HARRIS & HARRIS GROUP INC /NY/
Form 497
July 01, 2004

Filed Pursuant to Rule 497
Registration Statement No. 333-112862

PROSPECTUS SUPPLEMENT
(To Prospectus dated June 2, 2004)

3,000,000 Shares

[GRAPHIC OMITTED]

Common Stock

We are offering for sale 3,000,000 shares of our Common stock. Our Common Stock is traded on the Nasdaq National Market under the symbol "TINY." The last reported sale price for our Common Stock on June 30, 2004 was $12.24 per share.

You should review the information set forth under "Risk Factors" on page 7 of the accompanying Prospectus and page S-3 of the Prospectus Supplement before investing in our Common Stock.

	Per Share	Total
Public offering price......................................	$11.25	$33,750,000
Underwriting discounts and commissions.....................	$ 0.67	$ 2,010,000
Proceeds, before expenses, to the Company..................	$10.58	$31,740,000

You should read this Prospectus Supplement and the accompanying Prospectus before deciding whether to invest in our Common Stock and retain it for future reference. The Prospectus Supplement and the accompanying Prospectus contain important information about us. Material that has been incorporated by reference and other information about us can be obtained from the Securities and Exchange Commission's ("SEC") website (http://www.sec.gov).

Neither the SEC nor any state securities commission has approved or disapproved these securities or determined if this Prospectus Supplement is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters may also purchase up to an additional 450,000 shares of our Common Stock from us at the public offering price, less underwriting discounts and commissions, to cover over-allotments, if any, within 30 days after the date of this Prospectus Supplement. If the over-allotment option is exercised in full, the total proceeds, before expenses, to the Company would be $36,501,000. The shares of Common Stock will be ready for delivery on or about July 7, 2004.

ThinkEquity Partners LLC   Punk, Ziegel & Company

June 30, 2004

You should rely only on the information contained or incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction in which the offer or sale is not permitted.

In this Prospectus Supplement and in the accompanying Prospectus, unless otherwise indicated, "Harris & Harris," "Company," "us," "our" and "we" refer to Harris & Harris Group, Inc. This Prospectus Supplement also includes trademarks owned by other persons.

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Prospectus Supplement

Prospectus

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TABLE OF FEES AND EXPENSES

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our Common Stock. Amounts are for the current fiscal year after giving effect to anticipated net proceeds of the offering, assuming that we incur the estimated offering expenses.

Shareholder Transaction Expenses	
Sales Load (as a percentage of offering price)	6.00%
Offering Expenses (as a percentage of offering price)	1.82
Annual Expenses (as a percentage of net assets attributable to Common Stock)	
Management Fees(1)	N/A
Other Expenses(2)	
Salaries and Benefits(3)(4)(5)	2.84%
Administration and Operations(6)	1.50
Professional Fees	0.40
Total Annual Expenses (7)	4.74%

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(1) The Company has no external management fees because it is internally managed.

(2) "Other Expenses" are based on estimated amounts for the current fiscal year.

(3) We have an Employee Profit-Sharing Plan that provides for profit sharing equal to 20% of the net after-tax income we realize as reflected on our Consolidated Statement of Operations for each year, less non-qualifying gains, if any. Under the Employee Profit-Sharing Plan, the net income we

realize includes investment income, gains and losses we realize and operating expenses (including taxes paid or payable by us), but does not include dividends paid or distributions made to shareholders, payments under the plan, gains and losses we have not realized and loss carryovers from other years. The portion of net after-tax realized gains attributable to asset values as of September 30, 1997 is considered non-qualifying gain. At December 31, 2003, we did not have realized net income for that year and accordingly the expense accrual associated with this liability for 2003 was $0 or 0% of net assets. Under no circumstances may this expense exceed 20% of the net after-tax income we realize.

(4) We established a Mandatory Retirement Plan on March 20, 2003. In conjunction with this plan, we are required to provide to one employee, our President, Chief Operating Officer and Chief Financial Officer, a retirement benefit that has an estimated present value of $450,000. We are amortizing the expense of this benefit through December 31, 2004 in the amounts of $225,000 in 2003 and $225,000 in 2004.

(5) Our President, Chief Operating Officer and Chief Financial Officer is scheduled to retire on December 31, 2004, pursuant to the Mandatory Retirement Plan. His salary and non-continuing benefits in 2004, including the amortization of his retirement benefit, will total approximately $517,300, or 0.73% of net assets attributable to Common Stock.

(6) "Administration and Operations" include expenses incurred for administration, operations, rent, directors' fees and expenses, depreciation and custodian fees.

(7) Total annual expenses after December 31, 2004 will not include $517,300 for our President, Chief Operating Officer and Chief Financial Officer, but will include a $100,000 increase in annual salary for Douglas W. Jamison, a Vice President of the Company who has been designated by the Board of Directors to replace our current President, Chief Operating Officer and Chief Financial Officer as of January 1, 2005, and to receive an increase in annual salary of $100,000 at that time.

Example

The following examples illustrate the dollar amount of cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our Common Stock. These amounts are based upon payment by us of expenses at levels set forth in the above table, which include $517,300 of remuneration and non-continuing benefits for our President, Chief Operating Officer and Chief Financial Officer in the first year.

You would pay the following expenses on a $10,000 investment, assuming a 5% annual return:

1 Year	3 Years	5 Years	10 Years
$1,219	$2,011	$2,815	$4,877

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our Common Stock will bear directly or indirectly. The assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of our Common Stock. The above example should not be considered a representation of future expenses, and actual expenses and annual rates of return may be more or less than those assumed for purposes of the example. The foregoing table does not include the expenses of our Employee Profit Sharing plan, which would increase the amounts shown in the table if we achieved returns in excess of our expenses.

