belatedly to the Dodd-Frank Act. It is an example of a policy that has little basis in fact or analysis. When policymakers undertake such a significant rewrite of the rules, there often is a tendency to adopt ideas with surface appeal. In this case, some potentially significant, unintended consequences exist, particularly for consumers.

Most analysis of the costs and benefits of debit cards shows that the debit card provides more total value (after fairly looking at *all* the costs *and* benefits) to retailers than cash, checks or many other forms of payment. In addition, merchants negotiate fees (if they agree to accept debit cards at all – 20% don't), and some pay as low as 35 basis points while other merchants pay considerably more.

The law that passed, and has been interpreted by the Fed in its proposed rule, permits a bank to charge only its "incremental" interchange cost. This cost does not include the direct costs of issuing debit cards, such as the printing and mailing of the cards, operational and call center support to service the cards, and the cost of fraud. Also absent from the analysis are the costs of ATMs and branches, which are part of the fixed costs of servicing checking accounts and debit cards. Any business that is allowed to charge only enough to recover its products' variable costs would soon be in bankruptcy.

The harm will fall largely on consumers; banks will be forced to lose money on debit interchange transactions and likely will compensate by increasing fees in some way for deposit customers. While the primary effect on consumers will be higher prices for banking services, there also will be secondary effects. Some customers may opt out of the banking system (even though the cost of being unbanked is much higher).* The law will disproportionately affect lower income consumers. Some analysts estimate that as many as 5% of U.S. families currently in the mainstream banking system will leave and become unbanked. The Durbin Amendment undoes a generation of hard work to decrease the cost and increase the efficiencies of banking for ordinary Americans and to reduce the ranks of the unbanked.

Finally, it's a terrible mistake and also bad policy for the government to get involved in price fixing and regulating business-to-business contracts. The Durbin Amendment is price fixing at its worst. It is arbitrary and discriminatory – it stipulates that only large banks (those with assets of $10 billion or more) will be affected by its price fixing. But while the law purports to exempt smaller banks, credit unions and prepaid government benefit cards, the reality is that not one of these groups will be immune to the negative implications of this rule.

The debit card has been a tremendous boon to both merchants and consumers. Before policymakers undertake these types of actions that pose such profound effects, they need to fully understand the consequences of their actions. The Durbin Amendment was passed in the middle of the night with limited fact-finding, little analysis and minimal debate, and I think it appropriate that we return to fact-finding and analysis in the full light of day.

Resolution Authority needs to be properly designed

Simply put, Resolution Authority essentially provides a bankruptcy process for big banks that is controlled and minimizes damage to the economy. We made a mistake when we called this aspect of financial reform "Resolution Authority," which sounds to the general public very much like a bailout. Perhaps a better name for it would have been "Minimally Damaging Bankruptcy For Big Dumb Banks" (MDBFBDB). Banks entering this process should do so with the understanding and certainty that the equity will be wiped out, the clawbacks on compensation will be fully invoked, and the company will be dismembered and eventually sold or liquidated.

* There is an interesting Associated Press article written on the cost of being unbanked.

When the FDIC takes over a bank, it has full authority to fire the management and Board of Directors and wipe out equity and unsecured debt – in a way that does not damage the economy. Controlled failure of large financial institutions should work the same way. It is complex because these companies are big and global and require international coordination. However, if the process is carefully constructed (and completely apolitical), controlled failure can be achieved.

In the process, the role of preferred equity and unsecured debt needs to be clarified. This may require corresponding accounting changes. My preference would be, at the point of failure, to convert preferred equity and unsecured debt to pure, new common equity. For example: When Lehman went bankrupt, it had $26 billion of equity and $128 billion of unsecured debt. If, on the day of bankruptcy, the regulators had converted that unsecured debt to equity, Lehman would have been massively overcapitalized and possibly able to secure funding to continue its operations and meet its obligations. The process to sell or liquidate the company would have been far more orderly. And the effect on the global economy would have been less damaging.

