



2013 ANNUAL REPORT
LETTER TO SHAREHOLDERS



Dear Fellow Shareholders,



Jamie Dimon,
Chairman and
Chief Executive Officer

What a year. Despite tremendous challenges, your company earned \$17.9 billion in net income on revenue of \$96.6 billion in 2013. Our financial results reflected strong underlying performance across our four main businesses – unfortunately marred by significant legal settlements largely related to mortgages. These legal expenses cost the company \$8.6 billion after-tax. Excluding these expenses and some one-time positive benefits from reserve reductions (which we never have considered true earnings) and one-time gains on the sale of assets, your company earned about \$23 billion.

As tough as the year was – the company was under constant and intense pressure – I can hardly express the admiration, even pride, I feel because of the enduring resolve and resiliency of our management team and our employees. They never wavered as they attacked our problems while maintaining a relentless focus on serving our clients. We all owe them a great deal of gratitude.

The bad news was bad. The most painful, difficult and nerve-wracking experience that I have ever dealt with professionally was trying to resolve the legal issues we had this past year with multiple government agencies and regulators as we tried to get many large and risky legal issues behind us, including the Chief Investment Office (CIO) situation (that happened in 2012) and mortgage-related matters (that happened

primarily in 2005-2008, a significant portion of which occurred at heritage Bear Stearns and Washington Mutual (WaMu)).

There is much to say and a lot to be learned in analyzing what happened, but I am not going to do so in this letter – more distance and perspective are required. Suffice it to say, we thought the best option, perhaps the only sensible option – for our company, our clients and our shareholders – was to acknowledge our issues and settle as much as we could all at once, albeit at a high price. This allowed us to focus on what we are here for: serving our clients and communities around the world.

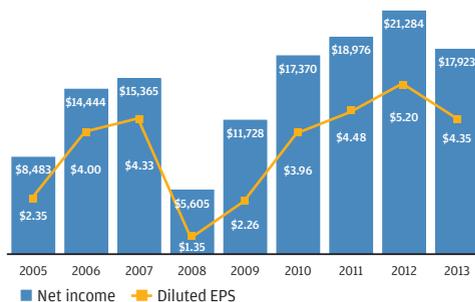
The good news is that our four franchises maintained – and even strengthened – our leadership positions as we continued to gain market share and improve customer satisfaction in every business.

When I look back at our company last year with all of our ups and downs, I see it as *A Tale of Two Cities*: “It was the best of times, it was the worst of times.” We came through it scarred but strengthened – steadfast in our commitment to do the best we can.

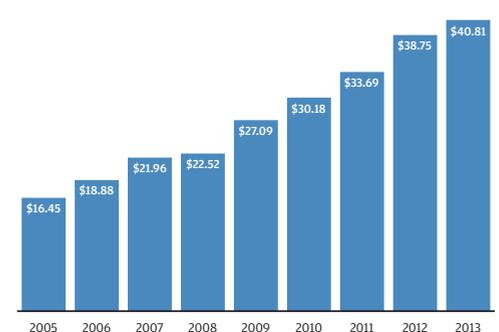
And we believe that we continued to deliver for our shareholders. For Bank One shareholders since March 27, 2000, the stock has performed far better than most financial companies and the Standard & Poor’s 500 Index (S&P 500). And since the JPMorgan Chase & Co. merger with Bank One on July 1, 2004, we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

**Earnings and Diluted Earnings per Share
2005-2013**

(\$ in millions, except diluted EPS)



**Tangible Book Value per Share
2005-2013**



Stock and Book Value Performance

Stock Total Return Analysis			
	Bank One	S&P 500	S&P Financials Index
Performance since becoming CEO of Bank One (3/26/2000-12/31/2013)^(a):			
Compounded Annual Gain	10.4%	3.3%	1.3%
Overall Gain	289.8%	57.3%	19.3%
	JPMorgan Chase & Co.	S&P 500	S&P Financials Index
Performance since the Bank One and JPMorgan Chase & Co. merger (7/1/2004-12/31/2013):			
Compounded Annual Gain (Loss)	7.2%	7.4%	(0.5)%
Overall Gain (Loss)	94.1%	97.5%	(5.0)%

These charts show 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

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 (3/26/2000-12/31/2013)^(a):			
Compounded Annual Gain	12.9%	4.6%	8.3%
Overall Gain	385.7%	80.4%	305.3%
	JPMorgan Chase & Co. (A)	S&P 500 (B)	Relative Results (A) – (B)
Performance since the Bank One and JPMorgan Chase & Co. merger (7/1/2004-12/31/2013):			
Compounded Annual Gain	14.5%	7.4%	7.1%
Overall Gain	261.9%	97.5%	164.4%

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 after-tax number assuming all dividends were retained vs. the S&P 500 (a pre-tax number with dividends reinvested).

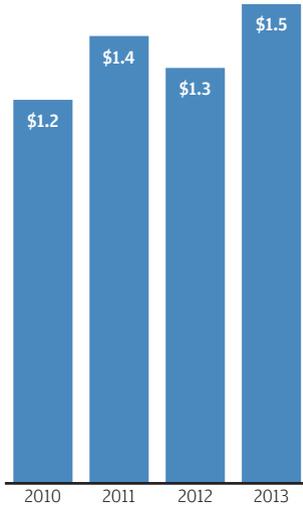
^(a) On March 27, 2000, Jamie Dimon was hired as CEO of Bank One

Here's what most of the headlines left out: JPMorgan Chase continued to serve our clients and make a significant positive impact on our communities. In 2013, the firm **provided credit and raised capital of more than \$2.1 trillion for our clients.** The firm also has hired more than 6,300 military veterans since 2011 as a proud founding member of the 100,000 Jobs Mission, which now has increased the goal to 200,000 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 their operations and hire more workers. We also were there for families to buy their first home with a mortgage we made possible – overall, we **originated more than 800,000 mortgages** last year. In total, we **provided \$274 billion of credit to consumers.** Our strength allows us to be there for our clients and communities in good times – and, more important, in bad times. In this, we have never faltered.

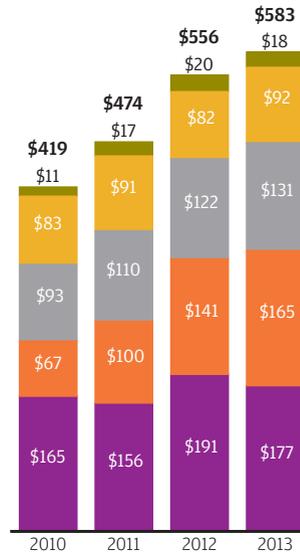
New and Renewed Credit and Capital for Clients

at December 31,

Corporate Clients
(\$ in trillions)



Consumer and Commercial Banking
(\$ in billions)



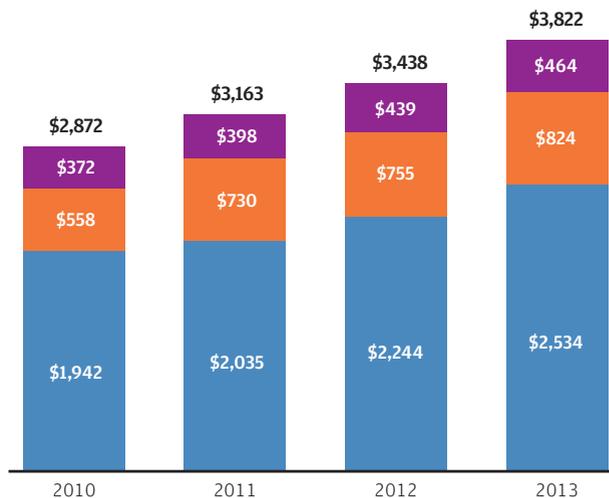
	Year-over-Year Change		
	'10 to '11	'11 to '12	'12 to '13
Corporate Clients	20%	(9)%	20%
Small Business	52%	18%	(8)%
Card & Auto	10%	(10)%	12%
Commercial/Middle Market	18%	11%	8%
Asset Management	48%	41%	17%
Mortgage/Home Equity	(5)%	22%	(7)%
Total Consumer & Commercial Banking	13%	17%	5%

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		
	'10 to '11	'11 to '12	'12 to '13
Deposits			
Consumer	7%	10%	6%
Wholesale	31%	3%	9%
Client assets ^(a)	5%	10%	13%

Assets under custody^(b)
(\$ in billions)

2010	\$16,120
2011	\$16,870
2012	\$18,835
2013	\$20,485

^(a) Client assets include assets under management, custody, brokerage, administration accounts and all Chase Wealth Management assets not managed by Asset Management

^(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 face the future with a strong foundation and excellent franchises built to serve our clients
- II. We will dedicate extraordinary effort in 2014 adapting to the new global financial architecture
- III. We have made significant progress strengthening our company
- IV. We believe our long-term outlook is bright

I. WE FACE THE FUTURE WITH A STRONG FOUNDATION AND EXCELLENT FRANCHISES BUILT TO SERVE OUR CLIENTS

During 2014, most of the contours of the new and complex global financial architecture will be put in place. The changes are extensive – and later in this letter, I will talk about just how extensive they are. All banks will have to adjust to the new rules, which will be harder for some than for others. Some may have to make drastic changes to their business plan and strategies. So as we enter the year, we should take stock of where we stand.

