Thank you for joining us, early in the morning. Key announcement, please turn off your cellphones. All materials are now available on our website. We will open the floor to Q&A at the end of the presentation. During the Q&A session, a few things that will be important, because some of the people are in the room, please wait for the microphone, and say your name to make sure that the people on the phone know who is speaking.

Please be cognizant of others in terms of follow-ups, if you have several follow-ups we may have to come back to you towards the end. And then, we'll go to questions through the telephone, and last point we know that Wells Fargo is having their call at 10. We have set up a room, it's 207 on this floor, and a few breakout rooms for those who want to listen from here. With that, are we on in terms of the audio? Please take a look at the forward-looking statements, and I'm going to turn it to Jamie.

Jamie Dimon

Sarah, thank you very much. I appreciate you all coming today. So, we have a whole bunch of presentation to take you through. And I'll start with me; I'll try to cover some of the high points. Unfortunately, I think you might have seen this morning that we announced a restatement of the first quarter. Doug will describe it in detail, and Mike, we don't take it lightly. We talk to our best advisors, accounting and legal and try to do what we thought was right, and the most conservative thing to do. Hopefully, this is what the SEC Chairwoman herself would have done, if she'd seen all the same facts at the same time.

Today, I'm going to cover, just give you a quick overview. I'm going to talk about a whole bunch of significant items in the quarter, which we break out pretty right in the front of the press release, give you an update in the synthetic credit portfolio, talk a little bit about treasury and CIO, there are some questions about it, so we're going to try to answer some of those, our capital plans.

I'm going to turn over to Doug, who is going to take you through, what we call the regular earnings presentation that has got a slide more of disclosures. And then Mike will give you an update in the CIO taskforce, it's kind of anatomy of the problem, all the good, the bad, the ugly of it. The review is continuing, I should point out. It's been guided by the Board, and if we find out more, if so possible, or more anything different or material, will let you know as appropriate. And we do find out more, we will do the right thing as we always try to do.

One thing which I would love people focus on a little bit at one point; it's to actually look at the businesses, the fixed businesses they have really good underlying performance. And that to me is why we're here, the main reason why we are here. We have significantly reduced the total synthetic credit risk and CIO, is down substantially. I'm going to give you some real numbers and describe how we're going to manage that going forward, including the risk that is going on there.

Taking all of the remaining synthetic credit positions, transferring the IB, we put them there because IB has the people, the expertise, the capacity, the trading platform, the market franchise to effectively trade and manage these positions, and importantly they can do it within the historical bar and stress risk limit levels. This is what they do. This is going to let the rest of the firm go back to do what it should be doing.

We have closed down synthetic credit trading in CIO, we no longer be doing it. I'm going to tell you one exception of one sure position we are keeping there. Our fortunes balance sheet remains completely intact; in fact I'd call unbented. An extensive review has been conducted. Mike will take you through that, very importantly all of CIO management has changed. Matt Zames is here, while you may know him professionally, but he also brought in a lot of additional risk people, traders, financial officers to help manage the CIO area, and they've been through top to bottom, all the governance, reporting, limits, et cetera in CIO. We do believe it is the best or I say the CIO, and Mike will talk about it little bit more.

These type of events are terrible, but there is one gratifying thing in them, as you find out that people come and bring their best everyday, we've had hundreds of people kind of working around the clock now for three months to get this thing fixed, and wrestle down, and I think we've mostly accomplished that. And that now we can focus our energy in what we do best, which is growing our businesses and serving our clients and communities around the world. Hopefully, after this is over, we will be a stronger company forward.

We did report net income of $5 billion for the second quarter, that would have been $4.6 billion, had not been the restatement. Earnings of $1.21, the first half over $9.9 billion that is not obviously unaffected by the restatements, and the balancing capital ratio is not affected either.

In the second quarter, let me take each one of these items little bit slowly. CIO trade and losses plus the synthetic credit book $4.4 billion, but in the first quarter it was about $1.6 billion not high in that, we're not doing that just basically in the first quarter, which we moved 600 by the restatement $4.4 billion this quarter.

Corporate CIO securities gains we'd announced that actually when we told you the first time about this problem, we did not take additional securities gains. All I want to point out here is, these are always broken out in the P&L, so you can never hide them, and we take them generally for investment decisions. Do you want to own or not own that security? You don't generally take them to offset something like that, and I point out before, taking gains is generally tax inefficient, doesn't mean you shouldn't do it, which is generally tax inefficient.

Loan loss reserves came down by $2.1 billion, that's mostly in mortgage and credit card, and that's exactly the same conservative principles we've used before. The good news is, charge-offs and delinquencies are coming down. And so, the reserves had to come down. In closing, we will give you a little bit more information on that.

The Investment Bank had $750 million of DVA gains, you all know we don't either consider that earnings. On corporate, we expect the full recovery in a Bear Stearns note. Some of you may remember when Maiden Lane was down, where the Fed took on $30 billion of Bear Stearns assets, we guaranteed the first billion dollar is a loss, okay?

Maiden Lane, they completely repaid the Federal Reserve. We've now been paid $200 million. I think we'll get another $200 million sometime in a couple of weeks. We expect full recovery, the $1.2 billion plus interest and that's just right in the note backup to what we expect to get in cash plus interest in a little bit of time. I will go to the capital ratios here, and I'll talk about that a little bit later.

With the synthetic credit portfolio, the only thing I managed to, of the losses in synthetic credit, it is kind of costly. The worst part of this whole thing is when we started this thing, is that we knew we had these large liquid type of things to manage down, and we had $2 billion plus at the time. The way they figure is, we basically have been reducing the risk substantially. I'm going to go through these numbers, but it's costly to do. It is costly to do. I'll give you these final ultimate risk, we did get it down. I think a little bit faster than you thought you might be able to.

Number one, we're transferring about – these are – I'm going to give you rough true measures of risk here. I mean they're generally accurate, but this isn't a trading book, so we're not going to disclose specific positions. The risk-weighted asset transferred to IB, and this is a fairly decent measure of risk. It is about $30 billion, so their risk-weighted assets go up by $30 billion. It's down substantially from the peak, and it's about probably where it was on December 30, so one way up, one way down.

We significantly reduced net notionals and credit spread sensitivities. I will show you the credit spreads sensitivity at CS01 as how much you would gain or lose if the credit spreads widen by 1 basis point. You can see it's down from the peak of $51 billion to $7 billion; $7 billion is close to what I call a norm. We significantly reduced the On-the-Run and the Off-the-Run basis, this is part of what we all read about all the time about the IG9. The IG9 itself is down 70%. We've reduced the basis risk between high yield and high grade risk in Europe and the United States. These are the kind of risks that got built up, complex risk that we – kind of which we didn't have when we realized it was there, it was down by 70%, and what remained did not, in my opinion not big a deal.

The residual portfolio that's transferred over to the IB is largely a delta-hedged tranche portfolio, it's stuff they know how to do, they're better at it than SEFO, but it's still large, we're not saying it's not large, it still could obviously move money or possibly make money.

Some of the positions are currently cheap to theoretical; it's not how they were when we inherit them, when Matt Zames joined us. I'm giving one number here, extreme simulated scenarios indicate potential loss between $800 million and $1.7 billion. This portfolio can make money. The extreme simulated losses are things like a euro-zone crisis, a credit crunch, and the 99.9% statistical stress that had a loss about $1.4 billion. So, we do think it's a box, than I hope we don't have these losses at all.

To help us a little bit in the quarter, we will have about $900 million gain on swaps, we terminate against one of our swaps. So, we think we are pretty much done with the financial loss, if you can look at that gains.

I've already mentioned that we transfer it to the IB and why; and they are more actively trading at than we were. If you look at the combined IB and synthetic credit portfolio risk within the IB historical, the RWA I mentioned look like $30 billion. It's not that significant to them. Therefore, I think it will be disclosed at the IB VaR, and the end of the month, the spot VaR was $74 million. The next day we transferred over, July 2 it went to $113 million, well within numbers we're used to and comfortable, we got as high as $200 million.

The remaining portfolio that we left at CIO is simple, so I mean, $11 billion short, basically for the liquid indexes, it's identified to offset some potential losses in a much larger AFS portfolio, the asymmetric one is mark-to-market and one is not. so we're not worried about this, but we're getting the one with far offset, there was no vice versa that we need to make separate decisions. You want to own those investments or not own those investments. we thought now as a rationale time to keep a hedge on certain credit exposure around the world, particularly with where you see going there, we're going with the euro zone. this hedge will come down over time and trying to keep it there necessarily ever, obviously we'll make those decisions as we see fit. It will show a VaR, remember there's a $11 billion, I have its own VaR, it's not hedged against anything, and is asymmetric, I have a huge VaR like 135 coming down over time, and then on its own it's about $34 billion of risk-weighted assets.

So next page, I'll talk about some treasury and CIO activities, I am going to go through this, first, I should point out treasury and CIO have been and always will be subordinated to the needs of the rest of the company. They can only invest when, where, how, why for the needs of the company and that involves how duration they invest in, and involve the credit they invest and it falls where they are investing around the world. So it is not a – that's a same portfolio, it's a logical portfolio. why do we have it all, we have $1.1 trillion in deposits, we've got $700 million in loans. now that would generally be considered, fairly conservative. we'd like making loans by the way.

So, between our acquisitions and in fact where money center bank we get a lot of deposits in, we end up with a lot of extra deposits. the extra deposits of $423 billion plus equity plus some of the net liabilities give us $522 billion is nothing lend out, but we have to invest. We actually split it in two pieces; some companies do it differently, some can buy treasury and CIO most have functions like this. The first piece is $199 million what we call treasury deployments. we're going to make a disclosure, it's on the balance sheet. It shows up its cash and do with banks and sometime it's government repo. Most of them is very short duration, most of it is central banks around the world. Some is in government repo. And we have it there, just for liquidity because we have a lot of money comes in and out of this company every single day. We've banked number of nations, sovereign, savvy wealth firms, large companies, you could easily swing $5 billion, $10 billion, $20 billions a day.

Treasury and CIO has $323 billion, is down a little bit because we have been reinvesting in the last – giving Matt a little bit time to figure out what he has got for treasury reinvesting, but it has average rating of AA and an average life of 3.7 years. I am going to show you a little more detail on the next page.

First, transfer pricing, we take all the assets, all the liabilities, generated by the company, we'll take loans and deposits. We're constantly and dynamically evaluated for the risk pricing, their duration and liquidity, and we generally then pay units, market prices and what they did. So to pay market prices, they have the right kind of incentive to grow and not grow their balance sheet. They do not get gains – securities gains, or excess returns on CIO. They get kind of market rates or steady income. If you go back, I mean, years, you saw we had a lot of income at CIO, back then we told you that was going to get very high rates, we're getting passed on to businesses, it wasn't going to continue.

So, CIO invest to achieve the desired asset liability duration, which obviously changes all the time, all the companies worry about this. Now as you point out, our two biggest exposure credit and interest rates. And this is the place we kind of manage the most part the interest rate exposure. Currently, if you have to be duration neutral, like to the best of our ability to offset all interest rate exposure, we'd have to invest in this portfolio and an average interest duration of 3.7 years. This invested currently, an interest duration of 1.2 years. That means that our balance sheet will re-price quicker, the assets will re-price quick in the liabilities, and that is disclosed and the disclosure may call earnings risk, that says if interest rates go up by 100 basis points, earnings will go up by $2.4 billion. That's how you generate that kind of a number. Obviously, you can change this over time and I will put this in the conservative category.

Obviously, the composition of our balance sheet will change over time, loans will go up. We need to meet the new LCR and Basel III requirements. CIO has reinvestment here of $40 billion. They have to invest every year probably if you want to estimate additional $20 billion or $30 billion of additional deposits. That flow will be invested in the things that we think have the most logic for the company in terms of liquid asset buffers, return of risk related assets et cetera; loans will be our priority by the way. This is not our priority. We want to grow our businesses, but we do have this minor invest.