Payouts received on liquidation of the assets of the company would have been paid first to the "new" equity holders before payment was made to the "old" common equity holders – this essentially is what happens in bankruptcy (and would eliminate the need for contingent convertible securities). It is unlikely that this orderly liquidation would have resulted in losses exceeding the $150 billion of "new" equity. Therefore, it would not have cost the FDIC any money. However, even in the unlikely event of a loss to the FDIC, we believe that the loss should be charged back to the banks, not to the taxpayers, just as the FDIC does today.

Banks should pay for the failure of banks (as the FDIC is structured today), which is far better than arbitrary, punitive or excessive taxes

Systemically important financial institutions (SIFI), not the taxpayers, should pay the cost of resolving their fellow large institutions' failures. This is not a new idea – banks already bear this responsibility (through the cost of FDIC deposit insurance). Contrary to what some folks may believe, the FDIC is a government program, but the U.S. government does not pay for it – 100% of the cost for the FDIC is paid for by U.S. banks. (JPMorgan Chase's share alone of the FDIC's costs relating to the crisis will exceed $6 billion.)

Charging banks additional costs – proportionally and fairly allocated – for maintaining the banking system seems to be both proper and just. In our opinion, this is far more preferable than trying to create additional taxes to SIFIs, as some countries are discussing. Banks should pay for the failure of banks but not through arbitrary, punitive or excessive taxes.

Critical accounting and capital rules need to be redesigned to ensure better transparency and less pro-cyclicality

If properly designed, countercyclical accounting and capital rules can serve as stabilizers in a turbulent economy. I will mention two issues that underscore the need for this approach, although there are many more.

First, loan loss reserving currently is highly pro-cyclical: When losses are at their lowest point, so are loan loss reserves and vice versa. There are many ways to fix this intelligently while adhering to rational accounting rules.

Second, capital rules even under Basel III require less capital in benign markets than in turbulent times. So at precisely the time when things can only get worse, we require the least amount of capital. This also is easy to fix.

And one additional observation from outside our industry: Federal, state and local governments need to change their accounting standards (as corporations did decades ago) to reflect obligations made today that don't come due for many years. This one accounting issue allows governments to take on commitments today but not recognize them on financial statements as obligations or liabilities.

We need to beware of backward-looking models and "group think"

We need to be highly conscious of the limitations of backward-looking models. And we need to be even more conscious and suspect of what will happen when all market participants essentially are using the same models. While we want a level, global playing field – and fair application of rules to all participants, including common and consistent ways of calculating risk-weighted assets – we need to guard against the risk of "group think." If all participants use the same models and capital-allocation standards, this potentially plants the seeds of the next crisis. That is essentially what happened with mortgages in this last crisis.

The mortgage business needs to be radically overhauled

We need to rethink the mortgage industry from the ground up. I've already spoken about why we need stronger standards, including loan-to-value ratios and income verification, but we also need servicing contracts that are more consistent from both the consumer and investor standpoints. In addition, it would be beneficial to have foreclosure processes and standards that are common and consistent across all 50 states.

Most critically, it is incumbent upon us to resolve the status of the government-sponsored entities, Fannie Mae and Freddie Mac, and the "skin in the game" rules with regard to securitizations. We generally believe in these rules regarding securitizations (requiring mortgage originators to hold 5% of the risk of the loans they make). That said, the devil will be in the details, but we generally are supportive. Additionally, the government recently rolled out three models of how government-sponsored enterprises (GSE) might be reformed over time. Any of these models could be designed to work for consumers and investors and effectively could create a strong and stable mortgage finance system. Alternatively, any one could be designed in a way that could lead to disaster.

The key is for policymakers and market participants to get all elements right. If they succeed, then mortgage products will be much improved for both consumers and investors. Also, if the roles of the GSEs were to be better clarified and more limited, there would be lower risk of damage to the economy, and the taxpayers would not be left footing the bill for failure.

