JPMORGAN CHASE & CO
Form 10-Q
August 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
Quarterly report pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the quarterly period ended June 30, 2014	Commission file number 1-5805

JPMorgan Chase & Co.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	13-2624428 (I.R.S. employer identification no.)
270 Park Avenue, New York, New York (Address of principal executive offices)	10017 (Zip Code)

Registrant's telephone number, including area code: (212) 270-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
T Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
T Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer T Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes T No

Number of shares of common stock outstanding as of June 30, 2014: 3,761,280,910

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JPMorgan Chase & Co.
Consolidated financial highlights
(unaudited)

As of or for the period ended, (in millions, except per share, ratio, headcount data and where otherwise noted)	2Q14	1Q14	4Q13	3Q13	2Q13	Six months ended June 30, 2014	Six months ended June 30, 2013
Selected income statement data							
Total net revenue	$24,454	$22,993	$23,156	$23,117	$25,211	$47,447	$50,333
Total noninterest expense	15,431	14,636	15,552	23,626	15,866	30,067	31,289
Pre-provision profit/(loss)	9,023	8,357	7,604	(509)	9,345	17,380	19,044
Provision for credit losses	692	850	104	(543)	47	1,542	664
Income before income tax expense	8,331	7,507	7,500	34	9,298	15,838	18,380
Income tax expense	2,346	2,233	2,222	414	2,802	4,579	5,355
Net income/(loss)	$5,985	$5,274	$5,278	$(380)	$6,496	$11,259	$13,025
Per common share data							
Net income/(loss) per share: Basic	$1.47	$1.29	$1.31	$(0.17)	$1.61	$2.77	$3.22
Diluted	1.46	1.28	1.30	(0.17)	1.60	2.74	3.19
Cash dividends declared per share	0.40	0.38	0.38	0.38	0.38	0.78	0.68
Book value per share	55.53	54.05	53.25	52.01	52.48	55.53	52.48
Tangible book value per share (“TBVPS”)[a]	43.17	41.73	40.81	39.51	39.97	43.17	39.97
Common shares outstanding							
Average: Basic	3,780.6	3,787.2	3,762.1	3,767.0	3,782.4	3,783.9	3,800.3
Diluted	3,812.5	3,823.6	3,797.1	3,767.0	3,814.3	3,818.1	3,830.6
Common shares at period-end	3,761.3	3,784.7	3,756.1	3,759.2	3,769.0	3,761.3	3,769.0
Share price[b]							
High	$61.29	$61.48	$58.55	$56.93	$55.90	$61.48	$55.90
Low	52.97	54.20	50.25	50.06	46.05	52.97	44.20
Close	57.62	60.71	58.48	51.69	52.79	57.62	52.79
Market capitalization	216,725	229,700	219,657	194,312	198,966	216,725	198,966
Selected ratios and metrics							
Return on common equity (“ROE”)	11%	10%	10%	(1)%	13%	11%	13%
Return on tangible common equity (“ROTCE”)[a]	14	13	14	(2)	17	14	17
Return on assets (“ROA”)	0.99	0.89	0.87	(0.06)	1.09	0.94	1.11
Overhead ratio	63	64	67	102	63	63	62
Loans-to-deposits ratio	57	57	57	57	60	57	60
High quality liquid assets (“HQLA”) (in billions)[c]	$576	$538	$522	$538	$454	$576	$454
Common equity tier 1 (“CET1”) capital ratio[d]	9.8%	10.9%	10.7%	10.5%	10.4%	9.8%	10.4%
Tier 1 capital ratio[d]	11.1	12.1	11.9	11.7	11.6	11.1	11.6
Total capital ratio[d]	12.5	14.5	14.4	14.3	14.1	12.5	14.1

Tier 1 leverage ratio[d]	7.6	7.4	7.1	6.9	7.0	7.6	7.0
Selected balance sheet data (period-end)							
Trading assets	$392,543	$375,204	$374,664	$383,348	$401,470	$392,543	$401,470
Securities[e]	361,918	351,850	354,003	356,556	354,725	361,918	354,725
Loans	746,983	730,971	738,418	728,679	725,586	746,983	725,586
Total assets	2,520,336	2,476,986	2,415,689	2,463,309	2,439,494	2,520,336	2,439,494
Deposits	1,319,751	1,282,705	1,287,765	1,281,102	1,202,950	1,319,751	1,202,950
Long-term debt[f]	269,929	274,512	267,889	263,372	266,212	269,929	266,212
Common stockholders' equity	208,851	204,572	200,020	195,512	197,781	208,851	197,781
Total stockholders' equity	227,314	219,655	211,178	206,670	209,239	227,314	209,239
Headcount	245,192	246,994	251,196	255,041	254,063	245,192	254,063
Credit quality metrics							
Allowance for credit losses	$15,974	$16,485	$16,969	$18,248	$20,137	$15,974	$20,137
Allowance for loan losses to total retained loans	2.08 %	2.20 %	2.25%	2.43 %	2.69 %	2.08 %	2.69 %
Allowance for loan losses to retained loans excluding purchased credit-impaired loans[g]	1.69	1.75	1.80	1.89	2.06	1.69	2.06
Nonperforming assets	$9,017	$9,473	$9,706	$10,380	$11,041	$9,017	$11,041
Net charge-offs	1,158	1,269	1,328	1,346	1,403	2,427	3,128
Net charge-off rate	0.64 %	0.71 %	0.73%	0.74 %	0.78 %	0.68 %	0.88 %