We have consistently shown good financial performance and maintained our fortress balance sheet

All of our businesses have had good – in fact, close to best-in-class – financial performance over the last several years in terms of

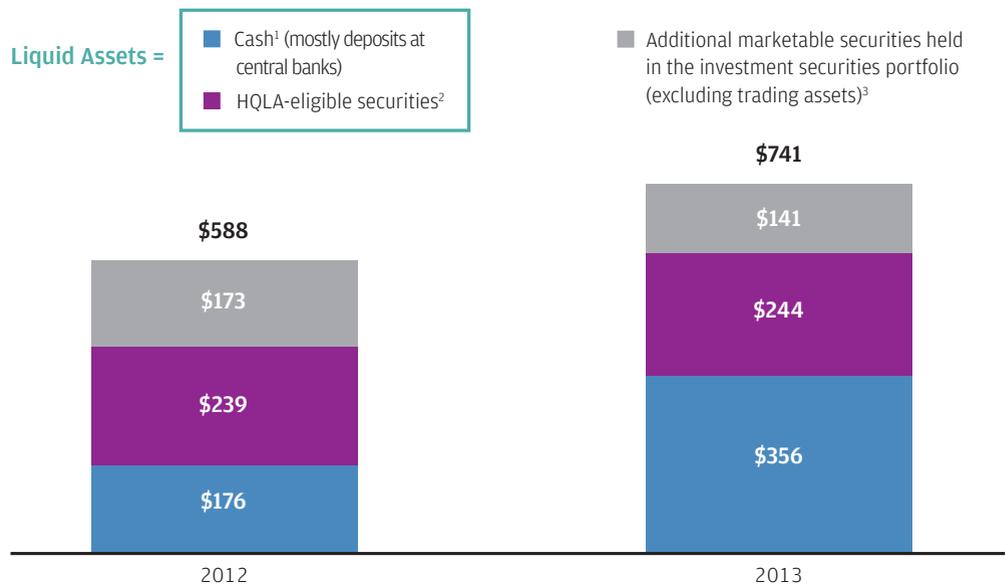
margins and returns on tangible common equity. We have done this while meeting increasingly higher standards in liquidity and capital. Our fortress balance sheet is stronger than ever.

We have an enormous amount of what we consider highly liquid assets

First and foremost are the High Quality Liquid Assets (HQLA), shown in the chart below, which are mostly deposits at central banks, agency mortgage-backed securities and Treasuries. Only HQLA count for liquid assets under the banking regulators' definition of liquidity. These assets are super safe and can provide cash to the company should it need cash in a crisis situation.

Cash and High Quality Securities

at December 31,
(\$ in billions)



¹ Represents total amount of cash reported on the balance sheet, including \$294 billion and \$120 billion of eligible cash included in HQLA in the Basel III Liquidity Coverage Ratio at December 31, 2013 and 2012, respectively

² HQLA is the estimated amount of assets the firm believes will qualify for inclusion in the Basel III Liquidity Coverage Ratio and primarily includes U.S. agency mortgage-backed securities, U.S. Treasuries, sovereign bonds and other government-guaranteed or government-sponsored securities

³ Additionally, the firm has other unencumbered marketable securities available to raise liquidity if required. Excludes trading securities and collateral received in reverse repo agreements

In addition to the HQLA securities, other unencumbered marketable securities can provide significant liquidity for the company. (This category does not include any securities held in our trading portfolio.) Our investment securities portfolio has an average duration of 2.8 years and an average AA+ rating. The majority of securities balances presented above reside in our investment securities. These securities could be utilized to provide liquidity and a source of cash for the company if necessary.

Our total assets are \$2.4 trillion so you can see just how liquid our balance sheet is. As a reference point, our cash and high-quality securities are essentially the same as the \$740 billion of our total loans. This is a very conservative utilization of our total deposits of approximately \$1.3 trillion.

We have increasingly strong capital ratios

You can see on the capital chart below that under Basel I, our Tier 1 Common has gone from 7.0% to 10.7% from 2007–2013 (if Basel I had been consistently applied, that

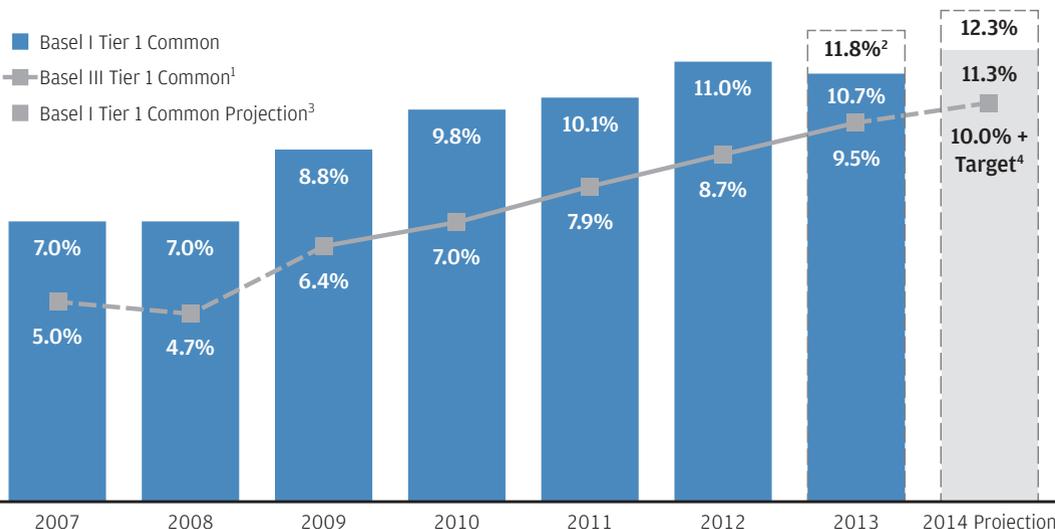
number would have been 11.8%), and our new Basel III ratio has gone from 5.0% to 9.5% over that same time period.

In 2014, we will meet all of our current targets in capital, liquidity and leverage. One ratio not shown in the chart is called the Supplementary Leverage Ratio (SLR) that is, simply, the ratio of equity to assets and certain off-balance sheet exposures, regardless of the quality of assets. While that calculation still is being finalized, we currently are at 4.6% vs. a requirement of 5%. We intend to have a cushion over 5% by the end of this year.

We have good returns on capital despite increasingly higher capital ratios

Even with the increasingly higher capital ratios over the past several years, all of our main businesses have been earning strong returns on tangible equity (see Return on Equity (ROE) chart on the following page). Some of our competitors are not earning similar returns, and they likely will feel more pressure to alter their business strategies going forward.

JPMorgan Chase Capital Levels



¹ Through 2013, Basel III capital ratios reflect the firm's best estimate based on its understanding of the rules in the relevant period (2007-2008 ratios are pro forma)

² Reflects the firm's estimated Basel I capital ratio, excluding the impact on the firm's positions as of December 31, 2013 of Basel 2.5 market-risk rules, which became effective January 1, 2013

³ Effective January 1, 2014, the Basel I ratio is no longer a regulatory capital measure. The ratios shown reflect an approximation of what the firm's Basel I capital ratio would be as of December 31, 2014, both including and excluding the impact of Basel 2.5 market-risk rules, were Basel I still in effect

⁴ Reflects the firm's stated 2014 Basel III Tier 1 Common ratio objective

Return on Equity

	2011	2012	2013	Excluding significant items ^(c)
				2013
JPMorgan Chase & Co. (ROTCE ^(a))	15%	15%	11%	15%
ROE by line of business				
Consumer & Community Banking	15%	25%	23%	
Corporate & Investment Bank	17%	18%	15% ^(b)	
Commercial Banking	30%	28%	19%	
Asset Management	25%	24%	23%	
Corporate/Private Equity	0%	(3)%	(9)% ^(d)	

^(a) Represents return on tangible common equity

^(b) Excluding funding and debit valuation adjustments (FVA and DVA), CIB ROE was 17% in 2013

^(c) Primarily excludes legal expenses, benefits from reserve releases, one-time gains on the sale of assets and FVA/DVA

^(d) Includes legal expenses and one-time gains on the sale of assets

Later in this letter, I will discuss how we think all the new rules will affect our returns.

Our scale and breadth create large cross-sell opportunities and strong competitive advantage

Each of our four major businesses operates at good economies of scale and gets significant additional advantages from the other businesses. We believe this is one of the key reasons we have maintained good financial performance.

Below are some pretty powerful examples:

- Our North America Investment Bank generates 29% of its investment banking revenue¹ through Commercial Bank clients covered locally. This helps both our Investment Bank and our Commercial Bank do a better job serving their clients.
- Our Global Corporate Bank helped generate \$1.3 billion in revenue for our fixed income sales and trading operation, increasing business to our trading desks and helping them offer better pricing to our clients.
- Our Private Bank gets new clients from both our Investment Bank and our Commercial Bank. And the Private Bank and Commercial Bank would have a hard time existing without our Chase retail branch network. In fact, 55% of Commercial Bank clients and 35% of Private Bank households visit our retail branches each quarter.

- Of our \$1.6 trillion of assets under management, approximately \$300 billion comes from the Corporate & Investment Bank (CIB), the Commercial Bank or the Consumer Bank.

- Fifty-five percent of retail mortgages and 40% of Chase-branded credit cards are sold through the retail branches.

In total, we believe that the combination of our businesses accounts for \$15 billion of additional revenue, which helps drive both profits and customer satisfaction. Each of our businesses would be worse off but for the other three.

Our capabilities are extraordinary and are difficult to replicate – we can bring huge resources to bear for the benefit of our company and our clients

Our scale creates huge cost efficiencies and enables significant resources to be brought to bear for the benefit of our company. For example, in global technology, we have nearly 30,000 programmers, application developers and information technology employees who keep our 7,200 applications, 32 data centers, 58,000 servers, 300,000 desktops and global network operating smoothly for all our clients. Resources like these allow us to constantly improve our operating efficiencies and bring enormous capability to deal with issues when we need to do so such as adjusting to all the new global rules and requirements. In total, we believe that expense synergies across the company save us approximately \$3 billion a year.

¹ Calculated based on gross domestic investment banking revenue for syndicated leverage finance, mergers and acquisitions (M&A), equity underwriting and bond underwriting

Across the firm, we serve approximately 50% of U.S. households, approximately 80% of Fortune 500 companies, and 60% of the world's largest pensions, sovereigns and central banks. Today, our firm has on-the-ground operations in 60 countries and serves clients in more than 100 countries around the world. To support those clients, we move up to \$10 trillion a day and lend or raise capital of over \$500 billion each quarter. The markets in which we operate cover 5.6 billion people who speak 100+ languages and use close to 50 currencies. It would be difficult to replicate the size, capabilities and knowledgeable staff of our businesses globally. We can help our clients when and where they need it.

