The Core Credit Book has two main Books: the Investment Grade Book and the High Yield Book.

The Investment Grade Book (IG Book) has two strategies: one for Europe (iTraxx Block) and one for the US (IG CDX Block).

The High Yield Book has just one strategy called HY Block.

The IG CDX Block would best be described as a long risk IG 9 CDX position and a short of equivalent size in IG on the run CDX (OTR) and an extra block of long risk OTR. The European iTraxx position would be described in the same way as long Series 9 and short the OTR. This position has positive carry of 4 MM USD/day. They way that we are positioned to go long risk in the IG 9 position is by going long risk the 3Yr and 5 Yr maturities and being short the 1 year maturity to be neutral default risk, positive carry and with a long beta risk to the 5 riskier names that are part of the short HY position that we have in the HY Book.

The HY Book would best be described as an on the run HY OTR short risk (that includes all the risky names (Rescap,TXU,Radian,MBIA,Star) and a long risk HY10/HY11 (Older series of CDX High Yield) that do not include these names. This is how we get protection for riskier names and has a negative carry of 2.7 MM/Day.

These two books are also rebalanced relative to each other to reduce the overall VAR and sVAR of the whole book with what we would describe as an Net extra delta IG/HY on the run indexes only. This position would be best described as long IG OTR vs short HY OTR. This position is 0.5 MM USD carry/day.
The main exposures of these blocks are:

<table>
<thead>
<tr>
<th>Block</th>
<th>Start Jan Book</th>
<th>Current Book</th>
</tr>
</thead>
<tbody>
<tr>
<td>IG Forward vs OTR</td>
<td>20,497,375,000</td>
<td>36,511,625,000</td>
</tr>
<tr>
<td>5yr IG OTR eq</td>
<td>-19,586,266,956</td>
<td>-36,799,297,222</td>
</tr>
<tr>
<td>IG Forward vs OTR</td>
<td>54,651,921,112</td>
<td>94,540,640,003</td>
</tr>
<tr>
<td>IG OTR</td>
<td>-59,463,868,220</td>
<td>-92,486,408,003</td>
</tr>
<tr>
<td>HY OTR</td>
<td>-8,555,428,927</td>
<td>-11,105,441,146</td>
</tr>
<tr>
<td>HY On the run</td>
<td>14,406,446,694</td>
<td>18,599,100,082</td>
</tr>
<tr>
<td>Net Extra Delta</td>
<td>-4,116,519,444</td>
<td>11,898,447,222</td>
</tr>
<tr>
<td>Net iTRAXX Main OTR</td>
<td>-21,806,277,223</td>
<td>3,249,309,780</td>
</tr>
<tr>
<td>Net CDX IG OTR</td>
<td>-21,806,277,223</td>
<td>3,249,309,780</td>
</tr>
</tbody>
</table>

The scenario that is most critical for CIO (large adverse scenario) happens to be the one that we experienced yesterday (10th April) which is a bear steepener of the IG Block both in the US and Europe and the rest of our positions remaining stable. This scenario is the one that caused us almost all of the loss since Feb 2012. I do believe that this position will either mean revert because of the enhanced carry that has also increased from yesterday's move of the IG block or though a default or series of defaults in the most critical names MBIA, Radian, ISTAR, Sprint, and MGIC in the next year. The magnitude of the move over the weekend for this curve to steepen, i.e. our short in the front did not widen but the 5yr IG widened relative to our OTR by 7 bps. This is unprecedented for a day on a mark to market and it could still go wider on its own but the part of our book that should be protecting us from most of this widening is the HY short position OTR that contains these names too and should have mitigated around 70% of this move. It did not materialize. So this goes against all economic sense, is due to the marks that we are experiencing on our large US IG Block that has caught the attention of the media. It could still go wider and we could face additional loss if the same behavior persists but at some point, that we have already gone beyond the HY bucket should hedge our exposure. I believe that this mark to market loss is going to mean revert for those reasons.

It might take some time but I am very confident that this outcome will be materialized in the coming months.
How do derivative instruments and the "synthetic credit" activity fit in with the overall CIO activity?

The Chief Investment Office has utilized the "synthetic credit portfolio," which is a portfolio of credit derivatives, to construct a hedge against other risks on JPMC's balance sheet. This activity has been part of the CIO portfolio construction and risk management since 2007. The related credit derivative instruments offer an efficient means to establish protection against adverse credit scenarios and "stress events".

This activity is among the key tools utilized by CIO to manage and hedge stress loss risks. The synthetic credit portfolio has benefited the Firm, especially in times of credit market dislocation, sudden spread widening and in the occurrence of defaults, which is typically a catalyst for credit spread widening scenarios.

In Q3 and Q4 of 2011, CIO began to reduce the net stress loss risk profile of the hedges, as more positive macroeconomic data in the US and an improving situation in Europe post LTRO merited a reduction to the stress loss protection of the "synthetic credit portfolio." The book, as a dedicated hedge, continues to be balanced, and to protect our portfolio from stress events.

Have you met Bruno Iksil?
Yes - I've met Bruno in person. (Specifically on 29 March 2010 in a meeting at 100 Wood Street in London). I am in regular contact with the team in CIO.

In your view, could this trading fall afoul of Volcker under a narrow definition (or even a broad one)?
As Barry Zubrow pointed out in our comments to the Regulators in February, the language in Volcker is unclear as it pertains to anticipatory hedging needs on the ALM side. The condition for the hedging exception appears to have been drafted with trading desks in mind, where both sides of a hedge are marked to market. It is a poor fit with ALM.

What is the P+L impact on JPM since this story was released?
The book is balanced, and the performance clearly is a function of market prices. The Chief Investment Office performance has been good, and that's reflected in our results.

How much have these positions made or lost for JPMC? What is the corresponding loss or gain in your book?
The "synthetic credit portfolio," since inception has positively benefited JPMorgan, in particular in times of dislocation and stress in credit markets globally, as was witnessed in 2008, 2009, and more recently in the high yield bond market in the US in late 2011.

Is most of the activity in the i9 index speculative bets by hedge funds?
Hedge funds are industry participants in CDX.NA.IG credit default swap indices. Other industry participants include banks, broker-dealers, insurance companies, pensions, sovereign wealth funds, and other investors who seek either to gain exposure to Investment Grade credit via credit default swap indices, or to hedge existing exposure to Investment Grade credit. Information related to hedge fund's relative size is difficult to estimate, however, can be thought of as proportional to the capital and funding available to the hedge fund manager employing CDX.IG.9 credit default swap indices in its portfolio.
Is most of the activity in the IG index speculative bets by hedge funds? Hedge funds are industry participants in CDX.NA.IG credit default swap indices. Other industry participants include banks, broker-dealers, insurance companies, pensions, sovereign wealth funds, and other investors who seek either to gain exposure to Investment Grade credit via credit default swap indices, or to hedge existing exposure to Investment Grade credit. Information related to hedge fund’s relative size is difficult to estimate, however, can be thought of as proportional to the capital and funding available to the hedge fund manager employing CDX.IG.9 credit default swap indices in its portfolio.

What risk or type of risk at JPMC does the IG.9 position hedge? JPMorgan utilizes "IG.9," among other hedging instruments to mitigate or reduce portfolio "stress loss," associated with credit risks on our balance sheet, particularly in the investments securities portfolio.