Getting to the Right Capital and Liquidity Levels

Of all the changes being made in the financial system, we believe it is most important to have higher, but proper, capital and liquidity requirements for banks. But these levels cannot be arbitrary or political – they must be rooted in logic and designed for the fundamental purpose of best preparing banks to be able to handle extremely stressed environments – a purpose that always has been central to JPMorgan Chase's capital and liquidity positions. We also believe that if the levels of capital are set too high, they can both impede economic growth and push more of what we refer to as banking into the hands of non-banks.

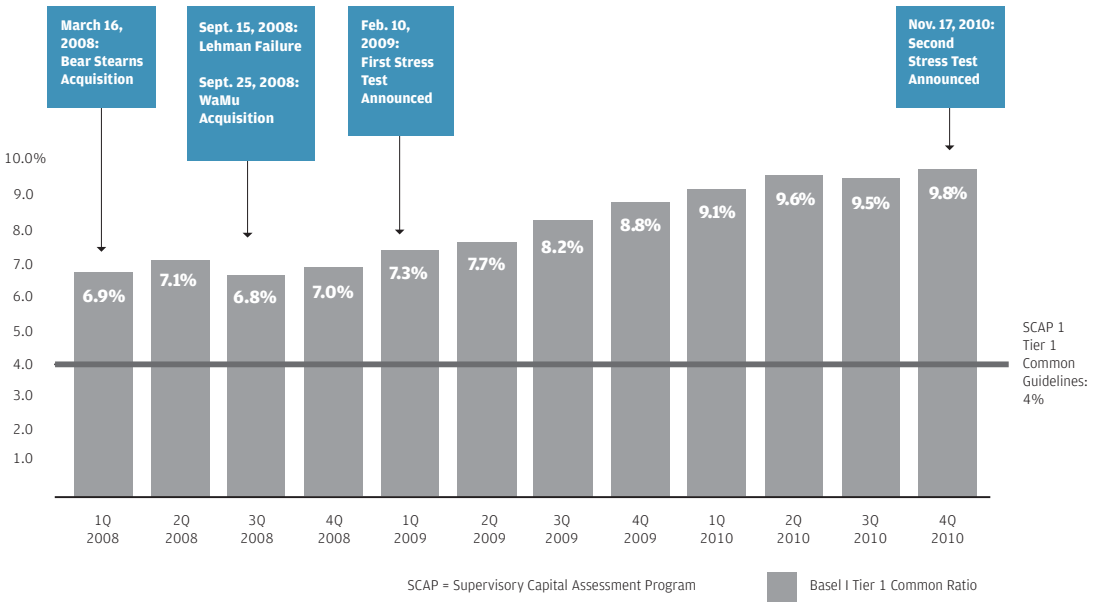
JPMorgan Chase had adequate capital both to deal with the government's new stress test, and, more important, to deal with the real stress test of the past few years – we don't see the need for more

Stress tests – both forward- and backward-looking ones – show that 7% Basel I Tier 1 Common Capital provided plenty of capital. When the government did its first stress test in February of 2009, it required banks to have 4% Tier 1 Common Capital. As shown in the chart on the next page, JPMorgan Chase went into the crisis with 7%. With that level of equity, we were able to acquire both Bear Stearns and WaMu while simultaneously powering through the crisis. Throughout the entire period, our capital ratio barely dropped.

The Basel III rules effectively would require JPMorgan Chase to hold approximately 50% more capital than the already high level of capital held during the crisis. The call under Basel III for a standard 7% of Tier 1 Common Capital essentially is equivalent to the 10% standard or more under Basel I. This is

As shown in the chart below, JPMorgan Chase maintained plenty of capital throughout the financial crisis.