It is important to remember our capabilities and efficiencies accrue to our clients – over time, they get the benefit in improved pricing or better services.

This has led to increasing market share and customer satisfaction in all of our main businesses

None of the things previously mentioned would matter if they didn't help us do a better job for our customers. You know your business model is working when customers – voting with their feet – give you more business. Increasing market share and customer satisfaction may not always immediately show on the bottom line – but both are critical to the future growth of our businesses and drive current and *potential* earnings power of the company. The bullet points that follow say it strongly.

Consumer & Community Banking

- Total deposits of \$453 billion up 10% from the prior year – more than two times the industry average.
- #1 credit card issuer in the U.S. based on loans outstanding. Record credit card sales volume of \$420 billion was up 10% from the prior year – outpacing the industry in sales growth for 23 consecutive quarters.
- #1 in customer satisfaction among the largest banks for the second year in a row, as ranked by the American Customer Satisfaction Index (and, in the future, we want to be #1 among *all* banks).
- Customer attrition at an all-time low.
- #1 in customer satisfaction in small business banking in three of four regions of the U.S. by J.D. Power and Associates and #1 Small Business Administration lender for the fourth year in a row.
- #1 online financial services destination (chase.com) (per *compete.com* as of December 2013).
- #1 mobile banking functionality (Forrester Research's 2013 Global and U.S. Mobile Banking Functionality Rankings).
- #1 ATM network; #2 retail branch network.

Corporate & Investment Bank

- #1 in Global Investment Banking Fees.
- #1 Fixed Income Market revenue share of top 10 investment banks; #1 Total Markets revenue share of top 10 investment banks.
- #1 in Global Long-Term Debt.
- #1 in Global Loan Syndications.
- #1 in U.S. Announced M&A.
- #2 in Global Equity and Equity-Related; #2 in Global Announced M&A.
- #6 in Cash Equities (we're working on that one).

- Several groundbreaking transactions, including transformational deals for Verizon, Sprint, Facebook, Virgin Media and the University of California, to name just a few.
- #1 for both All-America Fixed Income Research and Equity Research – for the previous four years.

Commercial Banking

- #1 traditional Middle Market syndicated lender in the U.S.
- #1 multifamily lender in the U.S. – since 2008.
- Loan balances of \$137 billion up 7% vs. the year before – reflecting 14 consecutive quarters of loan growth.
- Gains in market share in our Middle Market expansion regions and within our commercial real estate businesses – as we deliver our capabilities locally in 119 U.S. cities and 13 international ones.

Asset Management

- Client assets of \$2.3 trillion up by \$248 billion from the year before – reflecting 19 straight quarters of positive long-term inflows.
- Client assets double since the beginning of 2006.
- 80% of 10-year mutual fund assets under management in top two quartiles.
- #1 Ultra-High-Net-Worth Global Private Bank (*Euromoney*, 2013).
- #1 Institutional Money Market Fund Manager Worldwide (*iMoneyNet*, 2013).

We have never been a fair-weather friend – we hope that, over time, this builds more trust and respect

During the recent financial crisis and throughout our 200-year history, JPMorgan Chase always has been there for our constituents around the world – not only in good times but, more critically, in the toughest of times when strong banks are needed the most. However terrifying events became, we never wavered in supporting our clients and communities. In fact, we did many bold and unprecedented things, including acquiring Bear Stearns and WaMu. And we never stopped raising capital and providing credit for companies, nonprofits, states, municipalities, hospitals and universities during times of trouble. And when the situation became very difficult in European countries such as Greece, Italy and Spain, we stayed to help our clients, which included the countries themselves. While we may make mistakes along the way, we never lose sight of why we are here. We believe that our long-term view and consistent behavior earn us the trust and respect of our clients and the communities in which we operate.

Our strategy remains the same – and we always invest for the long run

While we need to make a lot of adjustments to adapt to the new world (I will discuss later in this letter how we intend to do that), we are fortunate not to have to do a strategic reset. Our strategies have worked – a consistent strategy properly executed is important for the long-term success of any company.

So whatever the future brings, we will face it from a position of strength and stability. And we will continue to do what we always have done – manage the company and invest for the long run.

II. WE WILL DEDICATE EXTRAORDINARY EFFORT IN 2014 ADAPTING TO THE NEW GLOBAL FINANCIAL ARCHITECTURE

While we will meet all of our new capital and liquidity requirements this year, we still have an enormous amount of work to do to conform and adapt to the plethora of new global rules.

The changes are substantial and will require significant changes to business practices

A quick look at the chart on the next page will give you a sense of the enormous number of new rules and reporting requirements with which we need to comply. They are global and range from the new European Union (EU) Markets in Financial Instruments Directive (MiFID) rules to the 398 Dodd-Frank rules to the Basel III capital and liquidity requirements, the Volcker Rule, and new mortgage rules around both origination and servicing, to name just a few. Fully complying with and adapting to the new world is a daunting task and will require enormous effort and energy on the part of all of us at JPMorgan Chase. We are going to get it right – both to meet the letter and spirit of the new regulations and to minimize disruption to our clients.

These rules will affect every client, every product, every system and every country in which we operate. We do not underestimate the extent of the changes. Never before have we focused so much time, technology, money and brainpower on such an enterprise-wide undertaking. In the end, all these efforts will make us a better and stronger company.

Importantly, these new regulations in total have unquestionably made the global banking system safer, more transparent and more accountable – which is good for everybody. Every bank is far better capitalized than in the past, and the liquidity in the system probably has never been higher. In addition, the new rules around

minimum unsecured debt levels, the Recovery and Resolution plans (or so-called living wills), and the strengthened capabilities of the regulators have put an end, we hope, to the idea that anybody is “Too Big to Fail.”

We are applying enormous resources to the task

Reading the bullet points below will give you a sense of the time, money and manpower we are applying to adapt to the new rules:

- **13,000** employees will have been added since the beginning of 2012 through the end of 2014 to support our regulatory, compliance and control effort (Risk, Compliance, Legal, Finance, Technology, Oversight and Control, and Audit) across the entire firm.
- **8,000** of our employees across our lines of business will be dedicated solely to building and maintaining an industry-leading Anti-Money Laundering (AML) program.
- **500** professionals (and thousands of additional contributors) were dedicated to the 2013 resubmission and 2014 submission of the Federal Reserve’s capital stress test or Comprehensive Capital Analysis and Review (CCAR). These individuals developed and reviewed more than 100 new models and submodels; conducted over 130 independent qualitative and quantitative assessments of the firm’s forecast methodologies and results; and established new permanent functions and processes to enhance the firm’s overall capital planning process.
- **500** professionals globally across our lines of business and support functions are working on the firm’s annual Recovery and Resolution plans.
- **400** people are dedicated to continue to build out our Liquidity Risk Management infrastructure, which will create far more detailed reporting on our daily global liquidity.

New Financial Architecture

	Description	Selected requirements	Selected JPMorgan Chase actions
Capital CCAR stress testing, leverage and risk-based requirements	<ul style="list-style-type: none"> Improving the banking sector's ability to absorb losses arising from financial and economic stress 	<ul style="list-style-type: none"> 750+ requirements with 21 regulators involved ~25 different capital ratio requirements 	<ul style="list-style-type: none"> 500+ people 5,000+ pages of supporting documentation 100+ new models
Liquidity Liquidity Coverage Ratio and Net Stable Funding Ratio	<ul style="list-style-type: none"> Ensuring banks hold sufficient liquid assets to survive acute liquidity stress Prevent overreliance on short-term wholesale funding 	<ul style="list-style-type: none"> 258 requirements 15+ jurisdictional variations expected 	<ul style="list-style-type: none"> 400+ people 5 billion records processed from over 200 feeds 20+ million calculations performed daily
Recovery and Resolution U.S. Dodd-Frank ¹ Title I & II, UK ² Recovery and Resolution, EU BRRD ³	<ul style="list-style-type: none"> Ensuring the resolvability of systemically important financial institutions Preparing living wills 	<ul style="list-style-type: none"> Resolution plans for 35 entities and plans by business, sub-business and for critical operations 	<ul style="list-style-type: none"> 1+ million work hours devoted annually
Mortgages U.S. Dodd-Frank ¹ , Housing Finance Reform Legislation	<ul style="list-style-type: none"> Reforming the nation's housing finance system 	<ul style="list-style-type: none"> ~9,000 pages of rules, guidance and legislative text 	<ul style="list-style-type: none"> ~100,000 work hours of training 1+ million work hours dedicated to system and process implementation
Securitization Basel Revised Securitization Framework, Risk Retention, Regulation AB II	<ul style="list-style-type: none"> Enhancing capital requirements and market standards for originators and investors Improving the strength and safety of securitization markets 	<ul style="list-style-type: none"> 2,000+ pages of proposals 	<ul style="list-style-type: none"> 35,000+ work hours dedicated to system development to comply with Basel risk-weighted assets rules
Derivatives U.S. Dodd-Frank ¹ Title VII, European Market Infrastructure Regulation, Markets in Financial Instruments Directive II/Markets in Financial Instruments Regulation	<ul style="list-style-type: none"> Enhancing pre- and post-trade transparency Promoting the use of electronic trading venues and central clearing Bolstering capital and margin requirements 	<ul style="list-style-type: none"> 83 key rules (U.S.) and 237 articles (EU) finalized 	<ul style="list-style-type: none"> 700+ people 60 workstreams
Volcker Rule	<ul style="list-style-type: none"> Restricting banks from undertaking certain types of market activities Insulating retail banking from wholesale banking 	<ul style="list-style-type: none"> 1,000+ pages of rules and preamble text with 5 regulators involved 36 requirements 	<ul style="list-style-type: none"> 300+ people 7 trading metrics in development across 13 business areas

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

¹ U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act

² United Kingdom

³ Bank Recovery and Resolution Directive

- **250+** employees are working in Model Risk and Development – up by more than 130 employees. In 2013, this highly specialized team completed over 450 model reviews, built capital models that enabled the firm to achieve the regulatory approval required to exit parallel Basel III reporting, and implemented a permanent new governance and control structure for the proper creation and implementation of models.
- **\$600+ million** has been spent on technology focused on our agenda in the Regulatory and Control space – an increase of approximately 25% since 2011. We also have built a state-of-the-art control room in our corporate headquarters to provide streamlined

data analysis and reporting capabilities of control and operational risk data across the firm.