(a) TBVPS and ROTCE are non-GAAP financial measures. TBVPS represents the Firm's tangible common equity divided by period-end common shares. ROTCE measures the Firm's annualized earnings as a percentage of tangible common equity. For further discussion of these measures, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 17–18.

(b) Share price shown for JPMorgan Chase's common stock is from the New York Stock Exchange. JPMorgan Chase's common stock is also listed and traded on the London Stock Exchange and the Tokyo Stock Exchange.

(c) HQLA is the estimated amount of assets that qualify for inclusion in the Basel III liquidity coverage ratio; see HQLA on page 84.

(d) Basel III Transitional rules became effective on January 1, 2014; all prior period data is based on Basel I rules. As of June 30, 2014, the ratios presented are calculated under the Basel III Advanced Transitional Approach. CET1 capital under Basel III replaced Tier 1 common capital under Basel I. Prior to Basel III becoming effective on January 1, 2014, Tier 1 common capital under Basel I was a non-GAAP financial measure. See Regulatory capital on pages 74–78 for additional information on Basel III and non-GAAP financial measures of regulatory capital.

(e) Included held-to-maturity ("HTM") securities of $47.8 billion, $47.3 billion, $24.0 billion and $4.5 billion at June 30, 2014, March 31, 2014, December 31, 2013 and September 30, 2013, respectively. Held-to-maturity balance at June 30, 2013 was not material.

(f) Included unsecured long-term debt of $205.6 billion, $206.1 billion, $199.4 billion, $199.2 billion and $199.1 billion at June 30, 2014, March 31, 2014, December 31, 2013, September 30, 2013 and June 30, 2013, respectively.

(g) Excludes the impact of residential real estate purchased credit-impaired ("PCI") loans. For further discussion, see Allowance for credit losses on pages 66–68.

INTRODUCTION

This section of the Form 10-Q provides management's discussion and analysis ("MD&A") of the financial condition and results of operations of JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"). See the Glossary of terms on pages 186–189 for definitions of terms used throughout this Form 10-Q.

This Form 10-Q should be read in conjunction with JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the U.S. Securities and Exchange Commission ("2013 Annual Report" or "2013 Form 10-K"), to which reference is hereby made.

The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. For a discussion of those risks and uncertainties and the factors that could cause JPMorgan Chase's actual results to differ materially from those risks and uncertainties, see Forward-looking Statements on page 89 of this Form 10-Q and Part I, Item 1A, Risk Factors, on pages 9–18 of JPMorgan Chase's 2013 Annual Report.

JPMorgan Chase & Co., a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations worldwide; the Firm had $2.5 trillion in assets and $227.3 billion in stockholders' equity as of June 30, 2014. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

JPMorgan Chase's principal bank subsidiaries are JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A."), a national bank with U.S. branches in 23 states, and Chase Bank USA, National Association ("Chase Bank USA, N.A."), a national bank that is the Firm's credit card–issuing bank. JPMorgan Chase's principal nonbank subsidiary is J.P. Morgan Securities LLC ("JPMorgan Securities"), the Firm's U.S. investment banking firm. The bank and nonbank subsidiaries of JPMorgan Chase operate nationally as well as through overseas branches and subsidiaries, representative offices and subsidiary foreign banks. One of the Firm's principal operating subsidiaries in the United Kingdom ("U.K.") is J.P. Morgan Securities plc , a subsidiary of JPMorgan Chase Bank, N.A.

JPMorgan Chase's activities are organized, for management reporting purposes, into four major reportable business segments, as well as a Corporate/Private Equity segment. The Firm's consumer business is the Consumer & Community Banking segment. The Corporate & Investment Bank, Commercial Banking, and Asset Management segments comprise the Firm's wholesale businesses. A description of the Firm's business segments, and the products and services they provide to their respective client bases, follows.