JPMorgan Chase Quarterly Capital Levels



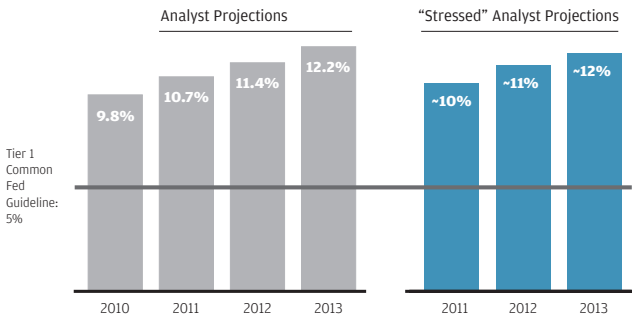
because the regulators tightened up the definitions for all types of capital – rightly so – and increased standards for the calculation of risk-weighted assets (mostly for trading assets, counterparty exposures and securitizations).

Basel III's higher capital requirements provide more than enough capacity to withstand extreme stress. We do not believe that we should be required to hold even more capital. The chart below presents a forward-looking stress test on JPMorgan Chase's capital. Using analysts' estimates, we show what our Basel I and Basel III Tier 1 Capital ratios would be. These are estimates, but they give you a sense of the strength of our capital generation, even under stress. A great deal of detailed analysis goes into these tests, including the assumptions that home prices would drop another 15% from peak levels and unemployment would go to 12%. This stress test is a more severe case than in the Federal Reserve's stress test.

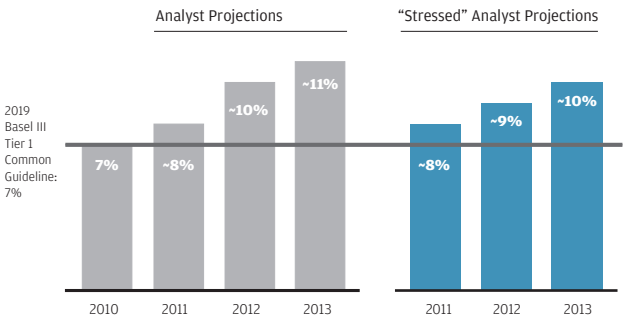
So in the "real" stress test of the past few years – one of the worst environments of all time – JPMorgan Chase did fine. In forward-looking stress tests, we are in excellent shape.

The whole purpose of capital is to be able to protect the firm under conditions of extreme stress. We understand why, after this crisis, the capital standards should be increased.

Basel I Tier 1 Common Ratio



Basel III Tier 1 Common Ratio



We now will have 50% more capital than we clearly needed during the crisis. And multiple other improvements have been made to protect our system. We simply do not see the need for *even more* capital, and we believe the facts prove it.

Banks did not benefit from any kind of implicit guarantee

The argument that systemically important financial institutions should hold more capital than small banks is predicated on two false notions: first, that SIFIs borrow money more cheaply because of an implicit guarantee (and that the cost of higher capital requirements will offset this "benefit"); and, second, that all SIFIs needed to be bailed out because they were too big to fail.

The notion that SIFIs had an implied guarantee is completely disproved by the chart below. It shows the borrowing costs of Fannie Mae and Freddie Mac – companies with a true implied guarantee from the federal government – vs. the borrowing costs of AA-rated banks and industrial companies. As you see, the borrowing costs of these banks were similar to those of AA-rated industrials, neither of which benefited from an implicit government guarantee of any kind. Surprisingly, even *after* the government said that it was not going to allow any additional banks to fail, the high borrowing costs for banks continued.

While it is true that some banks could have failed during this crisis, that is not true for all banks. Many banks around the world, including JPMorgan Chase, were ports of stability in the storm and proved to be great stabilizers at the height of the crisis in late 2008 and early 2009. Remember, also, that some of the banks identified as too big to fail, in reality, were too big to fail *at the time* after so much cumulative damage. At that time, the too-big-to-fail moniker was extended to large industrial companies, money market funds, just about any company that issued commercial paper, insurance companies and others.