- **\$2+ billion** in additional expenses in our overall control effort will have been made since 2012 through the end of 2014.

The numbers above show some of the **additional** resources dedicated to this objective but barely represent the full resources dedicated to our regulatory and control agenda. It is hard to estimate, but perhaps 20%-30% of all our Risk, Compliance, Legal, Finance, Technology, Oversight and Control, and Audit employees have been reassigned

and will be devoted to this effort. In total, it is hard to measure the overall scope and investment since nearly all employees and systems are engaged in some way or another.

We will be applying the new rules all the way to the client level, the product level and the trading desk

We will be applying the new rules, particularly around capital, liquidity and the SLR (and the factors that increase our capital surcharge as a global systemically important bank), all the way down to each client we serve, each product we offer and each trading desk we operate. Doing so will allow our client executives as well as product and trading managers to understand how the new rules affect us at a very granular level and allow our professionals to begin making proper and compensating adjustments. At the most basic level, some of these rules conflict with one another; for example, the client may be profitable on Basel III capital but not on SLR capital or vice versa. The binding constraint at the client level may be very different from the binding constraint at the firmwide level. To be successful, we will need to actively manage all these constraints so we get a fair return on our capital and properly manage our risks.

At the firmwide level, once we satisfy Basel III capital, SLR capital and the Liquidity Coverage Ratio, the binding constraints on the firm may very well become the CCAR test, the annual stress test from the Federal Reserve Board. By its nature, the CCAR test is less predictable because it will change every year. And while you can't effectively manage stress testing at the client or product level, we will manage it at the business level so that it has more predictable outcomes, allowing for more predictable capital planning.

We are big believers in stress testing, and you should know that we do it all the time and successfully conduct a large number of different kinds of stress tests every week. This enables us to effectively manage risk to protect your company.

The new rules will have a major effect on certain clients and products

All the new rules will not affect all clients and all products equally. I obviously can't cover all client types and products, but I would like to give some examples of those that may be affected more than most – and what that impact means for both JPMorgan Chase and our clients.

Derivatives. Non-corporate users of derivatives (asset managers, hedge funds, financial companies, governments, etc.) will have to move all their standardized derivatives (mostly interest rate and credit derivatives) to exchanges, as opposed to handling them directly with a bank. Corporate end users of derivatives will be allowed to continue to trade bilaterally with a bank. However, for both of these segments, the cost to offer derivatives to our various client groups will increase due to capital, liquidity and margin requirements imposed on us. It still remains to be seen how all this will sort out.

Non-operational deposits. Essentially, these are deposits that wholesale clients hold with us that typically are short term and transactional in nature. We take these deposits more as a service to the client – not because they are profitable for us. The new rules require us to hold 100% of HQLA against financial institution deposits and 40% against non-financial corporate deposits. In addition, based on current proposals, we would have to hold 6% equity against the assets we maintain for financial institutions even if those assets consist of cash or other low-risk assets such as government bonds. This makes non-operational deposits hugely

unprofitable; therefore, over time, banks probably will minimize this type of deposit, and clients will seek other alternatives, probably in the money markets.

Committed, undrawn revolvers. Many clients have large, committed, unused revolvers so they can manage their cash flows and not leave too much unused cash on their balance sheet. Because new rules impose liquidity and additional capital requirements on committed, undrawn revolvers, the cost involved in providing them could increase by up to 60 basis points, depending on the client segment and nature of the facility. Banks will either have to charge more for this product or focus more acutely on the nature and value of the particular client relationship as a whole in considering whether to make revolvers available to that client.

Trade finance. The cost of short-term trade finance and standby letters of credit also will increase dramatically, with pricing potentially up by 75 basis points in the long term.

The rates business (mostly trading government securities and interest rate swaps). The new rules have a huge effect on this business because they require substantially more capital and liquidity. And for some banks, the rates business has gone from profitable to unprofitable, causing some banks to exit the business altogether. Because of our large volume and low costs, we already have begun to make significant changes to this business and expect to maintain decent profitability.

The mortgage business. The U.S. mortgage market still faces huge hurdles and has a long way to go before it is a well-functioning market that is good for consumers and the country's economic health (and makes sense for financial companies). There has been a large increase in the capital required to service and hold mortgages. Servicing itself has become far more costly and dangerous to the servicer – servicing costs alone have gone up 20 basis points. We still have been

unable to reform the government-sponsored enterprises (GSE) or to get the securitization markets healthy again. This has real costs to consumers, especially for lower credit-quality consumers and particularly for government-guaranteed mortgages, which have become more expensive, more time intensive and less available for consumers. Originators are being more conservative because making loans that may default has become far more risky and costly due to:

- The highly litigious environment and uncertainty surrounding Federal Housing Administration (FHA) guarantees with respect to FHA mortgages.
- The ongoing “put-back” risk and the litigation costs around reps and warranties from the GSEs and sophisticated private investors.
- The increasing prescriptiveness of rules on servicing from different – and sometimes conflicting – regulators and government agencies.
- The increasing difficulty of moving servicing – again, especially for high-risk loans, which often are unprofitable to us and other large financial institutions – to other servicers that have systems and processes better able to serve these customers.

These issues make mortgages more costly and unpredictable for companies and far less consumer friendly. In many cases, deserving lower- and middle-income consumers may pay far more than they might have in the past for a mortgage or, worse yet, they won't be able to get one.

We need for all those involved in the mortgage business to come up with a practical set of coherent and consistent policies that work for originators, servicers, investors,

consumers and regulators. While it's critical to protect the consumer, the new rules should not allow for arbitrary and capricious interpretations or overly punitive penalties and litigation.

When you look at how the cost of specific products has changed, it's easy to see how some clients will be affected more than others. While most clients will see some higher costs, certain clients – for example, municipalities (which will see far higher costs for certain types of deposits and credit lines), clients with large amounts of trade, credit-only clients and specific types of financial companies – will experience far higher costs to transact banking business.

We need to achieve proper cross-border regulatory coordination

One of the initial objectives of the global regulatory regime was to set out fairly consistent global rules; i.e., a level playing field. The rules don't have to be exactly the same in all countries, but if they are dramatically different, that could cause large and unfair distortions in global competition. Some areas at risk are: 1) dramatically different calculations of risk-weighted assets, 2) much lower leverage ratios in some countries vs. others and 3) varying capital structures for a bank's subsidiaries in different countries. We are convinced that the regulators want to get this right, but there are a lot of interests involved, and only time will tell if they succeed.

We need to recognize that models and risk-weighted assets do not reflect all knowledge or judgment

We recognize the importance of detailed and disciplined modeling and forecasting, particularly around risk and risk-weighted assets. But we want our shareholders to know that even the best models provide an incomplete, sometimes misleading and backward-looking view of risk. Let me list a few things that are not incorporated in risk-weighted asset models:

- Character of the borrower.
- Changes in the tax code.
- Changes in the structure of the industry (usually driven by technology – look at what the Internet did to media and some types of retail).
- Changes in business practices (for example, virtually no one offers subprime mortgage lending anymore).
- Changes in government or regulatory policy.
- Geopolitical risk.

We need to do our math right, but we also need to remind ourselves to always try to add judgment and wisdom.

All things being equal, returns will be reduced

If you have to hold higher capital and higher liquidity and some of your costs are higher – all things being equal – your returns obviously will come down. Many analysts have estimated that the average effect of the higher capital, liquidity and costs on banks will reduce their return on equity substantially and for some banks far below fair market returns. These banks possibly would need to take dramatic action – shareholders would not accept poor market returns for long.

But all things are not equal

Clients, markets and businesses adjust to changing economic circumstances. Our company already has taken action that gives us some confidence that we will be able to maintain decent returns in spite of what a static analysis would show. The list below notes some of those things that likely will change over time and, in general, will allow banks, on average, to earn market returns:

- **Run-off of unprofitable products.** Banks simply will stop handling some very expensive products. For example, many exotic derivatives, subprime mortgages and other products no longer will be offered.
- **Product repricing.** Some products will reprice. For example, we expect the cost to the client for revolvers and transactional deposits to go up.
- **Product redesign.** Some products will be redesigned. For example, uncommitted lines of credit (that were popular many years ago) may make a comeback. Or revolvers may be written so that the borrower cannot borrow all the money all at once, reducing the liquidity burden and cost to the bank.
- **Client selection and re-optimization.** Banks will focus on clients that can be served profitably with a mix of products and services. For example, we may seek to earn more of certain clients' capital-lite business like cash management or a higher share of their fee-based business such as M&A or issuance. Some clients will go to other banks with a different mix of products and services, and some will be banked in the shadow banking market, which may be able to serve some clients in a less expensive way.
- **Tactical and strategic changes.** These changes are hard to forecast – but they will happen. Not all banks will adjust to the new world in the same way. Some banks will stop offering certain products or will leave certain markets – market shares will change and, in some cases, consolidate. This eventually should lead to margins in each product and business that are adequate for those that remain in the business.
- **Return on equity.** Some banks will continue to earn better-than-average ROEs. Not all companies are created equal, and in every industry that I have observed, some compa-

nies have outperformed for an extended period of time. Sometimes it is because these companies have lower cost structures, better technology or simply greater economies of scale due to higher market share. It also is important to remember that a complex business that has many products is not earning the same ROE on every product. Many industries have historic structural issues that lead to some products being loss leaders (e.g., selling milk at grocery stores). And some products have an extremely high return because there is little equity involved (for example, think of money management, transaction processing, etc.). It is the combination of how a company does all these things that determines the company's aggregate ROE.

In the past, we told you we would expect our average return on tangible equity through the cycle (by this, we mean in average times with normalized credit losses) to be 16%. With higher levels of capital, significant regulatory changes and some remaining uncertainties, we moved the number to be somewhere between 15% and 16%.