Consumer & Community Banking

Consumer & Community Banking ("CCB") serves consumers and businesses through personal service at bank branches and through ATMs, online, mobile and telephone banking. CCB is organized into Consumer & Business Banking ("CBB"), Mortgage Banking (including Mortgage Production, Mortgage Servicing and Real Estate Portfolios) and Card, Merchant Services & Auto ("Card"). Consumer & Business Banking offers deposit and investment products and services to consumers, and lending, deposit, and cash management and payment solutions to small businesses. Mortgage Banking includes mortgage origination and servicing activities, as well as portfolios comprised of residential mortgages and home equity loans, including the purchased credit-impaired ("PCI") portfolio acquired in the Washington Mutual transaction. Card issues credit cards to consumers and small businesses, provides payment services to corporate and public sector clients through its commercial card products, offers payment processing services to merchants, and provides auto and student loan services.

Corporate & Investment Bank

The Corporate & Investment Bank ("CIB"), comprised of Banking and Markets & Investor Services, offers a broad suite of investment banking, market-making, prime brokerage, and treasury and securities products and services to a global client base of corporations, investors, financial institutions, and government and municipal entities. Within Banking, the CIB offers a full range of investment banking products and services in all major capital markets, including advising on corporate strategy and structure, capital-raising in equity and debt markets, as well as loan origination and syndication. Also included in Banking is Treasury Services, which includes transaction services, comprised primarily of cash management and liquidity solutions, and trade finance products. The Markets & Investor Services segment of the CIB is a global market-maker in cash securities and derivative instruments, and also offers sophisticated risk management solutions, prime brokerage, and research. Markets & Investor Services also includes the Securities Services business, a leading global custodian, which includes custody, fund accounting and administration, and securities lending products sold principally to asset managers, insurance companies and public and private investment funds.

Commercial Banking

Commercial Banking ("CB") delivers extensive industry knowledge, local expertise and dedicated service to U.S. and multinational clients, including corporations, municipalities, financial institutions and nonprofit entities with annual revenue generally ranging from $20 million to $2 billion. CB provides financing to real estate investors and owners. Partnering with the Firm's other businesses, CB provides comprehensive financial solutions, including lending, treasury services, investment banking and asset management to meet its clients' domestic and international financial needs.

Asset Management

Asset Management ("AM"), with client assets of $2.5 trillion as of June 30, 2014, is a global leader in investment and wealth management. AM clients include institutions, high-net-worth individuals and retail investors in every major market throughout the world. AM offers investment management across all major asset classes including equities, fixed income, alternatives and money market funds. AM also offers multi-asset investment management, providing solutions to a broad range of clients' investment needs. For individual investors, AM also provides retirement products and services, brokerage and banking services including trusts and estates, loans, mortgages and deposits. The majority of AM's client assets are in actively managed portfolios.

In addition to the four major reportable business segments outlined above, the following is a description of the Corporate/Private Equity segment.

Corporate/Private Equity

The Corporate/Private Equity segment comprises Private Equity, Treasury and Chief Investment Office ("CIO") and Other Corporate, which includes corporate staff units and expense that is centrally managed. Treasury and CIO are predominantly responsible for measuring, monitoring, reporting and managing the Firm's liquidity, funding and structural interest rate and foreign exchange risks, as well as executing the Firm's capital plan. The major Other Corporate units include Real Estate, Enterprise Technology, Legal, Compliance, Finance, Human Resources, Internal Audit, Risk Management, Oversight & Control, Corporate Responsibility and various Other Corporate groups. Other centrally managed expense includes the Firm's occupancy and pension-related expense that are subject to allocation to the businesses.

EXECUTIVE OVERVIEW

This executive overview of the MD&A highlights selected information and may not contain all of the information that is important to readers of this Form 10-Q. For a complete description of trends and uncertainties, as well as the risks and critical accounting estimates affecting the Firm and its various lines of business, this Form 10-Q should be read in its entirety.

Financial performance of JPMorgan Chase

	Three months ended June 30,			Six months ended June 30,		
(in millions, except per share data and ratios)	2014	2013	Change	2014	2013	Change
Selected income statement data						
Total net revenue	$24,454	$25,211	(3)%	$47,447	$50,333	(6)%
Total noninterest expense	15,431	15,866	(3)	30,067	31,289	(4)
Pre-provision profit	9,023	9,345	(3)	17,380	19,044	(9)
Provision for credit losses	692	47	NM	1,542	664	132
Net income	5,985	6,496	(8)	11,259	13,025	(14)
Diluted earnings per share	$1.46	1.60	(9)	2.74	3.19	(14)%
Return on common equity	11%	13%		11%	13%	
Capital ratios[(a)]						
CET1	9.8	10.4		9.8	10.4	
Tier 1 capital	11.1	11.6		11.1	11.6	

(a) Basel III Transitional rules became effective on January 1, 2014; all prior period data is based on Basel I rules. As of June 30, 2014, the ratios presented are calculated under the Basel III Advanced Transitional Approach. CET1 capital under Basel III replaced Tier 1 common capital under Basel I. Prior to Basel III becoming effective on January 1, 2014, Tier 1 common capital under Basel I was a non-GAAP financial measure. See Regulatory capital on pages 74–78 for additional information on Basel III and non-GAAP financial measures of regulatory capital.