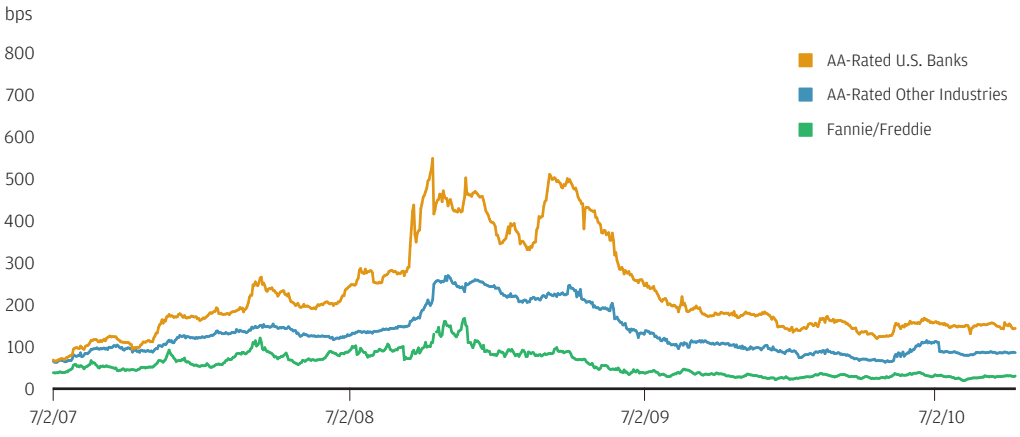
We should be very thoughtful about demanding that global SIFIs hold more capital

Presumably, risk-weighted assets reflect the riskiness of the company. If there are to be extra capital charges for SIFIs and global SIFIs, such decisions should be based upon logic and proof that SIFIs and global SIFIs pose a greater risk to the system. Some SIFIs posed a great risk while other SIFIs did not. And these variations in "riskiness" were not strictly a function of size. Also, if Resolution Authority is meant to take care of the too-big-to-fail problem, then what purpose does further raising capital levels serve other than to fix a problem that already has been fixed?

AA-Rated U.S. Banks' and Other Industries' Spreads above Treasury: Crisis/Post-crisis (7/2007–9/2010)

Average Spread over Period:
AA-Rated U.S. Banks – 229 bps
AA-Rated Other Industries – 131 bps
Fannie/Freddie – 58 bps

bps = basis points



Source: Morgan Markets

Even the identification of SIFIs or global SIFIs creates issues: Does this status make you a better credit? Won't it cause distortions in the future as some people decide that it will be safer to bank with SIFIs? Are the regulators going to make it clear what a company could do to give up the SIFI or global SIFI status and reduce your capital requirements? Are there going to be specific ways for specific SIFIs to reduce their capital requirements? Will the identification of global SIFIs be done fairly across countries? Will there be bright-line tests or will it be up to the judgment of various bureaucracies? Won't the identification of SIFIs simply become a political process as you travel to Washington, D.C., to argue why you should not be a SIFI?

In short, we at JPMorgan Chase see the value of higher capital and liquidity and the wisdom of resolution plans and living wills that make it easier to let big banks fail. We even believe that banks should continue to pay for bank failures. We just don't believe in arbitrary and increasingly higher capital ratios.

The Need for Large Global Banks and America's Competitive Position

Companies come in various sizes, shapes and forms. There are many reasons for this. At JPMorgan Chase, we benefit from huge economies of scale in our businesses. The same goes for most large enterprises. Economies of scale in our industry generally come from technology, including data centers, networks and software; the benefits of global branding; the ability to make huge investments; and the true diversification of risks. The beneficiaries of these economies of scale ultimately are the consumers who these companies serve.

Moreover, in many ways, the size of our company is directly related to the size of the clients we serve globally. Our size supports the level of resources needed to service these large, multinational clients – and enables us to take on the necessary risk to support them.

