
Dear Fellow Shareholders,



Jamie Dimon,
Chairman and
Chief Executive Officer

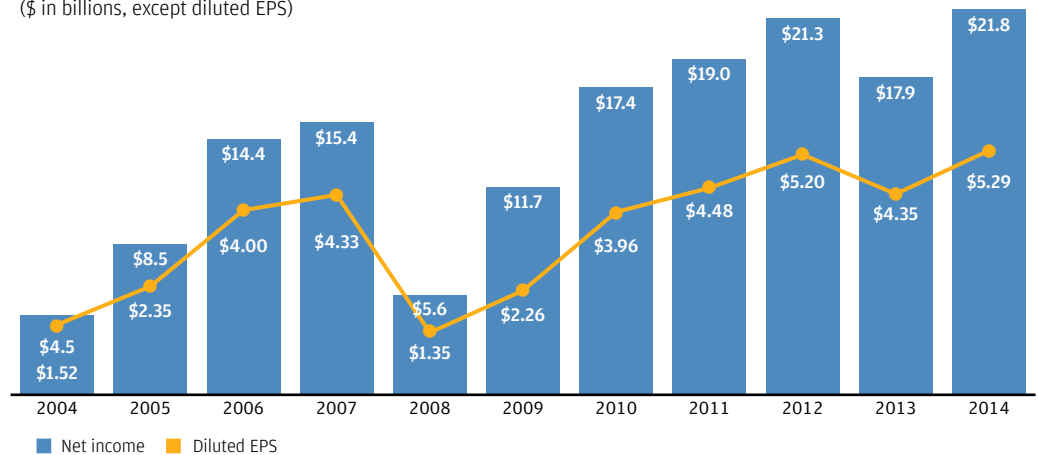
Seven years ago, the world was shaken by the global financial crisis. And since then, our company has been dealing with extraordinary challenges as a result of that crisis. We have endured an unprecedented economic, political and social storm – the impact of which will continue to be felt for years and possibly decades to come. What is most striking to me, in spite of all the turmoil, is that our company became safer and stronger – and it never stopped supporting clients, communities and the growth of economies around the world.

I feel extraordinarily privileged to work for this great company with such talented people. Our management team and our employees do outstanding work every single day – sometimes under enormous pressure – while dealing with an extreme number of complex business and regulatory issues. The way our people and our firm are able to address our challenges and admit our mistakes while continuing to grow our businesses and support our clients fills me with pride.

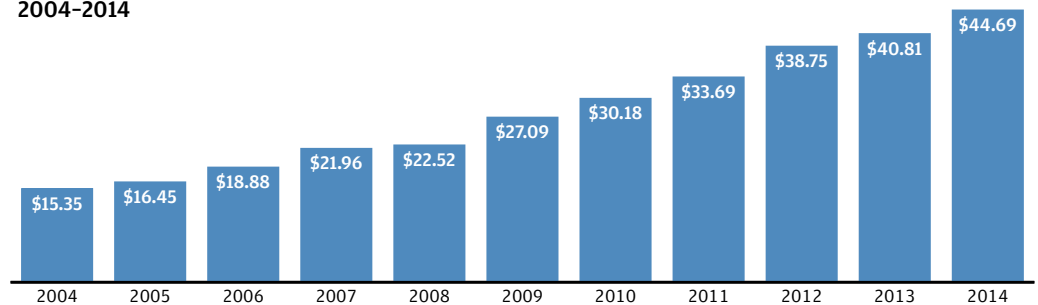
Our company earned a record \$21.8 billion in net income on revenue¹ of \$97.9 billion in 2014. In fact, we have delivered record results in the last four out of five years, and we hope to continue to deliver in the future. Our financial results reflected strong underlying performance across our businesses. Over the course of last year, our four franchises maintained – and even strengthened – our leadership positions and continued to gain market share, improve customer satisfaction and foster innovation. We also continued to deliver on our many commitments – including business simplification, regulatory requirements, controls, expense discipline and capital requirements.

Earnings and Diluted Earnings per Share 2004–2014

(\$ in billions, except diluted EPS)



Tangible Book Value per Share 2004–2014



¹ Represents managed revenue

Bank One/JPMorgan Chase & Co. tangible book value per share performance vs. S&P 500

	Bank One (A)	S&P 500 (B)	Relative Results (A) – (B)
Performance since becoming CEO of Bank One (3/27/2000–12/31/2014)^(a):			
Compounded annual gain	12.7%	5.3%	7.4%
Overall gain	434.9%	105.1%	329.8%
	JPMorgan Chase & Co. (A)	S&P 500 (B)	Relative Results (A) – (B)
Performance since the Bank One and JPMorgan Chase & Co. merger (7/1/2004–12/31/2014):			
Compounded annual gain	14.1%	8.0%	6.1%
Overall gain	300.5%	124.5%	176.0%

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 and JPMorgan Chase & Co. shareholders. The chart shows the increase in tangible book value per share; it is an aftertax number assuming all dividends were retained vs. the S&P 500 (a pretax number with dividends reinvested).

^(a) On March 27, 2000, Jamie Dimon was hired as CEO of Bank One

We believe that, in 2014, we continued to deliver for our shareholders. The table above shows the growth in tangible book value per share, which we believe is a conservative measure of value. You can see that the tangible book value per share has grown far more than the Standard & Poor's 500 Index (S&P 500) in both time periods. For Bank One shareholders since March 27, 2000, the stock has performed far better than most financial companies and the S&P 500. And since the JPMorgan Chase & Co. merger with Bank One on July 1, 2004, we have performed well versus other financial companies and slightly below the S&P 500. The details are shown in the table below.

Stock total return analysis

	Bank One	S&P 500	S&P Financials Index
Performance since becoming CEO of Bank One (3/27/2000–12/31/2014)^(a):			
Compounded annual gain	10.4%	4.0%	2.2%
Overall gain	328.3%	78.8%	37.4%
	JPMorgan Chase & Co.	S&P 500	S&P Financials Index
Performance since the Bank One and JPMorgan Chase & Co. merger (7/1/2004–12/31/2014):			
Compounded annual gain	7.5%	8.0%	0.9%
Overall gain	113.3%	124.5%	9.5%

This chart shows actual returns of the stock, with dividends included, for heritage shareholders of Bank One and JPMorgan Chase & Co. vs. the Standard & Poor's 500 Index (S&P 500) and the Standard & Poor's Financials Index (S&P Financials Index).

^(a) On March 27, 2000, Jamie Dimon was hired as CEO of Bank One

However, our stock performance has not been particularly good in the last five years. While the business franchise has become stronger, I believe that legal and regulatory costs and *future uncertainty* regarding legal and regulatory costs have hurt our company and the value of our stock and have led to a price/earnings ratio lower than some of our competitors. We are determined to limit (we can never completely eliminate them) our legal costs over time, and as we do, we expect that the strength and quality of the underlying business will shine through.

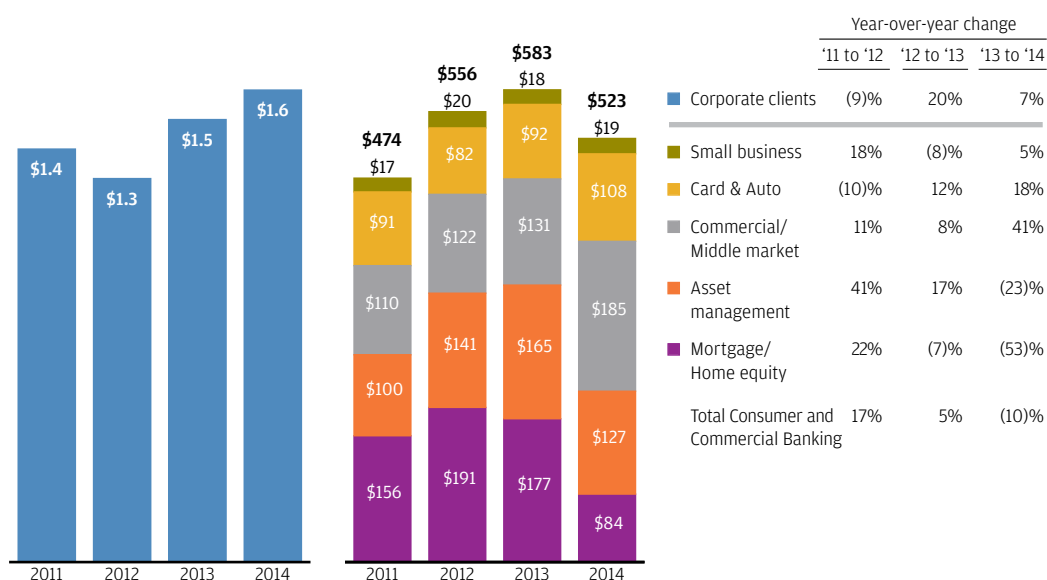
JPMorgan Chase continued to support consumers and businesses and make a significant positive impact on our communities. In 2014, the firm **provided credit and raised capital of more than \$2.1 trillion for our clients**. The firm also has hired nearly 8,700 military veterans since 2011 as a proud founding member of the 100,000 Jobs Mission, which recently has increased the goal to 300,000 jobs. Our firm was there to help small businesses – we **provided \$19 billion of credit to U.S. small businesses**, which allowed them to develop new products, expand operations and hire more workers. In total, we **provided \$197 billion of credit to consumers**. And we provided credit and raised capital of **more than \$75 billion for nonprofit and government entities, including states, municipalities, hospitals and universities**. Our strength allows us to be there for our clients and communities in good times – and, more important, in bad times. In the face of many difficult challenges, we never stopped doing our job, and we demonstrated that the work we do matters. And we also continue to build our business by investing in infrastructure, systems, technology and new products and by adding bankers and branches around the world.

New and Renewed Credit and Capital for Clients

at December 31,

Corporate clients
(\$ in trillions)

Consumer and Commercial Banking
(\$ in billions)



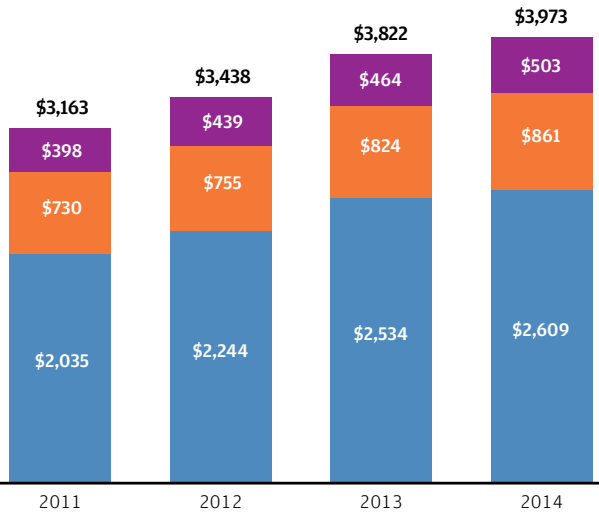
Our clients also exhibit their faith in us by entrusting us to take care of their money – either as deposits or as client assets entrusted to us – as shown in the chart below.

Assets Entrusted to Us by Our Clients

at December 31,

Deposits and client assets

(\$ in billions)



Year-over-year change

	'11 to '12	'12 to '13	'13 to '14
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Deposits

Consumer	10%	6%	8%
Wholesale	3%	9%	4%

Client assets ^(a)	10%	13%	3%
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Assets under custody^(b)

(\$ in billions)

\$16,870	\$18,835	\$20,485	\$20,549
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^(a) Represent assets under management as well as custody, brokerage, administration and deposit accounts

^(b) Represents activities associated with the safekeeping and servicing of assets

In this letter, I will discuss the issues highlighted below. I also encourage you to read the letters written by several of our business leaders about our main businesses, our critical operations and controls, and some of our corporate responsibility efforts.

As usual, this letter will describe some of our successes and opportunities, as well as our challenges and issues. The main sections of the letter are as follows:

- I. We have an outstanding franchise – our company has emerged as an endgame winner, but we need to earn it every day
- II. We build for the long term – we manage through-the-cycle, and we always are prepared for the toughest of times
- III. We will successfully navigate the new global financial architecture (and we are well on our way to having fortress controls)
- IV. We have a solid strategy and believe our future outlook is very good – but, as usual, there still are a lot of things to think and worry about
- V. We have a fully engaged board, an exceptional management team and a strong corporate culture

I. WE HAVE AN OUTSTANDING FRANCHISE – OUR COMPANY HAS EMERGED AS AN ENDGAME WINNER, BUT WE NEED TO EARN IT EVERY DAY

If you think back 10, 20 or 30 years ago, my predecessors and I struggled to try to build a great company, which we hoped would emerge as an endgame winner. The ultimate outcome was unclear – and many competitors did not survive (this is true for most large-scale consolidating industries). Even for those of us that did, it was quite a struggle. Today, it is clear that our company is an endgame winner – both in the United States and globally – which is invaluable in *any* industry. And while we have had some difficult times since the financial crisis, the power of the franchise has shone through. We also know that future success is not guaranteed – only consistently good management over a long period of time can ensure long-term success in any business. But we certainly are in a very good place.