We continue to have a healthy fear of the unknown because we cannot predict the cumulative effect of so many changes on a complex system

We still worry about the cumulative effect of all the changes, which simply cannot be known. It is our nature to worry more about the downside than to guess about the upside; however, some of these changes actually may be good for JPMorgan Chase (and other banks). It could be that these changes may make it harder for new competitors. It is possible that many of these changes will create a bigger "moat" around the banking system. Regardless, we will be vigilant in looking for, and reacting to, any negative effects that we simply cannot predict today.

What we can predict is that we are going to have tough global competitors

We have a healthy fear of and respect for our competitors. No matter what business you're in or how strong you might look, there are a lot of smart, devoted, tough competitors that have the potential to gain on you. So we always make the assumption that we will have tough competition. In addition to the regular lineup of great competitors that we currently have, I want to point out three areas (among others) that we will be keeping an eye on.

Large, global Chinese banks. Today, there are four very large and rapidly growing Chinese banks. They may be operating under less restrictive rules than we are. They are ambitious, and they have a strategic reason to go global (following their rapidly growing Chinese companies overseas). They have begun their global expansion, and, over time, they will become tough global competitors.

Technological obsolescence. It's easy to be scared about this one. Many companies are working on new payment systems, trading has become increasingly electronic, customers want more and more mobile services, and, increasingly, companies are starting to handle lending online. Your company is deploying substantial resources and launching new programs and products and will try to be creative, innovative and nimble in all these areas, which we will talk more about in the last section of this letter.

Increasingly sophisticated shadow banks. We really should not call them "shadow" banks – they do not operate in shadows. They are non-bank financial competitors, and there is a wide set of them. They range from money market funds and asset managers, mortgage

real estate investment trusts and mortgage servicers, and middle market lending funds to PayPal and clearinghouses. Many of these institutions are smart and sophisticated and will benefit as banks move out of certain products and services. Non-bank financial competitors will look at every product we price, and if they can do it cheaper with their set of capital providers, they will. There is nothing inherently wrong with this – it is a natural state of affairs and, in some cases, may benefit the clients who get the better price. But regulators should – and will – be looking at how all financial companies (including non-bank competitors) need to be regulated and will be evaluating what is better to be done by banks vs. non-banks and vice versa.

We will spend a lot of energy in 2014 adapting, adjusting and navigating to the new financial architecture, as well as monitoring its impact on our clients and keeping a watchful eye on the landscape as we move forward.

III. WE HAVE MADE SIGNIFICANT PROGRESS STRENGTHENING OUR COMPANY

We continue to make substantial progress strengthening our company. We have made enormous strides on our control agenda, which is detailed in a letter by our Chief Operating Officer on pages 33-35. We have continued our disciplined organic growth while also simplifying our business and continuing to reduce expenses. But first and foremost is the importance of maintaining the strength of our client franchises.

In this new global financial architecture, we will protect our great client franchises – at the expense of profits, if necessary

As we adapt to all the new rules, we will deliberately maintain our franchises even at the expense of sub-optimal profits. Since we don't know what the impact of all the new rules will be, we don't want to guess or make major changes in strategy in anticipation of these new rules. If some of the changes cause disappointing profits in the short term, so be it. We are fairly convinced that we will be able to adjust and earn fair profits in the long run.

We are aggressively pruning and simplifying our business – allowing us to reduce risk and to focus our resources on what is important

In general, it is good for any company to diligently prune and simplify its business so that it can focus on what it does best. This is just simple good housekeeping. It is even more important in this environment, largely to help with the control agenda. The chart below notes that we are exiting certain products and businesses. None of these exits will affect our main franchises. These actions eventually will reduce revenue by about \$3 billion, but they will have little impact on profits. Some of the businesses we are selling originally had great promise – and we still have no problem trying things (and failing at them) as long as we have the discipline to stop doing them if they don't work. Some don't fit the new regulatory environment, some are not customer friendly and some are just simply too small to matter.

Business Simplification

Simplifying our business

- Exiting products non-core to our customers or with outsized operational risk – for example:
 - One Equity Partners
 - Physical commodities
 - Global Special Opportunities Group
 - Student lending originations
 - Canadian money orders
 - Co-branded business debit cards and gift cards
 - Rationalization of products in Mortgage Banking¹
 - Identity theft protection
 - Credit insurance
- Discontinuing certain client businesses on a case-by-case basis in light of the new global requirements

Financial impact of business simplification (\$ in billions)		
	2014 impact	Run-rate impact
Revenue	\$1.5	\$2.8
Expense	(0.9)	(2.3)
Pre-tax income	0.6	0.4
Net income	\$0.3	\$0.3

Expense reductions lag revenue reductions

¹ Not included in the analysis

We still are investing in organic growth, and our investments from the past are paying off

As we have shown you in previous letters, the following nine investment initiatives (outlined in the chart below) will contribute to our profits over the next 10 years. All these projects are pretty much on track, and we expect they will provide substantial value for our clients and our shareholders in the future. Our current estimate is that they will add another \$2 billion in profits by 2017. We like organic growth, and while we have not started as many major new initiatives this

year as in previous years so we can focus on our control agenda, there will be great opportunities in the future.

We continue to be vigilant about our expenses

Earlier, we spoke about the regulatory and control issues that, by year-end 2014, will have increased our overhead expenses by \$2 billion since 2012. Our total overhead (except litigation) was \$60 billion in 2013, and we expect it will be less than \$59 billion in 2014. We expect to continue to drive down expenses as a percentage of revenue over

Overview of Select Investments

Expense and net income impact of cumulative spend from select investments (\$ in millions)				
Line of business	Investment	Status	Comments	Target annual net income
Consumer & Community Banking	Branch builds	✓	<ul style="list-style-type: none"> Portfolio of branches opened from 2002-2012 Average branch contributes \$1 million+ to pre-tax income when mature 4-year+/- breakeven and 7-year+/- payback for 2002-2012 portfolio 	>\$600
	Business Banking	✓	<ul style="list-style-type: none"> Expansion market branches fully staffed Approaching core market productivity levels 	\$600+/-
	Chase Private Client	✓	<ul style="list-style-type: none"> Added 2,100+ Chase Private Client locations since beginning of 2011 22,000 clients as of 2011; 100,000+ clients as of 2012; 215,000+ clients as of 2013 \$14 billion net new money in 2013 	\$600+/-
Corporate & Investment Bank	Over-the-Counter Clearing & Collateral Management	In progress	<ul style="list-style-type: none"> Delivered a global platform and top three market share Timing of steady state dependent on implementation of final Europe, Middle East and Africa and Asia Pacific rules 	\$150+/-
	Global Prime Brokerage build-out	✓	<ul style="list-style-type: none"> Build out international platform to facilitate clients' regional strategies Successful launch of international prime brokerage in Europe, the Middle East and Africa in 2011; Asia Pacific launch in 2014 	\$175+/-
	Global Corporate Bank	✓	<ul style="list-style-type: none"> Committed to meeting needs of international clients ~200 bankers hired since 2009 	\$600+/-
	Equities electronic trading	✓	<ul style="list-style-type: none"> Focused on building best-in-class electronic trading capabilities Grew low-touch equities revenue at 21% CAGR since 2010 	\$100+/-
Commercial Banking	Middle Market expansion ¹	Ongoing	<ul style="list-style-type: none"> Expand Commercial Banking coverage into new markets New cities added in 2013 include Tacoma and Jacksonville Continue to add ~200 clients per year 	\$450+/-
Asset Management	Private Bankers/ Investment Management sales expansion Investment Management business initiatives	Ongoing	<ul style="list-style-type: none"> Hired ~700 Private Bank client advisors and ~300 Investment Management salespeople since beginning of 2010 Expansion investments contributed net income of ~\$100 million in 2013 	\$800+/-
✓ Indicates investment complete				2013 expense ² ~\$2.6 billion 2013 net income ~\$1 billion

Expect \$3.5 billion+/- of net income in 2017 run-rate

¹ Includes WaMu, as well as out-of-footprint expansion markets

² Expense for aggregate investments reflects expenses related to select investments with overhead ratios higher than business average

the years. We are not doing this by skimping on investments – we never will do that since we believe investments in technology, training, controls, effective marketing and other efforts are critical for the long-term health and growth of the company. We are driving down costs by being extremely vigilant on expenses – always seeking out ways to automate and improve efficiency and operations. While we don't have a formal expense-cutting program, you can rest assured that we always are looking for ways to cut *wasteful* expenditures. We also believe that new industry utilities will emerge that will sharply reduce costs; for example, a utility could manage Know Your Customer processes (this way, corporate customers would not have to fill out the same forms and answer the same questions for all their banking partners). The financial sector always has been a large user of industry-wide utilities, particularly with regard to processes like settlement, clearance and payments.

And we always are learning (which also will make us a stronger company)

We always have believed that analyzing your mistakes makes you a better company. We often are asked about some of the management lessons we've learned over the past few years so let me share a few of them with you.

Customer advocacy. Treat the customer the way you want to be treated and make sure you see everything from the customer's eyes. Read customer complaints – and be the customer's advocate. This acts as an early warning system, it reduces problems and it will make you a better company.

Constantly improving systems and processes.

We always have believed in this, but there is an example of where we didn't with our Anti-Money Laundering systems. For years, we scored fairly well on our AML program, but we did not continually improve our systems and processes, and, in hindsight, we fell behind. All systems and processes need to have regular review and continual improvement.

A tin ear. In the past few years, we had started to see regulatory and enforcement actions against our competitors – and saw signals from our regulators that things were going to get tougher going forward. Our response generally was, "We know what we're doing." Well, we should have done more self-examination. We need to be better listeners and do a better job at examining critiques of others so we can learn from other people's mistakes, too.

Enterprise-wide controls. We generally have had a preference for leaving things somewhat decentralized, if possible, to foster responsibility and innovation throughout the organization. We've prided ourselves on our controls, and, for the most part, we did them well. But not all critical controls were consistently executed throughout the firm – and they should have been. This reduces the chance of a control gap somewhere in the company, and it ensures a sustainable, rigorous discipline and process in place everywhere. In addition to our fortress balance sheet, we want a fortress control system.