Business Overview

JPMorgan Chase reported second-quarter 2014 net income of $6.0 billion, or $1.46 per share, on net revenue of $24.5 billion. Net income decreased by $511 million, compared with net income of $6.5 billion, or $1.60 per share, in the second quarter of 2013. Return on equity for the quarter was 11%, compared with 13% for the prior-year quarter. The Firm's results reflected strong underlying performance, notwithstanding industry-wide headwinds in Markets and Mortgage.

The decrease in net income from the second quarter of 2013 was driven by higher provision for credit losses and lower net revenue, partially offset by lower noninterest expense. Net revenue was $24.5 billion, down 3% compared with the prior year. Noninterest revenue was $13.7 billion, down 6% compared with the prior year, primarily driven by a decrease in principal transactions and lower mortgage fees and related income, partially offset by an increase in other income. Net interest income was $10.8 billion, up 1% compared with the prior year, reflecting the impact of higher yields on securities, lower yields on long-term debt and deposits, and higher average loan balances, largely offset by lower yields on loans and lower average interest-earning trading asset balances.

The provision for credit losses for the three and six months ended June 30, 2014 increased from the prior year, reflecting an increase in the consumer provision for credit losses, partially offset by a decline in the wholesale provision for credit losses. The increase in the consumer provision for credit losses was the result of a lower benefit from reductions in the consumer allowance for loan losses, partially offset by lower net charge-offs. The current-quarter consumer allowance release was primarily due to the continued improvement in home prices and delinquencies in the residential real estate portfolio. The current-quarter consumer provision reflected a $354 million reduction in the allowance for credit losses, compared to a $1.5 billion reduction in the prior year. Consumer net charge-offs were $1.2 billion, compared with $1.5 billion in the prior year, resulting in net charge-off rates, excluding PCI loans, of 1.34% and 1.66%, respectively. The wholesale provision reflected a generally favorable credit environment and stable credit quality trends. The wholesale provision for credit losses was a benefit of $156 million, compared to a provision of $76 million in the prior year. Wholesale net recoveries were $44 million, compared with net recoveries of $67 million in the prior year, resulting in net recovery rate of 0.06% and 0.09%, respectively. The Firm's allowance for loan losses to period-end loans retained, excluding PCI loans, was 1.69%, compared with 2.06% in the prior year. The Firm's nonperforming assets totaled $9.0 billion, down from the prior quarter and prior year levels of $9.5 billion and $11.0 billion, respectively.

Noninterest expense was $15.4 billion, down $435 million, or 3%, compared with the prior year, driven by lower expense in mortgage production and servicing and lower performance-related compensation in the Corporate & Investment Bank, predominantly offset by higher control costs.

CBB average deposits were up 9% and Business Banking loan originations, a record, were up 46%. Client investment assets were a record $205.2 billion, up 19%, and credit card sales volume was $118.0 billion, up 12% from the prior year. CIB maintained its #1 ranking for Global Investment Banking fees, and assets under custody were up 14% compared with the prior year. CB period-end loan balances were up 9%, and gross investment banking revenue with CB clients was up 25%. AM reported positive net long-term product flows for the twenty-first consecutive quarter, total client assets of $2.5 trillion and record period-end loan balances of $100.9 billion.

The Firm maintained its fortress balance sheet, ending the second quarter with estimated Basel III Advanced Fully Phased-in CET1 capital of $161 billion and a CET1 capital ratio of 9.8%. (Basel III Advanced Fully Phased-In measures are non-GAAP financial measures which the Firm uses, along with the other capital measures, to assess and monitor its capital position. For further discussion of the CET1 capital ratios, see Regulatory capital on pages 74–78.) The Firm’s supplementary leverage ratio (“SLR”) was 5.4% and the Firm had $576 billion of high quality liquid assets (“HQLA”) as of June 30, 2014.

JPMorgan Chase continued to support clients, consumers, companies and communities around the globe. The Firm provided credit and raised capital of over $1.0 trillion for commercial and consumer clients during the six months ended June 30, 2014. This included $10 billion of credit provided for U.S. small businesses and $296 billion of credit provided for corporations. The Firm raised more than $611 billion of capital for clients. In addition, more than $33 billion of credit was provided to, and capital was raised for, nonprofit and government entities, including states, municipalities, hospitals and universities.