We have delivered good multi-year financial results (strong margins and returns and low volatility) and have shown a great ability to adapt to changes – both from the marketplace and the regulatory environment

We always compare our margins and returns with those of our best competitors in each business. The chart below, which is very similar to a chart we showed at our Investor Day, shows some of these numbers for 2014. We believe that the right discipline is to compare each of our businesses against *its* best competitor. It is a mistake just to look at the consolidated numbers and compare them – every company has a different mix of businesses. The chart below also shows how our businesses compare in terms of margins,

JPMorgan Chase Is in Line with Best-in-Class Peers in Both Efficiency and Returns

	Efficiency			Returns		
	JPM 2014 overhead ratios	Best-in-class peer overhead ratios ² weighted by JPM revenue mix	JPM target overhead ratios	JPM 2014 ROE	Best-in-class peer ROTCE ⁴ weighted by JPM equity mix	JPM target ROE
Consumer & Community Banking	58%	55% WFC	~50%	18%	16% WFC	20%
Corporate & Investment Bank	62% ¹	60% Citi	55%-60%	13% ¹	14% Citi	13%
Commercial Banking	39%	38% PNC	35%	18%	13% PNC	18%
Asset Management	71%	69% UBS WM & BLK	≤70%	23%	27% BEN	25%+
JPMorgan Chase	60% ¹	59% ¹	55%+/-	13% ³	13%	~15% ³

¹ Excludes legal expense

² Best-in-class overhead ratio represents implied expenses of comparable peer segments weighted by JPMorgan Chase (JPM) revenue: Wells Fargo Community Banking (WFC), Citi Institutional Clients Group (Citi), PNC Corporate and Institutional Banking (PNC), UBS Wealth Management and Wealth Management Americas (UBS WM) and BlackRock (BLK), and JPM Corporate segment

³ Represents ROTCE for total JPMorgan Chase. Goodwill is primarily related to the Bank One merger and prior acquisitions and is predominantly retained by Corporate

⁴ Best-in-class ROTCE represents implied net income minus preferred stock dividends of comparable peers weighted by JPM tangible common equity: WFC, Citi, PNC, Franklin Templeton (BEN) and JPM Corporate segment

our target margins in a normal environment and, most important, our return on equity (ROE). On most of these measures, we are very close to the best-in-class competitor.

A good company should be able to earn competitive margins over an extended period of time regardless of economic conditions while investing and without taking excessive risk

Any company can improve earnings in the short run by taking on additional risk or cutting back on investments. Any company can grow rapidly if it takes on too much risk – but that usually is the kind of growth one comes to regret. Our margins have been quite good, even as we have been investing for the long run. These investment expenses lower our short-term returns, but they are “good” expenses. In addition to the tremendous amount that we invest annually in technology and infrastructure, some examples of where we have invested over the past five years are:

- 448 retail branches in the United States
- 28 wholesale offices abroad
- 2,498 Chase Private Client locations/branches, supported by 594 new Private Client advisors
- 20 Commercial Banking expansion cities, including approximately 350 Commercial Banking bankers
- 205 small business bankers

A good company always should be investing while it also is waste cutting; i.e., cutting out any unnecessary expenses. However, I often have received bad advice on what are unnecessary expenses. For example, spending on important strategic off-sites, research and development for innovation, marketing that has a positive return – those are good expenses. We take a bus trip annually to visit branches, operating centers and clients. It is both fun and enormously productive – and it is not an unnecessary expense – it makes us a better company.

Even our annual Retail National Sales Conference with the top 5% of our branch bankers, loan officers and tellers is critical – we spend time working together, we learn a lot and we get to thank these outstanding employees at an awards recognition dinner. While it is perfectly reasonable in tough times to dramatically reduce the cost of that conference, it is unwise to cancel it. I have been to every single one of these events since I started running Bank One, and I intend to continue that tradition.

We earned adequate returns while building an increasingly stronger capital base

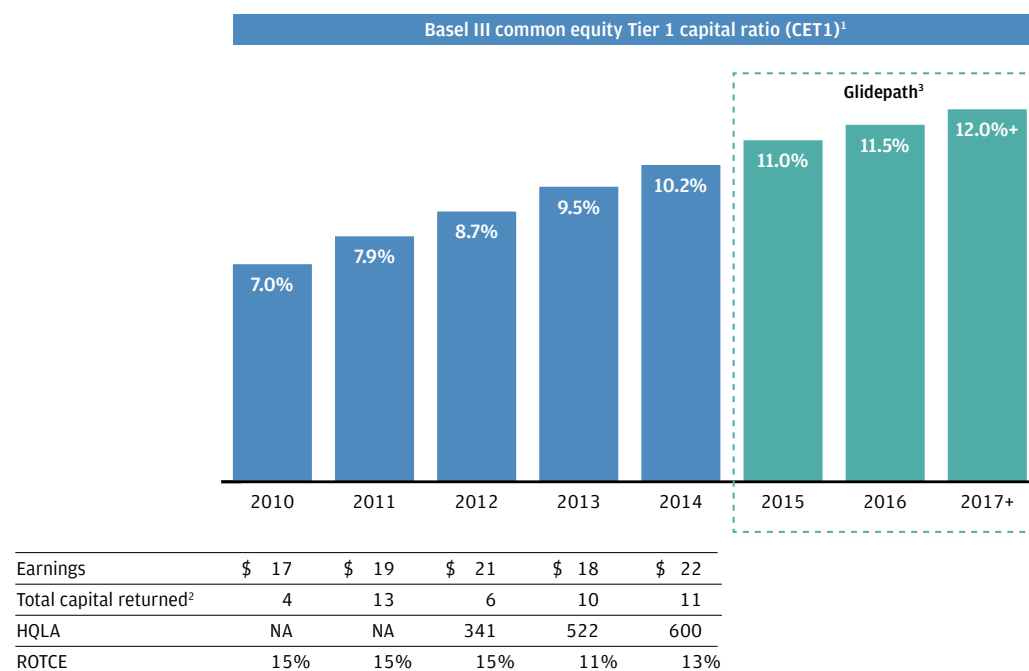
During these challenging years, our company has confronted difficult markets, billions of dollars of additional regulatory costs, billions of dollars of costs due to changes in products and services, and, unfortunately, very high legal costs. And we have had to hold an increasing amount of capital throughout this time. While there is no question that these events did reduce our performance and returns, we have been able to adapt, meet the new rules and perform fairly well financially.

The chart below shows earnings, the capital we returned to shareholders through dividends and stock buybacks, our returns on tangible common equity and our high quality liquid assets (HQLA). High quality liquid assets essentially are deposits held at the Federal Reserve and central banks, agency mortgage-backed securities and Treasuries, and they are the component of our balance sheet that has grown most dramatically. Only HQLA count for liquid assets under banking regulators' definition of liquidity – and we currently have more than is required by the regulators.

The chart below also shows that even after dramatically increasing capital and liquidity, both of which reduce returns on capital, we were able to earn an adequate return on tangible common equity, grow our capital base as needed and still return capital to shareholders.

Capital, Liquidity, Returns

(\$ in billions, except ratios)



¹ Basel III rules became effective on January 1, 2014. The ratios presented for 2010-2014 are calculated under the Basel III Advanced Fully Phased-In Approach and, for 2010-2013, reflect the firm's best estimate based on its understanding of the rules in the relevant period

² Represents common dividends plus stock buybacks, which are gross of employee issuance

³ Reflects the firm's Basel III CET1 ratio glidepath for 2015-2017+

Leading Client Franchises

Building exceptional client franchises

We have built our client franchises over time with substantial share gains and opportunity for more				
		2006	2014	
Consumer & Community Banking	Deposits market share	3.6% ¹	7.5%	■ Relationships with ~50% of U.S. households ■ #1 customer satisfaction among largest U.S. banks for the third consecutive year¹⁴ ■ #1 primary banking relationship share in Chase footprint¹⁵ ■ #1 U.S. credit card issuer based on loans outstanding² ■ ~50% of U.S. e-Commerce volume¹⁶
	# of top 50 Chase markets where we are #1 (top 3) deposits	11 (25)	15 (40)	
	Card sales market share	16% ²	21% ²	
	Merchant processing volume	#3 ³	#1 ⁴	
Corporate & Investment Bank	Global Investment Banking fees ⁵	#2	#1	■ >80% of Fortune 500 companies do business with us ■ Top 3 in 15 product categories out of 16¹⁷ ■ #1 in both U.S. and EMEA Investment Banking fees¹⁸ ■ #1 in Global debt, equity and equity-related¹⁸ ■ #1 in Global long-term debt and Loan syndications¹⁸ ■ Top 3 Custodian globally with AUC of \$20.5 trillion ■ #1 USD clearinghouse with 19.2% share in 2014¹⁹
	Market share ⁵	8.6%	8.1%	
	Total Markets ^{6,7}	#8	#1	
	Market share ^{6,7}	7.9%	16.2%	
	FICC ^{6,7}	#7	#1	
	Market share ^{6,7}	9.1%	18.6%	
Commercial Banking	Equities ^{6,7}	#8	#3	■ Average loans grew by 13% CAGR 2006-2014²⁰ ■ Industry-leading credit performance TTC – 8 consecutive quarters of net recoveries or single-digit NCO rate ■ Leveraging the firm's platform – average ~9 products/client
	Market share ^{6,7}	6.0%	11.5%	
	# of states with Middle Market banking presence	22	30	
	# of states with top 3 Middle Market banking market share ⁸	6	10	
Asset Management	Multifamily lending ⁹	#28	#1	■ 84% of 10-year long-term mutual fund AUM in top 2 quartiles²¹ ■ 23 consecutive quarters of positive long-term AUM flows ■ Revenue growth >70% and long-term AUM growth >80% since 2006 ■ Doubled Global Wealth Management client assets (2x industry rate) since 2006²²
	Gross Investment Banking revenue (\$ in billions)	\$0.7	\$2.0	
	% of North America Investment Banking fees	16%	35%	
	Global active long-term open-end mutual fund AUM flows ¹⁰	#2	#1	
Asset Management	AUM market share ¹⁰	1.8%	2.5%	■ 84% of 10-year long-term mutual fund AUM in top 2 quartiles²¹ ■ 23 consecutive quarters of positive long-term AUM flows ■ Revenue growth >70% and long-term AUM growth >80% since 2006 ■ Doubled Global Wealth Management client assets (2x industry rate) since 2006²²
	Overall Global Private Bank (Euromoney)	#5	#1	
	Client assets market share ¹¹	~1%	~2%	
	U.S. Hedge Fund Manager (Absolute Return) ¹²	#11 ¹³	#2	
	AUM market share ¹²	1.4%	3.4%	

For footnoted information, refer to slides 11 and 50 in the 2015 Firm Overview Investor Day presentation, which is available on JPMorgan Chase & Co.'s website at (<http://investor.shareholder.com/jpmorganchase/presentations.cfm>), under the heading Investor Relations, Investor Presentations, JPMorgan Chase 2015 Investor Day, Firm Overview, and on Form 8-K as furnished to the SEC on February 24, 2015, which is available on the SEC's website (www.sec.gov). Further, for footnote 20, CAGR represents compound annual growth rate

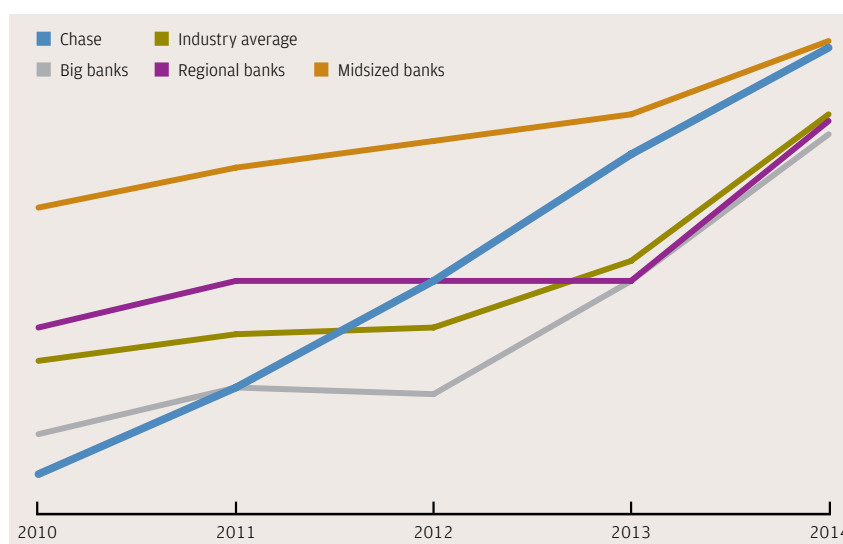
Our businesses have been able to gain market share, which only happens when we are creating happy clients

Importantly, much of the growth has been organic. Please review some of the numbers in the chart above – they speak for themselves. If you had asked me back in 2006 if we could have accomplished those kinds of market share numbers, I would have been skeptical. And, fortunately, we have plenty of areas where we still can grow or do better – I will talk about this in a later section of this letter.