Obviously, the more liquid asset buffers you buy you might reduce NII a little bit, but it also reduces RWA. And there is they are not the complete offset for this clause. And also over time, we're in pretty good chance to increase duration. Rates will go up again, your pricings go longer in the curve and earn back more NII. So, this is where we try to manage that all the time and do the right, still a conservative thing for the company.

Next page shows you the investments, I've already mentioned the kind of the green line at the top, the treasury deployment and the cash and deposits in the banks, at mostly central banks, reverse repo, I told you, government securities that you have some very short term AFS securities. And then you can see below, how we break out this. I'm not going to go through the detail here, if you want later on, you can call Investor Relations, get some more detail.

I just want to point two things, 80% of it is either government backed, U.S. government agency credit or better. The only other thing I want to point out is, every investment has risk. This concept is somehow you can buy treasuries, and think you might not lose money, you can buy credit, you might not lose money, you can buy mortgages, you might not lose money, any of them, you have to make a decision of where you want to put your company in this, and the future is always different.

So now that we have Basel III, you might know that the Basel III accumulates OCI, goes into your capital. So obviously, you have to invest being careful about how much capital you must bring around. So as time goes on, we will kind of re-launching this book a little bit. We still think it's fairly conservative.

On the capital planning side, the first column shows you net income that was just reported $4.96 billion. But – these are your analyst estimates now. So I'm just taking your estimates for the company in the third quarter and fourth quarter, and you can see your estimates for the '13 and '14. I'd somewhat point upright, we hope to be all of them – all those numbers I think, but we can't promise that, we hope to.

The next line down, RWA is our estimate. We're currently estimating Basel 2.5 with NPR et cetera in there, and we have run-off end model mitigation, whole bunch of things, that's our best estimates today. So if you look at the bottom line, our Tier I primarily goes from 7.9% today – there's no stock buyback, 8.5% the third quarter, 8.8% in the fourth quarter, 10.5% by the end of '13, 12% by the end of '14, i.e. we have a lot of capital generation. And that's why we think it's a logical thing to buyback stock. You could – buyback if you said, even my Board of Directors would say, how much stock you want to buyback. We can get to 9% Basel III by the end of 2013, and buy $23 billion, you can get to 9.5%, and buy $15 billion.

So clearly, we have the ability. What are we going to do? We would like to buyback stock, but after discussion with the Federal Reserve, we need to work with the Federal Reserve, the board has determined not to buyback stock until two things take place. Until we finish the Board review, I think it's a logical thing, so we come to the conclusion of the Board review, and we find no other major stuff, which I don't expect this time. And that we submit a new plan, capital plan as we've said, only as to repurchase not as to dividends or dividend these type of things, and hopefully if this all goes well we can stop buying back stocks early in the fourth quarter.

The dividend will continue to be 30%. In the past, we've said to you all, we hope to have a 30% pay out ratio, it is possible, you look at these numbers, strategically it might raise their ratio summing it down the road, but we'll decide that when we get there. And we’re in a strong trajectory to meet the 9.5%. we have plenty of capital and plenty of capital generation.

In spite of this accident, this event has not changed or I think it’s been a bedrock of JPMorgan Chase for the last five or six years. We believe in a fortress balance sheet, I’ve given in a conservative balance sheet management. we always believe in high capital. for this whole crisis, you never saw our capital to go down. we believe in conservative funding, I won’t go to the detail there, a lot of liquidity, here it says strong reserves, I would tell you, we believe generally in conservative accounting principles. we don’t like to deceive ourselves with our earning money or not. And obviously this thing is also a little bit of an exception there. And I already mentioned at bottom, we have fairly conservative balance sheet management and asset liability management.

Our earnings, the real reason we’re here is to grow our company. we think that with strong and diversified by business model, it’s been a source of strength to this company, not a source of weakness, particularly in the storm. we have great earnings power, we still think the earnings power to adjust all kind of ins and outs about $24 billion a year.

We think we have some of the best franchise in our businesses, in the world almost every single one of them. They may not be the best, but I think they’re damn close, and we think we have a very disciplined and detailed management team, sorry that we missed this thing, but we think where we want our business day-to-day, we have the pretty good businesses and management teams.

This slide, I’d like to look at, because it just shows the build up over the last six years of our book value, on a tangible book value. I think our book value is clean with strong reserves, with strong accounting and good loans and all of good assets and things like that. And you could see throughout this whole crisis, it’s never stopped growing.

So we were able to grow in difficult times, and I think it’s a sign to strength, not a sign of weakness and it was driven by diversified businesses, constantly investing in the businesses, building what we consider market leading franchises and maintain our conservative principles.

So to wrap it up, we are not proud this moment, but we are proud of our company. We are not like making lightest error, but we do think it’s an isolated event. One of which, you do hold capital is for known and unknown events, obviously, this one we shot ourselves in the foot, but that is one reason of capital for things I’m surprised about. We learned a lot, I can tell you this has shaken our company to the core, and what happened here is that, most of the management team went back and said that we've doubled our efforts to make sure, we're running a great company, granular, thoughtful, disciplined in every way possible.

We could never say that we won't make mistakes. We operate in a risk business. So we think – the slice of edge is not we'll make mistakes, hopefully it would be small and few and far between. We have a great franchise, but we have never stopped growing in this crisis serving our clients through tough times, and then we think we have great growth opportunities going forward.

So with that, I'll turn it over to Doug Braunstein, who will take you through the regular earnings presentation. Thank you.

Douglas L. Braunstein

Thanks, Jamie. So I'm going to go through the earnings stats, so if you turn to that on page 1. Jamie really covered this page, just to highlight, $5 billion of net income, $1.21 per share. We did announced this morning that we're restating our first quarter earnings as Jamie said. The restatement is really based upon recent facts that we've uncovered regarding the CIO traders' intent as they were marking the book. And as a result, we questioned the integrity of those trader marks.

We felt as a result of that, it was both prudent and a conservative approach to restate our first quarter. We've also as a result of that determined we had a material weakness in CIO's internal controls over the valuation of the synthetic credit portfolio as of March 31. We believe however, we've substantially remediated that weakness at the end of the second quarter. Mike is going to provide the details and how we uncovered trader intent.

From a financial point of view, let me give you four facts and then we are going to move on. The first is, the loss of the portfolio prior to the restatement for this quarter would have been $5.1 billion, after the move to $4.4 billion in total year-to-date $5.8 billion in losses. Second, we effectively moved $460 million after-tax to the synthetic credit portfolio from the second quarter into the first.

Third, year-to-date earnings $241 million unaffected by the restatement, restated earnings of $1.19 in the first quarter, $121 million in this quarter effectively a move of $0.12 approximately per quarter. And then the last, as Jamie said, year-to-date revenues, year-to-date net income, year-to-date capital, year-to-date balance sheet are not impacted by those statement.

So with that, let me turn you to page 2. And I want to focus on the $22.9 billion of revenue. If you excluded the significant items that impact revenue in the quarter, revenue has actually been $25 billion for the quarter. That revenue strength really came from some strong performance across a number of our client-facing businesses as Jamie talked about, let me highlight a couple of factors.

First is, we had positive loan growth, again. We've added $40 billion in loans on an absolute basis in the last year, that after almost $23 billion of run off in our mortgage portfolio that we have told you, we have intended do and are doing every quarter.

We had record commercial bank loan balances this quarter, up 17%; business banking origination, up 14%; small business loans, up 35%; mortgage originations, up 29%; strong growth in AM, up 36% year-over-year; trade finance loans and TSS, up 28% year-over-year. So good underlying fundamental loan growth.

We've also had some favorable franchise trends that continued. We continue to be the number one global IB fee provider this quarter; deposit balances in CBB, up 8% year-on-year; sales volume in card, up 12% year-on-year. So very good underlying fundamentals. Return on tangible common equity for the quarter was 15%.

If you turn to page 3, the Investment Bank, we've circled net income of $1.9 billion for the second quarter that's on $6.8 billion. As we've done in the last couple of quarters because we had significant item related to DVA, I'm going to talk about it excluding the $750 million gain in DVA.

$6 billion in revenue for the quarter, $1.4 billion in net income, return on equity of 15%. IB fees were $1.2 billion this quarter, down 35% year-on-year, that largely reflects declining transaction volume and activity in the quarter, but as I said, and you see on appendix page 23, we maintained our number one share.

Market's revenue, $4.5 billion, down about 15% year-on-year, 30% quarter-on-quarter following what as you know was a very strong first quarter. Fixed income revenue of $3.5 billion, that largely reflected the weaker market conditions, but we did have strong client flows in the quarter.

Equity revenue of $1 billion that reflects cash volumes that were weak, we had very strong results at our equity derivatives business and prime services despite low spreads had a good quarter.

If you look at the expense number, it's down, but it's primarily driven by compensation expense. Comp-to-revenue ratio was 35% year-to-date, which is consistent with the guidance we had given you at the start of the year. And just to remind you as Jamie mentioned, Q3 will have the impact of the synthetic credit portfolio in VaR for the IB.

If you turn to page 5, Consumer & Business Banking, circled net income of $950 million, that's down about 14% year-on-year, flat essentially quarter-on-quarter. Net revenues of $4.3 billion, revenues primarily were impacted by Durbin on a year-over-year basis, but again there were some very favorable business trends. So I said, balances were up 8%. We believe that is significantly above the industry averages.

Business Banking originations were up 14%. Actually June, the month of June we had our highest production month in a number of years in Business Banking, and our loan pipeline of business banking today is at its highest point in history.

Client investment assets were up 5% in this business. We opened year-over-year 1 million more checking accounts, 2.5 million more active mobile customers, 45,000 new clients in CPC. So real strong underlying fundamental growth. Expenses continue to be impacted by all the investment spend we've been doing, and I think as you look forward to overhead ratio in Q3, we are likely to return to the ratio we had in Q1, rather than this quarter.

Deposit margins were down this quarter six basis points. We continue to see that margin pressure. We talked about it for a number of quarters. That's a function of the lower reinvestment environment opportunities that we have. It's consistent with the $400 million in net income guidance that we said for the full-year related to this deposit margin pressure. But the aggregate NII was actually flat quarter-on-quarter and that really reflects the margin decrease being offset by deposit growth.

If you turn to page 6, mortgage production and servicing circled net income of $600 million, production revenues are three parts, production revenue of $1.6 billion, volumes of $44 billion, up almost 30% year-on-year, record retail originations, largely driven by refinancing activity including HARP. Margins are down on a quarter-over-quarter basis. We expect them to continue to trend lower, it could be another 25 to 50 basis points really depending on the weight and refinancing environment.

We'll see repurchase losses in the quarter of $10 million. Settlements were $225 million in the quarter, and that's a function of reduced repurchase demands in mortgage, reduced pipeline of demands and an improvement in the repurchase rates that we experienced this quarter.

Based on this and our life time estimates for repurchases, which was $3.2 billion going into the quarter. We really believe we've reached the inflection point that we had talked about and was inevitable over time. And as a result of that, we reduced our reserves or repurchases by about $215 million this quarter. And if these current trends and our estimates were projected, repurchases continue, we'd expect the net repurchase number to be approximately zero for the next several quarters.

On the servicing side, we see pre-tax income of $65 million. It continues to reflect very high levels of servicing costs. We've not seen the decline that we had expected in terms of default service expense for a number of reasons. But that was offset this quarter by some favorable MSR, risk management results.

If you turn to page 7, the real estate portfolio, net income of approximately $700 million for the quarter, revenues down 15% year-over year. It's in line with the estimates that we've given you. It is a function of that run-off, the $23 billion year-over-year. Charge offs, circled number of about $700 million. The charge-off rate is down 28 basis points quarter-on-quarter.

Delinquencies continued to decline, and a result of that is, that we reduced our lost forecast going forward. We released $1.250 billion in reserves this quarter. I'll talk about that a little bit more in detail in a couple of pages. We're also reducing our guidance for net charge offs going forward to $750 million, little below on a quarterly basis.

Page 8, Card Services and Auto, consolidated net income of $1 billion for the quarter, that's down about 7% year-on-year it's on revenues of $4.5 billion in the quarter. we are continuing to see some positive underlying trends in this business. I said sales remained strong up 12% year-on-year.