For some of our wholesale clients, we are asked to make bridge loans or underwrite securities of $10 billion or more. We buy and sell trillions of dollars of securities a day and move some $10 trillion of cash around the world every day. When we provide credit to a client, it may include revolving credit, trade finance, trading lines, intraday lines and derivatives lines – often in multiple locations globally – and often in the billions.

In our retail business, buying WaMu enabled us to improve branches in many ways: adding salespeople; retrofitting and upgrading each location; adding improved products, services and systems; and saving some $1 million at each branch. Ultimately, this allowed us to offer our clients better products and services.

In a free market economy, companies grow over time because they are winning customers. These companies win customers and grow market share because they – relative to the competition – are doing a better and faster (and at times less expensive) job of providing customers with what they want.

Consolidation does not cause crises, and the U.S. banking system is far less consolidated than most other countries

The U.S. banking system has gone from approximately 20,000 banks 30 years ago to approximately 7,000 today. That trend likely will continue as banks seek out economies of scale and competitive advantage. That does not mean there won't be start-ups and successful community banks. It just means that, in general, consolidation will continue, as it has in many industries.

The U.S. system is still far less consolidated than most other countries (see chart on next page on top).

In any case, the degree of industry consolidation has not, in and of itself, been a driving force behind the financial crisis. In fact, some countries that were far more consolidated (Canada, Australia, Brazil, China and Japan, to name a few) had no problems during this crisis so there is not compelling evidence to back up the notion that consolidation was a major cause of the problem.

Top 20 Countries by Gross Domestic Product

Deposit Market Share for Top 10 Banks in Each Respective Country	% Share
Canada	97%
Mexico	93
Turkey	92
South Korea	91
Australia	90
France[1]	88
Brazil	85
Spain	84
Sweden[1]	84
Argentina	76
The Netherlands[1]	76
China	67
Japan	62
India	61
Russia	61
Italy	53
United Kingdom	48
United States	**41**
Switzerland[1]	35
Germany[1]	26

Notes: Deposit market share data are related to the operations/ transactions conducted by banks domiciled in each respective country, including branches and subsidiaries of foreign banks

1 Deposit market share is based on the top eight banks in France, top seven banks in Sweden, top four banks in the Netherlands, top three banks in Germany and top two banks in Switzerland

Sources: J.P. Morgan and J.P. Morgan Cazenove research estimates; company filings and reports; and Central Bank and trade association data

We should be concerned about American banks losing global market share – because they are

Two facts support this contention:

U.S. investment banking services are increasingly being provided by foreign banks. While it is gratifying to see J.P. Morgan go from nowhere to become #1 in U.S. investment banking, it is notable how much U.S. investment banking has changed. Twenty years ago, U.S. investment banks dominated U.S. investment banking – occupying all of the top 10 positions. A decade ago, they held nine of the top 10. Last year, U.S. investment banks held only five – half – of the top 10 slots (see chart below).

U.S. banks also have lost significant position. In 1989, U.S. banks represented 44 of the 50 largest financial firms in the world (by market capitalization). More than 20 years later, American banks now number only six of the top 50. While much of this change has to do with the growth of the rest of the world, it is striking both how fast and how dramatic the change has been.

It's important that we make sure that American banks stay competitive

We believe that it is good for America – the world's leading global economy – to have leading global banks. Being involved in the capital flows between corporations and investors across the globe is a critical function. Large, sophisticated institutions will be required to manage these flows and to intermediate or invest directly if necessary. Global markets will require sophisticated analysis, tools and execution.

The impact of ceding this role to banks based outside the United States could be detrimental to the U.S. economy and to U.S.