Most of our businesses have exhibited improving customer satisfaction

The chart on the next page shows the great progress that our Consumer Bank has made in improving satisfaction scores. In fact,

American Customer Satisfaction Index named Chase #1 in customer satisfaction among large banks in 2014. We have received even better scores than most of the regional banks and essentially are equal in ranking to the midsized banks. (We still are not satisfied, however, and want to be even better.) We believe that our customer satisfaction has been going up for multiple reasons: error rate reduction, better products and services, good old-fashioned service with a smile, and, importantly, innovations like deposit-friendly ATMs and continual improvement in online and mobile banking services. While the chart shows satisfaction in the Consumer Bank, we also have had increasing customer satisfaction scores in our small business, mortgage, auto finance and credit card franchises.

Consumer Satisfaction Score: 2010-2014¹

¹ Source: J.D. Power U.S. Retail Banking Satisfaction Study; Big Banks defined as Chase, Bank of America, Wells Fargo, Citibank, U.S. Bank, PNC Bank

Our mix of businesses works for clients – and for shareholders

All companies, including banks, have a slightly different mix of businesses, products and services. The most critical question is, *“Does what you do work for clients?”* Our franchise does work for clients by virtue of the fact that we are gaining share in each of our businesses, and it works for shareholders by virtue of the fact that we are earning decent returns – and some of our competitors are not.

Other considerations are whether your company has “moats” – is it protected in some way from debilitating competition or events? And has it performed consistently – in good times and in bad? We believe that we have well-fortified moats in the form of economies of scale, brand, expertise, technology and operations, and – importantly – competitive advantages created by our ability to cross sell (more on this later in this letter). In addition, we have performed fairly consistently in good times and in bad. Even in 2008, the worst year in perhaps 75 years for financial companies, we earned 6% return on common tangible equity – not great but

not bad, all things considered. Additionally, we have embedded strengths that are hard to replicate – the knowledge and cohesiveness of our people, our long-standing client relationships, our technology and product capabilities, our fortress balance sheet and our global presence in more than 100 countries.

Our mix of businesses leads to effective cross sell and substantial competitive advantages. We are not a conglomerate of separate, unrelated businesses – we are an operating company providing financial services to consumers, companies and communities

A conglomerate is a group of unrelated businesses held under one umbrella holding company. There is nothing wrong with a conglomerate, but we are not that. In our case, whether you are an individual, a company (large or small) or a government, when you walk in the front door and talk with our bankers, we provide you with essential financial products, services and advice. We have a broad product offering and some distinct capabilities, which, combined, create a mix of businesses that works well for each of our client segments.

Part of our mix of businesses, however, is not unique. While we divide our company into four distinct businesses, the truth is that many regional banks do a lot of what three of our four businesses do (i.e., Chase Consumer & Community Banking, Commercial Banking and Asset Management). The biggest difference between us and regional banks is our global Corporate & Investment Bank (and the non-U.S. part of our Asset Management business).

Our broad product set and some of our unique capabilities (some we inherited, and some we built carefully over time), combined with effective cross sell, create substantial competitive advantage. The examples below make some of those advantages clear:

- Commercial Banking now generates 35% of our U.S. investment banking business. This means we are able to bring JPMorgan Chase's exceptional Investment Bank to serve hundreds of mid-sized corporations and institutions with the best global investment banking products and services in the industry. We can do this because our Commercial Bank is in hundreds of towns across the country where we can serve clients locally – person to person – and also bring the best of JPMorgan Chase to them.
- Around the world, we can bring exceptional private banking services to CEOs and company owners or help private banking clients with their global commercial banking needs.
- Because of our international footprint, we bring global banking services – from cash management to M&A – to approximately 2,500 of our more than 20,000 Corporate Client Banking and Middle Market Banking clients, who are rapidly expanding overseas and who need these services from someone they know and can trust.

- We market Chase Paymentech, our merchant acquirer, through our branches to small businesses, through the Commercial Bank to mid-sized companies and through our Corporate & Investment Bank to large, multinational corporations.

America's financial system is still the best the world has ever seen – it is large and diverse – and it serves the best economy the world has ever seen, which also is large and diverse

America's financial system still is the best the world has ever seen, and it includes not just banks but asset managers, private equity, venture capital, individual and corporate investors, non-bank financial companies, and public and private markets. In fact, in the United States, banks are a much smaller part of the financial system and the economy than in most other countries. And there is a great need for the services of all banks, from large global banks to smaller regional and community banks.

Our large global Corporate & Investment Bank does things that regional and community banks simply cannot do. We offer unique capabilities to large corporations, large investors and governments, including federal institutions, states and cities. For example, we provide extensive credit lines or raise capital for these clients, often in multiple jurisdictions and in multiple currencies. We essentially manage the checking accounts for these large institutions, often in many different countries. On the average day, JPMorgan Chase moves approximately \$6 trillion for these types of institutions. On the average day, we raise or lend \$6 billion for these institutions. On the average day, we buy or sell approximately \$800 billion of securities to serve investors and issuers. In 2014, our Corporate & Investment Bank raised \$61 billion for states, cities, governments and universities, including funds to renovate the historic Arthur Ashe (Tennis) Stadium in New York City, revenue

bonds to assist municipalities and hospitals, and green bonds to finance environmentally beneficial projects such as green buildings, clean water and renewable energy. As a firm, we spend approximately \$700 million a year on research so that we can educate investors, institutions and governments about economies, markets and companies. The needs of these clients will be met – one way or another – by large financial institutions that can bear the costs and risks involved. Simply put, if it is not done by a large American financial institution, it will be done by a large non-American financial institution.

Regional and community banks are critical to their communities – in fact, we are a huge supporter and their largest banking partner.

These banks are deeply embedded in their communities, many of which are not served by larger banks. They have an intimate knowledge of the local economy and local small businesses, which allows them to cost-effectively serve those clients. JPMorgan Chase, as a traditional “money center bank” and “bankers’ bank,” in fact, is the largest banker in America to regional and community banks. We provide them with many services so they can continue to serve their clients. For example, we directly lend to them, we process payments for them, we finance some of their mortgage activities, we raise capital for them (both debt and equity), we advise them on acquisitions, and we buy and sell securities for them. We also provide them with interest rate swaps and foreign exchange both for themselves – to help them hedge some of their exposures – and for their clients.

However, large does not necessarily mean complex (and things should be complex only for a good reason)

Many of the activities we do that are considered large are easy to understand. All of our 5,600 Chase consumer branches do essentially the same thing, and many of our large global transactions are not any more complicated than a loan for a middle market client.

While we agree with the concept that you should keep things as simple as possible, some things, by their very nature, are more complex. And that complexity cannot be reduced by wishful thinking. In fact, basic lending, whether to a large company or a mid-sized company, is one of the more complex things we do because one must understand the economy, the nature of the business and often the types of collateral involved. There are many judgmental factors to consider as well, which might include the character of the borrower, the growth prospects of the business, and an understanding of the products and services and technology of the business.

There are understandable questions about the role that large financial institutions play. Some of these questions make people nervous, in part because they do not understand the larger picture. These are important questions, and we always are willing to help explain what we do and why we do it. Taken in small component pieces, these activities generally are easier to understand. While some may criticize a bank’s activities instead of taking the time to understand them, this does not contribute to a genuinely constructive dialogue around the role of banks.

People also should ask themselves one basic question: *Why do banks offer these services?* The fact is, almost everything we do is because clients want and need our various and sometimes complex services. (We do many activities that are ancillary to clients’ direct needs, but we must do these things to provide clients with what they need. For example, in order to support our operation, we run global data centers, we hedge our own exposures and we maintain liquid pools of investments.)

I would venture to say that banking is not as complex as making airplanes, discovering effective pharmaceuticals, building safe cars, developing innovative electronics and, of course, understanding nuclear physics. There are huge benefits to the complexity involved in those other industries – but there also are sometimes negative consequences. The question for society is: Are we, in total,

better off or worse off because of some of the great products and services that come with complexity? The answer in our opinion is a resounding yes, though you should always strive to minimize the risks. But we want to acknowledge that the difference with banks, as pointed out by critics, is that if and when they make mistakes, they can severely harm the economy. This concern is legitimate, and I will talk about it in a later section.

Larger does not necessarily mean more risky

For example, many large banks had no problem navigating the financial crisis, while many smaller banks went bankrupt. Many of these smaller banks went bankrupt because they were undiversified, meaning that most of their lending took place in a specific geography. A good example was when oil collapsed in the late 1980s. Texas banks went bankrupt because of their direct exposure to oil companies and also because of their exposure to real estate whose value depended largely on the success of the oil business. Since the crisis began seven years ago, more than 500 smaller banks have gone bankrupt, and JPMorgan Chase has contributed approximately \$8 billion to the Federal Deposit Insurance Corporation to help pay for the resolution of those banks.

And, yes, there are both costs and benefits to size and complexity

The benefits of size are obvious: huge economies of scale, the ability to serve large clients and make large investments, and safe diversification, among others. And, yes, there sometimes are clear negatives to size – usually in the form of arrogance, greed, complacency or lack of attention to detail. (There also are many small businesses afflicted with these diseases – they kill companies both large and small.) Good companies get the benefits of size and continuously are fighting off the negatives. And there are lots of winners and losers, particularly as industries consolidate. In every industry, you will see companies that benefit from size – and those that don't.

Our size and strength allow us to create benefits for society by helping economies and communities around the world grow and prosper

We are able to do our part in supporting communities and economies around the world because we are strong, stable and permanent. And because of this strength and stability, we can continue to support our clients in good times and, more important, in the toughest of times. The most important thing we can do is keep our company healthy and vibrant so that we can serve the needs of customers, consumers and businesses and help local economies and the thousands of cities and various communities around the world where we operate to grow and prosper.

In addition, we strongly believe in being a good corporate citizen. We are one of the most philanthropic companies in the world (we give away more than \$200 million a year), but we are able to do much more than provide money. We bring the skills, resources and global knowledge of our entire firm to support the economic growth and progress of communities across the globe. One example is our research, such as studying how our communities analyze labor market conditions so they can get better at training people for jobs or how cities can further develop their economies. See Peter Scher's Corporate Responsibility letter on page 58 for more details on our efforts to support cities and communities around the globe. Following are three unique initiatives that we'd like to focus on:

JPMorgan Chase Institute. We will be officially launching an exciting new initiative called the JPMorgan Chase Institute, which is a global think tank dedicated to delivering data-rich analyses, expert insights and thought leadership for the public good. Drawing on the knowledge, market access, broad relationships and resources across the firm, the JPMorgan Chase Institute will help inform both business and policy decisions by grounding them with facts, data and thoughtful analysis. Our aim is to help decision makers – policymakers, businesses and nonprofit leaders – appreciate the scale,

granularity, diversity and interconnectedness of the global economic system to inform smarter decisions and good policies that advance global prosperity for consumers, businesses and countries. The research agenda will include groundbreaking analytic work on the financial behavior of individuals, insights on the small business sector, and expert profiling of global trade and capital flows.

Detroit. We brought all of our resources to bear in a special, coordinated way, which we never have done before, to try to help the city of Detroit. We have been doing business there for more than 80 years and already are the largest consumer, commercial and investment bank serving Detroit's consumers and companies. But we wanted to do more to help kick-start the city's recovery. This effort is a \$100 million commitment, which includes investments, philanthropy and our people working in tandem with a set of city leaders who have come together to work toward a common purpose. Our initial interest in undertaking this effort was made possible because of our faith in the extraordinary work and talent of Mayor Duggan and Gov. Snyder (and Kevyn Orr, who recently left as Emergency Manager). Their dedication to coherently, comprehensively and pragmatically attacking the city's enormous problems made us want to do more. In fact, everything we have done to help is the result of asking a broad array of the city's leaders what they really needed and then working with them to come up with some creative solutions. Let me give just a few examples:

- We supported nonprofit organizations, including Focus: HOPE, in their efforts to help people gain skills from job training programs.
- We helped small businesses get access to the advice, training and other resources needed to grow, including a new commercial kitchen at Eastern Market that will allow more food businesses to expand.
- We provided lending for development – both commercial development to let businesses like Global Titanium expand jobs and residential development and new construction of apartment buildings in Detroit's urban core and neighborhoods.
- We created the Detroit Service Corps to bring more than 50 of our top managers to work full time with Detroit nonprofits to help them analyze challenges, solve problems and give them the best chance for success.