Our new product sales for Freedom, Sapphire and Ink, sales volume up 20% year-on-year, and we continue to believe we're gaining market share in the card business. Auto originations up 7% year-on-year, and very strong merchant processing revenue growth up 13% year-on-year.

Credit costs for the quarter $730 million that reflects $750 million reserve release, that release incorporated a policy change for our Troubled Debt Restructured Loans, TDRs. and as a result of that, we moved forward our charge-offs on these loans from 120 days from 180 and that result in an acceleration of charge-offs of about $90 million in the quarter, no P&L impact, because we were fully reserved for those loans. But if you include that policy change, charge-off rate circled at the bottom is 4.32%, if you exclude it with a little over 4%, 4.03%.

delinquencies also in that circled number on the quarter 2.13% and we went back as far as 2003, this is the lowest rate we've experienced in delinquencies during that period of time.

So with that, I do want to take a moment on the next page, page nine to talk about the credit trends. so we put here second quarter, first quarter and a year-ago, and then provided at the bottom trends around net charge-off. so we continue to see positive trends, charge-offs are down $216 million in mortgage, $550 million in card year-over-year. and those trends are demonstrated on the chart at the bottom, and delinquencies as I said are down.

The reserve actions that we took, as Jamie said, were effectively necessary to remain neutral given that improved credit environment and reduce the expectations that we have for losses. And if you look at the one number, I think it’s particularly interesting, its loan loss reserves, the annual net charge-offs that’s this quarter's charge-offs multiplied by four and those essentially stayed flat quarter-on-quarter even after the reserve releases.

So we think, we continue to be appropriately and conservatively reserved in these two portfolios and across all of our portfolios. But if the current trends continued, we would expect to see further reductions in the mortgage book reserves. And just remember a normalized credit employment, you would expect to see about 12-months of charge-offs, you can do the math and we are substantially in excess of that number today.

As it relates to Card, I think given where we are in the cycle you can expect reserve releases to be at or near an end. Commercial banking, we had net income of $670 million in the quarter that’s on record revenues of $1.7 billion, that’s driven by those record loan balances that I talked about, higher year-over-year deposits and that’s marginally offset by the spread compression we’ve experienced in our deposit-taking businesses.

Loan growth, we think continues to reflect both improvements in our customer base as well as real market share gains, so our C&I loan growth year-over-year is up 24%. We think that's almost double the industry rate. Record middle market loan balances, I think the ninth quarter, consecutive quarter of growth up 18% and while utilization still remained modest, we actually saw this quarter a modest uptick in utilization, so a little bit of additional activity. The credit environment in the commercial bank remains benign, excluding recoveries, net charge-offs in the quarter would have only been 13 basis points.

Treasury and Securities Services on Page 11, net income here of $460 million, that’s up almost 40% year-on-year, 32% quarter-on-quarter. Revenues up 11% and very positive underlying trends, liability balances year-over-year of 15%. Assets under custody of 4%, international revenue increased 12% and expenses were only up 3% year-on-year as we start to benefit from some of the technology and expense initiatives that we have been talking about in previous quarters.

The result is fairly positive operating leverage for the quarter, pretax margins of 34% for TSS this quarter. But do remember, we get a little positive impact of seasonality in our WSS business from our ADR business. So we have stronger second and fourth quarters on the revenue side.

Asset Management on Page 12; circled net income of a little under $400 million, that's up slightly quarter-on-quarter and revenues $2.4 billion. Assets under management were effectively flat year-over-year, down quarter-on-quarter as a function of markets. We continue to actually see liquidity outflows this quarter in AM, but it was offset by our thirteenth consecutive quarter of long-term inflows in AM.

If you go to Page 13, Corporate and Private Equity, so we've reported here as a result of the CIO activities of $1.8 billion in losses for the quarter, Jamie walked you through the specifics of the portfolio. What we're going to do going forward is report this as three distinct times, private equity, a Treasury CIO line time and then other corporate and we're going to try and give you a little bit of incremental updated guidance. So for Treasury CIO for the next quarter, you'd expect to see us generate $200 million plus or minus in losses, and that's a function of the reinvestment opportunities and/or need to redeploy at this point, but it will also depend on our reinvestment strategy so that and the number can vary quite materially, up or down an additional $200 million.

Other corporate, we expect to be a positive $100 million on average, but it can be very volatile, and that's even before significant items. So you saw that this quarter. So tax runs through here real estate, other small litigation can run through this line item, so there's a variety of items, but on average it should be about $100 million for the next several quarters.

On Page 14, you see what will be now contained in the supplement of our additional disclosure on CIO and on Treasury in a combined basis. So we'll have both the revenue and a net income line, I would draw your attention to the bottom right, which is Jamie talked about the VaR in the IB. At the end of the quarter the VaR in CIO was 180, for this hedge position, it is now 123, so again coming down over the last several weeks.

Page 15, fortress balance sheet, Jamie talked a little bit about our coverage ratios, but let me spend a moment more on the 7.9 that we reported for the quarter just to clarify. That is reported with the full impact of Basel III both the new 2.5 rules as well as the published NPR as if it were adopted. That however is our best estimate at this point in time and obviously, things can change, as we continue to refine and work with the regulators on the application of those rules. If you actually look on a comparable basis to how we recorded our second quarter, our Basel III ratio was up modestly.

We also in the appendix, I'm not going to go through it, we added a walk for you on both Basel I and Basel III, so on Basel I, if you add the impact of 2.5 rules to Basel I, it would reduce our Basel I recorded ratio by 160 basis points. If you took the NPR as a return, it would add an additional reduction of 100 basis points. So we are obviously with the industry in discussions with the regulators around the interpretations of that NPR.

We are going to continue to report Basel I as is until the first quarter of 2013 when the new rules take effect. The last thing I just remind you on this page actually put it on, we are going to keep this on now, as you'd think about returns on balance sheet given the different business mix, we internally look at returns on RWA relative to our competitors, and sort of set different balance sheets on a comparable basis, since RWA has only reported reliably on a Basel I basis. We are doing that comparison and you see we had a positive 1.6% return on our risk-weighted assets for the quarter comparable to the first quarter, and you think we'll compare very favorably to our peer group for the quarter.

Outlook on Page 16, I've covered most of the items here, but I really want to cover two in specific. The first is incorporate private equity, Jamie mentioned it as a result of the TruPS redemption, we are going to book in the third quarter about $900 million in gain associated with swap terminations that were related to the TruPS that we are redeeming. In addition to that, you see the net income impact NIE impact from that redemption that assumes no refinancing obviously that number would change depending on how much incremental financing we do against those redemptions.

The second is an update on expense. And if you look to the bottom right on firm-wide guidance. We expect our adjusted expense number for the second half of the year to be flat with the first half of the year, and if you compare that to what we said at Investor Day that would be up somewhere in the order of the $1.5 billion to $2 billion relative to that guidance.

There's really two reasons for it, about three quarters of that difference is associated with mortgage, and that gets broken down half-and-half. Half of the increase in expense and mortgage is associated with incremental revenue and production, so it's good expense and it's made good profits, but we didn't anticipate that at the time of Investor Day. The other half is associated with those high elevated costs in servicing related really to the consent order, the IFR and a variety of other matters.

We expected that to come down sooner it has not, but you should think about this as timing as opposed to absolute difference in expense, it will come down over time as we work through these issues. About a quarter of the expense is associated with the environment we're in, which is we've had higher legal, higher compliance, higher FDIC and that we had anticipated and that has run through a variety of the businesses.

Page 17, the final sort of piece of the corporate in terms of items. We've added this Core NIM page as you know, couple of quarters ago, a Core NIM declined by 10 basis points this quarter, for some who's going to, I think you'd give another topics, no one is going to jump right in with the NIM question first half, so I figure, I give you the answer now.

NIM is down 10 basis points really on the lower rate environment, the mix change in our loan portfolio. And the important impact this quarter was actually accounting from FAS 133 hedge ineffectiveness. That was really the primary driver both in our investment securities yield portfolio as well as in our long-term debt portfolio. And if you just focused on the security sales that were associated with $1 billion of gains that actually did not have a material impact on the portfolio for the quarter.

Last comment is really on page 18, which is our European disclosure. As it relates to the periphery, $6.3 billion of total exposure rather at the end of June. That's down from $12.5 billion at the end of March, and what I want to caution everyone is a significant portion of that is really a function of hedging activity on that exposure, which we may or may not do on a go-forward basis.

And the net exposure, I think, you should expect to return to the levels more consistent with where we were at the end of the first quarter. We do continue to be active with our clients in the region, but we are clearly being more cautious given the environment today and focused really on helping those clients do business in the markets.

So with that, I'm going to stop, turn it over to Mike. And then, after Mike we'll be back for questions. Thanks.

Michael J. Cavanagh

Thanks, Doug. So I hope everybody's coffees kicked in and mine as well. We're going to spend a little while here going through the Task Force Update. So, for those on the phone or on the web, if you go to the next section as what it's called. So in the room here, I'll dive right in on slide number one, which describes the management review that's been underway for the past two months. So my job has been to lead this firm wide response and conduct a rigorous review of the events leading up to the losses, assess what went wrong, and mobilize the company to make necessary fixes happen, and while some work remains. I am glad to say that the scope and intensity of what we've already done or ask me to give you today, what I think is a very clear picture of what happened and what we've done about it.

I have to say that it's been an incredible effort by many people and I just to thank everyone who has been involved in getting this work done, to get it here. So now what I am going to is go through this presentation in three sections. First, we're going to spend a bunch of time just walk you through some facts. Then we will go through observation and implications of those facts. And then finally, I'll bring it to close with the remediation actions that we've taken in response to all of this.

So if you start, let's begin on slide two and that is just a summary of the key findings of the review. So there are five key observations, the first is the actual cause of the losses, and the other observations are things that had we've done them better, may have reduced the size of the losses allowing us to detect issues earlier.

So the first one, which is the cause is that, CIO judgment, execution and escalation were poor in the first quarter. Second, the level of scrutiny of CIO did not evolve, commensurate with it's increased complexity. Third, a dedicated risk management team supporting CIO was ineffective in dealing with the challenges of this portfolio. Fourth, risk limits in CIO were not granular enough. And fifth, that's the model, the approval and implementation of a synthetic credit VaR model that we talked about, it happened in the quarter was poorly done. So with that overview of these observations, now let's slowly go through the pertinent fact that these support.

So on slide 3, some of the historical contexts on synthetic credit portfolio itself. So the portfolio's primary purpose had been to provide a partial offset for losses we would suffer elsewhere in CIO and the company in a stress credit environment. The portfolio got started about five years ago, it was generally short credit, but also included some long positions in order to reduce the cost of carrying credit protections, and consistent with it's objective, the portfolio produced gains in a stress period of 2008 to 2010, and was break-even or positive each year from 2007 to 2011. And all in, it generated about $2 billion in gains during that period.

So next, on slide 4. Now we get in to a summary of the first quarter 2012 transformation of the portfolio that led to the losses. In late 2011, CIO was directed to reduce the synthetic credit portfolios risk and risk-weighted assets, that direction came as part of the annual budgeting process in which we developed the firm's capital plan, including our glide path to Basel III.

Now the second bullet, I will attempt to explain what it appears the synthetic credit team and CIO hopes to do. And that was to move their portfolios risk position from a net sure position to a neutral one, while reducing risk-weighted assets in the process. They also hoped to retain some protections against corporate credit defaults, which was the synthetic credit portfolios historical mission.

So again there are a lot of things going on that they were trying to accomplish and found it difficult to find a balance that they liked. To simplify what they did, it amounted to them going long investment grade indices, while increasing short positions in junior tranches and high yield indices. And the size of the portfolio grew dramatically, as they continue to add positions later in the quarter when they were struggling to balance the portfolio as the market began to move against them.

So the question why they didn't just pursue an outright reduction of the portfolio, and it appears and that's all as an appearance that they thought about it a bit, but they believe that it will be more expensive than the approach they chose, which obviously proved to be wrong. and then we're focused on thinking about high execution cost to reduce the portfolio in size and to lock carryover reduced portfolio. and so they went ahead with the approach they had.