USE OF PROCEEDS

We estimate the total net proceeds of the offering to be $31,124,859 ($35,885,859 if the over-allotment option is exercised in full), based on the public offering price of $11.25 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

We expect to invest or reserve for potential follow-on investment the net proceeds of the offering within two years from the completion of the offering. Reserves for follow-on investments referred to above in any particular initial investment may be no more than the greater of twice the investment to date or five times the initial investment in the case of seed-stage investments. Although we intend to make our initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing portfolio companies involved in other technologies. Pending investment in portfolio companies, we intend to invest the net proceeds of any offering of our Common Stock in time deposits and/or income-producing securities that are issued or guaranteed by the federal government or an agency of the federal government or a government owned corporation, which are likely to yield less than our operating expense ratio. We may also use the proceeds of this offering for operating expenses, including due diligence expenses on potential investments. If we pay operating expenses from the proceeds, it will reduce the net proceeds of the offering that we will have available for investment.

PRICE RANGE OF COMMON STOCK

The following table sets forth for the quarters indicated, the high and low sale prices on the Nasdaq National Market per share of our Common Stock and the net asset value and the premium or discount from net asset value per share at which the shares of Common Stock were trading, expressed as a percentage of net asset value, at each of the high and low sale prices provided.

	Market Price		Net Asset Value ("NAV") Per Share at	Premium o %
Quarter Ended	High	Low	End of Period	High
March 31, 2000	$35.75	$9.00	$5.08	603.7%
June 30, 2000	18.50	5.13	3.88	376.8
September 30, 2000	10.75	5.50	4.64	131.7
December 31, 2000	7.13	2.25	3.51	103.1
March 31, 2001	4.25	2.06	3.09	37.5
June 30, 2001	3.29	2.01	3.29	0.0
September 30, 2001	2.86	1.60	2.92	(2.1)
December 31, 2001	2.33	1.55	2.75	(15.3)

March 31, 2002	5.50	1.80	2.63	109.1
June 30, 2002	5.10	2.74	2.68	90.3
September 30, 2002	2.99	2.00	2.61	14.6
December 31, 2002	2.50	1.85	2.37	5.5
March 31, 2003	3.99	2.36	2.26	76.5
June 30, 2003	7.95	2.71	2.22	258.1
September 30, 2003	9.49	4.47	2.11	349.8
December 31, 2003	12.29	6.18	2.95	316.6
March 31, 2004	20.70	11.47	3.01	587.7
Second Quarter through June 29, 2004	23.60	10.77	2.85	728.1

The last reported price for our Common Stock on June 30, 2004 was $12.24 per share.

RISK FACTOR

On June 29, 2004, our net asset value per share was $2.85. Given that we are selling 3,000,000 shares (3,450,000 if the over-allotment is exercised in full) in the offering at $11.25, the net asset value per share after giving effect to the offering will be approximately $4.19 ($4.36 if the over-allotment is exercised in full), which is $7.06 ($6.89 if the over-allotment is exercised in full) less than the price you paid in the offering.

UNDERWRITING

Subject to the terms and conditions of an underwriting agreement dated June 30, 2004, each of the underwriters named below have agreed to purchase from us the number of shares of Common Stock set forth opposite its name below:

Underwriters	Number of Shares
ThinkEquity Partners LLC	1,500,000
Punk, Ziegel & Company, L.P	1,500,000
Total	3,000,000

The underwriting agreement provides that the several obligations of the underwriters are subject to certain conditions precedent, including the absence of any significant negative change in our business and the receipt of certain certificates, opinions and letters from us and our attorneys and registered public accounting firm. The nature of the underwriters' Obligation is such that they are committed to purchase all shares of Common Stock offered hereby if any of the shares are purchased.

We have granted the underwriters the option, exercisable for 30 days after the date of this Prospectus Supplement, to purchase up to an aggregate of 450,000 shares of our Common Stock at the public offering price, less the underwriting discounts and commissions set forth on the cover page of this Prospectus Supplement. The underwriters may exercise this option solely to cover unfilled customer orders, if any, in connection with the sale of our Common Stock.

The following table summarizes the underwriting discounts and commissions to be paid by us to the underwriters for each share of our Common Stock. This information is presented assuming either no exercise or full exercise of the underwriters' option to purchase additional shares of our Common Stock.

	Paid by Harris & Harris Group, Inc.	
	No Exercise	Full Exercise
Per Share................................	$0.67	$0.67
Total.................................	$2,010,000	$2,311,500

We have been advised that the underwriters propose to offer the shares of Common Stock to the public at the public offering price set forth on the cover page of this Prospectus Supplement and to some dealers at that price less a concession not in excess of $0.37 per share. The underwriters may allow, and these dealers may re-allow, a concession not in excess of $0.10 per share to certain other dealers. The offering of the shares of Common Stock is made for delivery when, as and if accepted by the underwriters and subject to prior sale and to withdrawal, cancellation or modification of this offering without notice. The underwriters reserve the right to reject an order for the purchase of shares in whole or in part.

We and our most senior executive officers have agreed that for a period of 90 days after the date of this Prospectus Supplement, we and they will not, without the prior written consent of ThinkEquity Partners LLC, directly or indirectly: offer, sell, contract to sell or otherwise dispose of, any shares of our Common Stock, or any securities convertible into or exercisable or exchangeable for shares of our Common Stock, or grant any rights, options or warrants to purchase shares of our Common Stock; provided, that following the sale by each underwriter of its allotment of shares, we may, without the prior written consent of the underwriters, sell shares of Common Stock that are registered under the Registration Statement and the accompanying Prospectus but are not being sold pursuant to this Prospectus Supplement.