Consumer & Community Banking net income was $2.4 billion, a decrease of $646 million, or 21%, compared with the prior year, due to higher provision for credit losses and lower net revenue, partially offset by lower noninterest expense. Net revenue was $11.4 billion, a decrease of $584 million, or 5%, compared with the prior year. Net interest income was $7.0 billion, down $131 million, or 2%, driven by spread compression and lower mortgage warehouse balances, largely offset by higher deposit balances. Noninterest revenue was $4.5 billion, a decrease of $453 million, or 9%, driven by lower mortgage fees and related income. The provision for credit losses was $852 million, compared with a benefit of $19 million in the prior year. The current-quarter provision reflected a $357 million reduction in the allowance for loan losses and total net charge-offs of $1.2 billion. The prior-year provision reflected a $1.5 billion reduction in the allowance for loan losses and total net charge-offs of $1.5 billion. Noninterest expense was $6.5 billion, a decrease of $408 million, or 6%, from the prior year, driven by lower Mortgage Banking expense, partially offset by higher Credit Card expense. Return on equity for the second quarter of 2014 was 19% on $51.0 billion of average allocated capital.

Corporate & Investment Bank net income was $2.0 billion, down 31% compared with $2.8 billion in the prior year, reflecting lower revenue, as well as higher noninterest expense. Net revenue was $9.0 billion compared with $9.9 billion in the prior year. Excluding the impact of a debit valuation adjustment (“DVA”) gain of $355 million in the prior year, net revenue was down 6% from $9.5 billion in the prior year, and net income was down 25% from $2.6 billion in the prior year. Noninterest expense was $6.1 billion, up 6% from the prior year, driven by higher

noncompensation expense, partially offset by lower performance-based compensation. Return on equity for the second quarter of 2014 was 13% on $61.0 billion of average allocated capital.

Commercial Banking net income was $658 million, up 6% compared with the prior year, reflecting a lower provision for credit losses, partially offset by higher noninterest expense and lower net revenue. Net revenue was $1.7 billion, a decrease of $27 million, or 2%, compared with the prior year. Net interest income was $1.1 billion, a decrease of $53 million, or 5%, compared with the prior year, reflecting spread compression and lower purchase discounts recognized on loan repayments, partially offset by higher loan balances. Noninterest revenue was $577 million, an increase of $26 million, or 5%, compared with the prior year, driven by higher investment banking revenue. Noninterest expense was $675 million, up 4% compared with the prior year, largely reflecting higher investments in controls. Return on equity for the second quarter of 2014 was 19% on $14.0 billion of average allocated capital.

Asset Management net income was $552 million, an increase of $52 million, or 10%, from the prior year, reflecting higher net revenue, largely offset by higher noninterest expense. Net revenue was $3.0 billion, an increase of $231 million, or 8%, from the prior year. Noninterest revenue was $2.4 billion, up $224 million, or 10%, from the prior year, due to net client inflows and the effect of higher market levels. Net interest income was $576 million, up $7 million, or 1% from the prior year, due to higher loan and deposit balances, largely offset by spread compression. Noninterest expense was $2.1 billion, an increase of $170 million, or 9%, from the prior year, primarily due to continued investment in controls and growth. Return on equity was 25% on $9.0 billion of average allocated capital and pretax margin was 30% for the second quarter of 2014.

Corporate/Private Equity net income was $369 million, compared with a net loss of $552 million in the prior year.
Private Equity reported net income of $7 million, compared with net income of $212 million in the prior year. Net revenue was $36 million, compared with $410 million in the prior year, primarily due to lower net valuation gains on privately held investments.
Treasury and CIO reported a net loss of $46 million, compared with a net loss of $429 million in the prior year. Net revenue was $87 million, compared with a loss of $648 million in the prior year. Current-quarter net interest income was a loss of $10 million, compared with a loss of $558 million in the prior year, reflecting the benefit of higher interest rates and reinvestment opportunities.
Other Corporate reported net income of $408 million, compared with a net loss of $335 million in the prior year. The current quarter included $227 million of legal expense, compared with $604 million of legal expense in the prior year. The current quarter included an after-tax benefit of over $200 million for tax adjustments.

2014 Business outlook

JPMorgan Chase's outlook for the third quarter and remainder of 2014 should be viewed against the backdrop of the global and U.S. economies, including the strength of consumers and businesses, U.S. housing prices, the unemployment rate, implied market interest rates, financial market levels and activity, the geopolitical environment, the competitive environment, client activity levels, and regulatory and legislative developments in the U.S. and other countries where the Firm does business. Each of these linked factors will affect the performance of the Firm and its lines of business, although each of these factors will affect each of the lines of business to a different degree.

Set forth below is a table summarizing management's current expectations with respect to certain specific revenue, expense and credit items, as well as the related drivers, for the third quarter and the remainder of 2014.

These current expectations are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on the current beliefs and expectations of JPMorgan Chase's management, are made only as of the date hereof, and are subject to significant risks and uncertainties. These risks and uncertainties could cause the Firm's actual results to differ materially from those set forth in such forward-looking statements. See Forward-Looking Statements on page 89 of this Form 10-Q and Risk Factors on pages 9-18 of JPMorgan Chase's 2013 Annual Report. There is no assurance that actual results for the third quarter or full year of 2014 will be in line with the outlook set forth below, and the Firm does not undertake to update any of these forward-looking statements to reflect the impact of circumstances or events that arise after the date hereof.