Processes should be known, front to back. From the moment a customer is opening his or her account to conducting business through the middle office to properly recording that business on your books and records, you are only as strong as your weakest link. Management teams need to understand and review all the processes in their business.

Sustainability. It's not enough for an activity to be done well – it needs to be done well on a sustained basis. This means a rigorous risk assessment, a constant review of all processes, properly functioning risk and control committees, vigilant compliance and a thorough rechecking of everything by Audit.

Your management is taking full responsibility for all aspects of our business operations. Transparency and escalation are key so we can deal with problems properly and quickly. While we need to be extremely self-critical, we intend to do this in an environment of collaboration without finger-pointing.

CYBERSECURITY UPDATE

In last year's letter, I gave a frank assessment about cybersecurity and why it is such a critical priority for the entire company. We outlined how JPMorgan Chase had spent approximately \$200 million in 2012 to protect ourselves from cyberwarfare and to make sure our data were safe and secure, and we dedicated more than 600 employees across the firm to the task. Despite these intense efforts, we acknowledged that the issue of cybersecurity worried us – and, today, that worry only has continued to intensify.

By the end of 2014, we will have spent more than \$250 million annually with approximately 1,000 people focused on the effort. This effort will continue to grow exponentially over the years.

In our existing environment and at our company, cybersecurity attacks are becoming increasingly complex and more dangerous. The threats are coming in not just from computer hackers trying to take over our systems and steal our data but also from highly coordinated external attacks both directly and via third-party systems (e.g., suppliers, vendors, partners, exchanges, etc.). It appears that a large, successful attack on a major retailer last year was the result of a third-party system breach.

We are continuing to carefully protect our perimeter from external threats, beef up our processes to detect internal threats and monitor related third-party systems to make sure their protections are adequate. In addition, we are moving rapidly ahead with Europay Mastercard Visa (EMV) and tokenization for credit and debit card transactions, which we will need to do in conjunction with merchants. We also are building three state-of-the-art Cybersecurity Operations Centers in our regional headquarters to provide points of coordination for all incoming information, the identification of threats, the protocol around managing our responses and the security of our buildings around the world. A major focus of these centers is the concept of intelligence fusion, which will pull together all our internal information from Internet and systems monitoring, as well as reconnaissance from our partners in industry and government. This approach will give us a comprehensive and consolidated view of all the threats facing our firm and our customers, and it will help to inform our view on how best to combat them.

We're making good progress on these and other efforts, but cyberattacks are growing every day in strength and velocity across the globe. It is going to be a continual and likely never-ending battle to stay ahead of it – and, unfortunately, not every battle will be won. Rest assured that we will stay vigilant and do what we need to do to enhance our defenses and protect our company.

IV. WE BELIEVE OUR LONG-TERM OUTLOOK IS BRIGHT

In the last seven years, we have been through a global financial crisis, massive regulatory changes and a number of setbacks – but our company has been able to recover and prosper. Most important, our client franchises consistently got stronger. All companies, at some point, are going to have tough times. The ability of a company to overcome them and be better for having done so is a sign of its strength, not weakness.

As we navigate through 2014, our fortress company and the power of our franchises put us in good stead. We are in this business forever. And we need to look beyond current challenges so that we properly invest and plan for the future. When all is said and done, there is reason to believe that the future of banking will be quite good. The following paragraphs explain why.

The world has been getting better, not worse

It is hard to believe sometimes – when you read in the newspapers and see on TV all the terrible events happening on the planet – that the world has consistently, over the course of history, become a better place for human beings. A recent book by Harvard professor Steven Pinker entitled *The Better Angels of Our Nature* chronicles how mankind has made enormous progress and has improved society throughout the centuries. His research looks at issues like murder, torture and other acts of violence over the past thousands of years and shows how today's world is much safer and more humane than in the past. It's amazing that even the 20th century, bloodied by two world wars, was less violent than all other centuries before it. Cruelties such as torture and slavery over many, many years have become increasingly rare (though they tragically still exist). There are many contributing factors, but Pinker points out some of the reasons:

increasingly just and moral governments; the invention of new institutions like courts of law and police forces; and expansion of human knowledge and a heightened sense of morality spread by the written word, religious institutions and schools, all of which have helped influence people's minds about what is acceptable – and what is not.

Dr. Martin Luther King said, "The arc of the moral universe is long, but it bends toward justice." Progress, sometimes painful and slow, has been happening all around us all the time, and the optimist in me believes that it will continue.

We have an abiding faith in the United States of America

I have spoken about this in the past, and I don't believe that it is blind optimism or patriotism. America today may be stronger than ever before. For example:

- The United States has the world's strongest military, and this will be the case for decades. We also are fortunate to be at peace with our neighbors and to have the protection of two great oceans.
- The United States has among the world's best universities and hospitals.
- The United States has a reliable rule of law and low corruption.
- The people of the United States have a great work ethic and "can do" attitude.
- Americans are among the most entrepreneurial and innovative people in the world – from those who work on the factory floors to geniuses like Steve Jobs. Improving "things" and increasing productivity are American pastimes. And America still fosters an entrepreneurial culture where risk taking is allowed – accepting that it can result in success or failure.

- The United States is home to many of the best businesses on the planet – from small and middle-sized companies to large, global multinationals.
- The United States also has the widest, deepest, most transparent and best financial markets in the world. And I'm not talking just about Wall Street and banks – I include the whole mosaic: venture capital, private equity, asset managers, individual and corporate investors, and the public and private capital markets. Our financial markets have been an essential part of the great American business machine.

America's future is not guaranteed, and, of course, America has its issues. Later in this section, I will discuss some of the issues, especially the ones possibly holding back our country's growth. But throughout history, we have shown great resiliency and a capacity to face our problems. Warren Buffett, the greatest investor of all time and my friend, has said, "It's never paid to bet against America." I think we all should take his advice.

The outlook for long-term growth is excellent – our clients are growing, and they need us

The financial needs of countries, companies and individuals will continue to grow over time. And that growth will be broad based and global. A few examples suffice.

GDP and trade

- World gross domestic product (GDP) is projected to grow an average of 7% per year through 2023, from \$73 trillion in 2013 to \$139 trillion in 2023.
- The value of the world's exports grew at an average rate of 11% per year between 2002 and 2012, from \$8.1 trillion to \$22.8 trillion. Many economists expect international trade to grow faster than world GDP over time.

Infrastructure

- Keeping pace with global GDP growth will require an estimated \$57 trillion in infrastructure investment between now and 2030 – this is 60% more than the \$36 trillion spent over the past 18 years. Emerging economies are likely to account for 40% to 50% of this infrastructure spending.

- Infrastructure-related trade is forecast to grow by 9% per year on average between 2013 and 2030, outpacing overall merchandise trade growth of 8% per year so that by 2030, infrastructure-related trade will account for 54% of total goods traded globally.

Growth of large companies

- A staggering 7,000 new large companies (those with revenue greater than \$1 billion) are expected to develop between 2010 and 2025; 70% are expected to be in emerging regions, with the share of large company revenue generated from those based in emerging regions rising from 24% in 2010 to 46% in 2025.
- By 2025, emerging regions are expected to be home to almost 230 companies in the Fortune Global 500, up from 85 in 2010. Of the 230 emerging region companies, 120 are expected to be based in the China region.
- Today, 80% of the 2,200 large companies in emerging economies are spread across almost 100 cities; by 2025, 80% of the 7,000 large companies are likely to be spread across nearly 160 cities.

Urbanization and population growth

- A majority of the world's population now lives in urban areas for the first time in history, and by 2050, that number is expected to grow to 67%. This mass urbanization will create cities on a scale beyond what most of the world has seen. Providing the infrastructure and clean water, schooling, healthcare and social safety nets (to name just a few) to anticipate, accommodate and sustain this growth will be hugely challenging.

Financial assets

- Total global financial assets of consumers and businesses grew to \$248 trillion by the end of 2013 and are projected to grow at a compound annual growth rate of 6.6% through 2023 to roughly \$453 trillion.
- Much of this growth is expected to come from emerging market economies, which consisted of 20% of global financial assets in 2013 and is expected to grow to 34% by 2023.

All the points above are the fuel that drives all of our businesses. The growth will be there. The hard part about our businesses is managing the complexity and the often volatile and violent swings of moods and markets, as well as the episodic nature of some of the businesses. (Not all of our businesses operate on a convenient annual cycle.) What we try to do is see through the fog and noise and the madness of crowds to clearly, consistently and safely manage our businesses and invest in our future.

Of course risk and uncertainty remain, but we need to put it all into perspective

Of course there is risk in the system. There always was, and there always will be. As a company, we need to be prepared for even the unlikely and unpredictable bad outcomes. But like everything else, it helps to put risk into perspective. Some of the common risks spoken about today include geopolitical risks and what some think are inflated stock market values (I am not going to talk about the stock market as I have little to add to that debate). Probably the most discussed area of uncertainty is what effect the reversal of the Fed's Quantitative Easing (QE) policy will have on the economy and markets. I will speak about Fed policy later in this section. Here I will briefly review some of the risk issues we see today.

Geopolitical risk is a constant

History teaches us that geopolitical risk is always there. Some of the risks are well-known to us such as Afghanistan, Iran, North Korea, etc. But many of the risks are not known, and they often are the ones that create huge problems. For example, most people did not foresee the events in the Middle East (the "Arab Spring"), the start of World War I or the serious issues in the Eurozone, to name a few. Many of the changes in the geopolitical world were hugely positive; for example, the falling of the Berlin Wall, the re-emergence of China in the global economy and the spreading of democracy throughout many parts of the world. Two years ago, there was deep fear about the collapse of the Eurozone, which, of course, hasn't happened. When I graduated

from business school 30 years ago, the great fear at the time was that America had seen its best days and was soon to be surpassed by a resurgent Japan.

While we are prepared and watchful, we see nothing that would change our long-term plans.