In connection with this offering, the underwriters may purchase and sell shares of Common Stock in the open market. These transactions may include short sales and stabilizing transactions. Short sales involve sales of Common Stock in excess of the number of shares to be purchased by the underwriters in this offering, which creates a short position. "Covered" short sales are sales of shares made in an amount up to the number of shares represented by the underwriters' over-allotment option. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Transactions to close out the covered short position involve either purchases in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make "naked" short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares of Common Stock in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.

Stabilizing transactions consist of bids for, or purchases of, shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriter a portion of the underwriting discount received by it because the underwriters have repurchased shares sold by or for the account of that underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the Common Stock. As a result, the price of the Common Stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriter without notice at any time. These transactions may be effected on the Nasdaq National Market, or otherwise.

We have agreed to indemnify each of the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments which such underwriters may be required to make in respect thereof.

LEGAL MATTERS

Certain legal matters will be passed on by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, our special counsel in connection with the offering of Common Stock. Certain legal matters in connection with this offering will be passed upon for the underwriters by Greenberg Traurig, P.A., Miami, Florida.

RECENT DEVELOPMENTS

On June 10, 2004, the board of directors changed the composition of the Pricing Committee. The members of the Pricing Committee now are Mr. Harris (Chairman), Dr. Bardin, Mr. Parsells and Mr. Fletcher.

On June 15, 2004 we received SEC certification and qualified for RIC treatment for 2003.

On June 17, 2004, we made a $100,000 follow-on investment in Continuum Photonics, Inc.

On June 22, 2004, we made a $73,801 follow-on investment in a privately held portfolio company.

On June 24, 2004, we made a $950,000 follow-on investment in a privately held portfolio company.

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7,000,000 Shares

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Common Stock

Harris & Harris Group, Inc. is a venture capital business development company that operates as a non-diversified business development company under the Investment Company Act of 1940. We may offer, from time to time, up to 7,000,000 shares of our common stock, $0.01 par value per share ("Common Stock"), in one or more offerings. The Common Stock may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a "Prospectus Supplement"). The offering price per share of our Common Stock less any underwriting commissions or discounts will not be less than the net asset value per share of our Common Stock at the time we make the offering. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our Common Stock.

Our Common Stock may be offered directly to one or more purchasers through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our Common Stock, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters or the basis upon which such amount may be calculated. We may not sell any of our Common Stock through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our Common Stock. Our Common Stock is listed on the Nasdaq National Market under the symbol "TINY." On June 1, 2004, the last reported sale price of our Common Stock was $14.65.

An Investment in the Securities Offered in this Prospectus Involves a High Degree of Risk. You Should Consider Investing in Us Only if You Are Capable of Sustaining the Loss of Your Entire Investment. See "Risk Factors" Beginning on Page 7.

This Prospectus sets forth concisely the information about us that a prospective investor ought to know before investing. You should read this Prospectus before deciding whether to invest in our Common Stock and retain it for future reference. Material that has been incorporated by reference and other information about us can be obtained from the Securities and Exchange Commission's ("SEC") website (http://www.sec.gov).

Neither the SEC nor any state securities commission has approved or disapproved these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a crime.

This Prospectus may not be used to consummate sales of Common Stock by us through agents, underwriters or dealers unless accompanied by a Prospectus Supplement.

The date of the Prospectus is June 2, 2004.

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You should rely only on the information contained or incorporated by reference in this Prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction in which the offer or sale is not permitted.

In this Prospectus, unless otherwise indicated, "Harris & Harris," "Company," "us," "our" and "we" refer to Harris & Harris Group, Inc. This Prospectus also includes trademarks owned by other persons.

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PROSPECTUS SUMMARY

This summary highlights information that is described more fully elsewhere in this Prospectus and in the documents to which we have referred. It may not contain all of the information that is important to you. To understand the offering fully, you should read the entire document carefully, including the risk factors beginning on page 7.

Our Business

Harris & Harris Group, Inc. is a venture capital company specializing in tiny technology that operates as a non-diversified business development company under the Investment Company Act of 1940, which we refer to as the 1940 Act. For tax purposes, we operate as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, which we refer to as the Code. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early-stage companies. Our approach is comprised of a patient examination of available early stage opportunities, through due diligence and close involvement with management.

We make initial venture capital investments exclusively in "tiny technology," which we define as microsystems, microelectromechanical systems (which we refer to as MEMS) and nanotechnology. We consider a company to be a tiny technology company if the company employs intellectual property which we consider to be at the microscale or smaller and which is material to its business plan. Our portfolio includes non-tiny technology investments made prior to 2001, and we may make follow-on investments in either tiny or non-tiny technology companies. By making these investments, we seek to provide our shareholders with an increasingly specific focus on tiny technology through a portfolio of venture capital investments that address a variety of markets and products. We believe that we are the only publicly traded U.S. venture capital company specializing in tiny technology.

Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in general use. Microsystems are measured in micrometers, which are units of measurement in millionths of a meter. Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Because it is a new field, tiny technology has significant scientific, engineering and commercialization risks. See "Business" and "Risk Factors."

As a venture capital company, we make it possible for our investors to participate at an early stage in this emerging field while our portfolio companies are still private. By making investments in companies that control intellectual property relevant to tiny technology, we are building a portfolio that we believe will be difficult to replicate in the future, as we believe it will likely become increasingly difficult to create new intellectual property in tiny technology. To the investor, we offer:

- a portfolio consisting of investments that are generally available only to a small, highly specialized group of investors;

- a team of professionals including four full time members of management, each of whom are designated as Managing Directors and vote on all purchases and sales of private equity investments, Charles E. Harris, Mel P. Melsheimer, Daniel V. Leff and Douglas W. Jamison, and two directors who are also consultants, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, who collectively have expertise in venture capital investing, intellectual property and nanotechnology to evaluate and monitor investments;

- the opportunity to benefit from our experience in a new field expected to permeate a variety of industries; and

- through the ownership of our publicly traded shares, a measure of liquidity not available in typical underlying venture capital portfolio investments.