Helping Detroit's economy recover and thrive would be a shining example of American resilience and ingenuity at work.

Military and veterans. Another effort that we want you to know about is what JPMorgan Chase has done to help position military members, veterans and their families for success in their post-service lives through employment, housing and educational programs. In 2011, JPMorgan Chase and 10 other companies launched the 100,000 Jobs Mission, setting a goal of collectively hiring 100,000 veterans. The 100,000 Jobs Mission now includes more than 190 companies that have collectively hired more than 217,000 veterans since 2011 and has pledged to hire a total of 300,000 veterans. JPMorgan Chase hired over 1,800 veterans in 2014, nearly a 40% year-over-year increase, for a total of nearly 8,700 veterans hired since 2011. Further, we expanded our employment programs to address the unique needs of women veterans and military spouses. We hope that this makes you as proud of JPMorgan Chase as it does for all of us.

II. WE BUILD FOR THE LONG TERM – WE MANAGE THROUGH-THE-CYCLE, AND WE ALWAYS ARE PREPARED FOR THE TOUGHEST OF TIMES

Our paramount responsibility to society and to our clients is to be there in good times and bad times

We have a huge obligation to society – not only must we never fail, but we need to be steadfast. Never failing means having the financial strength, liquidity, margins, and strong and diverse earnings where you can weather any storm. It also means having the ability to adapt, survive and even thrive through the cycles.

Steadfast means that you will be there no matter what happens, and being there means that you can continue to properly serve your clients even in tough times. In the toughest of times, it is not about making a profit. It is about helping your clients survive. I should point out that in the toughest of times, particularly in 2009, JPMorgan Chase rolled over and extended credit to small and medium-sized businesses a total of \$63 billion, to governments and nonprofits a total of \$110 billion, and to large corporations a total of \$1.1 trillion. I will talk more about this later.

We extensively manage our risks so that we can survive in any scenario. The Federal Reserve's stress test is a tough measure of our survival capability – though our ability to survive is stronger than that test implies

We are fanatics about stress testing and risk management. It is in our best interest to protect this company – for the sake of our shareholders, clients, employees and communities. If you went to our risk committee meetings, you would see a number of professionals working to thoughtfully manage and reduce our risk – we don't want a bunch of cowboys trying to increase it. We run hundreds of stress tests a week, across our global credit and trading operations, to ensure our ability to withstand and survive many bad scenarios. These scenarios include events like what happened in 2008, other

historically damaging events and also new situations that might occur. Our stress tests include analyzing extremely bad outcomes relating to the Eurozone, Russia and the Middle East.

Regarding the Eurozone, we must be prepared for a potential exit by Greece. We continually stress test our company for possible repercussions resulting from such an event (even though, in our opinion, after the initial turmoil, it is quite possible that it would prompt greater structural reform efforts by countries that remain). Also regarding geopolitical crises, one of our firm's great thinkers, Michael Cembalest, reviewed all of the major geopolitical crises going back to the Korean War, which included multiple crises involving the Soviet Union and countries in the Middle East, among others. Only one of these events derailed global financial markets: the 1973 war in the Middle East that resulted in an oil embargo, caused oil prices to quadruple and put much of the world into recession. We stress test frequently virtually every country and all credit, market and interest rate exposures; and we analyze not only the primary effects but the secondary and tertiary consequences. And we stress test for extreme moves – like the one you recently saw around oil prices. Rest assured, we extensively manage our risks.

The Federal Reserve's Comprehensive Capital Analysis and Review (CCAR) stress test is another tough measure of our survival capability. The stress test is good for our industry in that it clearly demonstrates the ability of each and every bank to be properly capitalized, even after an extremely difficult environment. Specifically, the test is a nine-quarter scenario where unemployment suddenly goes to 10.1%, home prices drop 25%, equities plummet approximately 60%, credit losses skyrocket and market-making loses a lot of money (like in the Lehman Brothers crisis).

To make sure the test is severe enough, the Fed essentially built into *every* bank's results some of the insufficient and poor decisions that *some* banks made during the crisis. While I don't explicitly know, I believe that the Fed makes the following assumptions:

- The stress test essentially assumes that certain models don't work properly, particularly in credit (this clearly happened with mortgages in 2009).
- The stress test assumes all of the negatives of market moves but none of the positives.
- The stress test assumes that all banks' risk-weighted assets would grow fairly significantly. (The Fed wants to make sure that a bank can continue to lend into a crisis and still pass the test.) This could clearly happen to any one bank though it couldn't happen to all banks at the same time.
- The stress test does not allow a reduction for stock buybacks and dividends. Again, many banks did not do this until late in the last crisis.
- We would quickly cut our dividend and stock buyback programs to conserve capital. In fact, we reduced our dividend dramatically in the first quarter of 2009 and stopped all stock buybacks in the first quarter of 2008.
- We would not let our balance sheet grow quickly. And if we made an acquisition, we would make sure we were properly capitalized for it. When we bought Washington Mutual (WaMu) in September of 2008, we immediately raised \$11.5 billion in common equity to protect our capital position. There is no way we would make an acquisition that would leave us in a precarious capital position.
- And last, our trading losses would unlikely be \$20 billion as the stress test shows. The stress test assumes that dramatic market moves all take place on one day and that there is very little recovery of values. In the real world, prices drop over time, and the volatility of prices causes bid/ask spreads to widen – which helps market-makers. In a real-world example, in the six months after the Lehman Brothers crisis, J.P. Morgan's actual trading results were \$4 billion of losses – a significant portion of which related to the Bear Stearns acquisition – which would not be repeated. We also believe that our trading exposures are much more conservative today than they were during the crisis.

I believe the Fed is appropriately conservatively measuring the above-mentioned aspects and wants to make sure that each and every bank has adequate capital in a crisis without having to rely on good management decisions, perfect models and rapid responses.

We believe that we would perform far better under the Fed's stress scenario than the Fed's stress test implies. Let me be perfectly clear – I support the Fed's stress test, and we at JPMorgan Chase think that it is important that the Fed stress test each bank the way it does. But it also is important for our shareholders to understand the difference between the Fed's stress test and what we think actually would happen. Here are a few examples of where we are fairly sure we would do better than the stress test would imply:

- We would be far more aggressive on cutting expenses, particularly compensation, than the stress test allows.

Finally, and this should give our shareholders a strong measure of comfort: During the *actual* financial crisis of 2008 and 2009, *we never lost money in any quarter.*

We hope that, over time, capital planning becomes more predictable. We do not believe that banks are trying to "game" the system. What we are trying to do is understand the regulatory goals and objectives so we can properly embed them in our decision-making process. It is critical for the banking system that the treatment of capital is coherent and

consistent over time and is not in any way capricious. Capital is precious, and it needs to be deployed intelligently in the business or properly returned to shareholders. If shareholders do not have a clear understanding of capital management and have unreasonable expectations, then that capital will be devalued. This is a bad outcome for all involved.

While there always will be cycles, we need to keep our eye on the important things, too – the outlook for long-term growth is excellent

The needs of countries, companies, investor clients and individuals will continue to grow over time. The chart below shows some of the long-term growth that is expected in some critical areas, including the underlying growth of gross domestic product and trade, investable/financial assets, infrastructure and capital markets activities. This is the *fuel* that will drive our business in the future.

Therefore, we take a long-term perspective on investing. How we currently view low net interest margins is a good example of making decisions for the long run

To capture our share of the growth in our underlying businesses, we need to continually invest in bankers, branches and capabilities (research, products and technology) to drive down our costs and better serve our clients. It is a lot of hard work that needs to be supported by all of our critical functions, from finance and human resources to operations and controls. This kind of investing should not be done in a stop-start way to manage short-term profitability.

Quarterly earnings – even annual earnings – frequently are the result of actions taken over the past five or 10 years. Our company continued to invest through the crisis – often when others could not – in order to capture future growth.

Global Macro Themes

	2014	2024	Growth
World gross domestic product (\$ in trillions)	\$ 78	\$ 133	■ 5.5% CAGR
World exports (\$ in trillions)	\$ 22	\$ 38	■ 1.7x
Investable assets (\$ in trillions)	\$ 263	\$ 481	■ 6% CAGR ■ 12% emerging ■ 4% developed
Infrastructure spend (\$ in trillions)	\$36 over last 18 years	\$57 over next 18 years	■ 1.6x ■ 2.6x emerging ■ 1.1x developed
Number of companies with \$1+ billion revenue	8,000	15,000 ¹	■ 1.9x ■ 3.8x emerging ■ 1.2x developed

Source: International Monetary Fund, World Bank, McKinsey, JPMorgan Chase analysis

¹ 2025 estimate

A very good current example of how we view investing and long-term decision making is how we are dealing with the squeeze on our net interest margins (NIM) due to extremely low interest rates. The best example of this is in our consumer business, where NIM has gone from 2.95% to 2.20% (from 2009 to 2014). This spread reduction has reduced our net interest income by \$2.5 billion, from \$10 billion to \$7.5 billion – or if you look at it per account, from \$240 to \$180. Since we strongly believe this is a temporary phenomenon and we did not want to take more risk to increase our NIM (which we easily could have done), we continued to open new accounts. Over those years, we added 4.5 million accounts – and, in fact, very good sizable accounts. This has reduced our operating margins from 36% to 32%, but we don't care. When normal interest rates return, we believe this will add \$3 billion to revenue and improve our operating margin to more than 40%.

Our long-term view means that we do not manage to temporary P/E ratios – the tail should not wag the dog

Price/earnings (P/E) ratios, like stock prices, are temporary and volatile and should not be used to run and build a business. We have built one great franchise, our way, which has been quite successful for some time. As long as the business being built is a real franchise and can stand the test of time, one should not overreact to Mr. Market. This does not mean we should not listen to what investors are saying – it just means we should not overreact to their comments – particularly if their views reflect temporary factors. While the stock market over a long period of time is the ultimate judge of performance, it is not a particularly good judge over a short period of time. A more consistent measure of value is our tangible book value, which has had healthy growth over time. Because of our conservative accounting, tangible book value is a very good measure of the growth of the value of our company. In fact, when Mr. Market gets very moody and depressed, we think it might be a good time to buy back stock.

I often have received bad advice about what we should do to earn a higher P/E ratio. Before the crisis, I was told that we were too conservatively financed and that more leverage would help our earnings. Outsiders said that one of our weaknesses in fixed income trading was that we didn't do enough collateralized debt obligations and structured investment vehicles. And others said that we couldn't afford to invest in initiatives like our own branded credit cards and the buildout of our Chase Private Client franchise during the crisis. Examples like these are exactly the reasons why one should not follow the herd.

While we acknowledge that our P/E ratio is lower than many of our competitors' ratio, one must ask why. I believe our stock price has been hurt by higher legal and regulatory costs and continues to be depressed due to future *uncertainty* regarding both.

We still face legal uncertainty though we are determined to reduce it over time. Though we still face legal uncertainty (particularly around foreign exchange trading), we are determined to reduce it and believe it will diminish over time. I should point out that while we certainly have made our share of costly mistakes, a large portion of our legal expense over the last few years has come from issues that we acquired with Bear Stearns and WaMu. These problems were far in excess of our expectations. Virtually 70% of all our mortgage legal costs, which have been extraordinary (they now total close to \$19 billion), resulted from those two acquisitions. In the Bear Stearns case, we did not anticipate that we would have to pay the penalties we ultimately were required to pay. And in the WaMu case, we thought we had robust indemnities from the Federal Deposit Insurance Corporation and the WaMu receivership, but as part of our negotiations with the Department of Justice that led to our big mortgage settlement, we had to give those up. In case you were wondering: No, we would not do something like Bear Stearns

again – in fact, I don't think our Board would let me take the call. The WaMu deal might still make sense but at a much lower price to make up for the ongoing legal uncertainty (including the government's ability to take away our bargained-for indemnities). I did not, and perhaps could not, have anticipated such a turn of events. These are expensive lessons that I will not forget.

Part of the issue around legal costs is that banks are now frequently paying penalties to five or six different regulators (both domestic and international) on exactly the same issue. This is an unprecedented approach that probably warrants a serious policy discussion – especially if those regulators (as at least some of them have acknowledged) don't take into account what is being paid to the others. For now, it's simply a reality for big banks, and certainly for us, that when one or more employees do something wrong, we'll hear from multiple regulators on the subject.

The good news is that our legal costs are coming down and, we hope, will normalize by 2016.

Uncertainty remains around regulatory requirements, though we believe this will diminish over time, too. That uncertainty is particularly acute around the extra capital that JPMorgan Chase will have to hold because of the new Global Systemically Important Bank (G-SIB) rules, the ultimate impact of the Volcker Rule, total loss-absorbing capacity, CCAR and Recovery & Resolution. And it's because of that uncertainty that a majority of the time I spend with analysts and investors these days is devoted to regulation. Very little time is spent talking about the actual business, like client transactions, market

share gains or other business drivers. Many questions still remain, and they are hard to explain or are difficult to answer, including: Why did American regulators simply double the G-SIB capital requirements for American banks versus all other global banks? Will higher capital requirements be added later? Given that much uncertainty, which is greater for JPMorgan Chase than for most other banks, it is understandable that people would pay less for our earnings than they otherwise might pay.