I understand that you’re hedging you overall risk and the investments securities portfolio - can you give a sense of the relative size of hedging activity in the past - how big can the 'gross' get and what is the basis risk around this?
The size of hedging activity is a function of the size of the risks we manage, so it changes through time. If you look at the history, heading into the Crisis, the Firm’s ALM team in CIO used credit derivatives to purchase protection on high yield credit default swap indices with short term maturities and to sell protection on high yield credit default swap indices with longer-term maturities—in effect, taking a high yield curve flattening position in the credit derivatives market. This strategy resulted in the Firm recognizing some gains as near-term default risks increased. The gains recognized on these derivatives strategies offset in part the losses that occurred on credit assets held by the Firm.

Are your examiners aware of this activity? Yes, this activity is included in our regulatory reporting practices, in financial statements, and—as part of the Firm-wide Market Risk policy—this activity is captured in the Firm’s risk measurement systems.

Do firms on the other side of these trades have an interest in forcing you out of them? Clearly certain market participants have expressed an interest understanding what is the long-term nature of JPMorgan’s hedging activity—particularly in CDX.IG.9. It would be speculative to assume participants on the “other side” of JPMorgan’s activity want to “force us out,” and we’re in the business of risk management of our own positions, not theirs. JPMorgan’s position in IG.9 is part of a portfolio balanced across a range of outcomes. It is conceivable that the opposite position may not be balanced, which could motivate those portfolio risk managers to seek to reduce those exposures.

Why would a bank need a synthetic credit portfolio? A bank or investor may utilize a “synthetic credit portfolio,” that is, a portfolio of credit derivatives, in particular to construct a hedge to other risks on it’s balance sheet. It is an efficient means, given liquidity in the index market, to establish protection against adverse scenarios and “stress events.” It is often more practical to buy protection on credit default swap indices than it is to establish a "short risk" position in a cash security.
Market Structure

- CIO is short risk/long protection in IG (0.98%)
- CIO is long risk/short protection in IG (0.98% as part of a longer forward risk position)
- This position hedges HY shorts elsewhere in portfolio, provides "carry," yet retains convexity in spread widening (curve flattening), and upside on defaults

- In the context of market making activity, dealers over time accumulate risk selling protection on single name CDS, believe-hedged through buying protection on the corresponding index (IG contains MBIA, Radian)
- In this way, the protection sourced from CIO covers the dealer's requirement for index protection on IG (0.98%)
- The residual "radial shift" gives rise to the so-called "skew" trade, which measures the basis between single names and the index
- Dealers transfer this basis risk to hedge funds to reduce RWA. This is done for surprisingly low spreads (between 10-16bps for IG.9).

- Hedge Funds enter the "skew trade" by selling protection on single names and buying protection on the index
- To fund this activity, HF's rely on Prime Dealers. HF's must provide capital to PB's upfront and to cover MTM on basis (i.e. they are not perfectly netted)
- HF's profit from this activity as the "skew" compresses (YTD has moved -11bps to -11bps)
- HF's are "in the money," and instead of holding to maturity to earn this "carry," given the PB capital requirements, they seek to exit & monetise
I suggest you add the following thoughts:

1.). Activity was NOT short term trading

2.). Was part of LONG TERM hedging of the banks portfolio

3). We do not believe that our activity in any way goes against the law as passed by Congress, nor the spirit or proposed rule as written.

Barry
Doug and I asked that the first day. Answer was it most “efficient” way to do it. I would say they just wanted to improve the carry on the book by selling protection and taking in some premium. This is all part of the post mortem and we will fix it.

From: Dimon, Jamie  
Sent: Friday, April 13, 2012 10:29 AM  
To: Hogan, John J.  
Subject: RE: CIO

Why didn’t they just sell vs offset

From: Hogan, John J.  
Sent: Friday, April 13, 2012 10:24 AM  
To: Dimon, Jamie  
Subject: RE: CIO

Jamie-
Below confirms the net notional are truly net notional with no basis. I spoke with Ashley this morning who is working with Achilles to implement a similar limit/governance structure on this book to the one we have in the IB—we will do this for all of CIO over coming weeks and I will keep you posted on that. Let me know if you need anything else.
John

From: Goldman, Irvin J  
Sent: Friday, April 13, 2012 10:03 AM  
To: Hogan, John J.  
Subject: RE:

John,
Yes. To be perfectly clear there is no basis within each maturity.

From: Hogan, John J.  
Sent: Friday, April 13, 2012 10:03 AM  
To: Goldman, Irvin J  
Subject: RE:

Irv,
Can you just confirm that the longs and the shorts from each maturity bucket net perfectly and that the net notional is truly the net amount that is shown below without any basis risk?
Thx,
John

From: Goldman, Irvin J  
Sent: Thursday, April 12, 2012 7:05 PM  
To: Dimon, Jamie; Hogan, John J.; Braunstein, Douglas  
Cc: Drew, Ina  
Subject:
All,
Enclosed please find IG 9 positions by maturity and related volume data and charts.

Irv

cid:image005.png@01CD18DD.D2B48F60
Redacted By The Permanent Subcommittee on Investigations
CIO Synthetic Credit

CDX.IG.9 Positioning Detail

IG.9 Life-to-date Trading Activity per instrument

(USD billions)

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Maturity</th>
<th>Gross longs</th>
<th>Gross shorts</th>
<th>Net Notional</th>
<th>Daily Avg Volume</th>
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<td>12/20/2012</td>
<td>43.5</td>
<td>-76.2</td>
<td>-32.7</td>
<td>3.6</td>
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<td>CDX.IG.9 7Y</td>
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<td>34.1</td>
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<td>CDX.IG.9 10Y</td>
<td>12/20/2017</td>
<td>88.4</td>
<td>-7.5</td>
<td>80.9</td>
<td>1.5</td>
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</tbody>
</table>
EDITED TRANSCRIPT

JPM - Q1 2012 JPMorgan Chase & Co. Earnings Conference Call

EVENT DATE/TIME: APRIL 13, 2012 / 12:30PM GMT

OVERVIEW:
JPM reported Q1 revenues of $27.4b, net income of $5.4b and EPS of $1.31.
Good morning, ladies and gentlemen. Welcome to JPMorgan Chase's first-quarter 2012 earnings call. This call is being recorded. Your line will be muted for the duration of the conference. We will now go live to the presentation. Please stand by.

At this time, I would like to turn the call over to JPMorgan Chase's Chairman and CEO, Jamie Dimon, and Chief Financial Officer, Doug Braunstein. Mr. Braunstein, please go ahead.

Doug Braunstein - JPMorgan Chase & Company - CFO

Thanks, operator. I am going to be taking you through the earnings presentation, which as you know is available on our website. I would also ask everyone to refer to the disclaimer regarding forward-looking statements at the back of the presentation.

And with that, if you all turn to page one, for the quarter, we generated net income of a $5.4 billion, $1.31 per share. That is on revenues of $27.4 billion, up 6% year on year, 24% quarter on quarter. Return on tangible common equity of the 16% for the quarter and our characterized solid performance across most of our businesses, particularly strong results in the Investment Bank and significant improvement year over year in mortgage banking.

There are a number of significant items that we are highlighting here on this page. We do that every quarter, it includes DBA, reserve releases, litigation billed in the WaMu settlement.

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Every quarter we also have some modest pluses and minuses. We don’t put these up front, but if you did total these significant items they had an aggregate negative impact of $0.69 a share on our reported numbers this quarter. I am going to discuss them in much more detail as we go through the financials.

Strong capital generation in the quarter: We ended with Tier 1 common of $128 billion, that is up $5 billion plus; strong Basel I and Basel III ratios of 10.4% and 9.4%, respectively. And I wanted just to highlight a couple of trends for the quarter and then we will go into the businesses.

First is, if you look across our businesses, we have continuing signs of underlying fundamental growth. So 23% loan growth across wholesale year on year. Record middle-market loans this quarter, up 19% year on year. $4 billion of credit provided to small businesses, that is up 35% year on year.