The number of tiny technology investment opportunities available to us has increased over the past two years, through both new opportunities and opportunities for follow-on investments in our existing portfolio companies. We believe that our expertise and record of prior investments in tiny technology are likely to lead us to additional tiny technology investment opportunities in the future. We intend to use the net proceeds of this offering to:

- increase our capital in order to take advantage of these investment opportunities;

- increase the types of tiny technology companies in our portfolio;

- increase the percentage of our total assets invested in tiny technology;

- lower our expenses as a percentage of assets and otherwise achieve certain economies and advantages of scale in our operations since our costs are primarily fixed. Therefore, as our assets increase by the net proceeds of this offering, those fixed costs will represent a smaller percentage of our assets; and

- pay operating expenses, including due diligence expenses on potential investments.

We identify investment opportunities primarily through four channels:

- our involvement in the field of tiny technology;

- research universities that seek to transfer their scientific discoveries to the private sector;

- other venture capital companies seeking co-investors; and

- direct calls and business plan submissions by companies, business incubators and individuals seeking venture capital.

Since registering as an investment company in 1992, we have invested in a variety of industries. In 1994, we invested in our first tiny technology company, Nanophase Technologies Corporation. In 1995, we elected to be regulated as a business development company. Recognizing the potential of tiny technology, we continued to monitor developments in the field, and since 2001, we have made tiny technology our exclusive focus for initial investments. Since August 2001, all 15 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology.

Our portfolio now includes a total of 19 companies, 14 of which we consider to be involved in tiny technology. We are an internally managed investment company; that is, our officers and employees, rather than an investment adviser, manage our operations under the general supervision of our board of directors.

As is usual in the venture capital industry, our venture capital investments are generally in convertible preferred stock, which is usually the most senior security in a portfolio company's equity capital structure until the company has substantial revenues, and which gives us seniority over the holders of Common Stock (usually the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature and, in many cases, a dividend right payable in kind (which increases our participation in the portfolio company) or potentially in cash. In-kind distributions are primarily made in additional shares of convertible preferred stock, and we would expect to continue to invest in convertible preferred shares even if a portfolio company were to issue debt securities.

Tiny Technology

Tiny technology is neither an industry nor a single technology, but a variety of enabling technologies with critical dimensions below 100 micrometers. Tiny technology manifests itself in tools, materials and devices that address broad markets, including instrumentation, electronics, photonics, computing, medical devices, pharmaceutical manufacturing, drug delivery and drug discovery. The development and commercialization of tiny technology often require the integration of multiple disciplines, including biology, physics, chemistry, material sciences, computer science and the engineering sciences.

Examples of tiny technology-enabled products currently on the market are quite diverse. They include accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellant surfaces and fast acting painkillers.

Within tiny technology, microsystems and MEMS both refer to materials, devices and processes that are on a micrometer size scale. A micrometer, which is also referred to as a micron, is 0.000001 meter, or one millionth of a meter. In practice, any device from 100 microns down to 0.1 micron in size may be considered "micro." Nanotechnology refers to materials, devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. It is at the scale below 100 nanometers, the nanoscale, that quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow previously unattainable material and device performance.

Although the practical application of tiny technology requires great expertise to implement in manufacturing processes, we believe that tiny technology's broad applicability presents significant and diverse market opportunities.

Risk Factors

Set forth below is a summary of certain risks that you should carefully consider before investing in us through the offering. See "Risk Factors" below for a more detailed discussion of the risks in investing in our Common Stock.

- Investing in small, private companies involves a high degree of risk and is highly speculative.
- We may invest in companies working with technologies or intellectual property which currently has few or no proven commercial applications.
- We invest in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.
- Unfavorable economic conditions could impair our ability to engage in liquidity events.
- Because there is generally no established market in which to value our investments, our valuation committee's value determinations may differ materially from the values that a ready market or third party would attribute to these investments.
- Because we are a non-diversified company with a relatively concentrated portfolio, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.
- Approximately 32% of the net asset value attributable to our venture capital investment portfolio, or 16% of our net asset value, as of March 31, 2004, is concentrated in one company, NeuroMetrix, Inc., which is not a tiny technology company.
- Approximately 36% of the net asset value attributable to our venture capital investment portfolio, or 19% of our net asset value, as of March 31, 2004, is invested in venture capital investments which are not tiny technology companies.
- Bank borrowing or the issuance of debt securities or preferred stock by us to fund investments in portfolio companies or to fund our operating expenses would make our total return to common shareholders more volatile. The use of debt would leverage our available common equity capital, magnifying the impact of changes in the value of our investment portfolio on our net asset value. In addition, the cost of debt or preferred stock financing may exceed the return on the assets the proceeds are used to acquire, in which case the use of leverage will have an adverse impact on the holders of our Common Stock.
- Investing in our stock is highly speculative and an investor could lose some or all of the amount invested.
- Our shares might trade at a discount from net asset value or at premiums that are unsustainable over the long term and currently trade at a substantial premium over net asset value that may not be sustainable over the long term.

Other Information

Our website is www.TinyTechVC.com and is not incorporated by reference into this Prospectus. We make available free of charge through our website the following materials (which are not incorporated by reference unless specifically stated in this Prospectus) as soon as reasonably practicable after filing or furnishing them to the SEC:

- our annual report on Form 10-K;
- our quarterly reports on Form 10-Q;
- our current reports on Form 8-K; and
- amendments to those reports.