Having said all this, the contours of all of the new regulations have emerged, and we believe that regulatory uncertainty will diminish over time. And, we hope, so will the drag on our P/E ratio.

Think like a long-term investor, manage like an operator

So our ultimate goal is to think like a long-term investor – build great franchises, strengthen moats and have good through-the-cycle financial results. Achieve the benefits of scale and eliminate the negatives. Develop great long-term achievable strategies. And manage the business relentlessly, like a great operator. Finally, continue to develop excellent management that keeps it all going. As Thomas Edison said, "Vision without execution is hallucination."

III. WE WILL SUCCESSFULLY NAVIGATE THE NEW GLOBAL FINANCIAL ARCHITECTURE (AND WE ARE WELL ON OUR WAY TO HAVING FORTRESS CONTROLS)

We have meaningfully simplified the company

While I have said that it is good housekeeping to keep our company as simple as possible, we have done an extraordinary amount of cleaning out this past year. More important, last year, we *said* that we would do it, and this year we actually *did it*. The chart below shows that we did it by shedding businesses, reducing products and materially de-risking by reducing certain types of clients that simply create too much risk in the new world. In total, we have reduced approximately \$25 billion in assets through this effort. All of this makes the work of our compliance and control executives that much easier, as they can focus more on what's important.

We are well on our way to having fortress controls

The intense effort over the last few years now is yielding real results and will go a long way in protecting the company in the future. When we are done, we hope not just to have met the heightened expectations of our regulators but to have exceeded them. In addition to successfully completing CCAR (which we will strive to do every year), there are other examples of tangible progress. Following are some of our accomplishments:

- **Strengthened compliance.** We have added approximately 8,000 people across the firm with a mission to strengthen our compliance capabilities. We have further aligned global leadership to drive focus and consistency across key risk areas such as AML/BSA (Anti-Money Laundering/

Executed Significant Business Simplification Agenda

Operating with fortress principles

Simplifying our business		Other meaningful business actions	
✓ Completed the spin-out of One Equity Partners and closed on the sale of a portion of our Private Equity portfolio	✓ Announced exit of Sears Canada and several smaller non-core card partnerships	✓ Simplified Mortgage Banking products from 37 to 18 products as of 2014, with a target of further reducing to 15	
✓ Exited physical commodities business	✓ Announced exit of International Commercial Card	✓ Rationalized Global Investment Management products: reduced U.S. funds # by net 6%, Asia funds net 4% and Europe funds net 2% in 2014	
✓ Sold Global Special Opportunities Group portfolio	✓ Sold interest in Carlson Wagonlit Travel agency	✓ De-risking through client selection –discontinuing certain businesses with select clients:	
✓ Exit in process of majority of Broker Dealer Services business	✓ Sold Retirement Plan Services unit	✓ Exited ~8,000 clients in Business Banking and Commercial Banking	
✓ Terminated transaction services for ~500 Foreign Correspondent Banking clients	✓ Exited prepaid card and Order to Pay businesses	✓ Exited ~5,500 foreign Politically Exposed Person relationships	
✓ Ceased originating student loans	✓ Sold health savings account business	✓ Sold significant portion of CIB's trade finance EXIM/ECA ² portfolio	

Incremental financial impact ¹		
(\$ in billions)	2015	2016 and beyond
Revenue	\$1.6 ▼	\$0.7 ▼
Expense	\$1.6 ▼	\$0.6 ▼

¹ Does not include impact of the One Equity Partners and Private Equity portfolio sale

² EXIM = Export-Import Bank; ECA = Export Credit Agency

Bank Secrecy Act), fiduciary risk, market conduct risk, employee compliance and privacy. We have enhanced our policies and implemented new procedures and technology support.

- **New anti-money laundering systems deployed.**

We have implemented Mantas, an industry-leading transaction monitoring platform, for all U.S. dollar payment transactions. This provides a significant improvement in our transaction monitoring capabilities and allows us to decommission multiple less effective legacy systems. We also have upgraded our processes and technology support in AML investigations and sanctions. We have more to do, but a strong foundation is in place.

- **Foreign correspondent banking review.** Given the regulatory scrutiny around these activities, we have exited many relationships with foreign correspondent banks where we have risk-related concerns or where we needed to simplify our business. In addition to the relationship exits, we have improved our controls for foreign correspondent banking activities, including enhancing our technology to better monitor U.S. dollar correspondent bank transactions – which allowed us to implement 10 new transaction monitoring scenarios to better track millions of transactions each day.

- **Enhanced controls in connection with payday lender practices.** We reviewed our policies, systems and processes to decrease financial burdens on our customers and hinder payday lenders' ability to engage in predatory collection practices. And then we did the following: eliminated multiple return item fees, enhanced our policy and systems for stop payment requests, and allowed account closure with a pending transaction and/or a negative balance. (NACHA rules originally did not allow a bank to close an account with a pending transaction. Consumers wanted to close

the account to stop payday lenders from trying to take money from the account on a daily basis.) In addition, we are working with NACHA to develop new standards for the entire industry.

- **Mortgage servicing improvements.** As one of the United States' largest mortgage lenders, some of our practices were not designed to handle the unprecedented increase in volume that occurred as a result of the financial crisis. Therefore, we reviewed the areas that needed enhancement and took the appropriate actions. We focused on improving our operating model, we dedicated more than 10,000 employees to assist customers that were having difficulty making payments, and we improved our communications with customers to provide better counseling and more clarity about the options available. We also invested more than 280,000 hours of our technology employees' time to improve our Mortgage Servicing business, including enhancing the loan modification application to improve the systems that track and manage customer complaints and responses.

- **Model review.** More than 300 employees are working in Model Risk and Development. In 2014, this highly specialized team completed over 500 model reviews, implemented a system to assess the ongoing performance of the 1,000+ most complex models in the firm, and continued to enhance capital and loss models for our company.

Fortunately, most of our strategies stay essentially the same

Many banks will have to make some fairly drastic changes to their strategies, and because various banks are facing different overarching constraints, those strategies may be dramatically dissimilar. We are fortunate that our strategies will remain essentially the same, which allows us to avoid the upheaval, both internally and externally with clients, that often comes when strategies need to be changed dramatically.

However, a small percentage of our products and services will require some surgery (more on that later). In addition, because some companies are making large strategic moves, we would expect to see an ongoing shift in market shares and pricing. It is possible that we will benefit from both of these trends.

While uncertainty remains, the contours to the new rules are largely known, and we have made enormous progress adapting to them

The chart below describes the new rules and regulations with which we need to comply. And remember, these new rules affect each product, business, legal entity and client. Every requirement has a few hundred

2015 Financial Architecture

	Description	Selected requirements	Selected JPMorgan Chase actions
Capital	Improving the banking sector's ability to absorb losses arising from financial and economic stress	750+ requirements with 21 regulators involved ~27 different capital ratio requirements	950+ people 20,000+ pages of supporting documentation 225+ new models
Liquidity	- Ensuring banks hold sufficient liquid assets to survive acute liquidity stress - Prevent overreliance on short-term wholesale funding	500+ requirements 15+ jurisdictional variations expected	400+ people - Process and store 1+ billion records per day from 200+ feeds
Recovery & Resolution	- Ensuring the resiliency of firms to prevent failure - Preparing living wills	- Annual global recovery plan - Annual resolution plans for 34 entities, with plans by business and critical operations 10+ jurisdictions issued or proposed Recovery & Resolution regulation, with more expected	1,000+ people 1+ million work hours devoted annually
Mortgages	- Reforming the nation's housing finance system - Expanding origination, servicing and securitization regulation	90+ new, proposed or amended rules, notices and regulations contained within ~13,000 pages of regulatory text ~2,000 pages of systemic reform legislation introduced	~800,000 compliance training hours ~1.4 million work hours dedicated to systems and process implementation
Data reporting and management	- Enhancing data-related capabilities by increasing accountability and transparency for data quality - Improving the firm's ability to collect, manage and report on data in order to facilitate greater market and product transparency	11 principles with 1,000+ requirements 3,300+ pages of requirements, principles and guidance	1,000+ people working across 43 business groups 120+ distinct programs with 1,400+ milestones
Derivatives	- Enhancing pre- and post-trade transparency - Promoting use of electronic trading venues and central clearing - Bolstering capital and margin requirements	99 proposed or finalized regulations (U.S.) and 237 final articles (European Union) 3,150+ pages of requirements and guidance	700+ people 60 workstreams
Volcker	- Restricting banks from undertaking certain types of market activities - Controlling risks associated with certain trading and funds-related activity	1,000+ pages covering 36 requirements, with 5 regulators involved	300+ people 7 trading metrics reported monthly across 15 business areas

Note: This list of regulations is not comprehensive; estimates of resources are approximate

detailed rules around it to which we need to adapt. While it is a lot of work, we believe we will be able to successfully accomplish all of it. We have spoken about many of these rules and requirements in the past so we won't go into greater detail here, other than on the new G-SIB capital rules, which will have some material effects on some of our businesses.

Intense effort is going into understanding and adapting to the new G-SIB capital rules.

Last year, we described how we had to manage the company to satisfy several new constraints (all of the liquidity, leverage, capital and CCAR requirements). To do this, we were *pushing* these new rules and requirements all the way down to the product and client levels. The G-SIB capital rules are a new constraint that we also need to manage to, and for JPMorgan Chase, they possibly are the most important constraint, though this may change over time. Therefore, we also need to push the new G-SIB rules to the product and client levels.

Unlike RWA, which lets one measure the risk embedded in each asset and, thus, the capital needed to hold against it, G-SIB is multivariate. G-SIB is not a simple calculation. It requires thousands of calculations, and it does not look at just assets – it looks at products, services, assets, type of client (i.e., international and financial or corporate) and collateral type, among others in order to determine capital levels.

G-SIB will have its highest impact on non-operating deposits, gross derivatives, the clearing business in general and certain clients, particularly financial institutions, including central banks. At the end of the day, we believe that we can manage through this process and reduce our capital requirements while maintaining our core franchises. To the extent that these changes materially impact clients, we will do it thoughtfully and carefully and help them find appropriate alternatives.

G-SIB is not a direct measure of risk. The G-SIB calculations show that JPMorgan Chase is the most Global Systemically Important Bank, and, therefore, we have to hold more capital than any other bank in the world. Some of our shareholders believe that this designation implies that before the additional capital is held, we may be the riskiest institution, too. But G-SIB is not a true measure of risk, like RWA or CCAR. (And as shareholders have mentioned to me, many of these measures do not indicate how they would look at risk; i.e., margins, earnings diversification and actual performance in tough times, in addition to criteria such as capital and liquidity.)

In fact, parts of G-SIB are very risk insensitive – for example, it does not measure our actual and largest risks in credit markets (still our largest exposures) – and it adds a lot of capital for some activities that have absolutely no risk involved. One example will suffice: We take non-operating deposits (deposits that are very short term in nature from investors so they can manage their short-term cash needs) from central banks and large financial institutions. We have approximately \$350 billion of non-operating deposits, a large portion from financial institutions, which we immediately turn around and deposit at the Federal Reserve, and this is risk-free to us. We mostly do this as an accommodation to large institutions that need to move extensive sums of money around and we generate minimal earnings from this activity. We recently announced that we are going to reduce these deposits by \$100 billion, which in the context of the firm's broader actions will reduce our common equity requirements by approximately \$3.5 billion. (Since these changes involve some of the largest financial institutions in the world, we are doing this very carefully and are trying to make sure that clients have access to alternatives such as access to money market funds and direct access to Federal Reserve facilities.)

We hope to learn a lot more about the G-SIB calculations. Many questions remain, which we hope will be answered over time such as:

- It is unclear (it has not been made transparent to us) how and why these calculations are supposed to reflect systemic risk. In addition, they are relative calculations, which means that even if we and everybody else all reduced these exposures, our surcharge would not change, while presumably systemic risk would drop.
- It is unclear how these calculations take into consideration the extensive number of new rules and regulations that are supposed to reduce systemic risk (i.e., total loss-absorbing capacity, net stable funding ratio, liquidity coverage ratio, supplementary leverage ratio and the new Recovery & Resolution rules).
- It is unclear why the U.S. regulators doubled the calculations versus everyone else in the world, particularly since the U.S. banking system, as a percentage of the U.S. economy, is smaller than in most other countries.