Record retail channel mortgage originations, up 11% this year. Deposits CIB up 8% year over year. Sales volume in Card up 12% year over year. And so the underlying fundamentals year on year look strong.

On the credit side, we continue to have stable and good credit results in our wholesale business and on the consumer side real, continuing improvement in Consumer. I would say in aggregate we are putting on better quality loans today from that loan growth, but just two quick statistics. In Mortgage net charge-offs are down 25% year on year; in Card net charge-offs are down 37% year on year.

So with that it’s sort of an underlying theme. Let’s turn to the Investment Bank on page three.

For the quarter you see disclosed net income of $1.7 billion. That is on revenues of $7.3 billion, reported ROE of 70%.

On page one we did highlight $906 million in DVA losses pre-tax for the IB this quarter. And as we have mentioned consistently in the past, we don’t consider the DVA as a part of our core business results. In fact, after the changes from this quarter, if you remember the spread widening, we saw in the third quarter of 2011 where we booked a $1.2 billion gain on DVA.

In the last two quarters we have now reversed $1.5 billion of that, and obviously if spreads returned to the level they were last summer we would have gone round trip. So I am going to focus on the IB excluding all DVA.

So in the first quarter revenues were $8.2 billion, $2.2 billion in net income, and we had a 23% return on equity. Those numbers are all very comparable to what was a very strong first quarter of 2011, but I do want to remind everyone that we tend to have a seasonally strong first quarter to start the year.

IB fees in the quarter of $1.4 billion. That is down 23% year on year, up 23% quarter on quarter, and if you look on appendix page nine you will see we continue to maintain our one market-leading share in fees.

Markets revenues were relatively flat year on year. On a linked-quarter basis revenues were up significantly. Fixed income revenue was $5 billion and that reflected continued solid client revenues across the products. Particular strength this quarter in our global rates business.

Equities revenue of $1.4 billion really approved results across cash and derivatives, and we continue to have improving performance from our prime services. We are seeing increased balances there, a little improved leverage in the market, and a modest uptick in spreads.

Credit portfolio revenue was a little over $400 million, up from the fourth quarter, and then expenses in the quarter of $4.7 billion were down 6% year on year. The comp-to-revenue ratio, ex DVA, which is the way we manage it, was 35% for the quarter.

If you go directly to page five, Consumer & Business Banking, you will see disclosed net income of $775 million. That is down 13% year on year. And an ROE for this business of 37% for the quarter.
Revenue of $4.3 billion. That is relatively flat quarter on quarter but down 4% year on year, and that reduction year over year is generally consistent with our guidance on the impact of the Dublin Amendment, which we had this quarter and didn't come through in the first quarter of last year.

We continue to see solid year over year underlying performance trends in the business, so the deposit is up $29 billion, which I talked about, up 8%. We believe that is a growth rate faster than the industry growth rate. Business banking originations up 8% year on year.

We had very strong investment sales this quarter as the markets improved and we continue to build out CFC, our Chase Private Client business, up 41% quarter on quarter. In fact, client investment assets of $147 billion is a record for Chase Wealth Management.

On page six you see Mortgage Production and Servicing. Circled net income of $460 million for the quarter, that compared with a net loss of $1.1 billion in the prior year, so $1.5 billion swing year on year. We had very strong production-related revenues of $1.6 billion and that is driven somewhat by higher volumes. Originations were up 6% year on year, applications, as I mentioned, up 39% in a very favorable refinancing environment including the impact of HARP 2.0.

But we also had higher margins this quarter as a function of those volumes and some mix issues. We should be cautious about that because we are likely to see those margins returned to more normalized levels on a go-forward basis.

Purchase losses in the quarter were $300 million. That is lower than our expectations on a quarterly basis, which remain $350 million plus or minus. In large part that was a function of timing.

If you now move to the servicing side, in the middle of the page you will see expenses there of $1.2 billion. That includes approximately $200 million of costs for the foreclosure-related matters associated with the settlement. So if you exclude that $200 million, servicing costs continue to remain very elevated at $950 million for the quarter. And of that number $700 million is related to default expense, which was essentially flat quarter on quarter but very, very high.

As we discussed at investor day, you should expect to see our servicing costs come down over time. Volume of delinquencies, as the units decline costs will come down. We are also working very hard to make our processes more efficient.

Over time you would expect, consistent with what we shared at investor day, that our normalized expenses for servicing should be in the $300 million to $350 million range. But that will take a number of years to get to.

On page seven you see our Real Estate Portfolio. Circled net income of $500 million in the quarter, that compares to a loss of $160 million in the prior year. Revenues down 7% year on year, it's the result of the run-off we have been talking about for a while.

Loan balances are down $24 billion, 11% year on year, consistent with our guidance. And we have said that you can expect a reduction in NII in this portfolio of about $500 million, plus or minus, for the year as we continue to run off about WaMu portfolio and our other non-core mortgage assets.

Credit costs you see is a benefit of almost $220 million and that is a function of delinquency trends improving across all the mortgage asset classes, including home equity. You see a circled number of $808 million for the quarter in net charge-offs, and as I mentioned, that is down 25% year on year.

So based on the reduction in delinquencies, which, by the way, is in the appendix on page 16, the resolution of the foreclosure settlement and what we are seeing is stability in our severity numbers. We reduced our allowance this quarter by $1 billion. That is, again, part of the significant items on page one.

But I will say, even after that reduction, allowance coverage remains at 6% for the portfolio, $7.7 billion, which is a very conservative approach to our risks and, quite frankly, the $1 billion release is reflective of what we had to do as an accounting matter.
I would note one other reporting change here, which is due to the industrywide regulatory guidance we moved $1.6 billion of our high-risk seconds into the non-performing loan category. And that is despite the fact that $1.4 billion of those $1.6 billion are current today.

As you know, we have identified those high-risk seconds early. We put reserves up against them early and so our reserves remain unaffected. But if you excluded these changes, NPLs would have trended down year on year, down quarter on quarter, and the same would be true at the companywide level as you look at the company statistics.

On page eight, Card Services and Auto, circled net income of $1.2 billion. That is on revenues of $4.7 billion. Revenues and outstandings are lower year on year, that is the impact of runoff. And modestly lower quarter on quarter, and that is primarily due to the seasonal growth that we saw and we tend to see in the fourth quarter around the holidays.

We did see strong sales volume in Card. As I mentioned, up 12%. But if you exclude the sale of Kohl's, sales were actually up 15% for the system and the new product sales growth for our Freedom, Sapphire, and Ink products were actually in excess of that growth rate.

Auto originations also up 21% year on year and that, quite frankly, reflects higher industry sales.

Credit costs of $740 million really reflect two factors. Total net charge-offs are $1.5 billion that is down a little under $900 million year on year. We have got lower delinquency and net charge-off rates circled for Card at the bottom of the page.

We do expect, by the way, the net charge-off rate to be 4.25% plus or minus in the next quarter. I would also note loss rates in Auto remain very low. We recognized 28 basis points of charge-offs this quarter. As a result of all of that information, we released $750 million this quarter in Card and, again, reserves here remain very robust even after that release.

One other comment on Card, expenses were up 6% year on year and that really was related to exiting a non-core product in the business.

Page nine, Commercial Banking. Circled net income of almost $600 million on revenues of $1.7 billion; 25% return on equity and that is based on a higher capital allocation for this business this year, 9% year-over-year-revenue growth. It has been driven by the themes we have been talking about, growth in loans and liability balances, and that is offset by the spread compression we have experienced year on year.