That's my best shot at describing what it seems they were trying to do, and now you move to the third bullet, where you see what we now know, which is what they did do with increased size and complexity of the portfolio dramatically in the first quarter and along with the sensitivity to a variety of risks, which you can see listed there all of which contributed in some parts of the losses and Jamie touched on some of these earlier on.

On the slide five, I just gave a graphic representation of basically the same thing, which is the growth of the portfolio in the first quarter. on the left, you see the total notional size of the portfolio with the red dots being the net of long and short notionals, which as you can see tripled in the first quarter.

Now you can't look at this slide and fully understand the risk of the portfolio. but what it does show is that the significantly increased size and complexity of the portfolio left little margin for error when you expect the pricing relationships across the portfolio began to break down and generate losses. It was a very risky approach they took that should have been discussed, embedded at more senior levels, but it was not.

So now for the next three slides, what I'm going to do is layout some key events that happened during three sequential time periods. So the first one, slide six, covers the first period and that is from the beginning of 2012, to late March 23, by which point the cake was fully baked on this thing. And since we all have loss making positions, we're already on the books.

So during this period, what you see on this slide is three key events I want to talk about. So the first one, was that certain CIO level risk limits got exceeded and how those exceptions were handled. So these types of business level limits are common across the company, and when they are exceeded, the independent business unit risk managers are responsible for reviewing the reasons for the excess and either granting relief or ensuring that action is taken to get back inside the limits.

Specifically two CIO level credit spread widening limits were exceeded over the course of the quarter. In January, a measurement of the impact of credit spread widening that ignored correlations across instruments, exceeded its limits, this was reviewed by CIO's market risk officer who granted relief from the limits, on a basis that the measure was an unsophisticated tool for measuring risk in these circumstances.

And then secondly, the other one, there was on March 23, the second CIO level of credit spread widening limit was exceeded and this was obviously of little use as a control measure, since it occurred after the positions were already put on.

Now, the second event you see on the slide here in the middle bullet was the approval of a new synthetic credit VaR model in late January. This was approved by the independent model review group in corporate risk management.

The week before the new model was implemented John Hogan, the new Chief Risk Officer and Jamie were asked to sign-off an temporary increase of firm wide VaR in an e-mail, which noted that CIO VaR model was soon to be approved which is expected to lower VaR and they assented and went ahead with that approval. But the problem with the second event here, which is why I saw in the slide relates to the model approval itself.

Again, this was done by the model review group, despite reasons are concerned about the weak operational environment supporting the model, which we'll come back to you later on.

And then the third event on this slide was the February 29, CIO business review with folks from the corporate and there will be CIO attendees at that meeting indicative that the portfolio, the synthetic credit portfolio was well-positioned and RWA reduction was on track and raised no other issues. So that's it for the key events up to the period of March 23 and that is the period by which all the positions were substantially on the books that led to the losses and the portfolio transforms.

So now let's go on to slide seven and move on to the next time period. I just wanted to talk about and this is the period from then, March 23 then to the April 13 earnings call. So first the portfolio experienced losses in late March and early April. Around this time, market visibility of the synthetic credit positions becomes a concern particularly after press reports on April 6. At that point, Doug and Jamie ask for a review of the portfolio and preparations for the earnings release a few days later.

Ina spearheaded the review with engagement by John Hogan, Doug Braunstein and others. The main output of that review was forward scenario analysis that produced the probable P&L range for the second quarter on the portfolio from positive $350 million to negative $250 million with the bias to the positive end. So at that time, the group got comfortable as the portfolios risk was manageable, that in need of heightened attention going forward and assurances to that affect were provided to Jamie and Doug.

Now, let me just make a few additional points about this review. First, that analysis was led by Ina, which made sense. She was very capable of driving review of an activity in her area of responsibility. If there was a question about something like this in TSS for example, I'd fully expect and to leave the charge on bottoming it out as would other operating committee members for their businesses.

And the second point is that, Ina inturn relied on the managers and traders responsible for the portfolio, and to knew it fast, she produced the supporting analysis that stage over those few days, and hindsight obviously, their views may have been unduly influenced by their conviction of the market's awareness of their positions was causing aberrations in pricing that would reverse.

I'll also just say here that the VaR model is not a focus during the pre-earnings released review because there were no indication of that fit, that wasn't working properly, it's a backward looking indicator and actual losses had already prompted demands for the forward-looking scenario analysis that was being done. And so on April 13, this period ends and we will announce our first quarter results.

Now moving on to slide eight, this is a set of facts for the period between the earnings release and the launch of the management review. So in late April losses pick up and the heightened monitoring that's followed the earnings call, it's taken to another level when the senior team from corporate risk is send to examine the portfolio from the bottom-up.

So they begin providing daily updates and construct an independent analysis of the portfolio that becomes the basis for risk measurement that the new

CIO team picks up a few weeks later. It's during this period that problems with the new VaR model are discovered. We use the old model for the VaR number in the 10-Q and disclosed that we induced the new model on April 13. This event has caused us to tighten up our procedures around model changes and disclosures going forward by the way.

We filed the first quarter 10-Q on Thursday May 10 and held the investor call that evening with an update on synthetic credit portfolio and finally, on Monday May 14, Matt Zames has announced as the new CIO and our management review is launched.

So that's it for the facts on slide nine. We transition from those facts, which you do see summarized on the left to the observations they support on the right, which is what I covered at the beginning. And now let's spend a little time going through each one of those observations in a bit more detail.

So on slide 10 is the first one, which is the observation that CIO judgment, execution, and escalation were poor. So first the trading approach itself was poorly conceived, reviewed and executed. As we saw in the facts, the portfolio grew to a parallel size with numerous embedded risks that the team did not understand and were not equipped to manage.

The second bullet on the page is about insularity. Even within CIO, the discussion of the portfolios stayed in the chain of managers with direct responsibility to us. A robust review among peer leaders and CIO would have provided for a discussion and challenge on the business side, which is what I'm accustomed to seeing across the management teams in this company and it didn't happen here. And this was again compounded by the failure to surface issues related to the synthetic credit portfolio in the February business review with corporate.

And then finally, the CIO led review and analysis of the portfolio in advance of the April 13 earnings call was poorly managed, resulting in the view that potential losses were manageable, that the portfolio was balanced and would recover. So now before I – leaving each of these findings, I'm just going to comment quickly on the remediation actions that relate to it, that we'll get to later and prove this one, those fixes are the people changes that have been made and all the relevant CIO roles and a complete revamping of the management processes in CIO.

So the second observation is that the level of scrutiny that CIO faced did not evolve as the complexity of the synthetic credit portfolio increased. So some of the contributing factors here was the belief and experience that the core activities of CIO were managed appropriately, contributing the unit successful track record. Second was the capability of an experience of Ina herself and third, was the modest but positive results of the synthetic credit portfolio historically. So as a result, we collectively ended up with a level of scrutiny that fell short of the high standards. We apply to our client businesses especially as the complexity increased.

Moving on to slide 12, the third observation is that CIO risk management was ineffective in its responsibilities for the synthetic credit portfolio. Now I'd acknowledge some factors that presented challenges for the CIO risk management team including what in hindsight was the lack of quality resources and a less robust risk committee supporting the risk team.

Nonetheless, the CIO risk team failed to meet reasonable expectations in my mind. First, a primary responsibility of the business level risk team is establishing adequate risk limits. In this case, higher or more appropriate limits would have forced more discussion and debate about this portfolio and if needed would have prompted escalation to more senior levels. And fairness to the CIO risk team had an effort underway to improve the risk limit structure for CIO, but it was too late to matter.

Second, CIO risk team did not perform adequately when it came to the VaR model approval and implementation, and I'll cover that in a couple of slides. Third, CIO risk wasn't forceful enough in challenging the front office and they never developed the sufficient understanding of the risk of the portfolio to escalate concerns the senior risk leaders outside CIO during the first quarter. So now to remediate this, we've added new people in key roles. We've also significantly strengthened the risk committee framework that covers CIO and other corporate sector activities.

So on slide 13, observations, number four, that risk limits in CIO were not sufficiently granular. So this is a critical one and we saw it in the facts on slide six that we gave ourselves too few opportunities to engage risk or other senior people as would have been the case if we had a well designed limit structure around this portfolio.

First, there were no risk limits specific to this synthetic credit portfolio. So limits apply to more aggregated portfolios often at the level of CIO, which was clearly inadequate. Obviously though what was needed was granular position level limits for the portfolio itself.

And I'd just say that in our investment bank credit derivatives business, the limits are already very granular. I believe that had the synthetic credit portfolio been risk managed under equivalent standards, it would not have experienced the unchecked transformation and growth that led to the losses. As for remediation here, we now have granular risk limits for all CIO and verified they're in place and where needed across the firm.

Moving to slide 14, is the final observation, is that the synthetic credit VaR model approval and implementation were inadequate. So there's been some speculation here that this model was approved abruptly and by CIO alone, but that's not true. The fact is that CIO began working in consultation with the independent model review group in corporate risk in mid-2011 to upgrade the VaR model used for synthetic credits to a more accurate model that captured correlation risk as required for Basel 2.5 compliance, which we did not have with the old model and we obviously wanted to get.

The expectation of all parties involved in the model approval was that the new model with lower measured VaR on the basis of the improvement and the calculation methodology, together with the infrequent band brakes of the old model would suggest that it produced conservative calculation of VaR.

So our fundamental problem with the VaR process was the lack of clarity on the roles and responsibilities for each element of the process across the model review group, the CIO risk group and the CIO front office. And the primary problem in the end though was sloppiness and bad execution in implementing the new model, operational problems, which included incorrect data feeds and certain calculation mistakes resulted in a VaR that was lower than what the approved model would have produced.

A properly implemented model would still have a lower VaR compared to the old model, but not by as much. So it would still have taken its bit of time to catch the overall problems, but as we've said, it probably delayed us a little bit. So to remediate here, we've strengthened the procedures around significant model approval and implementations.

So slide 15, another transition here. So now we have just finished up reviewing the observations on the left side of the slide, and now I'll touch in a little more detail on a couple of major remediation actions that foreshadowed a bit.

So on slide 16, moving to that, first, we have what is effectively a complete revamping of the CIO unit itself. On the people front that includes new CIO management team members including Matt himself, plus the Head of CIO Europe, the Chief Risk Officer and the Chief Financial Officer. All of them are very highly regarded and have substantial experience at our company.

In terms of governance, the new team has instituted a robust committee structure, new review processes and better reporting, which will provide for better discussion and debate to ensure mistakes like this one that occurred here don't happen again. And in terms of CIO's mandate, Matt is refocusing on the core mission of managing the AFS investment portfolio. The synthetic credit activity has been shutdown, and the liquidate portfolio transferred to the Investment Bank, where it will be better managed.

On slide 17, you see a summary of the risk management remediation actions, both for CIO and the firm. For CIO, as I've mentioned, we have a new Chief Risk Officer, and have added resources to support his efforts. This new CIO will have responsibility for all the areas, the corporate sector not just CIO. As we learned from this event, all activities outside our client businesses need robust risk management coverage and by broadening the mandate of this new Chief Risk Officer we've accomplished that.

Next is risk governance. As I've said, we've created a much more robust risk committee for all activities in Corporate that is modeled after the committees in our client businesses; it includes significant representation by senior executives and subject matter experts from outside CIO. The committee has already met numerous times and it's completed detailed reviews of the activities of CIO ensuring risk parameters are consistent with the newly refocused mandate.

And as for risk limits, we've introduced proper limits on all other CIO activities across the rest of the firm, we thoroughly reviewed the market risk limit structures to see if we lacked granularity elsewhere, and found them to be in good shape. And finally, we've bolstered the policies for dealing with risk limit accessions by requiring higher levels of escalation and more frequent reviews.

Slide 18 summarizes the remediation of the model approval and implementation and monitoring processes. So here, we've clarified the roles and responsibilities between the firm-wide model review group and the line of business risk management functions for the model review group, which sits in corporate in addition to reviewing and approving the VaR calculation framework, which is their core activity.