G-SIB is important, and we take it seriously. The G-SIB capital surcharge, however calculated, is an important part of our capital needs. And since we are outsized, relative to our competitors (our capital surcharge currently is estimated as 4.5% of risk-weighted assets, yet many of our competitors are between 2%-4% of risk-weighted assets), we will be more comfortable when the surcharge is reduced. We already have begun to lower the surcharge by 0.5%, and, over time, expect to do more than that. Marianne Lake and Daniel Pinto gave details on this topic in their Investor Day presentations. The regulators have made it clear that these are important measures of global systemic risk, and they have given us a clear road map to how we can reduce these exposures – and we are going to take that road.

We must and will meet the regulators' demands on Recovery & Resolution – whatever it takes

A critical part of eliminating “Too Big to Fail” is meeting the regulators’ demands on Recovery & Resolution. The Recovery Plan is the first line of defense in a crisis situation and serves as the road map for how to prevent the firm from actually failing. It gives the regulators the comfort that the firm has done sufficient upfront planning and analysis and has an outline for how the firm could recover if confronted with a severe financial crisis. The plan essentially helps the regulators understand the comprehensive set of alternatives and actions available to enable the firm to fully recover and prevent a failure. Resolution Plans, on the other hand, are the playbooks for how the company can be restructured or unwound in an orderly way in the event of a failure so that other banks and the general economy would not suffer. The plans outline for the regulators a set of strategies, necessary information and detailed plans by legal entity. For instance, JPMorgan Chase has reported that it has 34 legal entities and branches housing the vast majority of the firm’s essential operations and businesses. Each legal entity has to be understood by the regulators and must have distinct intercompany agreements and a comprehensive plan in place to manage the legal entity in the event that it needs to be resolved. We have taken these requirements very seriously as evidenced by the more than 1,000 people working diligently on the extensive Recovery & Resolution requirements. In addition, we are working to reduce the number of entities we have and to simplify our structure and inter-entity arrangements. We need to satisfy all of our regulators on these plans, and we will do whatever it takes to meet their expectations.

There have been two critical developments toward giving governments and regulators comfort on Recovery & Resolution, which, according to some key regulators, will effectively end Too Big to Fail and will

be completed in 2015. First, the regulators have almost finished plans around total loss-absorbing capacity, which will require large banks to hold a lot of additional long-term debt, which could be converted to equity in the event of a failure and thereby enable the firm to remain open to serve customers and markets. Second, the industry agreed to put in place specific rules and guidelines on how to deal globally with derivatives contracts of a failed institution. This gives regulators and governments the knowledge that, in a failure, derivatives contracts can be properly managed and will not make the situation worse.

The industry will be stronger and safer because of all of the new regulations, and the future is bright for well-run banks

There is no question that, today, the global banking system is safer and stronger – possibly more so than it has ever been. That is not to say that the changes do not create a whole range of challenges, complexities and new risks (which we will talk about in the next section). But at the end of the day, the system will be safer and more stable than ever. I may sound a little like Voltaire’s optimistic character Dr. Pangloss for saying this, but I am hopeful that in the next five to 10 years, high-quality banks will be thriving in their work to support economies and help society.

IV. WE HAVE A SOLID STRATEGY AND BELIEVE OUR FUTURE OUTLOOK IS VERY GOOD – BUT, AS USUAL, THERE STILL ARE A LOT OF THINGS TO THINK AND WORRY ABOUT

We already have spoken about the fact that most of our strategy will stay essentially the same and that while some areas may require a little surgery, we strongly believe we will be able to successfully navigate the new world. Some of that surgery will slow down our growth a little bit in certain areas, but we are quite optimistic that we can grow in others.

Most of our growth will be organic – we have been doing this successfully for a decade – and opportunities abound

We are optimistic that all of our businesses can grow, and, below, I describe some initiatives that are particularly exciting.

Chase Private Client started as a gleam in our eye back in 2010. Chase Private Client branches are dedicated to serving our affluent clients' investment needs. From one test branch (which didn't go very well, but, fortunately, we kept on trying), we now have more than 2,500 Chase Private Client offices. They now manage investments and deposits of \$190 billion. While the branch buildout is essentially complete, we think the potential for growth remains large.

Small business. We are making our premier products and services work better together for a more holistic experience for our small business customers, whose time and attention should be spent on running their business, not going to the bank. We see a huge opportunity in this fragmented market – there is no dominant bank for the 28 million small businesses in the United States. At JPMorgan Chase, we serve 3.9 million American small businesses across Business Banking, Card Services and Chase Commerce Solutions, and we have successfully grown all of these businesses. We want to become the easiest bank to do business with, and we are working hard to speed applications, simplify forms and add digital conveniences. For example, we want a small business to fill out an application that can qualify it for Ink® (our small business

credit card), Paymentech, deposits and loans all at once. We believe that if we bundle the services that small businesses really want and also provide meaningful advice, we can dramatically grow this business. Looking ahead, we know small businesses become large companies at a much more rapid pace than in years past. Serving these companies well now can solidify long-term client relationships that could span several lines of business in the future.

Excellent prospects for our Corporate & Investment Bank. Our Corporate & Investment Bank is an example of a business that has had exceptional relative multi-year performance. And even recently when it has been under a lot of regulatory pressure due to higher capital constraints and other regulatory demands, the business has been able to earn a 13% return on equity¹. It is an endgame winner, and it benefits substantially from the rest of the company, which helps drive its best-in-class results.

However, in our current environment, we don't expect a lot of growth or robust returns as we adjust to the new world. But we continue to believe that the long run is quite attractive. At Investor Day, we showed that the Corporate & Investment Bank in 2006 was #1, #2 or #3 in eight of the 16 product categories that we are in. Now we are #1, #2 or #3 in 15 of the 16 product categories that we are in. But the exciting part is a program that Daniel Pinto calls Path to #1, which shows when you divide those 16 businesses into sub-businesses and geographies, there are lots of areas where we are not close to #1, #2 or #3, and, in most of those places, we should be able to improve. So as the business goes through an inordinate amount of change, the underlying needs of our clients continue to grow, and we will grow with them and believe we can gain share, too.

¹ Excludes legal expense

We are going to do a better job of covering family and private offices in both the Private Bank and the Investment Bank. Family offices have become larger, more sophisticated and more global, and they actively buy minority or whole stakes in businesses. More than 2,300 families across the globe had assets of \$1 billion or more in 2014. Together, they control over \$7 trillion in assets, a number that has grown in excess of 10% since 2011. While J.P. Morgan already works with many of these families as clients, we believe we can do a far better job of providing the full range of products and services offered by our Private Bank and Investment Bank.

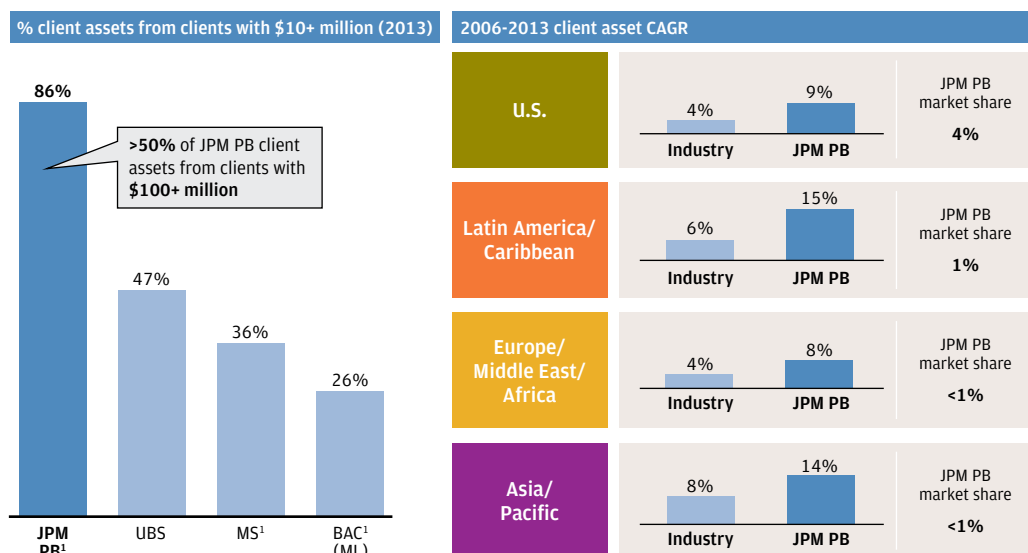
Private banking will grow for years. In Mary Erdoes' Investor Day presentation, she showed that while we have the best private bank in the United States, our business still is rather small, and there is plenty of room to grow. This is even truer in Asia Pacific and Latin America. The chart below shows how strong our business is and illustrates that there is plenty of room to grow our market share internationally.

Retail banking presence still has room to grow.

While we cannot acquire a retail bank in the United States, we can – and intend to – enter cities where we have never been. We will keep those cities we might choose to enter a surprise – but we hope to begin doing this in 2016. And remember, when we enter a city, we can bring the full force of JPMorgan Chase to bear, from retail, small business and private banking to middle market and local coverage of large corporations.

We particularly are excited about our payments business in total. The combination of Chase Paymentech, our merchant acquirer, ChaseNet, our proprietary Visa-supported network, and ChasePay, our proprietary wallet, allows us to offer merchants – large and small – better deals in terms of economics, simpler contracts, better data and more effective marketing to their clients. It also allows us to better serve consumer clients with a wide variety of offers and ease of use. We are going to be very aggressive in growing this business, and we will be disappointed if we don't announce some exciting and potentially market-changing ventures.

Trusted Advisor to the World's Most Sophisticated Clients



Every +10 basis points in market share internationally = \$150+ million of revenue

¹ PB = Private Bank; MS = Morgan Stanley; BAC = Bank of America (Merrill Lynch)

Big, fast data. We continue to leverage the data generated across JPMorgan Chase, as well as data that we purchase to create intelligent solutions that support our internal activities and allow us to provide value and insights to our clients. For example, we are monitoring our credit card and treasury services transactions to catch fraudulent activities before they impact our clients, we are helping our clients mitigate costs by optimizing the collateral they post in support of derivatives contracts, and we are highlighting insights to our merchant acquiring and co-brand partners.

There always will be new emerging competitors that we need to keep an eye on

New competitors always will be emerging – and that is even truer today because of new technologies and large changes in regulations. The combination of these factors will have a lot of people looking to compete with banks because they have fewer capital and regulatory constraints and fewer legacy systems. We also have a healthy fear of the potential effects of an uneven playing field, which may be developing. Below are some areas that we are keeping an eye on.

Large banks outside the United States are coming. In terms of profitability, the top two Chinese banks are almost twice our size. Thirty years ago, Industrial and Commercial Bank of China operated in only a handful of countries, but it now has branches or subsidiaries in more than 50 countries. It has a huge home market and a strategic reason to follow the large, rapidly growing global Chinese multinationals overseas. It may take 10 years, but we'd be foolish to discount their ambition and resources. We're also seeing world-class banks emerge and grow in places like India and Brazil, and Japanese and Canadian banks are coming on strong, too. Many of these banks are supported in their expansionary efforts by their government and will not need to live by some of the same rules that we in the United States must adhere to, including capital requirements. We welcome the competition, but we are worried that an uneven playing field may hamper us many years from now.

Silicon Valley is coming. There are hundreds of startups with a lot of brains and money working on various alternatives to traditional banking. The ones you read about most are in the lending business, whereby the firms can lend to individuals and small businesses very quickly and – these entities believe – effectively by using Big Data to enhance credit underwriting. They are very good at reducing the “pain points” in that they can make loans in minutes, which might take banks weeks. We are going to work hard to make our services as seamless and competitive as theirs. And we also are completely comfortable with partnering where it makes sense.

Competitors are coming in the payments area.

You all have read about Bitcoin, merchants building their own networks, PayPal and PayPal look-alikes. Payments are a critical business for us – and we are quite good at it. But there is much for us to learn in terms of real-time systems, better encryption techniques, and reduction of costs and “pain points” for customers.

Some payments systems, particularly the ACH system controlled by NACHA, cannot function in real time and, worse, are continuously misused by free riders on the system. There is a true cost to allowing people to move money. For example, it costs retailers 50-70 basis points to use cash (due to preventing fraud and providing security, etc.). And retailers often will pay 1% to an intermediary to guarantee that a check is good. A guaranteed check essentially is the same as a debit card transaction for which they want to pay 0%. For some competitors, free riding is the only thing that makes their competition possible. Having said that, we need to acknowledge our own flaws. We need to build a real-time system that properly charges participants for usage, allows for good customer service, and minimizes fraud and bad behavior.

Rest assured, we analyze all of our competitors in excruciating detail – so we can learn what they are doing and develop our own strategies accordingly.