It is our seventh consecutive quarter of loan balance growth. You see the circled loan balances of almost $116 billion, up 16%. We had record revenue and record loan balances in our middle-market business for the quarter that was up 19%. C&I loans up 24% year on year and I think the best of what we have got in industry data, industry volumes are up 12% year on year. So if you think of all that it really does reflect two underlying trends—growth, we believe, in terms of demand, as well as a combination of improvements in market share across those product sets.

I will continue to note utilization does remain relatively stable where it has been at a low rate for the last several quarters. Credit costs were $80 million in the quarter here but net charge-offs were exceedingly low at 4 basis points.

Page 10, Treasury & Security Services, solid results here. Net income of $350 million, up 11% year on year; 40% quarter on quarter. Revenues of $2 billion, up 9% year on year and that is again resulting from some underlying fundamental trends that are offsetting that spread compression that we have talked about.

Liability balances are up 34%. International revenue was up 12%; assets under custody is a record $17.9 trillion, up 8% and trade finance loan balances are up 40% year on year. You will notice there, by the way, we had a modest decline in trade finance quarter on quarter. Really a function of a little bit of seasonality and I would say an increased return of competition, particularly from some of our European competitors in the fourth—In the first quarter.
Page 11, Asset Management: We had improved quarter-on-quarter results in AM, largely driven by market conditions, but we are down from what was a strong first quarter 2011. Circled net income of $386 million, that is on revenues of $2.4 billion.

The results were really driven by some underlying growth as well as the market improvement we saw this last quarter. It's the 12th consecutive quarter of long-term flows – $17 billion, $43 billion over the latest 12 months. We did set records for assets under supervision and records for assets under management. Expenses were up year on year and that has largely been from the investment spending we have been talking about for a number of quarters.

Page 12, Corporate and Private Equity: Private Equity net income of $130 million. That is on $250 million of revenue, predominately mark-to-market for public positions and some modest realizations this quarter.

So corporate we recorded a net loss of $700 million and the loss included two significant items. The first is a $2.5 billion addition to our litigation reserves, predominately mortgage related, and we identified that on page one. So I am going to make a couple of comments here on the litigation reserve.

As you know, including the actions this quarter, we have been building very significant reserves. We believe that currently these reserves are both comprehensive in nature and appropriately conservative, given what we know about these exposures, including the information with the first quarter of this year.

And I would think absent a material adverse development that could certainly change our views, we don't anticipate making material addition to these reserves over the course of the year. But I do want to caution facts and circumstances can change, reserves can go up, they can go down, but we feel based on what we know today that we are unlikely to add materially to this position.

We did book an addition of $1.1 billion pretax gain that was also identified on page one. That is from the WaMu bankruptcy settlement. And if you added those two items, corporate net income, excluding PE, we note on the bottom right was $175 million for the quarter.

Page 13, the Fortress balance sheet: I have covered a lot of the topics already but let me just add two comments to the page.

First, as you know, we authorized a new $15 billion share repurchase. We have spent approximately $430 million year-to-date on that new authorization, and for those that are likely to ask, it's at a price of about $44.75.

Second, on trust preferred or TRuPS, we have $20 billion outstanding as you all know. We do expect to redeem $10 billion of that $20 billion in total this year, and that is pursuant to the capital plan that we submitted in the CCAR process. For much of that, those securities we are going to wait until there is a regulatory call event to call those. We were in the market for a $400 million call on a single security that didn't require that trigger.

And for the remaining $10 billion currently our view is that is very attractive long-term financing.

On page 14 we do have the outlook. I think I have covered all of that. And so before I turn it over to Jamie, I did want to talk about the topics in the news around CO and just take a step back and remind our investors about that activity and performance.

We have more liabilities, $1.1 trillion of deposits than we have loans, approximately $720 billion. And we take that differential and we invest it, and that portfolio today is approximately $360 billion. We invest those securities in very high grade, low risk – we invest those dollars in high grade, low-risk securities.

We have got about $175 billion worth of mortgage securities, we have got government agency securities, high-grade credit and covered bonds, securitized products, municiipals, marketable CDs. The vast majority of those are government or government-backed and very high grade in nature.
We invest those in order to hedge the interest rate risk of the firm as a function of its liability and asset mismatch. We hedge basis risk, we hedge convexity risk, foreign exchange risk is managed through CIO, and MSR risk. We also do it to generate Nil, which we do with that portfolio.

The result of all of that is we also need to manage the stress loss associated with that portfolio, and so we have put on positions to manage for a significant stress event in Credit. We have had that position on for many years and the activities that have been reported in the paper are basically part of managing that stress loss position, which we moderate and change over time depending upon our views as to what the risks are for stress loss from credit.

All of those decisions are made on a very long-term basis. They are done to keep the Company effectively balanced from a risk standpoint. We are very comfortable with our positions as they are held today.

And I would add that all those positions are fully transparent to the regulators. They review them, have access to them at any point in time, get the information on those positions on a regular and recurring basis as part of our normalized reporting. All of those positions are put on pursuant to the risk management at the firm-wide level.

The last comment that I would make is that based on, we believe, the spirit of the legislation as well as our reading of the legislation and consistent with this long-term investment philosophy we have in CIO, we believe all of this is consistent with what we believe the ultimate outcome will be related to Volcker.

So with that, maybe, Jamie, I will turn it over to you before we open it up for questions.
Questions and Answers

Operator
(Operator Instructions) Glenn Schorr, Nomura.

Glenn Schorr - Nomura - Analyst
Jamie, just because you brought it up, I think it's interesting. If you took the midpoint of the range that you outlined in the shareholder letter and you took the $23 billion, $24 billion of over-the-cycle earnings, that is a sub-7 times multiple. It seems very attractive at the midpoint of the range.

I am just curious on how you think through the valuation when you are thinking about the use proceeds on the buyback.

Jamie Dimon - JPMorgan Chase & Company - Chairman & CEO
Well, I mean, look, you said it yourself. Anyone can do the numbers. Our tangible book value is extremely attractive, at 40 it will probably be attractive and at 45 - I am not saying it's not attractive, but our best thing is to grow our business and not to worry about buying back the stock.

We are going to buy back the stock when it's a bargain, not just because we feel like it. And so you guys can all do the numbers, we are just not going to tell you what we are going to do.

Glenn Schorr - Nomura - Analyst
All right, fair enough. If you look on the quarter for year-on-year basis, expenses are up like 15%. Now there is litigation costs in there and things like that. I think on the investor day you had suggested flat expenses year on year. Obviously it depends on Investment Bank revenues, but can you just talk about the revenue expense dynamic?

Jamie Dimon - JPMorgan Chase & Company - Chairman & CEO
We said flat expenses; we still expect that. The first quarter is a little bit higher because of FICA and payroll, a whole bunch of things like that, and some one-off expenses that run through there. And that is flat if you back out IB comp and extraordinary stock.

That number should be about $12 billion a quarter. Obviously it was a little bit higher this quarter to do that, but it will come down over time we think.

Glenn Schorr - Nomura - Analyst
Okay, so still flat -.

Jamie Dimon - JPMorgan Chase & Company - Chairman & CEO
Remember, it's flat but we are still doing a lot of investing. So we are getting other efficiencies to help pay for the investing.

Glenn Schorr - Nomura - Analyst
Fair enough. And then maybe last one for me. I think the fear around issues in Europe has started to subside post the LTRO, and I think we discussed that last call. We got a little bit of a scare, though, the last week or two with Spain.
Just curious on your thoughts right now; where are we in that process and do you still feel comfortable on the counterparty exposures?

Jamie Dimon - JPMorgan Chase & Company - Chairman & CEO

Yes, I constantly read about counterparties. Our numbers -- we disclosed around $15 billion, a little bit higher than that now. They obviously move around.