Market-Leading Franchises — Investment Bank

U.S. Equity, Equity-Related and Debt

Rank	1990	2000	2010
1	Merrill Lynch	Merrill Lynch	J.P. Morgan
2	Goldman Sachs	Salomon Smith Barney	Barclays Capital
3	Salomon Brothers	Morgan Stanley	Bank of America Merrill Lynch
4	First Boston	Credit Suisse	Deutsche Bank
5	Morgan Stanley	Goldman Sachs	Goldman Sachs
6	Kidder Peabody	Lehman Brothers	Citi
7	Bear Stearns	Chase	Royal Bank of Scotland
8	Shearson Lehman	J.P. Morgan	UBS
9	Prudential-Bache Capital	Bank of America	Morgan Stanley
10	Donaldson Lufkin & Jenrette	Deutsche Bank	Credit Suisse

Source: Thomson Reuters. Data as of 12/31/10. Rankings based on dollar volume run on March 14, 2011
Note: Light gray font designates firms that no longer exist; orange font indicates non-U.S.-based firms

companies. For a long time, the United States has had the deepest and best capital markets on the planet. These markets match investors with companies, large and small, who innovate, invest and grow around the world. They have helped build some of the best companies in the world and the best economy on the planet. America's financial institutions have been a critical part of this success.

While mistakes were made and change was clearly required, we should not throw out the baby with the bath water.

Some of the laws that were written and some of the possible interpretations of rules to come could create competitive disadvantages for American banks. They are adding up, and they bear watching. They are:

- American banks no longer have the ability to use tax-deductible preferred stock as capital (overseas banks do).
- Most other countries have made it clear that they will not accept the Volcker Rule (despite Paul Volcker's testimony that international regulators would adopt it once they understood it).
- Many of the rules regarding derivatives being adopted in the United States are unlikely to be adopted universally. Certain countries are licking their chops at the prospect of U.S. banks being unable to compete in derivatives. Remember, the clients will go to the place that is the cheapest and most effective for them.
- There are concentration limits, old and new, that constrain American banks' ability from making acquisitions both here and abroad. Some of these constraints will not apply to foreign banks.
- There are proposed bank taxes or other arbitrary taxes that could disadvantage large banks – even the FDIC has skewed its deposit insurance to increase the charge to bigger banks.
- Many of the leading economies of the world may not have their large banks maintain additional capital requirements in excess of the 7% called for in Basel III.
- It is clear that some countries' regulation allows for a much less conservative calculation on risk-weighted assets.

We do not believe that the Federal Reserve or the Treasury would want to leave American banks at a disadvantage. We need American leadership to be forceful and engaged to ensure a fair outcome.

We all have a vested interest in getting this right

The government took great action to stop the crisis from getting worse. Lawmakers and regulators have and will take much action to fix what clearly was a broken system. As quickly as we reasonably can, we should finish the remaining rules and requirements and create the certainty that will help the system to heal faster. Nothing is more important than getting our economy growing and getting Americans back to work. And the regulators should remember that they always have the right to change things again – if and when appropriate.

V. CONCLUSION

You can rest assured that your management team and Board of Directors are completely focused on all the opportunities, issues and risks that we have ahead of us.

Regarding the regulatory changes, we have some 70 projects and work teams – fully staffed with lawyers; accountants; credit officers; compliance, systems and operations specialists; and bankers and traders – analyzing and preparing for each of the new regulatory requirements. All in all, thousands of our people around the world are partially or fully engaged in these endeavors.

We will ensure that we meet all the new rules and requirements, both in letter and spirit, and we will make sure that everything we do, wherever we can, is done with the customer foremost in mind. While we expect to make numerous changes in our products, services and prices, we will strive to do so in the most customer-friendly way possible.

As we look toward the future, we see incredible opportunities for your company, and our teams around the world are fully engaged in pursuing them.

In every way we can, we continue to actively support the economic recovery. We know that communities are built when everyone does his or her part. And we intend to do ours by being a responsible corporate citizen and helping our communities across the globe. You can read more about our extensive efforts on jpmorganchase.com/forward.

Our people have done an extraordinary job, often under difficult circumstances. I hope you are as proud of them as I am.

Jamie Dimon
Chairman and Chief Executive Officer

April 4, 2011