The Offering

Common Stock offered....................	We may offer, from time to time, up to a total o of our Common Stock on terms to be determined at offering. Our Common Stock may be offered at pri to be set forth in one or more Prospectus Supple offering price per share of our Common Stock bef underwriting commissions or discounts will not b net asset value per share of our Common Stock.
Use of proceeds.........................	Although we will make initial investments exclus technology, we can make follow-on investments in technology companies currently in our portfolio. considering venture capital investments, we may proceeds in U.S. government and government agenc which are likely to yield less than our operatin We expect to invest or reserve for potential fol the net proceeds of any sale of shares under thi within two years from the completion of such sal use the proceeds of this offering for operating including due diligence expenses on potential in Reserves for follow-on investments referred to a particular portfolio holding may be no more than twice the investment to date in that portfolio h times the initial investment in the case of seed investments.
Nasdaq National Market symbol.................................	TINY

TABLE OF FEES AND EXPENSES

The following tables are intended to assist you in understanding the various costs and expenses directly or indirectly associated with investing in our Common Stock. Amounts are for the current fiscal year after giving effect to anticipated net proceeds of the offering, assuming that we incur the estimated offering expenses.

Shareholder Transaction Expenses	
Sales Load(1) (as a percentage of offering price)	0.00%
Offering Expenses (as a percentage of offering price)	0.60
Annual Expenses (as a percentage of net assets attributable to Common Stock)	
Management Fees(2)	N/A
Other Expenses(3)	
Salaries and Benefits(4)(5)(6)	1.36%
Administration and Operations(7)	.61
Professional Fees	.18
Total Annual Expenses (8)	2.15%

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(1) In the event that the shares of Common Stock to which this Prospectus relates are sold to or through underwriters, a corresponding Prospectus Supplement will disclose the sales load.

(2) The Company has no external management fees because it is internally managed.

(3) "Other Expenses" are based on estimated amounts for the current fiscal year.

(4) We have an Employee Profit-Sharing Plan that provides for profit sharing equal to 20% of the net after-tax income we realize as reflected on our Consolidated Statement of Operations for each year, less non-qualifying gains, if any. Under the Employee Profit-Sharing Plan, the net income we realize includes investment income, gains and losses we realize and operating expenses (including taxes paid or payable by us), but does not include dividends paid or distributions made to shareholders, payments under the plan, gains and losses we have not realized and loss carryovers from other years. The portion of net after-tax realized gains attributable to asset values as of September 30, 1997 is considered non-qualifying gain. At December 31, 2003, we did not have realized net income for that year and accordingly the expense accrual associated with this liability for 2003 was $0 or 0% of net assets. Under no circumstances may this expense exceed 20% of the net after-tax income we realize.

(5) We established a Mandatory Retirement Plan on March 20, 2003. In conjunction with this plan, we are required to provide to one employee, our President, Chief Operating Officer and Chief Financial Officer, a retirement benefit that has an estimated present value of $450,000. We are amortizing the expense of this benefit through December 31, 2004 in the amounts of $225,000 in 2003 and $225,000 in 2004.

(6) Our President, Chief Operating Officer and Chief Financial Officer is scheduled to retire on December 31, 2004, pursuant to the Mandatory Retirement Plan. His salary and non-continuing benefits in 2004, including the amortization of his retirement benefit, will total approximately $517,300, or 0.36% of net assets attributable to Common Stock.

(7) "Administration and Operations" include expenses incurred for administration, operations, rent, directors' fees and expenses, depreciation and custodian fees.

(8) Total annual expenses after December 31, 2004 will not include $517,300 for our President, Chief Operating Officer and Chief Financial Officer,

but will include a $100,000 increase in annual salary for Douglas W. Jamison, a Vice President of the Company who has been designated by the Board of Directors to replace our current President, Chief Operating Officer and Chief Financial Officer as of January 1, 2005, and to receive an increase in annual salary of $100,000 at that time.

Example

The following examples illustrate the dollar amount of cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our Common Stock. These amounts are based upon payment by us of expenses at levels set forth in the above table, which include $517,300 of remuneration and non-continuing benefits for our President, Chief Operating Officer and Chief Financial Officer in the first year.

You would pay the following expenses on a $10,000 investment, assuming a 5% annual return:

1 Year	3 Years	5 Years	10 Yea
$277	$695	$1,138	$2,36

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our Common Stock will bear directly or indirectly. The assumed 5% annual return is not a prediction of, and does not represent, the projected or actual performance of our Common Stock. The above example should not be considered a representation of future expenses, and actual expenses and annual rates of return may be more or less than those assumed for purposes of the example. The foregoing table does not include the expenses of our Employee Profit Sharing plan, which would increase the amounts shown in the table if we achieved returns in excess of our expenses.

INCORPORATION BY REFERENCE

The financial statements for the fiscal years ended December 31, 2003, 2002 and 2001 and the fiscal periods ended March 31, 2004 and 2003 and the financial statements for each fiscal period ended thereafter have been incorporated by reference into the Prospectus from the Company's Annual Report on Form 10-K and Quarterly Report on Form 10-Q, each of which either accompanies this Prospectus or has previously been provided to the person to whom this Prospectus is being sent. We will furnish, without charge, a copy of such financial statements upon request by writing to 111 West 57th Street, Suite 1100, New York, New York 10019, Attention: Investor Relations, or calling 212-582-0900.

RISK FACTORS

Investing in our Common Stock involves a number of significant risks relating to our business and investment objective. You should carefully consider the risks and uncertainties described below before you purchase any of our Common Stock. These risks and uncertainties are not the only ones we face. Unknown additional risks and uncertainties, or ones that we currently consider immaterial, may also impair our business. If any of these risks or uncertainties materialize, our business, financial condition or results of operations could be materially adversely affected. In this event, the trading price of our Common Stock could decline, and you could lose all or part of your investment.