I would still say exactly the same thing. The LTRO was a massive thing that took the real catastrophe in the short run off the table, but obviously the world is going to evaluate over time whether the fiscal union is tightened and given teeth and carrots and sticks and all that. It's going to look at Spain and Italy's both austerity and growth plans, and it's going to be like an accordion for the next 18 months. So I personally am not going to over react to that.

But I think they have to do some things to give it the real stability. The LTRO wasn't sufficient. It was not a -- it was a short-term fix not a permanent fix.

Glenn Schorr - Nomura - Analyst

Okay. I appreciate it. Thank you.

Operator

Guy Moszkowski, Bank of America.

Guy Moszkowski - BofA Merrill Lynch - Analyst

Good morning. On the CIO question, which obviously you have addressed and has gotten so much attention in the press this week. Can I just ask one further question, which is are all of the results of the CIO group reflected only within Corporate and Other? There is no sharing of any of those results with, say, FICC in terms of the reporting that we would see in the Investment Bank?

Jamie Dimon - JPMorgan Chase & Company - Chairman & CEO

No, God, no. No. No. A lot of the NII is given to the businesses that generate that deposits on a consistent fund transfer methodology, which -- but not with the Investment Bank. Remember, most of that portfolio is an AFS portfolio, not all of it, but most of it.

Guy Moszkowski - BofA Merrill Lynch - Analyst

Right. Fair enough. It's just I (multiple speakers)

Jamie Dimon - JPMorgan Chase & Company - Chairman & CEO

We disclosed both realized gains, unrealized gains, and mark-to-market gains. You get all of that.
Yes, that is just a question that I ask in order to assess the tempest in the teapot nature of the stories relative to the revenues that we see that just don't seem to be that big.

It's a complete tempest in a teapot. Every bank has a major portfolio; in those portfolios you make investments that you think are wise to offset your exposures.

Obviously, it's a big portfolio; we are a large company and we try to run it— it's sophisticated obviously with complex things. But at the end of the day that is our job is to invest that portfolio wisely, intelligently over a long period of time to earn income and to offset other exposures that we have.

Then turning to the capital questions, obviously you have had a rapid growth towards your eventual Basel III targets, although of course we still don't know exactly what they are, and you have alluded to the conditions under which you would return capital through buybacks. But what about the potential for special dividends along the way? If you felt that you had excess capital and that share buybacks were not that attractive, how would you think about that?

Guy, I think the right way to look at that is to ask that question in two years. I mean we are not at the Basel III targets yet. You should expect dividends on a regular— we may change our minds, but on a regular annual basis from us that will look at what to do.

Obviously, this is a Board-level decision. But there is going to certainly be no special dividend before we know what the real capital rules are.

Fair enough.

They were several hundred million dollars higher than what we would call normal for a whole bunch of different reasons, including HARP, supply/demand; the price at which Fannie Mae and Freddie Mac are securitizing things. So I would expect that to normalize over time.
From: Jamie Dimon <jamiem@jpmchase.com>
Sent: Fri, 11 May 2012 09:07:24 GMT
To:
CC: Will, Kathleen <KATHLEEN.WILL@jpmchase.com>
Subject: Fw: 10-Q call - Buyside and sellside comments (2)

From: Sarah Youngwood
Sent: Thursday, May 10, 2012 10:31 PM
To: Jamie Dimon; Douglas Braunstein; Ina Drew; Jes Staley; Stephen Cutler; Joseph Evangelisti; Kristin Lemkau; Judith Miller
Cc: Investor Relations
Subject: 10-Q call - Buyside and sellside comments (2)

Here is the balance of calls for the evening. All calls returned. See below regarding comments. We have also left messages to the extent we couldn’t connect (see bottom of mail).

For reference, we had 3,248 people on the webcast and 4,543 people on the telephone lines. A total of 7,791 people on the call.

Betsy Graseck – Morgan Stanley – Sellside
  • Appreciate Jamie’s public apology
  • How long will it take to unwind the trades?
  • Why not offset the whole thing with unrealized gains in the AFS book?
  • Is this something that happened in the month of April? Did you become aware of this while closing your books or was this something you were aware of in the first quarter?
  • What was the sequence of the events?
  • Why did you go back to the old model?
  • What can you point to in terms of market movements?
  • Can we approximate the size of your position based on the losses?
  • Anyone in particular that is putting on these types of trades in? How did this happen?
  • Will you still do your buybacks?
  • Please detail changes in Basel III

Glenn Schorr – Nomura
  • Everyone should give up on trying to figure what the trades are
  • There weren’t any issues with credit in the market. Why the big loss?
  • The loss was not that big in the grand scheme of things so why have a call on it?
  • I want to understand for intellectual reasons what happened
  • Obviously not about the P&L impact and the capital ratio impact
  • One of the few companies that trades on a premium will now lose some of that premium
  • So nothing gets changed for Q1 except VaR and Bill Tier 1?
  • This is just something you found in your internal risk management, right?

Andrew Marquardt – Evercore – Sellside
  • Is this something we should be concerned about in terms of the culture and risk management across the firm?
  • Is this just a strategy gone wrong? On the wrong side of a trade?
  • Is this a red flag for regulators? Are the regulators now going to review your controls?
- Can you explain what happened in terms of reducing the credit protection? What was the strategy? What was the change?
- Any impact on buybacks?
- Anything else in the Q that changed?
- Thought it was a good call; appreciate the conversation being upfront, the JPMorgan way.

Guy Moszkowski – BACML – Sellsise
- Thank you for the public apology
- What does the repositioning of hedges mean?
- Is the $127B of derivative disclosure related to the $2B losses?
- How sweeping are the changes not just in model but in personnel?
- Did you restate the 12/31 VaR?
- Did Jamie say that the old model was inadequate?
- Can you continue to do buybacks? Any updates to that? What about the Fed? They just issued $12-$15B in buybacks. Are they going to rescind their authorization?
- The 20 bps decline in Basel III, was that related to the stressed VaR?
- Is it fair to say that if you had suffered these losses in the IB you wouldn’t have had this call but because this was in CIO and you were so far off guidance that you felt you had to have this call?
- This will look like prop trading to a lot of people; already had Senator Levin on the tapes saying this is why Volcker has to be in place; not good from a Washington standpoint.
- Embarrassment for JPMorgan but worst for GS and the industry because of the timing of the whole Volcker rule.
- Jamie was clearly falling on his sword – very noble.

Richard Ramsden – GS – Sellsise
- Restated VaR. On what?
- Change in VaR must be because you changed your risk model correct?
- So you want from a standard model to an advanced model and the model didn’t work as you thought?
- You didn’t give disclosure on your position. Does that mean your position is still open?
- You must have considerable gains in that portfolio as well correct?
- Are you disclosing this because the auditors thought you should or you thought you should? Was this your decision?
- Did this have to do with all the articles Bloomberg has written?
- Did this hedge have to do with tail-risk? Would have thought you would have made money; unless you were reducing the hedge?
- Are there going to be other type of effects?
- Does this impact the buyback program?
- The impact doesn’t really change anything; don’t think it was that big; don’t think it changes the earnings power and doesn’t impact the capital return story; financially, don’t think it was a big deal.
- Problem is that people don’t expect this from you.

Jim Mitchell – Buckingham Research – Sellsise
- Was this set up to hedge your previous hedges?
- Was it meant to hedge your AFS portfolio from tail risk?
- Why would the VaR change retroactively? In light of this situation, you re-evaluated the prior model?
- What does it mean when you say “not monitored well”?
- This was not related at all to the IB correct?
- When were these positions put on?
- Did the fourth quarter number changed?