Selected outlook items
(in millions, except ratios and where otherwise noted)

LOB	Line item	2Q14	FY13	Current management outlook
Firmwide	Adjusted expense ($ in billions)[(a)]	$14.8	$59.0	Expect $58 billion +/- adjusted expense for FY14; final Firmwide expense will be affected by performance-related compensation for FY14
	CCB, excluding MB, expense	$5,150	$20,240	Expect CCB, excluding MB, expense to increase by approximately 1% for FY14 vs. FY13, in-line with previous guidance
	CB expense	$675	$2,610	Expect expense of a little less than $700 million for 3Q14
	AM expense	$2,062	$8,016	Expect AM expense to increase modestly in 3Q14 vs. 2Q14
CCB	Production-related pretax income, excluding repurchase (losses)/benefits	$(74)	$494	Expect small negative Production pretax income in 3Q14 – market dependent
CCB	Servicing-related net revenue[(b)]	$693	$2,869	Expect Servicing revenue to be $600 million +/- in 3Q14
CCB	Reduction in NCI Real Estate Portfolios allowance for loan losses	$—	$(2,300)	Expect a $500 million to $1 billion reduction in the allowance over the next couple of years, as the credit quality of the portfolio continues to improve
CCB	Card revenue rate	12.15%	12.49%	Expect net revenue rate to be at the lower end of the 12.0-12.5% guidance – with fluctuations by quarter due to seasonality
CCB	Reduction in Card allowance for loan losses	$—	$(1,706)	Do not expect any significant reductions in the Card allowance for loan losses based on the current credit environment
CIB		$4,647	$20,226	

	Fixed Income & Equities revenue (Markets revenue)			Expect current environment to persist into 3Q14 with normal seasonal trends
CIB	Securities Services revenue	$1,137	$4,082	Expect Securities Services revenue to decrease by approximately $100 million in 3Q14 vs. 2Q14 due to seasonality
CIB	Treasury Services (TS) revenue	$1,012	$4,135	Expect TS revenue to be flat vs. 2Q14, at approximately $1 billion in 3Q14 – primarily due to the impact of business simplification and lower trade finance balances and spreads
AM	Pretax margin	30%	29%	Expect FY14 pretax margin and ROE to be lower than 2Q14 – as the business continues to invest in both infrastructure and controls –
AM	Return on equity	25%	23%	as well as select front office hiring – but on track to deliver through-the-cycle targets for FY15

(a) Firmwide adjusted expense, a non-GAAP financial measure, excludes total Firmwide legal expenses and foreclosure-related matters. Management believes this information helps investors understand the effect of these items on reported results and provides an alternate presentation of the Firm’s performance.

(b) This line item is net of changes in the MSR asset fair value due to collection/realization of expected cash flows; plus net interest income.

Note: The table above includes abbreviations to denote the following: for the years ended December 31, 2015 (“FY15”), 2014 (“FY14”) and 2013 (“FY13”), respectively; for the three months ended September 30, 2014 (“3Q14”), June 30, 2014 (“2Q14”) and June 30, 2013 (“2Q13”), respectively; line of business (“LOB”); and Non credit-impaired (“NCI”).

Business events

Regulatory Update

Effective April 1, 2014, the Firm was approved to calculate capital under the Basel III Advanced Approach, in addition to the Basel III Standardized Approach. For further information on Basel III, refer to Capital management on pages 74–80.

CEO Health Disclosure

On July 1, 2014, Jamie Dimon, Chairman and Chief Executive Officer, announced he had been diagnosed with throat cancer. The prognosis is excellent and his condition is curable. Treatment should take approximately eight weeks. During this time, Mr. Dimon intends to continue to be actively involved in the business and the Firm as usual.

For Business events during the six months ended June 30, 2014, see Note 2.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three and six months ended June 30, 2014 and 2013. Factors that relate primarily to a single business segment are discussed in more detail within that

business segment. For a discussion of the Critical Accounting Estimates Used by the Firm that affect the Consolidated Results of Operations, see pages 86–88 of this Form 10-Q and pages 174–178 of JPMorgan Chase's 2013 Annual Report.