Risks related to the companies in our portfolio.

Investing in small, private companies involves a high degree of risk and is highly speculative.

We have invested a substantial portion of our assets in privately held development stage or start-up companies. These businesses tend to lack management depth, to have limited or no history of operations and to have not attained profitability. Tiny technology companies are especially risky, involving scientific, technological and commercialization risks. Because of the speculative nature of these investments, these securities have a significantly greater risk of loss than traditional investment securities. Some of our venture capital investments are likely to be complete losses or unprofitable, and some will never realize their potential. We have been and will continue to be risk seeking rather than risk averse in our approach to venture capital and other investments. Neither our investments nor an investment in our Common Stock is intended to constitute a balanced investment program.

We may invest in companies working with technologies or intellectual property that currently have few or no proven commercial applications.

Nanotechnology, in particular, is a developing area of technology, of which much of the future commercial value is unknown, difficult to estimate and subject to widely varying interpretations. There are as of yet relatively few nanotechnology products commercially available. The timing of additional future commercially available nanotechnology products is highly uncertain.

Our portfolio companies working with tiny technology may be particularly susceptible to intellectual property litigation.

Research and commercialization efforts in tiny technology are being undertaken by a wide variety of government, academic and private corporate entities. As additional commercially viable applications of tiny technology begin to emerge, ownership of intellectual property on which these products are based may be contested. Any litigation over the ownership of, or rights to, any of our portfolio companies' technologies or products would have a material adverse effect on those companies' values and may have a material adverse effect on the value of our Common Stock.

Our portfolio companies may not successfully market their products.

Even if our portfolio companies are able to develop commercially viable products, the market for new products and services is highly competitive, rapidly changing and especially sensitive to adverse general economic conditions. Commercial success is difficult to predict, and the marketing efforts of our portfolio companies may not be successful.

Unfavorable economic conditions could result in the inability of our portfolio companies to access additional capital, leading to financial losses in our portfolio.

Most of the companies in which we have made or will make investments are susceptible to economic slowdowns or recessions. An economic slowdown or adverse capital or credit market conditions may affect the ability of a company in our portfolio to raise additional capital from venture capital or other sources or to engage in a liquidity event such as an initial public offering or merger. These conditions may lead to financial losses in our portfolio, which could have a material adverse effect on the value of our Common Stock.

The value of our portfolio and the value of our Common Stock could be adversely affected if the technologies utilized by our portfolio companies are found to cause health or environmental risks.

Our portfolio companies work with new technologies, which could have potential environmental and health impacts. Tiny technology in general and nanotechnology in particular are currently the subject of health and environmental impact research. If health or environmental concerns about tiny technology or nanotechnology were to arise, our portfolio companies may incur additional research, legal and regulatory expenses, might have difficulty raising capital or could be forced out of business. Such adverse health and environmental effects would have an adverse effect on the value of our portfolio and on the value of our Common Stock.

Risks related to the illiquidity of our investments.

We invest in illiquid securities and may not be able to dispose of them when it is advantageous to do so, or ever.

Most of our investments are or will be equity or equity-linked securities acquired directly from small companies. These equity securities are generally subject to restrictions on resale or otherwise have no established trading market. The illiquidity of most of our portfolio of equity securities may adversely affect our ability to dispose of these securities at times when it may be advantageous for us to liquidate these investments. We may never be able to dispose of these securities.

Unfavorable economic conditions could impair our ability to engage in liquidity events.

Our business of making private equity investments and positioning our portfolio companies for liquidity events may be adversely affected by current and future capital markets and economic conditions. The public equity markets currently provide less opportunity for liquidity events than at times in the past when there was more robust demand for initial public offerings, even for more mature technology companies than those in which we typically invest. The potential for public market liquidity could further decrease and could lead to an inability to realize potential gains or could lead to financial losses in our portfolio and a decrease in our revenues, net income and assets. Recent government reforms affecting stock markets, investment banks and securities research practices may make it more difficult for privately held companies to complete successful initial public offerings of their equity securities. Slowdowns in initial public offerings also have an adverse effect on the frequency and valuations of acquisitions of privately held companies. The lack of opportunities to sell investments in privately held companies also has an adverse effect on the ability of these companies to raise capital from private sources.

Even if our portfolio companies complete initial public offerings, the returns on our investments may be uncertain.

When companies in which we have invested as private entities complete initial public offerings of their securities, these newly issued securities are by definition unseasoned issues. Unseasoned issues tend to be highly volatile and have uncertain liquidity, which may negatively affect their price. In addition, we are typically subject to lock-up provisions which prohibit us from selling our investments into the public market for specified periods of time after initial public offerings. The market price of securities that we hold may decline substantially before we are able to sell these securities. Most initial public offerings of technology companies are listed on the Nasdaq National Market. Recent government reforms of the Nasdaq National Market have made market making by broker-dealers less profitable, which has caused broker-dealers to reduce their market making activities, thereby making the market for unseasoned stocks less liquid.

Risks related to our company.

Because there is generally no established market in which to value our investments, our valuation committee's value determinations may differ materially from the values that a ready market or third party would attribute to these investments.

There is generally no public market for the equity securities in which we invest. Pursuant to the requirements of the Investment Company Act of 1940, which we refer to as the 1940 Act, we value substantially all of the equity securities in our portfolio at fair value as determined in good faith by the valuation committee of our board of directors within the guidelines established by the board of directors. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment pursuant to specified valuation principles and processes. We are required by the 1940 Act to value specifically each individual investment on a quarterly basis and record unrealized depreciation for an investment that we believe has become impaired. Conversely, we must record unrealized appreciation if we believe that the underlying portfolio company has appreciated in value. Without a readily ascertainable market value and because of the inherent uncertainty of valuation, the fair value that we assign to our investments may differ from the values that would have been used had a ready market existed for the investments, and the difference could be material. Any changes in fair value are recorded in our consolidated statements of operations as a change in the "Net (decrease) increase in unrealized appreciation on investments." See "Determination of Net Asset Value."