Marty Mosby – Guggenheim – Sellsise
- Please confirm this was mark-to-market
- This was in the corporate division correct? Not related to clients?
- Can you give details on your hedge?
- Is CIO taking proprietary positions? What do you mean by excess liabilities?
- Was this related to hedge ineffectiveness?
- What was the core thing that you were trying to hedge?
- Have you given the principal outstanding related to the position?

**Jeff Harte – Sandler O’Neil – Sellsde**
- How profitable has the portfolio been?
- Why shouldn’t we be concerned about all of JPMorgan’s risk management?
- Was the list of this that you hedged the portfolio, had the hedges for a long time and you were trying to take the hedges off?
- Can you still buyback stock?
- Is it fair to assume this is new guidance? Does this contradict guidance you had given before?
- What was the $7B+ of unrealized gains?
- Is this related to a hedge being ineffective?
- Would the gains or losses show up in the P&L?
- How has the reaction been so far?

**Dan Marchon – Raymond James – Sellsde**
- What is a synthetic credit portfolio?
- On the call, Jamie had mentioned that these were trading losses, but then in the 10Q the language was different, is that the same thing as mark-to-market?

**Ben Hesse – Fidelity – Buyside**
- Over the Easter weekend we spoke and you said there was no losses related to this
- Have a lot of contacts in Washington who said this is going to be a big deal for Volcker; need to manage this in DC because the hit there is going to be a lot bigger than the hit on earnings

**Greg Wachsman – Lord Abbett – Buyside**
- Is the $2B realized or unrealized?
- So from my understanding it sounds like you’re managing exposure at the top of the house, and then you have some repositioning and re-hedging of the portfolio – can you go over it again what transpired because I need to better understand what happened?
- Synthetic credit portfolio – what is that? Is that CDS? What does that entail?
- What did he mean when he said, “it could be another billion on top of that”?
- Can you quantify the absolute long-term loss?
- Do you know what the notional loss amount was?
- The VaR changed from $67mm to $129mm – can you talk about the model behind it?
- Was this a hedge or prop trading?
- Any capital plan changes?
- Since it wasn’t that material, why did you guys host the call?

**Matthew Antle – Putnam Investments – Buyside**
- When you gave your Basel III hit, did you consider the multiplier effect?
- Soc Gen had to adjust their VaR even higher after their rogue trading incident – is this considered rogue trading?
- Did the Fed confirm that you can continue to do share repurchase?

**Jeff Busconi – Viking – Buyside**
- What does the $67mm in VaR represent in the restated supplement?
- Is the real problem in the marking of the position? Was it mismarked, or did it move against you?
- Why did you come out and do this call? It seems like to numbers aren’t that big. “I’d say the $800mm loss is immaterial.” All the dealers on the Street know what the position is, and my guess is other people would know...
what the position is before long. Seems like you’ve exacerbated the issue. Most of the dealer community is aware of the positions

• What are the changes you’ve made in risk management?
• How is the CIO office actually structured? Does the CIO report to Jamie?
• Was part of the losses an adjustment to your mark?
• There are probably other counterparties on the other side of the trade if these are synthetic that are aware of the position. And, I’d guess the dealer community is aware of the position as well. It must be a pretty big notional amount to have lost $2B in a short amount of time. $2B is not large relative to your balance sheet, but it is big in the context of tranches.

Bill Rubin – Blackrock – Buyside (e-mail)
This note further below from Ed Najarian says it all.
I’ve spoken with several of our team members at Blackrock.
Please forward the following comments to executive management if you deem appropriate.

We are very disappointed by this turn in events, not so much by the size of the loss, but more by the bad stumble in risk management/controls.
Major reputation and sentiment hit, damaging.
Stepping up and coming clean, mea culpa, was the right thing to do. Appreciated.

We expect aggressive response on 4 fronts:
1) As smoothly as possible exiting riskiest remaining positions with least amount of further damage to balance sheet and inc statement, and fixing policies/procedures/risk controls,...as Jamie Dimon discussed.
2) Offsets...are tax implications from reaping further securities gains really that prohibitive?
3) Yet another look at cost reductions where possible/feasible...especially with weaker capital markets revenues in 2Q and likely 2H12, we believe the cost structure remains too high. We believe JPM’s revenue opportunity will not be hurt by reducing costs further - the company and most of its people are too good to not capture opportunities when they arise, and being another -1%/2% lighter in costs will not materially diminish that capability.
4) Buy back stock more aggressively. For what it’s worth, at ~ $38 price, we believe P/BV 0.8x, P/TBV 1.1x, and P/E 7x is stupid cheap. The market cap of JPM will be down at least $10 billion tomorrow. If the company can truly generate $24 bn in net income in a couple years, any stock repurchase anywhere remotely close to these stock prices will be very, very attractive prices indeed.

Just ideas and suggestions to consider.
Please forward to executive management if you deem appropriate.

(Ed Najarian’s note below.)

ISI: JPM - JPM announces $2bn trading loss
Company Note: JPMorgan Chase (Buy, $52 PT)
Maintain Buy; stock over-discounting the loss

*After the market closed, JPM announced a slightly more than $2bn mark-to-market trading loss in a synthetic credit portfolio that was initially designed to hedge global credit exposure. The hedge was initially designed to deliver positive revenue in a credit stressed environment. However, a first quarter strategy to reduce the hedge was poorly designed, poorly executed, and poorly monitored and have resulted in more than $2bn in mark-to-market losses thus far in 2Q. JPM plans to partially offset the loss by reaping $1bn of investment securities gains. Thus, the net loss to 2Q EPS thus far is about $800mm after tax or equal to about $0.21 per share. Additionally, the loss could grow or shrink over the balance of this quarter and is likely to lead to more earnings volatility over the balance of this quarter and next quarter. For example, it is not unreasonable to assume that JPM could lose another $1bn on this position. Accordingly, based on this loss and our perception that core trading revenue has been weaker than expected thus far in 2Q, we are reducing our 2012 EPS estimate by $0.35 from $5.05 to $4.70. We are maintaining our 2013 and 2014 EPS estimates at $5.50 and $6.10. We are also maintaining our one year price target of $52.
However, JPM stock is now off nearly 7% in after hours trading or about $2.70 per share. We would note that with JPM stock off $2.70/sh that represents about $10bn of lost market cap based on only a $2bn pre-tax trading loss. We find it very difficult to imagine that this poorly structured synthetic credit position will ever lead to $10bn of cumulative after-tax losses. We would expect the cumulative loss figures to remain significantly below that threshold (perhaps in the several billion dollar range and thus not more than $1 per share). Additionally, we remind investors that JPM recently received approval to repurchase up to $15bn of stock over the 12 months from 3/31/12 - 3/31/13 and we fully expect JPM to use near term weakness in the stock to buy it back aggressively. Furthermore, at a current after-hours price of about $38 this stock is yielding 3.2%. Accordingly, we would advise investors to not sell into tomorrow’s weak JPM stock price. In fact, we would regard tomorrow’s weakness as a buying opportunity.

* While this incident is unfortunate and clearly represents a major error of judgment, risk management, and execution within the Chief Investment Office of JPM, we have confidence that JPM will work diligently, aggressively, and thoughtfully to resolve it in the best way possible with a focus on minimizing its additional damage to shareholder value. Finally, we note that based on this position JPM did revise its 3/31/12 Basel 3 Tier 1 Common equity ratio to 8.2% from 8.4%. But the company remains well positioned to repurchase significant amount of stock and surpass a 9.5% Basel 3 threshold by the end of 2013.