Revenue

	Three months ended June 30,			Six months ended June 30,		
(in millions)	2014	2013	Change	2014	2013	Change
Investment banking fees	$1,751	$1,717	2 %	$3,171	$3,162	—
Principal transactions	2,908	3,760	(23)	6,230	7,521	(17)
Lending- and deposit-related fees	1,463	1,489	(2)	2,868	2,957	(3)
Asset management, administration and commissions	4,007	3,865	4	7,843	7,464	5
Securities gains	12	124	(90)	42	633	(93)
Mortgage fees and related income	1,291	1,823	(29)	1,805	3,275	(45)
Card income	1,549	1,503	3	2,957	2,922	1
Other income[(a)]	675	226	199	1,066	762	40
Noninterest revenue	13,656	14,507	(6)	25,982	28,696	(9)
Net interest income	10,798	10,704	1	21,465	21,637	(1)
Total net revenue	$24,454	$25,211	(3)%	$47,447	$50,333	(6)%

(a) Included operating lease income of $422 million and $363 million for the three months ended June 30, 2014 and 2013, respectively, and $820 million and $712 million for the six months ended June 30, 2014 and 2013, respectively.

Total net revenue for the three months ended June 30, 2014, decreased by $757 million compared with the three months ended June 30, 2013. The decrease was predominantly due to lower principal transactions revenue and lower mortgage fees and related income, partially offset by higher other income. For the six months ended June 30, 2014, total net revenue decreased by $2.9 billion from the same period of the prior year. The decrease was predominantly due to lower mortgage fees and related income, principal transactions revenue, and securities gains, partially offset by higher asset management, administration and commissions income.

Investment banking fees for the three and six months ended June 30, 2014, increased slightly compared with the prior year, due to higher advisory and equity underwriting fees, largely offset by lower debt underwriting fees. The increase in advisory fees was related to stronger wallet share of completed transactions. The increase in equity underwriting fees was driven by stronger industry-wide issuance. The decrease in debt underwriting fees was primarily related to lower loan syndication fees on lower industry-wide wallet levels. For additional information on investment banking fees, see CIB segment results on pages 34–39 and Note 6.

Principal transactions revenue decreased compared with the stronger results of the three and six months ended June 30, 2013, reflecting, in CIB, lower fixed income markets revenue on historically low levels of volatility and lower client activity across products, as well as lower equity markets revenue on lower derivatives revenue. Private equity gains in the three months ended June 30, 2014 decreased from the prior year as a result of lower net valuation gains on privately held investments. For the six months ended June 30, 2014, private equity gains increased due to higher net valuation gains on publicly held

investments and gains on sales. For additional information on principal transactions revenue, see CIB and Corporate/Private Equity segment results on pages 34–39 and pages 47–49, respectively, and Note 6.

Asset management, administration and commissions revenue increased compared with the three and six months ended June 30, 2013, reflecting higher net client inflows and the effect of higher market levels in AM and CCB. The increase was offset partially by lower revenue in CCB related to the exit of a non-core product in the second half of 2013. For additional information on these fees and commissions, see the segment discussions for CCB on pages 20–33, AM on pages 43–46, and Note 6.

Securities gains in the three and six months ended June 30, 2014, decreased compared with the prior periods, reflecting the repositioning of the investment securities portfolio. For additional information, see the Corporate/Private Equity segment discussion on pages 47–49, and Note 11.

Mortgage fees and related income in the three and six months ended June 30, 2014, decreased compared with the prior periods. For both periods, the decrease was predominantly related to lower net production revenue, driven by lower volumes. The decrease from the three months of the prior year was offset partially by higher mortgage servicing rights ("MSR") risk management results, driven by approximately $220 million of positive model assumption updates on slower prepayments, compared with $79 million in the prior year. MSR risk management results for the six months ended June 30, 2014, were flat compared with the prior year. For additional information, see pages 28–30, and Note 16.

Other income increased in the three and six months ended June 30, 2014 compared with the prior year, reflecting a benefit from a franchise tax settlement, the absence of a modest loss on the redemption of trust preferred securities recorded in the second quarter of 2013, and higher auto operating lease income in CCB, resulting from growth in lease volume. The increase in the six months ended June 30, 2014, was partially offset by lower valuations of seed capital investments in AM.

Net interest income increased in the three months ended June 30, 2014, compared with the prior year; for the six months ended June 30, 2014, net interest income decreased compared with the prior year. The increase from the three months ended June 30, 2013, primarily reflected the impact of higher yields on securities, lower yields on long-term debt and deposits, and higher average loan balances, largely offset by lower yields on loans (due to the

run-off of higher-yielding loans and new originations of lower-yielding loans), and lower average interest-earning trading asset balances. The decrease from the six months ended June 30, 2013, primarily reflected the impact of lower yields on loans (due to the run-off of higher yielding loans and new originations of lower yielding loans), and lower average interest-earning trading asset balances, largely offset by higher yields on securities and lower yields on long-term debt and deposits. The Firm's average interest-earning assets were $2.0 trillion for the three months ended June 30, 2014, and the net interest yield on those assets, on a fully taxable-equivalent ("FTE") basis, was 2.19%, a decrease of 1 basis point from the prior year. For the six months ended June 30, 2014, the Firm's average interest-earning assets were $2.0 trillion, and the net interest yield on those assets, on a FTE basis, was 2.20%, a decrease of 8 basis points from the prior year.