Cybersecurity, fraud and privacy need intensive investment on the part of your entire company, and we must do it in collaboration with the government and regulators

Matt Zames describes on page 40 some of the efforts we are making on cyber. What I want to emphasize to our shareholders is the absolute, critical and immediate need to combat cybersecurity threats and the related issues of fighting fraud and protecting privacy. In these areas, we will do whatever it takes to protect the company and its clients. Regarding privacy, I do not believe that most people fully understand what no longer is private and how their information is being bought, sold and used. As a bank, we are appropriately restricted in how we can use our data, but we have found many examples of our data being misused by a third party. We are going to be very aggressive in limiting and controlling how third parties can use JPMorgan Chase data.

It is critical that government and business and regulators collaborate effectively and in real time. Cybersecurity is an area where government and business have been working well together, but there is much more to be done. And if it is not done in a concerted way, we all will pay a terrible price.

The banking system is far safer than it has been in the past, but we need to be mindful of the consequences of the myriad new regulations and current monetary policy on the money markets and liquidity in the marketplace – particularly if we enter a highly stressed environment

There are many new rules, and, in conjunction with current monetary policy, they already are having a large effect on money markets and liquidity in the marketplace. One famous scientist once said, “A Rule of Three (ART): A statistical specification with more than three explanatory variables is meaningless.” Simply put, it is impossible to figure out the cumulative effect of all these

changes even in a benign environment. But what is far more important is what the effect of these changes might be if we enter a *stressed environment*. As a risk policy matter, we need to make the assumption that there will be unpredictable and unintended consequences – sometimes these are to good effect, but what we need to worry about are those that have a potentially bad effect.

In the rest of this section, we will look at how the table is set – what is going on that is the same or different than in the past. Later in this section, we will speculate on what might happen differently if we enter a new crisis.

Most important, we will enter the next crisis with a banking system that is stronger than it has ever been

Each individual bank is safer than before, and the banking sector overall is stronger and sounder because, among other things:

- Capital levels are far higher today than before the crisis and, by some measures, higher than they have ever been. For example, a very basic measure of capital, going back around 100 years, was a simple ratio of equity to assets. In the last six years, it’s back to high numbers not seen since the late 1930s.
- Highly liquid assets held by banks probably are much higher than ever before.
- Many exotic and complex products are gone.
- Many standardized derivatives are moving to clearinghouses.
- Both consumer and commercial loans are underwritten to better standards than before the crisis.
- Transparency to investors is far higher.
- Boards and regulators are far more engaged.

But many things will be different – for example, there will be far more risk residing in the central clearinghouses, and non-bank competitors will have become bigger lenders in the marketplace

Clearinghouses will be the repository of far more risk than they were in the last crisis because more derivatives will be cleared in central clearinghouses. It is important to remember that clearinghouses consolidate – but don't necessarily eliminate – risk. That risk, however, is mitigated by proper margining and collateral. We have long maintained that it is important to stress test central clearinghouses in a similar way that banks are stress tested to make sure the central clearinghouses' capital and resources are sufficient for a highly stressed environment. Clearinghouses are a good thing but not if they are a point of failure in the next crisis.

Non-bank competitors are increasingly beginning to do basic lending in consumer, small business and middle market. In middle market syndicated lending, their share recently has increased from 3% a few years ago to 5% today, and many people estimate that it will continue to increase over the years to come. There is nothing wrong with having competitors, including non-bank competitors. However, they will act differently from banks in the next stressed environment. I will write about this later in this section when we go through a thought exercise of the next crisis.

There already is far less liquidity in the general marketplace: why this is important to issuers and investors

Liquidity in the marketplace is of value to both issuers of securities and investors in securities. For issuers, it reduces their cost of issuance, and for investors, it reduces their cost when they buy or sell. Liquidity can be even more important in a stressed time because investors need to sell quickly, and without liquidity, prices can gap, fear can grow and illiquidity can quickly spread – even in supposedly the most liquid markets.

Some investors take comfort in the fact that spreads (i.e., the price between bid and ask) have remained rather low and healthy. But market depth is far lower than it was, and we believe that is a precursor of liquidity. For example, the market depth of 10-year Treasuries (defined as the average size of the best three bids and offers) today is \$125 million, down from \$500 million at its peak in 2007. The likely explanation for the lower depth in almost all bond markets is that inventories of market-makers' positions are dramatically lower than in the past. For instance, the total inventory of Treasuries readily available to market-makers today is \$1.7 trillion, down from \$2.7 trillion at its peak in 2007. Meanwhile, the Treasury market is \$12.5 trillion; it was \$4.4 trillion in 2007. The trend in dealer positions of corporate bonds is similar. Dealer positions in corporate securities are down by about 75% from their 2007 peak, while the amount of corporate bonds outstanding has grown by 50% since then.

Inventories are lower – not because of one new rule but because of the multiple new rules that affect market-making, including far higher capital and liquidity requirements and the pending implementation of the Volcker Rule. There are other potential rules, which also may be adding to this phenomenon. For example, post-trade transparency makes it harder to do sizable trades since the whole world will know one's position, in short order.

Recent activity in the Treasury markets and the currency markets is a warning shot across the bow

Treasury markets were quite turbulent in the spring and summer of 2013, when the Fed hinted that it soon would slow its asset purchases. Then on one day, October 15, 2014, Treasury securities moved 40 basis points, statistically 7 to 8 standard deviations – an unprecedented move – an event that is supposed to happen only once in every 3 billion years or so (the Treasury market has only been around for 200 years or so – of course, this should make you question statistics to begin with). Some currencies recently have had similar large moves. Importantly, Treasuries and major country currencies are considered the most *standardized* and *liquid* financial instruments in the world.

The good news is that almost no one was significantly hurt by this, which does show good resilience in the system. But this happened in what we still would consider a fairly benign environment. If it were to happen in a stressed environment, it could have far worse consequences.

Some things never change – there will be another crisis, and its impact will be felt by the financial markets

The trigger to the next crisis will not be the same as the trigger to the last one – but there will be another crisis. Triggering events could be geopolitical (the 1973 Middle East crisis), a recession where the Fed rapidly increases interest rates (the 1980-1982 recession), a commodities price collapse (oil in the late 1980s), the commercial real estate crisis (in the early 1990s), the Asian crisis (in 1997), so-called “bubbles” (the 2000 Internet bubble and the 2008 mortgage/housing bubble), etc. While the past crises had different roots (you could spend a lot of time arguing the degree to which geopolitical, economic or purely financial factors caused each crisis), they generally had a strong effect across the financial markets.

While crises look different, the anatomy of how they play out does have common threads. When a crisis starts, investors try to protect themselves. First, they sell the assets they believe are at the root of the problem. Second, they generally look to put more of their money in safe havens, commonly selling riskier assets like credit and equities and buying safer assets by putting deposits in strong banks, buying Treasuries or purchasing very safe money market funds. Often at one point in a crisis, investors can sell only less risky assets if they need to raise cash because, virtually, there may be no market for the riskier ones. These investors include individuals, corporations, mutual funds, pension plans, hedge funds – pretty much everyone – each individually doing the right thing for themselves but, collectively, creating the market disruption that we’ve witnessed before. This is the “run-on-the-market” phenomenon that you saw in the last crisis.

And now, a thought exercise of what might be different in the next crisis

It sometimes is productive to conduct a thought exercise – in effect trying to re-enact a “run on the market” but, in this case, applying the new rules to see what effect they might have. Even though we must necessarily be prepared for a crisis at all times, we hope a real crisis is many years down the road. And in the United States, we would be entering the crisis with a banking system that is far stronger than in the past, which, on its own, could reduce the probability *and* severity of the next crisis. We are not going to guess at the potential cause of the crisis, but we will assume that, as usual, we will have the normal “run-on-the-market” type of behavior by investors. So let’s now turn to look at how a crisis might affect the markets in the new world.

The money markets (deposits, repos, short-term Treasuries) will behave differently in the next crisis

- Banks are required to hold liquid assets against 100% of potential cash outflows in a crisis. Liquid assets essentially are cash held at central banks, Treasuries and agency mortgage-backed securities. Outflows are an estimate of how much cash would leave the bank in the first 30 days of a crisis. This would include things like deposit outflows, depending on the type of deposit, and revolver take-downs, depending primarily on the type of borrower. In my opinion, banks and their board of directors will be very reluctant to allow a liquidity coverage ratio below 100% – even if the regulators say it is okay. And, in particular, no bank will want to be the *first* institution to report a liquidity coverage ratio below 100% for fear of looking weak.
- In a crisis, weak banks lose deposits, while strong banks usually gain them. In 2008, JPMorgan Chase’s deposits went up more than \$100 billion. It is unlikely that we would want to accept new deposits the next time around because they would be considered non-operating deposits (short term in nature) and would require valuable capital under both the supplementary leverage ratio and G-SIB.

- In a crisis, everyone rushes into Treasuries to protect themselves. In the last crisis, many investors sold risky assets and added more than \$2 trillion to their ownership of Treasuries (by buying Treasuries or government money market funds). This will be even more true in the next crisis. But it seems to us that there is a greatly reduced supply of Treasuries to go around – in effect, there may be a shortage of all forms of good collateral. Currently, \$13 trillion of Treasuries are outstanding, but, according to our estimates, less than half of this amount is effectively free to be sold. Approximately \$6 trillion is accounted for by foreign exchange reserve holdings for foreign countries that have a strong desire to hold Treasuries in order to manage their currencies. The Federal Reserve owns \$2.5 trillion in Treasuries, which it has said it will not sell for now; and banks hold \$0.5 trillion, which, for the most part, they are required to hold due to liquidity requirements. Many people point out that the banks now hold \$2.7 trillion in “excess” reserves at the Federal Reserve (JPMorgan Chase alone has more than \$450 billion at the Fed). But in the new world, these reserves are not “excess” sources of liquidity at all, as they are required to maintain a bank’s liquidity coverage ratio. In a crisis, if banks turn away deposits, most investors will have other options, which include:

1. Buying Treasuries directly.
2. Buying money market funds, which own Treasuries.
3. Buying repos, which are collateralized by Treasuries.
4. Investing directly at the Fed for a limited set of investors (government-sponsored enterprises, money funds).
5. Purchasing credit instruments like commercial paper.

Buyers of credit (loans, secured loans, underwriting and investments) will be more reluctant to extend credit

- In the crisis, many banks lent against various forms of good collateral (but not necessarily the highest quality collateral) to help clients create liquidity and navigate through the crisis. The collateral often came with significant haircuts and was of the type that banks thought they easily could risk-manage, and, for the most part, they did. In the last crisis, JPMorgan Chase did tens of billions of this type of lending. In the next crisis, banks will have a hard time increasing this type of credit because it will require capital and more liquidity.
- In a crisis, clients also draw down revolvers (for JPMorgan Chase alone, this peaked at approximately \$20 billion at one point in 2009) – sometimes because they want to be conservative and have cash on hand and sometimes because they need the money. As clients draw down revolvers, risk-weighted assets go up, as will the capital needed to support the revolver. In addition, under the advanced Basel rules, we calculate that capital requirements can go up more than 15% because, in a crisis, assets are calculated to be even riskier. This certainly is very procyclical and would force banks to hoard capital.
- In addition, banks may have a decrease in capital because new regulatory capital rules require losses on investment securities to reduce regulatory capital. This would be particularly true if interest rates were rising in the next crisis, which cannot be ruled out. (Typically, Treasury yields drop dramatically in a crisis, and that possibly could happen in this case, too, especially as they would be in short supply. But, again, one cannot rely on this.)
- In the last crisis, some healthy banks used their investment portfolios to buy and hold securities or loans. In the next crisis, banks will not be able to do that because buying most types of securities or loans would increase their RWA and reduce their liquidity.

- In the last crisis, banks underwrote (for other banks) \$110 billion of stock issuance through rights offerings. Banks might be reluctant to do this again because it utilizes precious capital and requires more liquidity.
- It is my belief that in a crisis environment, non-bank lenders will not continue rolling over loans or extending new credit except at exorbitant prices that take advantage of the crisis situation.

On the other hand, banks continued to lend at fair prices in the last crisis because of the long-term and total relationship involved. Banks knew they had to lend freely because effectively they are the “lender of last resort” to their clients as the Federal Reserve is to the banks. ***This is a critical point: JPMorgan Chase and most other banks understood their vital role in actively lending to clients.*** In 2008 and 2009, JPMorgan Chase rolled over more than \$260 billion of loans and credit facilities to small businesses, middle market companies and large companies, in addition to \$18 billion for states and municipalities, hospitals and nonprofits. We rolled over these capital and lending commitments to support our clients and always maintained fair (and not rapacious) pricing, reflecting our long-term relationship with them.

The markets in general could be more volatile – this could lead to a more rapid reduction of valuations

The items mentioned above (low inventory, reluctance to extend credit, etc.) make it more likely that a crisis will cause more volatile market movements with a rapid decline in valuations even in what are very liquid markets. It will be harder for banks either as lenders or market-makers to “stand against the tide.”