There are many positive factors:

- Consumers are in increasingly good financial shape. Over 6 million more Americans are working since the depths of the financial crisis. The amount of consumer income that they spend to service their debt is the lowest it has been since it has been recorded, dating back to 1980. And Americans' net worth has been increasing, along with stock market prices and the value of homes.
- Housing has turned the corner in most markets. We've moved from a buyer's market to a seller's market in four years, construction of new homes has steadily improved and home values have increased nationally more than 19% in the past two years due to the strengthening economy.
- Capital markets are wide open – credit, for the most part, is flowing freely. (The only exception I see here is that it still is too hard to get a mortgage for many people.)
- Corporations and middle market companies are in extremely good shape. Corporate cash balances now are 11.4% of assets, up from 5.2% in 2000.
- The banking system is almost fully recovered, and banks are better capitalized than they have been in 60 years. Banks had average equity to assets of 11.1% in 2013 – the highest it's been since 1950. And banks in total have \$10 trillion in deposits vs. \$7.6 trillion in loans today – the lowest loan-to-deposit ratio since 1970. In addition, banks currently hold HQLA of approximately \$2 trillion.
- Consumers are benefiting from abundant and less costly oil and gas due to technological advances in extraction.

But something is holding back our growth

Something is holding back the strong recovery of the great American economic engine. It is not lack of access to capital or loans, but it might be a combination of some of the following factors:

- Concerns around excessive regulation and red tape – I travel around the U.S. all the time, and this is a loud and growing complaint that I hear from businesses, small to large, across virtually all industries.
- Whether you were for or against “Obama-care,” when massive changes to such an important part of the American economy are made, it does create uncertainty for many businesses.
- The inability to face our fiscal reality is a concern. I believe that if we had adopted some form of the Simpson-Bowles plan to fix the debt, it would have been extremely beneficial to the economy.
- Entitlement spending – which now is 60% of federal spending and is growing – is crowding out infrastructure spending and spending on initiatives like research and development and training.
- In addition, uncertainty about the ultimate outcome of the Fed’s unconventional QE policy (and our inability to deal with some fiscal issues) makes future Fed policy more complicated.
- Political gridlock resulting not only in our government shutdown but in two debt ceiling crises was damaging and irresponsible.
- U.S. corporate tax policy is hugely inefficient and, at the margin, drives American capital overseas.
- U.S. immigration policy (which we should fix for moral reasons alone) also is driving brains and entrepreneurs overseas. Most economists think a good immigration policy could accelerate U.S. economic growth by 0.2% right away and by 2% over a 10-year period. This, alone, could create 3 million jobs.

In addition, uncertainty and hypersensitivity to risk may be holding back growth

Uncertainty also has always been a constant in business. But coming out of a financial crisis, in addition to the items I mentioned above, we may be living in a time of heightened sensitivity, uncertainty and risk aversion. It seems that just about everyone has become a risk expert and sees risk behind every rock. They don’t want to miss it – like they did in 2008. They want to be able to say, “I told you so.” And, therefore, they identify everything as risky. Here are a few facts that support the uncertainty and risk aversion hypothesis:

- Corporations seem unduly conservative. We already have mentioned how much excess cash they hold.
- U.S. gross capital formation as a percentage of GDP has been at lower levels in the last five years than it has been for more than 40 years. Capital expenditures ultimately are the drivers of productivity, jobs and growth.
- The top 1,000 companies account for approximately 50% of all capital expenditures. One reason that large companies may be more conservative in their use of cash and debt is that rating agencies are much tougher on ratings. In 1993, the number of AAA and AA issuers was 413, and in 2013, that number was 147. Today, the companies are bigger, basic financial metrics (i.e., debt to equity and margins) essentially are the same and defaults are lower. I have defended the rating agencies’ right to their opinions, but it seems they also may have largely overreacted to the financial crisis.
- Finally, one of the great aspects of the American system is that it is okay to fail and to try again. But even that seems to be diminishing as failure, other than in Silicon Valley, is severely punished.

This all can be fixed

There is nothing in all of the negative items that I mentioned above that can’t be fixed through our own actions. Collaboration as opposed to destructive finger-pointing is needed. A few smart decisions and a lot of

constructive collaboration will improve confidence – and confidence is the “secret sauce” of growth. As consumers and businesses grow more confident, they will spend more and invest more. Stronger economic growth will create more jobs and higher incomes and give us the necessary resources to tackle pressing and important issues like inner city school education, income inequality and proper infrastructure investing.

The impact of tapering

Today, there is hyperfocus on central bank policy and, in particular, on what’s called “Fed tapering.” The U.S. Federal Reserve had been buying \$85 billion a month in Treasuries and mortgage securities (it recently reduced that amount to \$55 billion a month). Most observers expect that number to come down to zero by the end of the year. Eventually, the Fed may need to begin selling some of the securities it has purchased.

The Fed’s balance sheet has gone from \$1 trillion in 2007 to an estimated \$4.5 trillion by the end of this year. Some feel the Fed’s QE policies have been too aggressive and ultimately will be inflationary. Additionally, there is a fear that ending QE will be risky and complex, particularly since QE has little precedence.

We cannot predict the future, and it is rational to have a healthy fear of new and untested policies. However, we think it will be helpful to put some of these issues in perspective, too.

Put it in perspective

The value of all financial assets in America today is approximately \$90 trillion. When the Fed stops buying securities, the \$4.5 trillion it owns will run off to \$2 trillion by 2020 simply from paydowns of principal in Treasuries and mortgages. While it is not clear what the new steady state will be – the Fed probably will not need to take its balance sheet all the way back down to \$1 trillion. Even if the Fed eventually needs to sell some securities, the American economy should be able to handle it easily – particularly in a strong economy.

This unconventional monetary policy (QE) may have worked, but it is confusing

Figuring out the full effect of QE is hard to do. And, therefore, figuring out the effect of the reversal of QE is even harder to do.

QE replaced \$3 trillion in Treasuries and mortgage securities held by individuals, investors, funds and others with cash reserves created by the Fed. If all that might happen is the various investors involved took the cash and deposited it at a bank and the bank, in turn, deposited it at the Fed, there essentially would be no real change in economic effect. But if those involved spent the money, bought additional stocks or bonds and invested in long-term assets, there would be an effect on the real economy.

There is little question that QE – because it drove long-term rates down – lifted asset prices, including stocks and home prices (there were other global effects, but I won’t talk about them here), reduced funding costs, improved economic activity and helped the economy recover. This probably was more true early on with QE and less true later on.

But much of QE appeared to be “unused.” At the end of 2007, before QE started, banks had \$6.7 trillion in deposits, \$6.8 trillion in loans and only \$20.8 billion in deposits² at the Fed. Today, banks have \$10 trillion in deposits, \$7.6 trillion in loans and \$2.6 trillion in deposits at the Fed. You can see that loans increased very little, while deposits and reserves at the Fed increased dramatically. Banks clearly did not use all of these additional deposits to make more loans, though this was due to several factors, including the weak economy and the banks’ need to build up their capital and liquidity ratios. One concern is that this “unused” money will one day be aggressively used – and cause too much inflation.

The Fed has tools in place to reverse QE if necessary – and banks have more constraints in lending out the money anyway

The Fed has many tools to reverse QE if necessary, which it can readily use if too much credit is created in the system. However, banks will be far more constrained in how much they can lend than in the past because of the new, higher liquidity and

² Regardless of what those receiving cash for their securities did with the cash, it ultimately will end up back in the banking system in the form of deposits, both at the bank and, therefore, deposits at the Fed. The deposits at the Fed are called reserves

capital requirements. In the new regulatory environment, the transmission and effect of monetary policy by the Fed will be different from the way it was in the past. It is very hard to calculate this impact, although I'm sure the Fed is taking it into consideration. In addition, business financing needs are likely to be moderate because businesses will be able to fund many of their projects with their own excess cash and strong earnings.

Normalization is a good thing

Ultimately, a normalization of interest rates, capital flow and allocation without central bank interference, concurrent with a strengthening economy, has to be a good thing – something that we all eventually should want even though it probably will be accompanied by volatile movements in interest rates. When rates do normalize, we know one thing for certain – it will happen *differently* from what people expect. And my guess is that when it happens, it will be faster than people expect. A normalized interest rate curve might have short-term interest rates at 3%-4% and 10-year Treasury bond rates at 5% plus or minus. If the yield curve returns to those kinds of levels in a healthy economy, we all will be okay. And the Fed already has made it absolutely clear that it will normalize its monetary policy only as the economy strengthens.

Focus on the real economy vs. the money economy

The real U.S. economy includes 145 million people who get up and go to work every day, trying to improve their lives and the lives of their family (and counter to what you read in the newspapers, 80% of those people are happy with their job). The real economy includes millions of companies serving clients every day and generally building to expand and meet their customers' order flows. In fact, most people in the real economy appropriately pay very little attention to the money economy. I would remind our readers that there are 320 million Americans, but only a small fraction watch CNBC or read *The Wall Street Journal*. In the real economy, what matters to most people is one's family, job and quality of life.

Those of us who operate in the money economy are very sensitive to interest rates – maybe overly sensitive. And we should look through the *volatility* at interest rates, which will almost definitely be there as the Fed changes its policy. Volatility in interest rates will not *necessarily* dampen real growth in the real economy.

Rising interest rates (all things being equal) will be a big plus for your company

Even as we have grown deposits and market share in many of our businesses, profit margins have been squeezed because of abnormally low interest rates. If interest rates rise to the normalized scenario that I described earlier, our net interest margins could expand 2.2%-2.7%, increasing our net interest income and profits by approximately \$6 billion after-tax, all things being equal. This, of course, would take place over three to five years and not in a straight line. But, indeed, all things are not equal – many other factors will have an impact on our business flows and results.

We have been vigilant in trying to analyze the effect of interest rates on interest margins (we have managed the balance sheet to benefit from rising interest rates), and we also have been vigilant in trying to predict the effect of interest rates and Fed monetary policy on deposit flows. There is little question that the Fed's QE policy increased deposits substantially and that, as QE is reversed, it will reduce deposits. It is possible that we could see significant outflows of certain types of deposits over the years – an event for which we will be prepared.