Voicemails (calls returned; left vm; will connect tomorrow)
- Sells: Thang To (LST junior), John Dunn/Marc Lombardo (Meredith Whitney), Paul Miller (FBR)
- Buys: Kush Goel (Neuberger), Dick Manuel (Columbia), Bill Auslander (Alliance Bernstein), Patrick Hughes (Olanyan), Ryan Long (Chesapeake), Jay Mai (Glenview), Ryan Lentell (Manulife), John Baldi (Clearbridge), Ravi Chopra/Jeff Barnes (Samlyn), Greg Anderson (UBS AM)

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10-May-2012

JPMorgan Chase & Co. (JPM)

Business Update Call
 MANAGEMENT DISCUSSION SECTION

Operator: Please stand by. We are about to begin. This call is being recorded. Your lines will be muted for the duration of the call. Please stand by.

At this time, I would like to turn the call over to JPMorgan Chase’s Chairman and CEO, Jamie Dimon. Mr. Dimon, please go ahead.

Jamie Dimon

Operator, thank you. Good afternoon, everybody. I would like to thank you all for joining on short notice. I want to update you on a few items that we have in our just filed 10-Q.

Specifically, we had given prior guidance that Corporate— that net income in the Corporate segment— notice it’s not the corporation, it’s one of the segments— ex Private Equity and litigation would be approximately plus or minus $200 million. This includes the CIO’s overall performance.

We currently estimate this number to be minus $800 million after-tax. This change is due to two items; both in CIO this quarter—I’m going to get back to give you pre-tax numbers now—slightly more than $2 billion trading loss on our synthetic credit positions and a $1 billion of securities gain, largely on the sale of credit exposures.

I want to remind you that CIO has over $200 billion in its investment portfolio and unrealized gains as of March 30th of $8 billion. CIO manages all its exposures in total as a whole, and it doesn’t in light of the Firm’s total requirements.

We are also amending a disclosure in the first quarter press release about CIO’s VAR, Value-at-Risk. We’d shown average VAR at 67. It will now be 129. In the first quarter, we implemented a new VAR model, which we now deemed inadequate. And we went back to the old one, which had been used for the prior several years, which we deemed to be more adequate. The numbers I just gave are effective March 30th, the first quarter.

Regarding what happened, the synthetic credit portfolio was a strategy to hedge the Firm’s overall credit exposure, which is our largest risk overall in its trust credit environment. We’re reducing that hedge. But in hindsight, the new strategy was flawed, complex, poorly reviewed, poorly executed and poorly monitored. The portfolio has proven to be riskier, more volatile and less effective than economic hedge than we thought.

What have we done? We’ve had teams from audit, legal, risk and various control functions all from corporate involved in an extensive review of what happened. We have more work to do, but it’s obvious at this point that there are many errors, sloppiness and bad judgment. I do remind you that none of this has anything to do with clients.

We’ve had many lessons learned and we’ve already changed some policies and procedures, as we’ve gone along. In addition, you should know that all appropriate corrective actions will be taken, as necessary, in the future. Most important, some of our best talent from across the company, particularly traders and risk managers, are fully engaged in helping to manage the portfolio.
The portfolio still has a lot of risk and volatility going forward. So how are we going to manage that? So, number one, we're going to manage it to maximize the economic value for shareholders. What does that mean? It means that we're not going to do something stupid. We're willing to hold as long as necessary inventory, and we're willing to bear volatility.

Therefore, the volatility for the rest of this quarter and next quarter or so will be high. It could cost us as much as $1 billion or more. Obviously, we're going to work hard to have that not be a negative at all. But it is risky, and it will be for a couple of quarters.

Clearly, markets' and our decisions will be a critical factor here. Hopefully, this will not be an issue by the end of the year, but it does depend on the decisions and the markets – the decisions we make in the markets we have.

However unfortunate this event is, I do want to put this in perspective. One of the reasons we keep a fortunate balance sheet is to handle surprises, although this is not the kind of surprise we wanted to have. Our Basel I ratio will stay very strong and it doesn't change at all as a result of – March 31 result is, our Basel III ratio, which remembers a rough estimate anyway will be amended down to 8.2% from 8.4% effective March 30. We will however in the future continue to meet our very conservative targets for both Basel I and Basel III.

While we don't go – I also want to say, while we don't give overall earnings guidance and we are not confirming current analyst estimates, if you did adjust current analyst estimates for the loss, we still earned approximately $4 billion after-tax this quarter give or take.

Neither of these things absorbs us from blame. So speaking for the Senior Management team and myself, while we can't assure you we won't mistakes, we will – we can assure you we are going to try not to. These were grievous mistakes, they were self inflicted, we were accountable and we happened to violate our own standards and principles by how we want to operate the company. This is not how we want to run a business.

We will discuss all these matter and more and in fulsome detail on our second quarter analyst call and we are going to take some questions on this call. I do want to tell you now we are not going to take questions about specific risk positions, strategies or specific people.

Finally, however unfortunate incident is, we will do what we always do, we admit it, we will learn from it, we will fix it, we will move on, hopefully in the end, it will make us a better company. We are business to serve clients and nothing here distracts all the great things that our 203,000 employees around the world do every day for our clients and communities.

So thank you for spending a little time with us and we'll be happy to take a few minutes of questions.
QUESTION AND ANSWER SECTION

Operator: Your first question is from Glenn Schorr with Nomura.

Glenn Schorr
Hi thanks. Just curious on when this was caught, if it wasn’t caught internally or caught by a regulator when you update the regulators, when you talk to the rating agencies, just curious on how all inner workings works?

Jamie Dimon
You should assume that we try to keep our readers update about what we know and when we know it and it’s just a constant practice of the company. And when I said, it was caught, we started dig into this more and more, most of things were bearing big losses in the second quarter. And of course, when you start to see something like that you act probably – obviously we should have acted sooner.

Glenn Schorr
So I am not clear when did the losses accumulate? In other words was this something that happened most recently or this was an era in the past and is just updating your risk amount now?

Jamie Dimon
There were small ones in the first quarter, but real ones that we talked about the $2 billion were all in the second quarter. And it kind of grew as the quarter went on. And obviously it got our attention, that and other things, which come to our attention.

Glenn Schorr
Got it. Okay, thanks, Jamie.

Jamie Dimon
You are welcome.

Operator: Your next question is from Guy Moszkowski with Bank of America Merrill Lynch.

Jamie Dimon
Hey, Guy. Guy?
Operator: Guy, your line is open. Please make sure that your line is not muted. There is no response from Guy. So we will move to the next question, that question is from Matt Burnell with Wells Fargo Securities.

Matthew Burnell

Good afternoon, Jamie. Just two interrelated question, does, this change your capital plan for 2012, or does this have any effect of the regulatory plan that submitted earlier this year to the regulators?

Jamie Dimon

No. I do want to say one other thing that a lot of us have analysis week, buy-side and sell-side and we feel terrible because we obviously knew a lot but because of FD we couldn't say anything. So on behalf of all of the JPMorgan people who did that and I personally know that it's the [indiscernible] this week we do obviously apologize for that.

Matthew Burnell

Thank you.

Operator: Your next question is from Moshe Orenbuch with Credit Suisse.

Moshe Orenbuch

Great, thanks. Was that – the 1 billion of securities gain you said was related to that coming out of CIO was that part of the same reduction and could you talk a little bit about the process of kind of mitigating the risk of the balance of the next couple of quarters?

Jamie Dimon

Yeah, we wanted to reduce our overall credit exposure and there were AFS securities in CIO gains we sold those and took gains.

Moshe Orenbach

And in terms of the process of getting the exposure down over the next several quarters, I mean can you talk a little bit about – about how that...