The group must also assess now the quality of the analytical testing and the soundness of the model operating environment whoever it is that's responsible for that. We've also formed up a new team inside model review that will monitor model related responsibilities across the risk management function firm-wide. they've been underway and they've already reviewed all market risk VaR models and confirmed that data integrity in operating environments of sound.

And then for the lines of business, we've clarified the responsibilities across all aspects of model governance including post-implementation monitoring and we've hidden the expectations for model oversight through the line of business risk committees.

So finally, on remediation, I'd just say that, I just reviewed the remediations that are the ones that directly address the observations from the management review of CIO. but I should add that we've picked up a lot of other learnings along the way during this work, and they were acting on those things as well to make the company better.

So now, just to wrap it up. on slide 19, I'll wrap it up by saying that based on everything, the team and I have examined and reviewed in the past two months, I believe that the synthetic credit event is an isolated failure that's both because the circumstances in CIO were unique. but also because of the thorough shakedown of the whole company that we did to be certain that we weren't making similar mistakes elsewhere.

I'd say, in closing that our management team has always been and continues to be very highly focused on managing risk and this event has caused us to step up our game everywhere.

So thanks for listening to this. we're going move to Q&A now, and while Jamie and Doug rejoined for that. I'm just going to get us started with a couple of topics that is here to get Q&A going. so to just pick up where we – Doug already covered a lot on the restatements, I just want to link it back to the work that I've done.

so this slide, here is some supporting information on the restatement that Doug covered earlier, all of these numbers are the ones that are in there. So the context is, it's really the management review efforts that's created the highly unusual circumstances we are faced with in making the decision to restate the first quarter.

Remember, we started the management review on May 14, which was a couple of days after we – all the works supporting the 10-Q filing on May 10 was completed, but as I've described the management review facts finding has been very exhaustive. We've done, obviously lots of e-mails being reviewed, but also tens of thousands of voice tapes, many of them in foreign languages. and so it's taking time to work our way through and work continues.

But a broadest of determination in the past few days that as Doug said, we don't have sufficient comfort that for the first quarter the trade remarks met the requirements of being where the traders thought they could exit their positions. I'll just point out though that's even though the marks were generally within the bid ask spread, which is what otherwise is accepted for a gap. So given the unusual circumstances, we've taken the conservative approach to restate bringing the marks to the VCG estimates of external mid-market benchmarks.

Next, I just want to say a few things on the people side. so first, on clawbacks. So employee related actions for CIO managers here on slide 22. And now, Jamie is going to talk about Ina in a minute. I'll talk about several other managers, all the mangers in London with direct responsibility for synthetic credit portfolio are now separated from the firm. None are receiving severance and no 2012 incentive compensation. We've made the decision to clawback compensation from each of these individuals and that amount is the maximum permitted, we've invoked that.

It represents approximately two years of total annual compensation for each individual covering stock and options. We took into account or we're taking into account a broad set of factors. I'll just make the point that the balance of factors for any individual in this bounces differently, but all ended up at the same result of a full clawback. The Board's reviewed all of these decisions.

I'll just say further because there maybe questions on people actions, what current here is the three London managers, with direct responsibility for synthetic credit. But there is several other changes in senior people and CIOs, some of whom have been reassigned to more appropriate roles, and others who will be leaving the firm. We believe we're taking all the appropriate people actions in a timely manner. But beyond what I've said, I told you here we're not going to be providing more details on people actions and obviously not going to be talking about individuals.

And then finally on 23, I've got a Board statement to read on compensation determinations and forget the three people I just covered and as I said, Jamie will cover Ina. Advancing the slide here. For all other individuals, and that includes Jamie, that 2012 performance year compensation and clawback, if appropriate will be determined in the ordinary course considering among other things, the factors you see listed, which is company, unit, and individual performance on absolute and relative basis. The achievement of non-financial objectives, which of course of the same things, we would always consider in a total picture on compensation, of course involvement and then responsibility for the CIO matter will be included in that. And just an added point, we're only going to make public information about what we do on clawbacks if it's required.

Now let me hand it over to Jamie, who wants to make comment about Ina, and then we'll go to Q&A.

Jamie Dimon

Thanks Mike. So let me say a word about Ina Drew. I have enormous respect for Ina as a professional and as a person she has made some incredible contribution to this company. But she has decided to retire, I got several letters from former chairman, who talked about her contribution, one even said she saved the company, in his judgment. From my experience she has acted with integrity and tried to do what was right for the company at all times and (inaudible) part of those mistake, and I believe that's true here as well. In that spirit, Ina came forward in order to give up a very significant amount of her past compensation, which is equivalent to the maximum clawback amount.

So with that let's turn it over to Q&A.

Question-and-Answer Session

Glenn Schorr – Nomura Securities Co. Ltd

Glenn Schorr from Nomura. Thank you very much. That doesn't count as a question, right? So in the past couple of Investor Days you've shown us some slide on the earning power of the firm being in the range of $24 billion, pretty buyback over the cycle earnings. Curious on post this CIO related changes, how you think about that. I do appreciate that you've showed us $2 billion over the last four years in the credit portfolio earnings. Is that it? Is that how we should think about it?

Jamie Dimon

Yeah, this just not affect the earnings part of the company at all. So the $24 billion still be accurate and probably show those numbers, we didn't [firm] up there. We could probably show you the numbers, almost the same as showed you last time, there were lot of guys, where we're today minus the burden and mortgage.

Glenn Schorr – Nomura Securities Co. Ltd

Okay. So no other big changes to the investment philosophy in CIO. Okay. Good, thanks. On the European exposure side that you have in one of the slides, I guess I'm looking for a net confidence or net takeaway. Has the situation in Europe gone any better because that hasn't from a lot of people's view and then maybe your level of confidence around your exposures, hedges and what you're doing behind the scenes to potentially prepare for the potential [denominations]?

Jamie Dimon

So we think we've been fairly consistent. We think, we kind of have the rollercoaster ride here. And you see progress in a two steps forward, one step back. We still think, we're going to model through that may not be in the former fashion or the time table roll to prefer. The numbers up there, we went from $12 billion to $6 billion of net exposure. We think that's a rather good number, and the stress test, we think our risk goes and we talked about a potential loss of $3 billion in a bad scenario. It could be worse and a complete extreme scenario like pulling apart the whole European Union. The important thing, we've continue to conduct business there. We have a lot of clients in Italy, Spain for 100 years or so, and we are doing that carefully. And obviously, we've been doing more hedging of the exposures there and that decision we make periodically over time.

Glenn Schorr – Nomura Securities Co. Ltd

Okay, last one. Maybe I don't know if there is a point of clarification because I think everyone appreciates the full run-through and disclosure on the CIO. But coming into today, I was saying well, it would be great if they kick, I mean, what the loss was, what they think the expected loss is, and what percent is gone or left. You've got us on the loss side. You've got us on the full run-through. But I'm not sure, I'm clear on what's left, how much of it's gone or how much it's still with you? Thanks a lot.

Jamie Dimon

We showed a lot of numbers, so the risk itself was down two-thirds, 70%, 80%. So it depend on how you measure it through IV, it doesn't have to lose money at all. And it's at the extreme stress scenarios, simulated stress scenarios, which we – in a euro crises, a credit crunch, a 99.9% statistical analysis, could be as high as $1.6 billion or $1.7 billion. That's one thing we expected and I'd be surprised we've got that through.

Sarah M. Youngwood

Matt O'Connor.

Matt O'Connor – Deutsche Bank Securities

Matt O'Connor, Deutsche Bank. I'm going to ask the same question, Glenn started off, just as we think about longer-term earnings power, I mean, how can we completely ignore those some profit from the macro hedges, there should be some de-risk in the securities book? So I kind of want to ask the same question again and trying to get some number on that.

Jamie Dimon

There was $2 billion of profit in this book over a four, five year period. We didn't assume any of it going forward at all, so it's not like we take a lot of risk in extremely big projects, we were not. So it was not in our numbers, it doesn't change the $24 billion or anything like that. We met de-risking the AFS portfolio it's about – and we're still investing about $350 billion at a 2.6% yield, and you can go by Ginnie Mae and Fannie Mae, and say it's 3.25. So you could easily extend duration with very short duration, extend duration, earn more NII. I think the portfolio is actually conservative will be a source of higher earnings, if – in one ways go up. So this will not affect the earnings power of the company at all.

Matt O'Connor – Deutsche Bank Securities

And as we think about the core businesses and specifically the Investment Bank, I mean you've talked about looking through rechecking all the risks, bringing down some limits potentially. Will we see any of that impact going forward?

Jamie Dimon

The Investment Bank is doing what they're supposed to do. We'll not ask to take them any other risks, because it took some synthetic credit. They are going to manage synthetic credit, it's just what they do, but the rest of the business is running exactly where it was before. And they constantly manage their own risk exposures.

Matt O'Connor – Deutsche Bank Securities

And then separately, I don't know if this is – if you can say, I think specific to judge more again or just overall, but LIBOR obviously has been in the news quite a bit. If there is anything that you can say or even when will we know what we don't know instead of time-to-time or…

Jamie Dimon

All I can say is like all of these things, there are a lot of people doing exams, we'll be open total openings regulators and investigators. And the other thing I'd be a little patient if I were you and not every thing is the same, it's going to take a while and not all companies are in the same position.

Sarah M. Youngwood

Betsy Graseck.

Jamie Dimon

And we couldn't make too many assumptions at this point.

Betsy Graseck – Morgan Stanley

Hi. Betsy Graseck, Morgan Stanley. So two questions, one on capital, you indicated that you think you've got a strong trajectory to 9.5%, we're getting two numbers from starting point there, either it's the starting point of 9.1 plus litigation or 7.9, which one are you referring to?

Jamie Dimon

Yes, it was 7.9 as we're still facing everything upfront.

Betsy Graseck – Morgan Stanley

All right.

Jamie Dimon

What we say with the nine as you actually fully fade the runner-up stuff and some of the models that we're going to do. We would get another 1.9 within the next two years. So I'm just trying to show apples-to-apples.

Betsy Graseck – Morgan Stanley

So 9.5 that you're saying is on trajectory too is by what timeframe?

Jamie Dimon

That 9.5 is the end of 2013 and it was like 10.5 or something at 2014. We don't buyback stocks like 10.5 and 12.5. So right that slide, you could see it, that's what our stock buyback. Well, that's not taking – it's only taking advantage of mitigating items that we knew would actually happen.

Betsy Graseck – Morgan Stanley

And then separately, a little bit of a follow-up on the LIBOR question. So one of the concerns that people have had is that clearly with large London presence and with what had happened in the CIO, there's a question around controls in that region. and so it gets to people thinking about the CIO office didn't have the controls in that part of the world. why should we believe that the rest of your organizations did? and so I think that's what's on people mind is there, hearing today the CIO trade, mailbox been wrapped up, but looking forward next six months having our stock in the commons up in some other area?

Jamie Dimon

Well, I can never prove in negative, okay. and so Mike just went through the – our expenses controls and disciplines, which we feel pretty good about, he can't prove to you that because you're not going to see it. We think this is isolated. And we think the control is in your – or just as Mike referring to the controls around the country, around the world. We think that it's pretty good.

Sarah M. Youngwood

Nancy Bush.

Nancy A. Bush – NAB Research, LLC

Yes, Nancy Bush, NA Research. Jamie, two questions for you. Your underlying trends were very positive this quarter and there just seems to be a disconnect between what you're seeing in your underlying trends and what were you hearing about the economy, which seems to be softening, everybody is gloomy, things are terrible, et cetera, et cetera. Could you just flush that out a little bit?

Jamie Dimon

You're making a good point, because Doug showed the numbers like eight quarters of continuous middle market loan growth, but anecdotally, he was at the other companies too, not all other banks, but a lot of the banks, I hear a lot of the banks small business loan growth, the fact is, we underpin the American economy on their back. Corporate America, middle market companies, small business are okay, there were a lot of equity, it's not a huge order book, so sales aren't going to max. We had slow to modest growth. We started to see it in our calculations, some of we're getting these market share gains. So remember we did middle market, we weren't doing middle market banking in California, now we do. We weren't doing small business in California, now we do because of we're [Wal-Mart] position. So we are gaining severance of our businesses through credit card, middle market, small business, IB's holding share.