But the American financial markets and, more important, the American economy generally have been extraordinarily resilient

Banks may be less able to act positively in the next crisis, but they also are far stronger and unlikely, in our opinion, to create the next crisis. Many other actors in the financial system, from hedge funds to long-term investors, including corporations and large money managers, will, at some point, step in and buy assets. The government, of course, always is able to step in and play an important role.

In addition, regulators can improve the liquidity rules to allow banks to provide liquidity on a more “graduated” basis against more types of assets and give more flexibility on the “margin” than is required. That is, they can give themselves both gas and brakes; i.e., change liquidity rules to fit the environment. In addition, we should try to eliminate procyclical rules, which can exacerbate a crisis.

Fundamentally, as long as the economy is not collapsing, financial markets generally recover. Whatever the turn of events, JPMorgan Chase will have the capability to play its role in supporting clients and communities in the countries in which we operate.

V. WE HAVE A FULLY ENGAGED BOARD, AN EXCEPTIONAL MANAGEMENT TEAM AND A STRONG CORPORATE CULTURE

We want to be a standard-bearer in the industry when it comes to meeting the heightened standards demanded by our regulators – and not just because it’s required but because we think it’s the right thing to do for our shareholders, clients, employees and communities. And we want to do this across all measures – from our controls to board governance, the cultivating of a strong culture and how we are fighting cyber attacks to how we treat our clients. It starts at the top – with the Board of Directors.

Your Board is fully engaged in all critical matters

The entire Board is fully engaged in the affairs of the company. Board members are fully engaged in the company, from setting the agenda of the Board meetings to reviewing strategy and demanding strong controls to determining CEO compensation and succession planning. Board members also are increasingly engaged in regulatory and shareholder affairs. Several of the Board members meet regularly with our key regulators and major shareholders.

Management succession planning is a priority of the Board. Regarding succession planning, the Board always must be prepared for the “hit-by-the-bus” scenario (which, of course, is not my preference), but ongoing succession planning for the medium and long term is the highest priority of the Board. Importantly, our Board members have complete access to and relationships with the key senior people and continually interact with them, both formally and informally. Both the Board members and I believe that, under all scenarios, this company has several capable potential successors.

The full Board meets without the CEO at every Board meeting. Going way back to Bank One’s Board more than a decade ago and before it was mandated, the Board would meet without the CEO (that’s me) because we all thought it was best for Board members to

have an open conversation about the CEO and the company without feeling any pressure. The Board continues that practice today. New rules mandate that directors meet at least once a year without the CEO – yet our Board does so at every Board meeting; i.e., eight times a year. And usually at the end of the session, the Lead Director comes to see me to give feedback and guidance about what the Board is thinking and what it wants.

We have a strong corporate culture – but we must continuously strengthen it

JPMorgan Chase has served its shareholders, customers and communities with distinction for more than 200 years. Since we were founded, our company has been guided by a simple principle that perhaps was best articulated by J.P. Morgan, Jr., in 1933, when he said: “I should state that at all times, the idea of doing only first-class business, and that in a first-class way, has been before our minds.” We continue to strive to meet that principle.

Acknowledging mistakes – and learning from them – is part of the fabric of this company. We also recognize that we have made a number of mistakes – some of them quite painful and costly – over the last several years. One of the things we learned was that we needed to redouble our efforts around culture – not reinvent our culture but recommit to it and ensure that it is an enduring strength of this institution. While we have done an extensive amount of work over the past year and a half to make sure we get this right, we know that it can’t be a one-time effort. It’s like keeping physically fit – you can’t get in shape and expect to stay that way if you stop exercising.

Our efforts around culture and conduct are substantial and include the following:

We will continuously reinforce our business principles. Back in July 2004 at the close of the JPMorgan Chase and Bank One merger, we sent a small blue book to all employees outlining the capabilities of the combined firm, as well as our mission and business principles. While much has changed over the past decade, our commitment to these principles remains the same. In July 2014, we marked the 10-year anniversary of JPMorgan Chase and Bank One coming together to form this exceptional company. It was fitting that on this special occasion, we rededicated ourselves to those same business principles by distributing the rearticulated business principles on How We Do Business to every person in the company. These core principles (which are written in plain English and include lots of specific examples) describe how we want to conduct business, and they will continue to guide us as we move forward. What we are doing *differently* today is that we are taking substantial actions to continuously inculcate our employees and our leadership on these principles:

- We want to make the How We Do Business principles part of every major conversation at the company – from the hiring, onboarding and training of new recruits to town halls and management meetings.
- We conduct a substantial amount of ongoing training and certification, from the Code of Conduct for all employees to the Code of Ethics for Finance Professionals that applies to the CEO, Chief Financial Officer, Controller and all professionals of the firm worldwide serving in a finance, accounting, corporate treasury, tax or investor relations role.
- We have enhanced our leadership training. We have thousands of educational programs, and we have consistently trained the top several hundred people on leadership. But we did not train people when they became first-time managers or, importantly, managers of managers.

This will be another opportunity to drive home our How We Do Business principles. The heart of this training provides the chance to teach our leadership how to do the right thing – not the easy thing – and to continually reinforce the principle of treating others in the way you would like to be treated.

- We also developed a pilot program within our Corporate & Investment Bank in Europe, the Middle East and Africa on How We Do Business, which includes focus groups and other efforts to analyze cultural themes and address any concerns around conduct and behavior. This year, we have taken the learnings from that pilot and will be rolling them out in a global, firmwide Culture and Conduct Program.

These initiatives will make us a better company. We hope they will reduce any bad behavior. No human endeavor can ever be perfect, but we are hopeful that as incidences of bad behavior decline and as management's responses to bad behavior are vigorous, governments and regulators will appreciate the intensity of our efforts.

Compensation has been consistent and fair and is awarded with proper pay-for-performance

Our long-term success depends on the talents of our employees. And our firm's compensation system plays a significant role in our ability to attract, retain and motivate the highest quality workforce. We design our compensation program to encompass best practices, support our business objectives and enhance shareholder value. For example:

- We do not have change-of-control agreements, special executive retirement plans, golden parachutes or things like special severance packages for senior executives.
- We do not pay bonuses for completing a merger, which we regard as part of the job. (When a merger has proved successful, compensation might go up.)

- We virtually have no private “deals” or multi-year contracts for senior management.
- We always have looked at financial performance as a critical factor, but not the only factor, in pay-for-performance. We have formulas (which always have been properly charged for capital usage) for how we accrue compensation, but we do not pay it out in a formulaic way to anyone. Financial performance alone is not a comprehensive picture of performance. Broader contributions are important, like qualitative skills such as leadership attributes, character and integrity, and management ability. This also includes recruiting, coaching and training, building better systems and fostering innovation, just to name a few.
- We also have invoked comprehensive clawbacks of previously granted awards and/or repayment of previously vested awards when we thought it was appropriate. In 2014 alone, more than 200 employees had compensation reduced for risk- and control-related events. Importantly, many more than that were terminated for poor performance or ethical lapses during the course of the year.

Compensation alone is not enough, and one should not confuse good compensation with good morale. Getting compensation right is critical – everyone wants to feel they are being paid fairly, and most people have other alternatives. But proper compensation alone is not enough. I have seen many companies try to make up for politics, bureaucracy and low morale with high compensation – it does not work. When a company has been doing poorly, or treats its customers badly, the company should expect low morale. What employees want to see is that the company faces its issues, reduces politics and bureaucracy, and improves customer service and satisfaction. Maintaining a corporate culture where the right people are promoted and everyone is treated with respect is as important as compensation. Then morale will improve, and employees will be proud of where they work every day.

We need to operate like a partnership. If, for example, a company’s largest, and perhaps most important, business unit is under enormous stress and strain, unlikely to earn money regardless of who is in charge, a manager might ask his or her best leader to take on the job of running that business. This may be the toughest job in the company, one that will take years to work through before the ship has been righted. When the manager asks a leader to take on the responsibility, she quite appropriately will want to know whether she will be supported in the toughest of times: “Will you make sure the organization doesn’t desert me?” “Will you stop the politics of people using my unit’s poor performance against me?” “Will you compensate me fairly?” My answer to these questions would be yes. And as long as I thought she was doing the job well, I would want to pay her like our best leaders, profits aside. Conversely, we all know that a rising tide lifts all boats. When that’s the case, paying that leader too much possibly is the worst thing one can do – because it teaches people the wrong lesson.

We still believe deeply in share ownership. We would like all our senior managers to have a large portion of their net worth in the company. We believe this fosters partnership. While some make the argument that it causes excessive risk taking – we disagree. The first people to lose all of their money if a company fails are the shareholders and the management team. We want your management team to be good stewards of your capital and to treat it as they would their own. It is formulaic compensation plans, where people are paid solely on financial performance, that can cause undue risky and bad behavior.

The entire Operating Committee gets involved in compensation – it is not done in a back room. One way we make sure we are fair and just with compensation is that the entire Operating Committee spends a substantial amount of time reviewing the compensation of our top 500 people – this way, we have

internal justice, we can review someone's total performance across all measures, and we can understand how a manager manages up, down and across the organization – not just up.

We want to have the best people, and competitive compensation is critical. We must continue to pay our people properly, competitively and well for doing a good job. It is imperative at JPMorgan Chase that we continue to attract and retain the best.

We treat all of our people fairly. While we generally talk about compensation for the most senior managers, the compensation levels of our entire employee population are fairly similar to that of the U.S. population's household income distribution. We invest a significant amount of time and money to ensure that all of our employees are properly compensated. We still have a defined benefit pension plan for most of our employees that provides a fixed income upon retirement to supplement Social Security and any other savings they have. We also provide a 401(k) plan with matching dollars. In addition, we have excellent healthcare plans that incentivize people to take care of themselves. For example, premiums are lower if an employee gets an annual physical examination or stops smoking. We also subsidize these healthcare plans more for lower paid employees (at 90%) versus our higher paid employees (who are at 50%). And each year, we are recognized as a great place to work by various groups, including *Working Mother* 100 Best Companies, Top 100 Military Friendly Employers by *G.I. Jobs* magazine and Best Employers for Healthy Lifestyles by the National Business Group on Health, among many others.

As we centralize all risk functions, we also must be certain that line of business CEOs remain empowered to manage their business end to end

We always have tried to be very thoughtful about which functions are centralized or decentralized at the company. We always have centralized functions that can create huge economies of scale like data centers or utilities that are used by the entire company (like general ledgers and payroll) or critical control functions (like Corporate Legal, firmwide accounting policies, etc.). We try to decentralize where we can and when it makes sense to do so. For example, while a lot of finance functions reside at Corporate (like accounting policy), some finance people are devoted to only one line of business, so we keep them within that line of business. We do this to provide direct accountability, speed up decision making and minimize bureaucracy.

In the new world, in order to improve the consistency of controls, regulators have demanded that most risk and control functions be centralized, including Risk, Compliance, Finance, Oversight & Control, Audit and Legal. In doing this, we have given huge amounts of additional authority to functions at our corporate headquarters. Corporate headquarters can sometimes forget that it exists only because there is a banker in front of a client somewhere. The Home Depot, one of America's great companies, does not call its corporate headquarters the corporate headquarters – it's called Store Support Center to remind employees every day why they are there: to support the stores and the clients. This still remains true at JPMorgan Chase – we at Corporate would not be here if we didn't have our bankers in front of clients.

We need to work hard to get the best of both centralization and decentralization. And we need to manage Corporate so the line of business CEOs and management teams are fully responsible and empowered to manage their businesses. Centralization should not mean demoralizing bureaucracy or slowing down services as multiple committees and layers

sign off on every decision and stifle innovation. We have been managing through this process with our eyes wide open. The Operating Committee members of the company spend a considerable amount of time to make sure we get this right.

We need to develop the right culture and avoid creating a culture of finger-pointing. We need to analyze our mistakes because that is the only way we can fix them and consistently improve. But we cannot allow this to devolve into crippling bureaucratic activity or create a culture of backstabbing and blame. We need to develop a safe environment where people can raise issues and admit and analyze mistakes without fear of retribution. We must treat people properly and respectfully – even if we have to make tough decisions.

I believe this company currently has the best management team with whom I have ever been associated – and I mean their character, culture and capabilities. I now ask questions that I did not ask when I was a younger manager: “Would I want to work for these managers?” “Would I want my children to work for these managers?” My answer would not always have been yes, but now it is. These leaders have navigated the last several years with fortitude and a smile, driving results, making tough decisions and treating each other as complete partners. They are the reason why both performance and morale remain strong in this environment.

CLOSING COMMENTS

I feel enormously fortunate to be part of the remarkable 200-year journey of this exceptional company.

I wish you all could see our employees and your management team at work, particularly in these challenging times. If you did, I know that you, like me, would be bursting with appreciation and pride and have great comfort in knowing that our wonderful legacy will continue.



Jamie Dimon
Chairman and Chief Executive Officer

April 8, 2015