Jamie Dimon

We're going – we have the top teams involved we've reviewed a couple of – probably a couple of times a day at this point and I've always said that the principle wise how we're going to do that. Maximize economic value, volatility obviously you can lose more money and I mean I can repeat it five times but that's what we're going to do.
Okay, thanks.

Yeah.

Operator: Your next question is from Matt O'Connor with Deutsche Bank.

Hi, Matt.

Hi. I hope this is another stupid question but I guess when I sit back and I think about the earnings power and all the moving pieces of your company my first thought is on a net basis $1 billion I guess I still like the message maybe it's worst than what the numbers are and I'm trying to better understand you know why you felt like you need to disclose it in the Q, what's - because last quarter you had 2.5 billion of litigation and you absorbed that then some.

Yeah.

So it just seems like...

No, it's a very good question and that fact is, first of all - we've already said it could get worse and it's been going on for a little bit, unfortunately. That's number one. Number two is, so soon after the end of the first quarter when we basically gave you different kind of guidance.

And number three just what to tell you what we know, we're not telling its worse, not could I completely agree what you said. It's not going to stop us to building a great company. But it's unfortunate and of course it's going to raise questions and we just want to answer those as best we can.
Operator: Your next question is from John McDonald with Sanford Bernstein.

John McDonald

Yes.

Jamie Dimon

Hi, John.

John McDonald

Yeah. Hi, Jamie. So just – while we have you, did – was there any other items in the Q that changed in terms of your outlook not having any chance to go through it yet?

Jamie Dimon

I don't know if they were running it on CNBC, the litigation and potential future, but I think it was like almost the same number from the past. And I think most of the guidance was approximately the same, right?

A little bit of guidance around the investment bank trading and...

Jamie Dimon

Right, okay.

And mortgage margin?

John McDonald

Okay. No, change on your expense. You're still looking to keep you adjusted at the 49 billion this year?

Jamie Dimon

There was – yeah, there was no comment in there at all.
John McDonald

Okay. So we should assume you’re still shooting for that?

Jamie Dimon

Well, of course. Yeah. But that can change too, but yes.

John McDonald

Okay. And then, any — too early to kind of just think about a broader rethinking of CIO and how it’s structured or how you managed the risk that you’re looking to hedge there. Is it too early on that or any comments just from a big picture there?

Jamie Dimon

Yeah, so all — remember all banks have fairly big — all banks have portfolio and big banks have basically large portfolios. You have to invest excess cash, have invested around the world in deposits and remember the CIO has done a great job for a long extended period of time. This was a unique thing we did and obviously it had a lot of problems and we are changing appropriately as we are getting our hands around it, but we are going to have a CIO who is going to have talented people there, continue to do what they’ve always done.

John McDonald

Okay. And a last thing, the $800 million for this quarter, that’s only for this quarter, you are not talking about continuing we will see on the future quarters but that’s just for this quarter right.

Jamie Dimon

It’s this quarter currently. So we were telling you, there is going to be a lot of volatility here and could easily get worse this quarter or better, but could easily get worse and the next quarter we also think we have a lot of volatility next quarter. I am not going to update about number changes a lot. We are not going to make calls every time the number moves around, by $0.5 billion.

John McDonald

Okay. Thanks.

Operator: Your next question is from Bill Rubin from BlackRock.
Yes. I don't know if this was asked or ranched [ph] yet, but this doesn't change anything with the c-core [ph] capital plan or the buyback capability at all, does it?

I don't think so because our capital is strong, we are going to meet all our commitments, we can handle highly stressed environment, so no, we don't think so.

So you can be in the market tomorrow after this?

I believe so.

Okay. Thanks.

My general counsel is sitting right here, so he would have kicked me if I was wrong.

Thank you.

Operator: Your next question is from Guy Moszkowski with Bank of America Merrill Lynch.

Hi hopefully this will work better.

Hey Guy, did you hear my little apology?
No, I didn't. But I didn't hear anything for a few minutes. So — but, thank you.

I apologize. When you were here, I knew you were here and I didn’t have — obviously I couldn’t tell you about this and, of course, I feel terrible about that.

Well, that’s okay. Thank you. Listen, I’d really like to understand what type — why you felt that you needed to add this kind of synthetic credit exposure? Were you...

Okay.

Were you not esteemed that you had enough exposure through core lending businesses, and what was going on?

Exactly. The original premise of the synthetic credit exposure was to hedge the company in a stress credit environment. Our largest exposure is credit across all forms of credit. So we do look at the fat tails that would affect this company. That was the original proposition for this portfolio.

In re-hedging the portfolio, I’ve already said, it was a bad strategy. It was badly executed. It became more complex. It was poorly monitored. We don’t — obviously, we don’t have to do anything like this at all, if we don’t want. And I understand you can ask that question. So I don’t want to give you specifics because we’ve already said we’re not going to talk about the actual positions or anything like that.

And, Jamie, the $1 billion that you referred to in your prepared remarks about — of incremental loss potential, is that the max that you envision above and beyond this sort of net $800 million...

No.
Guy Moszkowski

... after-tax number?

Jamie Dimon

No. That is — I said the volatility could easily be that. Obviously, it could be worse than that. We're going to manage this for economics. Hopefully, by the end of the year, it's the hope that this won't be a significant item for us. We want to maximize the economic value of these positions and not panic to do anything stupid. Therefore, we're willing to bear volatility.

Guy Moszkowski

And the final question is how liquid do you view these exposures as being? In other words, granted you don't want to, you know, make economically silly decisions and just cut it off right here, but how easy would it be for you to exit completely and just call it a day and be done with it?

Jamie Dimon

I think, I have already said, I am not going to talk about specific risk positions at all.

Guy Moszkowski

Okay, I am not asking specific positions just liquidity.

Jamie Dimon

Yet, you are getting specific. We will do what we have to do to maximize the shareholder value. We've got to stay in power and we are going to use it.

Guy Moszkowski

Okay, fair enough. And thanks very much and thanks for putting me back in the queue. Appreciate it.

Operator: Your next question is from Brennan Hawken with UBS.

Brennan Hawken

Hi. Just kind of curious to the extend that you can comment, if you -- if the regulators are aware of this and whether there has been any regulatory response, if there is heaven forbid any kind of vocal related implications on this matter?
Jamie Dimon

I think you should assume, I can answer this 100 times, you should assume that we keep our regulators up to date. That is a policy of the company. Sometimes you don't give them great information, we don't have great information. You can assume they are up to date. They will take their own point of view on this.

Brennan Hawken

Okay. I just didn't know whether they made...

Jamie Dimon

We always said, this violates our principles whether or not it violates Volcker principles and you know we want to run and build a great company. We do believe we need to have the ability to hedge in a CIO type position and that Volcker allows that. This trading may not violate the Volcker rule but it violates the diamond principle.

Brennan Hawken

Okay. And you had mentioned that this was a new strategy that you had decided to exit, is it possible for you to let know how new that strategy was?

Jamie Dimon

Not new, it was the - I said new but what I meant is it was the strategy to reduce the credit hedge. So it's kind of a new strategy was devised. And as I already said it was poorly constructed and poorly monitorial that and that's the place over the course of less couple of months.

Brennan Hawken

And the implication I guess might have been that there was all this fresh speculation about certain trading individuals out of London where some staff fairly new that came into execute this new or this some of this new angle and are those folks no longer in that that's been retriggered I think you said, right?

Jamie Dimon

No, nothing new folks a little bit to do with the Oracle the press so it was somewhat related to that it's obviously more than that but somewhere related to that. And I also think we acted a little too defensively to that.

Brennan Hawken

Okay, thanks for the color.