Provision for credit losses

	Three months ended June 30,			Six months ended June 30,		
(in millions)	2014	2013	Change	2014	2013	Change
Consumer, excluding credit card	$(37)	$(493)	92%	$82	$(530)	NM
Credit card	885	464	91	1,573	1,046	50%
Total consumer	848	(29)	NM	1,655	516	221
Wholesale	(156)	76	NM	(113)	148	NM
Total provision for credit losses	$692	$47	NM	$1,542	$664	132%

The provision for credit losses for the three and six months ended June 30, 2014 increased from the prior year, reflecting an increase in the consumer provision for credit losses, partially offset by a decline in the wholesale provision for credit losses. The increase in the consumer provision for credit losses was the result of a lower benefit from reductions in the consumer allowance for loan losses, partially offset by lower net charge-offs. The consumer allowance release was primarily due to the continued

improvement in home prices and delinquencies in the residential real estate portfolio. The wholesale provision reflected a generally favorable credit environment and stable credit quality trends. For a more detailed discussion of the credit portfolio and the allowance for credit losses, see the segment discussions for CCB on pages 20–33, CIB on pages 34–39 and CB on pages 40–42, and the Allowance for credit losses section on pages 66–68.

Noninterest expense

	Three months ended June 30,			Six months ended June 30,		
(in millions)	2014	2013	Change	2014	2013	Change
Compensation expense	$7,610	$8,019	(5)%	$15,469	$16,433	(6)%
Noncompensation expense:						
Occupancy	973	904	8	1,925	1,805	7
Technology, communications and equipment	1,433	1,361	5	2,844	2,693	6
Professional and outside services	1,932	1,901	2	3,718	3,635	2
Marketing	650	578	12	1,214	1,167	4
Other expense[(a)(b)]	2,701	2,951	(8)	4,634	5,252	(12)
Amortization of intangibles	132	152	(13)	263	304	(13)

Total noncompensation expense	7,821	7,847	—	14,598	14,856	(2)
Total noninterest expense	$15,431	$15,866	(3)%	$30,067	$31,289	(4)%

(a) Included firmwide legal expense of $669 million and $678 million for the three months ended June 30, 2014 and 2013, respectively, and $707 million and $1.0 billion for the six months ended June 30, 2014 and 2013, respectively.

(b) Included FDIC-related expense of $266 million and $392 million for the three months ended June 30, 2014 and 2013, respectively, and $559 million and $771 million for the six months ended June 30, 2014 and 2013, respectively.

Total noninterest expense for the three months ended June 30, 2014, decreased by $435 million compared with the prior year. For the six months ended June 30, 2014, total noninterest expense decreased by $1.2 billion from the prior year. For both periods, the decrease was driven by lower compensation and other expense.
Compensation expense decreased compared with the three and six months ended June 30, 2013, predominantly driven by lower performance-based compensation expense in CIB, lower headcount-related expense in MB, and lower postretirement benefit costs. The decrease in compensation expense was partially offset by higher headcount related to the Firm's investments in controls.

Noncompensation expense in the three and six months ended June 30, 2014, decreased compared with the prior year. The decrease from the three months of the prior year was largely due to lower other expense, in particular, lower FDIC-related assessments, and lower production and servicing-related expense in Mortgage Banking. For the six months ended June 30, 2014, the decrease from the prior year was largely due to the aforementioned items, as well as lower legal-related expense in Corporate/Private Equity, and lower foreclosed asset expense. The decrease in both periods was offset partially by investments in controls, and the costs related to business simplification initiatives in CIB. For a further discussion of legal expense, see Note 23.

Income tax expense

(in millions, except rate)	Three months ended June 30,			Six months ended June 30,		
	2014	2013	Change	2014	2013	Change
Income before income tax expense	$8,331	$9,298	(10)%	$15,838	$18,380	(14)%
Income tax expense	2,346	2,802	(16)	4,579	5,355	(14)
Effective tax rate	28.2%	30.1%		28.9%	29.1%	

The decrease in the effective tax rate compared with the prior year was largely attributable to lower reported pre-tax income in combination with changes in the mix of income and expense items subject to U.S. federal, state and local taxes, and the impact of tax-exempt income and business tax credits. The current-year second quarter included tax benefits associated with the settlement of tax audits. In addition, for the six months ended June 30, 2014, the

decrease in the effective tax rate was partially offset by the write-down of deferred tax assets as a result of tax law changes enacted in New York State and lower tax benefits associated with prior year tax adjustments and the settlement of tax audits. For additional information on income taxes, see Critical Accounting Estimates Used by the Firm on pages 86–88.

CONSOLIDATED BALANCE SHEETS ANALYSIS

Selected Consolidated Balance Sheets data

(in millions)	Jun 30, 2014	Dec 31, 2013	Change
Assets			