Nancy A. Bush – NAB Research, LLC

Second question, there is not a lot of discussion about litigation reserves and your commentary today, could you just comment broadly about with the CIO matter was upcoming whatever may happen with LIBOR, et cetera. What you guys think about your litigation reserves at this point?

Jamie Dimon

So I think, financially, we spoke about mortgage, we think it's kind of well. We've really done a good job there and it could change over time. We put away a lot of way to mortgage over time. This quarter when you see the 10-Q, as you get to see the 10-Q, it will show litigation expenses like $300 million. So we try to keep up with reserving for things we know about. This quarter, of course we had some digging the [nets] isn't might just one thing that happens.

Sarah M. Youngwood

Richard Ramsden

Richard Ramsden – Goldman Sachs

Yeah, Jamie, can you just take us through what the process is for reapplication for the buyback, do you have to resubmit a full CCAR. Are the assumptions going to be the same as what they were for the first one? And what are reasonable timetable for that's going to be?

Jamie Dimon

Little bit of deviation leading and weaker too.

Douglas L. Braunstein

Yes.

Jamie Dimon

And we're getting our structures about what that process is going to – might be, what kind of project, but whatever it is, we think we can accommodate it and get it done and resubmit it. And like said I hope that both the board governance, the board estimates review, so I can't tell you when the board is going to end this review, but I am hopeful that the board review and the capital plan are done in such a way that by the early in the fourth quarter we just buyback stock that we won.

Richard Ramsden – Goldman Sachs

Okay. And with the stock trading has this changed your waterfall in terms of buyback versus dividend, dividend increase next year versus buyback?

Jamie Dimon

I wrote letters that – in terms of book value, I think our stock is a great buy.

Richard Ramsden – Goldman Sachs

Thanks.

Sarah M. Youngwood

Ed Najarian.

Edward R. Najarian – ISI Group Inc.

Richard's question was my question, so you've got it. Thank you.

Sarah M. Youngwood

Andrew Marquardt.

Andrew Marquardt – Evercore Partners Inc.

Thanks. Just on the GIPS exposure again, you've previously talked about max losses, if all things – of $3 billion after-tax is that still valid, or is there a new number?

Jamie Dimon

The $3 billion was my estimate after-tax, it was $5 billion pre-tax. I did it with my own methodologies, I said it was not, it was a bad outcome, it's not the worst outcome. As you said that Europe unravels the euro falls apart, I think it could be worse than that. Yeah, I've been just recently – I've been just constantly looking into this not for company, so TSS does it their number recently is more than $3 billion. We have a Europe command center, we have got a lot of – we know exactly what we are doing there, if some thing goes wrong, we try deal with it. We don't have the necessary of losses at all. The issue with Europe and the complex is with Europe or what contracts apply, how they apply, who leaves the euro, what currency you paid in, whether that do for losses in the country. So there are all these complex things, but those numbers would still being rough estimates so they are bad outcome, but not the worst outcome.

Andrew Marquardt – Evercore Partners Inc.

Thank you. And then separately in terms of that your outlook slide is – something that wasn't there was the real estate portfolio, still coming down 10% to 15% you've said in the past $500 million drag NII on a year-over-year basis, that's still valid for this year, and maybe somewhere around next year, is that an ongoing issue?

Jamie Dimon

Say, you could assume at this phase same change, same assumptions. Thank you.

Sarah M. Youngwood

Mike Mayo

Mike Mayo – Credit Agricole Securities

Mike had a statement saying the level of scrutiny did not evolve commensurate with the increased complexity. He was referring to CIO, but I wonder if that statement could apply to the firm as a whole. I mean February 28, we were all here eight hours of presentation, over 200 slides, no mention of CIO, and then we have the CIO event a risk model that didn't capture the risk, a new risk model that wasn't accurately tested before. Checks and balances that might have been passed with the investment bank, it seems to be a little solid. So I'm wondering if the firm as a whole, it's reaching sort of tipping point when it comes to bigness or complexity that makes it more difficult to manage than in the past?

Jamie Dimon

No

Mike Mayo – Credit Agricole Securities

Okay. What can you say to further reassure us, I mean, you're here in person, have you lost your step, has the focus has gone off…

Jamie Dimon

We have – Mike, this company is the same company that went through '06, '07, '08, '09, 2010, 2011 assimilated Bear Stearns brought one of those. And we have record in the last year, we have the record in the year before, it's likely if you look at your own estimates were record in this year. Okay, and that we have got gained market share, investment banking as a nice management our commercial bank and small business in middle markets, we're just have great job in marketing the , we're going to sit back and trying to make this more attractive companies for you all. We've made a mistake, we completely disclosed mistake. The newer results are in front of you, we're in better shape than a year before. Our CIO was not a place, we expect no mistake, we make a mistake. I can't prove it negative. I cannot prove a negative. We believe we've had very good controls and very good people in place.

Mike Mayo – Credit Agricole Securities

And you've gotten the results…

Jamie Dimon

Look at the results by the way.

Mike Mayo – Credit Agricole Securities

Yeah. I know the results are, if we didn't have the details here it would be okay. But we saw how to sausage is made and it just make me more if I might get through poising sometime in the future. What would you say, if you talk to a portfolio manager and you have, 20 seconds to say what weren't happen again, what would you say to that portfolio manager?

Jamie Dimon

Because we have very granular limits and we've got risk committees, credit committees, audit committees, we do terribly a very good job. Now I think it's certainly for anyone in the business world to think you're not going to make mistakes. It is not possible in the real world, that's only possible to fictional world, I just think the mistakes should be small and fewer far between, this has been an exception.

Sarah M. Youngwood

Chris Whalen.

Christopher Whalen – Tangent Capital Partners

Chris Whalen from Tangent Capital Partners. First, just quickly on the CIO. Does the nature of these instruments is over-the-counter instruments make you read consider whether or not all of the controls and risk management, everything else you're putting in place can be effective?

Jamie Dimon

Yeah, it's not been nation's instruments. A lot of these things are traded on exchanges, most of the index that you can go and buy from a marketplace easily; most of them are in clearing houses and if you – so want to see you can see them. So I think this portfolio became very big and very complex.

Christopher Whalen – Tangent Capital Partners

Right.

Jamie Dimon

I mean that is true, should never, ever, ever going to begin that complex. And meantime the first they've said it was too big, it was on embedded, it shouldn't been done, it was a liquid, it was bad. We should have quoted earlier…

Christopher Whalen – Tangent Capital Partners

Right, but that’s kind of my point. When you have an instrument it doesn’t have a clear basis and the basis may ship, the correlations may ship very quickly, can you manage that risk?

Jamie Dimon

I’m sure for all financial instruments.

Christopher Whalen – Tangent Capital Partners

Right, now three quick regulatory questions. On Basel, to what extent does the Volcker rule implementation limit your ability to manage the ASF portfolio?

Jamie Dimon

Not at all.

Christopher Whalen – Tangent Capital Partners

Okay.

Jamie Dimon

The AFS portfolio is held for sale.

Christopher Whalen – Tangent Capital Partners

Right.

Jamie Dimon

So its mark-to-market and the equity count that’s not mark-to-market. And we think you should do you allow the portfolio hedge, we’re not going to do some like this again, but we think (inaudible) and so we’ll talk about Europe one of the quick ways you want to go hedge Europe, right now, you get on the phone, you could buy a $1 billion deduction on European – a 120 European credit names. That is a good thing if you want to protect sales from Europe. It’s not that complex.

Christopher Whalen – Tangent Capital Partners

Right.

Jamie Dimon

So it also changes in the future for whole bunch of things, we’ll adopt to that whatever that is.

Christopher Whalen – Tangent Capital Partners

On Basel III, how do you expect the Basel III implementation affect your mortgage business?

Michael J. Cavanagh

On a Basel III basis, it's not material, that the real issue is the NPR on Basel I and that's a work in progress. But all the numbers that you see there and the projections that we have just, I assume continued growth in the mortgage business. So we will get some benefit that run-off portfolio is going to liberate a substantial amount of Basel III capital, and as a result – RWA as a result free up some capital, but…

Jamie Dimon

As a business matter, we'll explain whatever the Basel III numbers are, it is still a complex. It does create all these things about mezzanine pieces, how securitization is going to work. What's the FICO score, like FICO to 660 would be very bad under Basel III. So, everyone to modify the business trends of Basel III. It won't change the mortgage, our ability to be in the mortgage business.

Christopher Whalen – Tangent Capital Partners

And last question, how do you feel about the extension of the FDIC Transaction Account Guarantee Program?

Douglas L. Braunstein

I'm not sure whatever you're talking about.

Unidentified Company Representative

(Inaudible)

Douglas L. Braunstein

I'm not going to comment on that.

Sarah M. Youngwood

Moshe Orenbuch?

Moshe Orenbuch – Credit Suisse

Hey, thanks. Doug had mentioned about the material weakness related to the CIO office. The comments about resubmission of the CCAR and the timeframe into the early fourth quarter, does that contemplate resolving all of kind of the regulatory increase that are on going in addition to the Board, and do you anticipate orders coming out of that? How should we think about the news flow from that standpoint?

Douglas L. Braunstein

And we're hopeful that when Board finishes review the regulators get to look at everything when Mike is said and done, ask your questions, filed a CCAR. We're hopeful that by the first quarter we will buyback stock. We think the number is justify. We think the performance of the company justifies it, but we want to go through that process. It's a prudent thing to do and some stops that were happening and so there.

Moshe Orenbuch – Credit Suisse

Thank you very much.

Sarah M. Youngwood

Brennan Hawken?

Brennan Hawken – UBS Investment Bank

I'm Brennan Hawken, UBS. So just, and I appreciate that maybe you guys didn't include some of the synthetic gains in your estimates of earnings power, but you might help if we're, when we're looking at these past CIO gains and net income, if we can know how much of that was attributed to the synthetic? So you got 2 billion bucks over '07 to '11, crucial portion of that's in 92 from '09 to '011. Can we have an [idea], was most of that $2 billion there in the '09 to '11, can you give us an idea there?

Unidentified Company Representative

I don't…

Douglas L. Braunstein

So the figure was about $1.4 billion of the $2 billion was in '08 to '10.

Brennan Hawken – UBS Investment Bank

Was that pretax?

Douglas L. Braunstein

Pretax.

Unidentified Company Representative

It’s pretax. So those numbers are pretax over there.

Brennan Hawken – UBS Investment Bank

Okay. So that’s helpful. All right, great. And then, do you know if, with the CCAR resubmission of this, is the scenario going to change? Or is it going to be the same?

Michael J. Cavanagh

They are refreshing and updating their scenarios. We’re going to want new scenario pursuant to their guidelines.

Brennan Hawken – UBS Investment Bank

Okay. And in the discussions, I would assume Jamie your confidence that 4Q be get started, that is reflective of what you’ve heard back from the Fed as well?

Jamie Dimon

We’re essentially hopeful and I’ve been wrong before.

Brennan Hawken – UBS Investment Bank

Fair enough. And then, my last one. I don’t know if you can comment on this, but it would be helpful to know, do you guys have specific controls that separate communications between derivative traders and the LIBOR rate submission employees?

Michael J. Cavanagh

We are not going to comment anything right there right now.

Brennan Hawken – UBS Investment Bank

Okay. Thanks.

Sarah M. Youngwood

Ed Najarian?

Edward Najarian – ISI Group

Yeah. I’ve question for Doug. You talked about some of the net interest margin pressure coming from hedging effectiveness. Could you quantify of the 10 basis points, how much you think that is and do you expect that to revert in the third quarter? And then, just generally, given the really impressively low interest rate environment improving right now, maybe some sense of your view on that net interest income trajectory of the company.

Douglas L. Braunstein

So on the first, it was several basis points of the impact. It's going to vary quarter-on-quarter. It has varied quarter-on-quarter. So part of the difference this quarter is, we had some positive results last quarter and negative results and swing is less important from NIM standpoint. On the NII, in aggregate, we have some portfolio run-offs and we've provided you some guidance around that. We continue to build our balances and build our loan portfolio. So the question is going to be which exceeds the other here.