Banks still need to be there in good times and in bad times – but it will be a little harder in the new world

In the last financial crisis, many banks stood against the tide. They were there for their clients and continued to fund businesses, cities, schools, hospitals and investments when many other banks wouldn't or couldn't do so. It is not because these banks were irrational but because that is their job. Imagine yourself being a client of a bank, and, at the first sign of trouble, the bank runs like a rabbit.

The money markets and some of the capital markets are like rabbits – at the first sign of trouble, they run as far and as fast as they can. Human psychology isn't going to change, and even the Fed can only mitigate the effect of this reaction. It is quite possible that some shadow banks will act that way – they may make loans only in good times but not in bad times. So when the regulators finish designing the new system, they should try to keep this in mind.

Many of the new rules have added procyclicality. For example, Basel III capital rules require that risk-weighted assets will go up in a stressed environment. We estimate that between 10% to 20% of our capital may be used in an extreme stressed environment to satisfy additional regulatory requirements, and this will force us more quickly and more aggressively to reduce, or not add to, risk assets as the stressed environment unfolds. And the new liquidity rules require us to hold 100% of liquid assets against possible outflows. So as a crisis unfolds, by definition, we will have outflows higher than expected that will require more liquid assets. This will require the selling of risky assets to buy liquid assets. We hope the regulators will come up with a schematic that allows the use of liquid assets in stressed times without penalty so that banks can continue to lend when times are tough. We certainly don't want to have liquidity or capital rules aggravating a crisis.

And we have many exciting new things coming

We have focused a lot of attention in this letter on the new rules and regulations and on many issues about which we need to be worried. But there still are a lot of initiatives and innovative new products and services coming down the pike about which we are excited. I'd like to mention just a few of them:

- **Better client data management leading to deeper penetration.** In all of our businesses, we are building better client data management systems. This gives us a deeper understanding of our clients and better coordination of our selling efforts. This allows us to more effectively sell additional products to the same customers – which helps drive both profitability and customer satisfaction.
- **Increasing segmentation and focus on more refined market segments.** For example, this includes advertising and products specifically designed for market segments like retirees, women and certain minority groups. Our Commercial Bank has formed specialty lending departments so that, as a whole, this line of business has deep expertise about particular industries. And our mobile banking products will be specifically designed for different market segments. Even in areas where we already are ranked #1, like fixed income sales and trading, when you dig deeper, there still is a lot of room for improvement in certain parts of the world and in certain sub-businesses and products.
- **An exceptional customer experience.** We have been on this journey for a while, and we are getting better, but there is so much more to do. We want to be known for our customer service – and we want to be compared in this regard with the best in the business.
- **JPMorgan Chase Institute.** We are going to form a thought-leading institute backed by all of the knowledge, broad relationships and resources across the firm to help continue to educate the world on topics in which JPMorgan Chase has a distinct and deep knowledge. We intend to analyze and publish our insights on small, middle-sized and large businesses, the development of cities and communities, global trade and capital flows, and workforce development, among other themes.
- **Big Data.** We have created a high-powered group of experts to enhance our use of data (generated across JPMorgan Chase or purchased externally) to create intelligent solutions for our clients. For example, we are looking at our data assets to help clients in managing collateral positions, assist merchants in gaining insights and aid consumers in validating credit reports, among others. This group will have an unending supply of work.
- **ChaseNet.** We announced this initiative last year. It allows us to rethink the whole end-to-end payment experience for both

consumers and merchants. We now have several clients on a beta test, and we are hoping to roll out some exciting programs that are good for consumers and merchants alike.

- **Payments.** While this topic does keep us up at night due to the talent and innovation of the competition that would love to make us obsolete, we should point out that JPMorgan Chase is one of the biggest payment companies in the world (across

credit cards, merchant payments, global wire transfers, etc.). We are even one of the biggest mobile payment companies. So in this space, there is both risk and opportunity. We have some good ideas and action plans so stay tuned!

- **European capital markets.** As the bank markets are shrinking in Europe, the public bond markets will be growing. It is hard for us to compete in the bank lending markets in Europe, but we are very qualified to gain market share in the public capital markets.

THE ROLE OF BANKS IN DEVELOPING SOCIETY

At JPMorgan Chase, we believe we have a responsibility to be part of the solution to the world's most pressing problems, not only because it's the right thing to do but because our own long-term success depends on the success of our communities and the people, companies and institutions we serve.

JPMorgan Chase contributes approximately \$200 million a year – much of it to help the poor and disadvantaged – and our people dedicated more than 540,000 hours of volunteer service in local communities around the globe. The volunteer work that our employees do helps to define the meaning of corporate responsibility by creating tangible connections in communities around the world – from the largest countries to the smallest towns.

And our efforts go well beyond philanthropic work. We also develop programs that bring together our financial capital, as well as our core strengths, capabilities, and the expertise of our business and our people to help improve the world in which we live. It is a big responsibility to be a bank – and communities around the globe are better off if we do it well.

We will continue to use our size, scale and expertise to make a difference and to be a real, positive contributor to society – from fighting income inequality to improving education and work skills. I see evidence of the difference we make every day, and following are just a few examples that I'd like to mention.

Helping Close the Skills Gap

Even in the face of high unemployment, we hear from our clients daily about how hard it is to find workers with the right skills. Some 4 million jobs stand open, while 11 million Americans remain unemployed, and millions more have given up seeking employment. That's why we launched New Skills at Work, an unprecedented \$250 million, five-year private sector initiative to improve job training at the middle-skill level (for jobs that require training beyond high school but not a four-year degree). The sense of urgency to address this issue is something we see everywhere we do business, and we are working with community leaders across the country – community colleges, technical training programs, policymakers and employers – to tackle the skills gap. We know that helping workers gain the skills they need is only one part of the solution to the unemployment challenge, but it is an area we can do something about right now. And JPMorgan Chase is uniquely suited to the task of rallying a broad range of business leaders around the goal of aligning our investments in education and skills training with current job openings and future career pathways.

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- **Emerging markets.** As the world grows, so does the number of countries and companies that we can serve. Every time we open an operation in a country, we support companies from around the world to do business there – and we help the country’s companies explore the world. The network effect is huge and hard to duplicate.

Taking everything on balance, all the risks and all the opportunities in what essentially is an improving and growing world, we remain optimistic about the future of banking.

Improving Educational Outcomes for Young Men of Color

We’re also willing to roll up our sleeves. Over the last four years, our employees coached 24 young men of color from low-income New York City neighborhoods – where less than 30% of black and Hispanic males graduate from high school – in an end-to-end program that supplemented their academics, gave them leadership training and helped them apply for college. All 24 got into college – they started last fall – with \$8 million in scholarships, and we’re hoping we see them this summer in internships here.

Attracting Private Capital to Social and Environmental Challenges

Foundations and governments, with their limited resources, can do only so much to solve the challenges facing low-income populations around the world. To make progress at the scale required, we need to create vehicles that attract private capital and apply it to generate measurable social and environmental benefits – alongside financial returns. The Global Health Investment Fund that we established with the Bill & Melinda Gates Foundation raised private capital to invest in new drugs and vaccines, emerging diagnostic tools, child-friendly formulations of existing products, and technologies to reduce maternal and infant mortality – all focusing on diseases that disproportionately affect the world’s poorest countries. By including global access requirements, products are available at affordable prices to the populations most in need. And we’re working now with The Nature Conservancy to establish a new center for natural capital investing that will structure transactions that generate revenue from sustainable use of a property – monetizing habitat protection, water conservation, sustainable timber harvesting, wetlands, etc. Stay tuned for more on that.

Serving Cities as Clients and the Engines of Economic Growth

JPMorgan Chase continues to focus on ways to help metropolitan communities operate and grow. We offer states and cities our best advice and considerable financial support. Last year, the firm provided more than \$85 billion in capital or credit to nearly 1,500 government entities, including states, municipalities, hospitals, universities and nonprofits.

We extended the reach of our Global Cities Initiative with The Brookings Institution by creating a network of trading cities across the United States and ultimately around the globe – these are cities that will build new commercial relationships by strengthening trade and investment ties and by learning from each other about how to grow industries with real export potential. Our Global Cities Initiative with Brookings, which we launched two years ago, includes a \$10 million financial commitment and the ability to tap our network of relationships around the world to convene an extraordinary series of events in cities from Los Angeles to São Paulo. These sessions bring together policymakers, business leaders and non-governmental organizations to share best practices and formulate strategies for improved competitiveness. As a result of these meetings, participants are developing locally driven, actionable strategies to strengthen their respective region’s trade and investment practices.

IN CLOSING

It is important to acknowledge that no matter how good one's position is, no one has a divine right to success. Many of you have seen companies in extraordinary positions erode over time. Sometimes this happens because of structural or technological changes, but, frequently, it happens because of plain and simple mismanagement. And this is even more true when you operate in tough, complex, competitive and sometimes volatile global markets.

So to succeed long term, we need an excellent management team. And in my opinion, your management team has the character, culture, intellect, experience and wisdom necessary to succeed.

And importantly, this management team does not rest on its laurels and is continually questioning itself and often focusing not on what we do well but on what we have *not* done well. Years ago, the U.S. military adopted a review process called the After Action Reviews (AAR). An AAR is a disciplined process where military leaders review the results of all missions taken. This examination is conducted not so the commanders in charge can find faults and point fingers – but so everyone can continually get better. At our company, we have the same attitude and just hope that we can do it half as well as the U.S. military.

In closing, I want to reiterate how honored I am to work at this company and with its people. What they have accomplished during these difficult circumstances has been extraordinary. On behalf of JPMorgan Chase and its management, I want to express my deepest gratitude to our people – I am proud to be their partner.

A handwritten signature in black ink, appearing to read "Jamie Dimon". The signature is stylized with a large, sweeping initial "J" and "D".

Jamie Dimon
Chairman and Chief Executive Officer

April 9, 2014