Because we are a non-diversified company with a relatively concentrated portfolio, the value of our business is subject to greater volatility than the value of companies with more broadly diversified investments.

As a result of investing a greater portion of our assets in the securities of a smaller number of issuers, we are classified as a non-diversified company. We may be more vulnerable to events affecting a single issuer or industry and therefore subject to greater volatility than a company whose investments are more broadly diversified. Accordingly, an investment in our Common Stock may present greater risk to you than an investment in a diversified company.

We may be obligated to pay substantial amounts under our profit sharing plan.

Our employee profit-sharing plan requires us to distribute to our officers and employees 20% of any net after-tax realized income as reflected on our consolidated statements of operations for that year, less any non-qualifying gain. These distributions may have a significant effect on the amount of distributions made to our shareholders, if any.

Approximately 32% of the net asset value attributable to our venture capital investment portfolio, or 16% of our net asset value, as of March 31, 2004, is concentrated in one company, NeuroMetrix, Inc., which is not a tiny technology company.

At March 31, 2004, we valued our investment in NeuroMetrix, Inc., which is not a tiny technology company, at $6,825,426, which represents 31.85% of the net asset value attributable to our venture capital investment portfolio, or 16.45% of our net asset value. Any downturn in the business outlook of NeuroMetrix, Inc., or any failure of the products of NeuroMetrix, Inc., to receive widespread acceptance in the marketplace, would have a significant effect on our specific investment in NeuroMetrix, Inc., and the overall value of our portfolio.

Approximately 36% of the net asset value attributable to our venture capital investment portfolio, or 19% of our net asset value, as of March 31, 2004, is invested in venture capital investments which are not tiny technology companies.

Although all 15 of our investments added since August 2001 have been in tiny technology companies, and although we consider 14 of the companies in our venture capital investment portfolio to be tiny technology companies, at March 31, 2004, only 63.56% of the net asset value attributable to our venture capital investment portfolio, or 32.82% of our net asset value, was invested in tiny technology companies, which may limit our ability to achieve our investment objective.

We are dependent upon key management personnel for future success.

We are dependent for the selection, structuring, closing and monitoring of our investments on the diligence and skill of our senior management and other key advisers. We utilize lawyers and outside consultants, including two of our directors, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, to assist us in conducting due diligence when evaluating potential investments. There is generally no publicly available information about the companies in which we invest, and we rely significantly on the diligence of our employees and advisers to obtain information in connection with our investment decisions. Our future success to a significant extent depends on the continued service and coordination of our senior management team, and particularly depends on our Chairman and Chief Executive Officer, Charles E. Harris. The departure of any of our executive officers, key employees or advisers could materially adversely affect our ability to implement our business strategy. We do not maintain for our benefit any key man life insurance on any of our officers or employees. Our President, Chief Operating Officer and Chief Financial Officer, Mel P. Melsheimer, is scheduled to retire on December 31, 2004, pursuant to the Mandatory Retirement Plan. We could be adversely affected by his retirement.

We will need to hire additional employees as the size of our portfolio increases.

We anticipate that it will be necessary for us to add investment professionals with expertise in venture capital and/or tiny technology to accommodate the increasing size of our portfolio. We may need to provide additional scientific, business or investment training for our hires. There is competition for highly qualified personnel, and we may not be successful in our efforts to recruit and retain highly qualified personnel.

The market for venture capital investments, including tiny technology investments, is highly competitive.

We face substantial competition in our investing activities from many competitors, including but not limited to: private venture capital funds; investment affiliates of large industrial, technology, service and financial companies; small business investment companies; wealthy individuals; and foreign investors. Our most significant competitors typically have significantly greater financial resources than we do. Many sources of funding compete for a small number of attractive investment opportunities. Hence, we face substantial competition in sourcing good investment opportunities on terms of investment that are commercially attractive.

In addition to the difficulty of finding attractive investment opportunities, our status as a regulated business development company may hinder our ability to participate in investment opportunities or to protect the value of existing investments.

We are required to disclose on a quarterly basis the names and business descriptions of our portfolio companies and the value of any portfolio securities. Most of our competitors are not subject to these disclosure requirements. Our obligation to disclose this information could hinder our ability to invest in some portfolio companies. Additionally, other current and future regulations may make us less attractive as a potential investor than a competitor not subject to the same regulations.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to: (1) increase or maintain in whole or in part our ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or (3) attempt to preserve or enhance the value of our investment. Recently, "pay to play" provisions have become common in venture capital transactions. These provisions require proportionate investment in subsequent rounds of financing in order to preserve preferred rights such as anti-dilution protection or even to prevent preferred shares from being converted to common shares.

We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation, or may cause us to lose some or all preferred rights pursuant to "pay to play" provisions. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities or because we are inhibited by compliance with business development company requirements or the desire to maintain our tax status.

Bank borrowing or the issuance of debt securities or preferred stock by us to fund investments in portfolio companies or to fund our operating expenses would make our total return to common shareholders more volatile.

Use of debt or preferred stock as a source of capital entails two primary risks. The first risk is that the use of debt leverages our available common equity capital, magnifying the impact on net asset value of changes in the value of our investment portfolio. For example, a business development company that uses 33% leverage (that is, $50 of leverage per $100 of common equity) will show a 1.5% increase or decline in net asset value for each 1% increase or decline in the value of its total assets. The second risk is that the cost of debt or preferred stock financing may exceed the return on the assets the proceeds are used to acquire, thereby diminishing rather than enhancing the return to common shareholders. To the extent that we utilize debt or preferred stock financing for any purpose, these two risks would likely make our total return to common shareholders more volatile. In addition, we might be required to sell investments, in order to meet dividend, interest or principal payments, when it may be disadvantageous for us to do so.