Jamie Dimon

And one disclosure you are going to see, is that this AFS portfolio is yielding 2.6%, but this quarter is going to be…

Douglas L. Braunstein

2.407%.

Jamie Dimon

2.407%. That is hedging effectiveness. It's really still yielding 2.6%. We did something like that, just a few hedge ineffectiveness when it goes against the asset.

Edward Najarian – ISI Group

And then as a quick follow-up, you talked about potentially getting, being close to zero in terms of mortgage repurchase costs through obviously the income statement over the next several quarters. Can you give us maybe a little more commentary around that, are you seeing a significant decline in claims starting to come in? And then secondarily, can you make any comments in terms of your sense of what's going on in the private label side of mortgage repurchases either on in terms of claims or with respect to litigation?

Douglas L. Braunstein

Yeah. so the real differential there has been a modest decline. The real differential is our secure rates because as these demands go deeper into the securities, they are taking more mortgages that we've been paying for longer and the result of that is that we've been decreasing the amount of demands we actually have to repurchase. That's really been driving in part the analysis. On the private label side, you'll see in our supplement, we had a modest increase in demands, but much of that is going to make its way through litigation.

Edward Najarian – ISI Group

So your statement about zero really excludes any thoughts about that litigation?

Douglas L. Braunstein

That's separate. Separate in the stakes

Edward Najarian – ISI Group

Okay, thanks.

Sarah M. Youngwood

Chris Kotowski?

Chris Kotowski – Oppenheimer & Co.

Yes, also for Doug. I wonder if you could walk us through a little bit on the changes in the Basel III ratio. At the end of March you reported 8.4% versus 7.9%. Obviously, the NPR must have had an impact there and I was wondering if you could break down what the bigger chunk of that impact are, is it for the treatment of home equity loans or…?

Douglas L. Braunstein

Sure. Actually 20 basis points was refinement of our earnings as a function of the restatements. So there was some move for the restatement, actually about a 10 basis points. The remaining 30 basis points, you can think about that principally as the CRM minimum that was added to the Basel 2.5 rules. That's the bulk of the RWA. It's an increase of about $40 billion from our portfolio. We would estimate because that is subject to model approval and you need at least 12 months of operation model approval from the first quarter of 2013. So we are hopeful that $40 billion comes back into when it's included in some of those projections that Jamie showed you, comes back as a reduction. So we were pretty close on our Basel III estimates.

Chris Kotowski – Oppenheimer & Co.

Okay. Now the way I read it though, like, in the home equity loans in particular, it looked like for over 80% loan to values that you're going to have 1.5 times capital charge?

Douglas L. Braunstein

That's Basel I.

Chris Kotowski – Oppenheimer & Co.

Okay.

Douglas L. Braunstein

That's Basel I. Basel III rules getting really changed very much for the mortgage portfolio.

Chris Kotowski – Oppenheimer & Co.

Okay, great. Thank you.

Sarah M. Youngwood

(Inaudible)

Unidentified Analyst

Hi, thank you. I understand from your information that one of the reasons for the losses here was that perhaps the successes even led to some complacency, real governance of the unit. And as I look through some of the discovery information, it seems that the risk management profile here was one that excluded certain basic tenants of risk management, granular levels of asset, concentration risk et cetera. So I guess, I think, as a question was this [year bill] conceives from our risk management perspective, from day one and it took five years to reach the end result or there are perhaps some small successive [look perhaps] the credit management over time that ultimately and perhaps we can look at the new VaR models, and in that being one of those that ultimately led to this result.

Douglas L. Braunstein

So I would say it's something that the complexity of synthetic credit was there over five years and there were things that obviously we could have cut sooner, but it didn't took the circumstances in the first quarter get us, but the overall mistake was allowing something that wasn't like the rest of the ALM type of activities to get housed inside CIO that have one form of risk management structure and then put something new in that required whole different type of risk wrapped around it and do it at the time.

Sarah M. Youngwood

Todd Hagerman?

Todd Hagerman – Sterne, Agee & Leach

Yes. Good morning, Mike and Jamie. Mike, you talked a lot about the VaR models, some of the changes. Jamie, you've talked in the past about your feelings one way or the other in terms of the usefulness of VaR, if you will, and what I'm curious about is with all the discussion on VaR, if you will, what changes have been made in terms of the dependence on the model themselves and how that relates back to the risk management and the model group and what other controls, tools you may have put in place to again make this a more robust process if you will?

Jamie Dimon

Yeah, first of all, I don't go in a business on models. And if you do go business on models you will be dead. It doesn't work. VaR is one model. We use tons of other models and I think Mike pointed about the right way to do is have let other granular limits, notional amount limits, credit spread limits, single name limits, all these things. VaR is just one. VaR does not capture underlying changes and underline. So it captures changes in correlations. It's only backward looking. So it's a data point that helps you manage your business. That's all it is. Now having said that, Mike, we got to do a better job implementing some of these models. Mike?

Michael J. Cavanagh

It is a process of brand models, not the models themselves that's defining there and the granular risk associate too big takeaways. If you look at the findings there, I'd say, get the right limits around the activity one, and that's not necessarily a VaR model or any one given type of activity, but if we are going to put things and we got help suspend just to make sure we have proved for the right reasons and as the right operations put around it.

Todd Hagerman – Sterne, Agee & Leach

So just as a follow-up, it's my understanding as an example with the CCAR process and the review of the trading operations, specifically a lot of dependence was placed on the models in terms of their review. What are you sensing now in terms of given the event that's transpired, how that evaluation is going to change on a go-forward basis, particularly as we think about next year's CCAR process in light of this event?

Douglas L. Braunstein

I think we certainly put a lot of attention on ourselves. And I think the takeaways that we saw was just bolstering all processes around model of governance, implementation approval, a new team which took 25-year veteran risk manager in charge of a new groups. It's really going to lead up watching model activities all parts of the process, because really the mistake we made here was roles and responsibilities.

So whereas I would say we're very good, and particularly our Investment Bank, which is the heaviest user of models. We've got very robust in-business market risk teams that have the hand off. We're dealing with parallel testing, back testing, running the operational model themselves. CIO was weaker in that regard. So when you have the interaction between the independent model of review group and the market risk teams in the business, again a particular mistake here. So that's a policy in procedure thing that we've even tightened up and John Hogan's done a lot in the past month.

Unidentified Company Representative

CCAR is not VaR dependent. It's stress testing. We do and I would say stress testing is more important, most of the stuff. We do extensive stress testing. And so, to me, you got to get that right. So CCAR has embedded as one test. We do hundreds of stress tests, and obviously we should have done stress testing in this particular portfolio better too.

Sarah M. Youngwood

Paul Miller.

Paul Miller – FBR Capital Markets & Co.

Yeah, thanks. Jamie, I think the [10-year] today is right around 15. We keep on hoping as banking analysts that it keeps on going up, but every quarter it goes down. But the 10 year, the flat year curve, which is starting to really weigh on a lot of peoples' net interest margins, net interest margin was down like 13 basis points, 14 basis points. It really feels like this 10-year is not going to move, and moving a little bit of flat yield curve longer than anybody wish, maybe in the 2014 and 2015. How does you as the bank position yourself for that environment even if it goes down though a lot of people thinking at 1% at this point?

Jamie Dimon

Yeah. So I'm not actually going down to 1%, but getting near the end of the margin compression from the yield curve. So I think if I move across about a year or two ago we might lose another $400 million or $500 million and then it flattens out. And then 10 goes down more, it's even more. We are short. Most banks have much longer duration than we do. So we could easily, today, put on change what we are doing and put on $50 billion in a mortgage of 3% and earn a lot more. So if you believe in that we could change our structure to earn back some of that income, in fact far more than what you might loose.

Paul Miller – FBR Capital Markets & Co.

I guess if we take a bigger step back, as we're going to be living with this flat yield curve, banks like to live with a steep yield curve. That's what we've all been raised on the last three or four decades. But if we're going to live in this environment, I mean, how does banks operator? I mean, how are you positioning your institution to go forward with a continued flat yield curve? Yeah, you can adjust the balance sheet. That's a one-time issue, but going forward how would you run this institution?

Jamie Dimon

I was just telling, I don't think the effective yield curve has gotten away. If it stays like this forever, we're still going to earn about what we are earning. So it isn't like, you have to deal with the negative every year, after the year. And then, obviously how you do your loans and your deposits and get a lot of things in your balance sheet, which earns very little to you, almost doing the service for clients, you might do less of that. So instead of $200 billion of treasury assets we have, we're earning five basic points on that. So we don't need to keep those deposits, but we may modify that, but you'll change your pricing, your products, your services and try to earn a fair return on capital.

Sarah M. Youngwood

Gerard Cassidy.

Gerard Cassidy – RBC Capital Markets

Gerard Cassidy, RBC Capital Markets. Doug, you touched on the LCR ratio in the Basel III. Do you guys have an estimate on where that is today, the liquidity ratio?

Douglas L. Braunstein

Yeah. So basically, if you get the number today, it might show a gap, but that gap is easy for us to fix by just changing your asset mix. So we will be LCR compliance by reinvesting the AFS portfolio. We are doing there slight different things. But we want to see the rules before we start swinging the balance sheets all over the place. We will be fine. We are very liquid company.

Gerard Cassidy – RBC Capital Markets

And following up on the yield curve commentary that you just made, Jamie, are the returns acceptable, I mean, as you pointed out there is not any incremental negative impact for you guys at the yield curve stays as right. Are the returns on equity acceptable or would you try some on those strategy possibly shrinking the balance sheet and buying back even more stock?

Jamie Dimon

We asked that question all the time, but we're actually believing making good returns right now. If you look at the returns in our businesses, the 15% return of tangible equity, the record earnings, so could we do more? But we like to tilt the business, bankers, services, clients, execution of services, to grow our business over time and we've been doing that such that we focused on, and then we modify pricing products of balance sheet to get a fair return.

Gerard Cassidy – RBC Capital Markets

And then finally maybe your comments on what you're seeing in Europe, how they're progressing on solving those problems. Do you want to add any color to that?

Douglas L. Braunstein

It's very hard to answer the way you read about everyday. Now we're reading about what they kind of need to do and they need to do kind of all of them, one is the bank have the European bank regulator, European bank scheme to stop bank loans have some facility that could finance the time and spend of sovereign debt in the meantime, and then fiscal union, the people believe it. And we think you guys see that kind of in fits and starts over time, and just people compare it to a rollercoaster.

Sarah M. Youngwood

Hang on…

Unidentified Analyst

Good morning, Jamie.

Operator

(Operator Instructions)

Unidentified Analyst

On as assets in 76, as liabilities. Two questions, can you tell us how much of those are netted for the same counterparty? And second, how much of those numbers was the CIO numbers in that at the end of that quarter?

Jamie Dimon

We'll do the second one first. I think it's a very small, but CIO is a very small for that number.

Unidentified Analyst

Okay. I would agree.

Jamie Dimon

And that's number one. Number two, they are very complex in any rule, which I don't want to go to here about derivatives, but we did do a presentation. At one point it's showing exactly how it droves net by counterparty, and we'd be happy to share that with you and take you through it.

Unidentified Analyst

Thank you.

Sarah M. Youngwood

Let me make an announcement for the phone, and if you are on the phone please put yourself on the queue at this point, and we're going to take a few more questions in the room, and then we're going to move to the phone.

Operator

(Operator Instructions).

Sarah M. Youngwood

(Inaudible)

Operator

There are no questions here in the phone line.

Sarah M. Youngwood

Okay, so then let's continue.

Operator

All right. Nancy, again.

Nancy A. Bush – NAB Research, LLC

Hi, Nancy Bush again. Mike a question for you. Looking at your slide number eight, the events in late April, you say Senior Corporate Risk Management team began onsite bottom-up engagement on April 27, had a senior risk management team done an onsite bottom-up engagement in the CIO before and is that now sort of a established part of risk management.

Michael J. Cavanagh

It's a good question Nancy. What we refer to there is a – in late April, at this stage, which John Hogan over there and team folks from outside CIO and for cross business, when into – to really sit onsite and take the book apart. Prior to that there was obviously work being done with senior risk folks, but we're looking through the lens of the CIO risk team. So it took to a different level of intrusion.

Jamie Dimon

And the CIO risk team did an inadequate job.

Nancy A. Bush – NAB Research, LLC

Okay.

Sarah M. Youngwood

(Inaudible)

Unidentified Analyst

One quick tweak of the and share has always been the incentive structure. I'm just wondering if in the CIO review there was any conclusions based on – if incentives were aligned with long-term shareholder interest.

Jamie Dimon

Sure, we've obviously looked at all that. None of the people in CIO are on in any form of formulas to business is not on a formula. We obviously looked at compensation for what we were doing in CIO relative to what you would see – pay related to running $350 billion fixed income portfolio. I can't obviously get in the minds of the individuals that – in making individual decisions, but we've looked for evidence of particular things that were problematic around our compensation schemes and then found no particular issues.

Sarah M. Youngwood

Matt Burnell.

Matt H. Burnell – Wells Fargo Securities

Good morning, Matt Burnell from Wells Fargo Securities. A couple of quick questions for you Doug. First of all, you mentioned that the net interest margin effect of the AFS gain or the securities that were sold to generate the gains, this quarter had no effect on this quarter's NIM. Does that imply any of future quarters NIM as well?

Douglas L. Braunstein

No.

Matt H. Burnell – Wells Fargo Securities

Depending on the sales were down.

Douglas L. Braunstein

No, no.

Matt H. Burnell – Wells Fargo Securities

Okay.

Douglas L. Braunstein

More a function of reinvestment.

Matt H. Burnell – Wells Fargo Securities

Fair enough, okay. And then in terms of the investment banking in sales and trading results those appear to be even if you strip out the DVA reasonably strong. Could you give us a sense as to what your outlook is for those numbers to the extent that you can guess it, and what the drag from Europe is on that, on your outlook there for the next quarter or two?

Douglas L. Braunstein

Yeah, first of all as you know investment banking revenues are unparticular by the nature. And whenever they come in with a low number, I would say we’re pretty much higher. So right now, it looks similar to what it was last quarter. That can change at any one point in time. Obviously, I think you see everywhere, the business in Asia and Europe were down, the America remains to be same.

Matt H. Burnell – Wells Fargo Securities

And then one final question. given all the information that Mike provided to us, how much of that information or will there be more information, not only provided to the regulators, but some of your friends on Capital Health?

Douglas L. Braunstein

So we share a lot of information that people ask, the radar is a completely up-to-date on Mike’s information. Mike, get into this...

Michael J. Cavanagh

Yeah, absolutely. More than absolutely.

Sarah M. Youngwood

(Inaudible)

Unidentified Analyst

Thank you. I'm (inaudible). Maybe from the perspective of the buy side, a long suffering shareholder and my clients, I’d like to follow-up on Mike Mayo’s question and also reference to KBW report that looked at the potential of splitting off the Chase Consumer Bank with RON credit and having a standalone JPMorgan Commercial bank, investment bank trust and TSS.

and the point being much as the tipping point or actual diseconomies of scale, and even if there are economies of scale, the stock market refuses to acknowledge it in terms of the multiple continuum to come down. And I look at the track record over the past year, so and notwithstanding a great performance relative to a pretty low VaR. but it's still a good performance. But we've had the mortgage servicing issues, mortgage foreclosure issues, and military veteran issues, energy, commodities, sales practices, now that’s inexcusable, just unbelievable CIO debacle, and our potential LIBOR. And I think about, what has to happen for either you as a management team or you as a board to finally say, we are a great institution and we own a lot of great businesses, but we have reached that point where we are too big to manage, and in the interest of our shareholders there's a different corporate structure that would better serve your owners. Thank you.

Douglas L. Braunstein

Yeah, just I like to differ, okay, and there is huge strength in this company that the units get from each other. So, we don't have the strategy, or we're guessing the things. The investment banks sort of the commercial bank, the TSS gives huge order flows investment bank, we think there is a numerous amount of cross-sell and we do just as much as most, anybody else have there between the consumer banks, small business, private wealth management, credit card mortgage. And our job is to do a great job serving clients grow the business and eventually the stock will reflect it.

And so, I think also people, they're spitting off company. I'll give my whole life that gives us (inaudible) higher P, lower P that's like, that's very short-term stuff. Have a strategy, execute on it, built a business that's where you build value. We don't feel great to be, it haven't been a great job for sure all this recently, that we completely acknowledge and but we keep on building the company and one day the stock will reflect it. If the Board ever thought of a better strategies, that will be considered at the time.

Jamie Dimon

Right, I would respectively say that, yeah certainly the cross-sell is very obvious, and that's why we're not look at separating into numerous companies, but I'm just wondering at what point it does become more apparent that there are diseconomies and is it potential that, is it possible to have CIO in part of a smaller institution, it would have gotten the management look that it required.

Unidentified Analyst

Hundreds of small banks have gone bankrupt okay (inaudible) went bankrupt?

Douglas L. Braunstein

I'm not telling you those…

Jamie Dimon

You could have argued the other way, there is a huge source of strength that helps growing this company, do all these norms and do best during the involvement, do all these wonderful things, CIO was a mistake, and we're sorry.

Sarah M. Youngwood

(Inaudible)

Unidentified Analyst

Hi, two very quick follow-ups. One I just want to make sure on the LIBOR issue. I understand all the things that you can't talk about mid investigation, but I'm assuming this has been gone on for a while that you've had three, six, maybe more months of internal investigations. Is there anything you can tell us and comment on?

Jamie Dimon

No.

Unidentified Analyst

All right, one last try, okay, Doug, on the commentary…

Douglas L. Braunstein

Oh, no.

Unidentified Analyst

All right, Mike, on the expense commentary, second half and first half just technical question, does that exclude the $3 billion or so of litigation reserve build in the first half or is it all inclusive?

Michael J. Cavanagh

We talked about the adjusted expenses excludes that.

Unidentified Analyst

Okay, thanks.

Sarah M. Youngwood

I think we had a question from John McDonald.

John E. McDonald – Sanford C. Bernstein & Co.

I actually had two and Glenn just stolen both. But I guess just one more slide that's on the LIBOR, do you have any sense of how long the issue will overhang on the industry and whether we'll get some kind of clarity about the investigations over the summer or is it something that could drag on for long time? Any insight in that and when we're going to get more information on it?

Jamie Dimon

We had no special insight again.

John E. McDonald – Sanford C. Bernstein & Co.

Okay, thanks.

Sarah M. Youngwood

Richard Ramsden?

Richard Ramsden – Goldman Sachs

Just a quick follow-up either for Jamie or Mike, was the process of valuing positioned in the CIO book different to the investment bank? Was it just the application of the evaluation technique? I'm referring specifically to the Q1 restatement? Thanks.

Jamie Dimon

This is the application of policies are the same across businesses different applications.

Sarah M. Youngwood

Ed Najarian.

Edward R. Najarian – ISI Group Inc.

Hi, Jamie, quick follow-up on sort of your perspective on capital, so since Investor Day in February, it seems like the world has gotten a little bit of – to be a scarier place in terms of – we're more concerned about Europe, we have the LIBOR thing has cropped up, we're talking more about global economic slowdown. I know you mentioned, you love to buyback the stock at one times tangible book, but is there anything about the last several months of events just from a macro standpoint that make you want to drive to higher capital ratios or get to 9.5% on Basel III Tier 1 common equity faster than you might have thought you wanted to back in February?

Jamie Dimon

Yeah, there – a little bit, and you know those things are as Europe, the fiscal cliff in the United States, it's all those things will make you to be a little more cautious, but again, I think we're – next year regardless of all the things and whatever happens.

Sarah M. Youngwood

Gerard Cassidy.

Gerard Cassidy – RBC Capital Markets

Mike, you give us a very thorough detailed disclosure how you attack this problem with the CIO, and you are very confident that you have your arms around it. Do the regulators have that same confidence, have they shared that with you that they feel very good that you guys sort of look at this problem?

Michael J. Cavanagh

I can't speak for the regulators, but certainly they have been – we've spend a lot of time with them to keep them informed and obviously wanted to guide our work apart from the get going away that was going to satisfy a lot of different opportunities.

Douglas L. Braunstein

They're going to do their own work as they show it, it comes to own conclusions. Remember, the board as an independent group, which is still guiding this taskforce and it will come to its own conclusions too.

Sarah M. Youngwood

Brennan Hawken.

Brennan Hawken – UBS Investment Bank

Mike, when you went through your review, do you think that may be the idea that there was no formula for comp in the CIO might have led to some of the trouble and the stretching? And then on a go-forward basis as the follow-up, which is probably more important, how are you guys thinking about structuring comp in the CIO office over the next few years.

Michael J. Cavanagh

No, I mean I don't think. When we talk about formulas, the individuals getting a cut off revenue, none of that existed, and I don't think that's a good thing. I think the kind of practices that are common in CIO was the same as what we do on our Investment Bank. It's taking the totality of managers, subjective judgment of performance in a multi-year view of how good a person is in his job for multiple years. All that together with the pay practices, how we defer compensation all are our sound policies and it's the application obviously that you have to get right.

Matt, who is now running CIO I'm sure will just bring his own individual management style to doing that, but we didn't walk away with the feeling that there is anything different about that even with the company or that the company broadly should be doing differently around in administering compensation.

Brennan Hawken – UBS Investment Bank

And the idea now that we don't have a synthetic in CIO, clearly that's going to mean we should probably just assume more volatile results out of that business and particularly in times when credits getting a little funky.

Douglas L. Braunstein

No, no.

Brennan Hawken – UBS Investment Bank

Well, I mean obviously we…

Douglas L. Braunstein

I show you the portfolio.

Brennan Hawken – UBS Investment Bank

As an exception.

Douglas L. Braunstein

I showed it was AA+. It's an AFS portfolio. It's not mark-to-market and P&L. It's got a 3.7 year average life, 80% government guaranteed, or government type of entity guaranteed. You're not going to move all to in it. If we have a small hedge there, if we are sure and you see we hedge more in Europe, that's what we need when doing a hedge. That really has very good AFS, but the AFS's subordinates rest of the company. Nothing would please us more than to reduce AFS and make some more great loans. So they can't say, we pay just from the revenues there, broadly because they're not there for that, where do they manage this portfolio. We need some very good people. There's $350 billion, it operates actually how many countries, on multiple currencies. So it is, we need some very good people managing that book just exactly what (inaudible) were BlackRock fixed income portfolio.

Sarah M. Youngwood

(Inaudible)

Unidentified Analyst

Yeah. Doug, can you just help us understand, why the default servicing expenses aren't coming through as fast as you thought and when they might start coming through?

Douglas L. Braunstein

Yeah, so I mentioned three things obviously we operate some of the consent order; second is, this independent foreclosure review, those cost are larger and are going on longer than we expected; and then third is, we just continue to have a lot of defaults properties that we're processing through.

Jamie Dimon

Those will be coming down.

Douglas L. Braunstein

Those will come down over time but they have – they remained at a level. So our expectation is we've thought we'd seen movement in the second, third and fourth quarter. It's more likely that it's 2013 event.

Sarah M. Youngwood

Do we have any additional questions on the phone?

Operator

We do from the line of Jim Mitchell with Buckingham Research.

James F. Mitchell – The Buckingham Research Group Inc.

Hey, good morning. Doug, just a question for you on the margin, just wanted to help, if you can flush out why we saw a decline and it seem like in the trading asset you had securities borrowed turned negative in terms of the yield, other trading assets understood that you have a lower rate environment, but on the flip side, the cost of the trading assets on the liability side seem to go up. So just if you could – is that the hedging impact or can you just kind of explain a little bit more detail on why we're seeing this dynamic of the negative spread and securities borrowed and other issues?

Douglas L. Braunstein

I'll get back to you on that.

James F. Mitchell – The Buckingham Research Group Inc.

Okay, I'll follow-up. Thanks.

Douglas L. Braunstein

Thanks.