As provided in the 1940 Act and subject to some exceptions, we can issue debt or preferred stock so long as our total assets immediately after the issuance, less some ordinary course liabilities, exceed 200% of the sum of the debt and any preferred stock outstanding. The debt or preferred stock may be convertible in accordance with SEC guidelines, which may permit us to obtain leverage at more attractive rates. The requirement under the 1940 Act to pay, in full, dividends on preferred shares or interest on debt before any dividends may be paid on our Common Stock means that dividends on our Common Stock from earnings may be reduced or eliminated. An inability to pay dividends on our Common Stock could conceivably result in our ceasing to qualify as a regulated investment company, or RIC, under the Code, which would in most circumstances be materially adverse to the holders of our Common Stock.

We are authorized to issue preferred stock, which would convey special rights and privileges to its owners.

We are currently authorized to issue up to 2,000,000 shares of preferred stock, under terms and conditions determined by our board of directors. These shares would have a preference over our Common Stock with respect to dividends and liquidation. The statutory class voting rights of any preferred shares we would issue could make it more difficult for us to take some actions that may, in the future, be proposed by the board and/or holders of Common Stock, such as a merger, exchange of securities, liquidation or alteration of the rights of a class of our securities if these actions were perceived by the holders of the preferred shares as not in their best interests. The issuance of preferred shares convertible into shares of Common Stock might also reduce the net income and net asset value per share of our Common Stock upon conversion. These effects, among others, could have an adverse effect on your investment in our Common Stock.

Loss of status as a RIC would reduce our net asset value and distributable income.

We currently intend to qualify as a RIC for 2003 under the tax Code. As a RIC, we do not have to pay federal income taxes on our income (including realized gains) that is distributed to our shareholders. Accordingly, we are not permitted under accounting rules to establish reserves for taxes on our unrealized capital gains. If we failed to qualify for RIC status, to the extent that we had unrealized gains, we would have to establish reserves for taxes, which would reduce our net asset value, net of a reduction in the reserve for employee profit sharing, accordingly. To the extent that we, as a RIC, were to decide to make a deemed distribution of net realized capital gains and retain the net realized capital gains, we would have to establish appropriate reserves for taxes upon making that decision. See "Taxation."

We operate in a regulated environment.

We are subject to substantive SEC regulations as a business development company. Securities and tax laws and regulations governing our activities may change in ways adverse to our and our shareholders' interests, and interpretations of these laws and regulations may change with unpredictable consequences. Any change in the laws or regulations that govern our business could have an adverse impact on us or on our operations. Also, as business and financial practices continue to evolve, they may render the regulations under which we operate less appropriate and more burdensome than they were when originally imposed. See "Certain Government Regulations."

Quarterly results fluctuate and are not indicative of future quarterly performance.

Our quarterly operating results fluctuate as a result of a number of factors. These factors include, among others, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we and our portfolio companies encounter competition in our markets and general economic and capital markets conditions. As a result of these factors, results for any one quarter should not be relied upon as being indicative of performance in future quarters.

To the extent that we do not realize income or retain after-tax realized capital gains, we may have a greater need for additional capital to fund our investments and operating expenses.

As a RIC, we must annually distribute at least 90% of our investment company taxable income as a dividend and may either distribute or retain our realized net capital gains from investments. As a result, these earnings may not be available to fund investments. If we fail to generate net realized capital gains or to obtain funds from outside sources, it would have a material adverse effect on our financial condition and results of operations as well as our ability to make follow-on and new investments. Because of the structure and objectives of our business, we generally expect to experience net operating losses and rely on proceeds from sales of investments, rather than on investment income, to defray a significant portion of our operating expenses. These sales are unpredictable and may not occur. In addition, as a business development company, we are generally required to maintain a ratio of at least 200% of total assets to total borrowings, which may restrict our ability to borrow to fund these requirements.

Investment in foreign securities could result in additional risks.

The Company may invest in foreign securities, although we currently have no investments in foreign securities. If we invest in securities of foreign issuers, we may be subject to risks not usually associated with owning securities of U.S. issuers. These risks can include fluctuations in foreign currencies, foreign currency exchange controls, social, political and economic instability, differences in securities regulation and trading, expropriation or nationalization of assets, and foreign taxation issues. In addition, changes in government administrations or economic or monetary policies in the United States or abroad could result in appreciation or depreciation of our securities and could favorably or unfavorably affect our operations. It may also be more difficult to obtain and enforce a judgment against a foreign issuer. Any foreign investments made by us must be made in compliance with U.S. and foreign currency restrictions and tax laws restricting the amounts and types of foreign investments.

Risks related to this offering.

Investing in our stock is highly speculative and an investor could lose some or all of the amount invested.

Our investment objective and strategies result in a high degree of risk in our investments and may result in losses in the value of our investment portfolio. Our investments in portfolio companies are highly speculative and, therefore, an investor in our Common Stock may lose his or her entire investment. The value of our Common Stock may decline and may be affected by numerous market conditions, which could result in the loss of some or all of the amount invested in our Common Stock. The securities markets frequently experience extreme price and volume fluctuations which affect market prices for securities of companies generally, and technology and very small capitalization companies in particular. Because of our focus on the technology and very small capitalization sectors, and because we are a small capitalization company ourselves, our stock price is especially likely to be affected by these market conditions. General economic conditions, and general conditions in the Internet and information technology, life sciences, nanotechnology, tiny technology, materials sciences and other high technology industries, may also affect the price of our Common Stock.

We will have broad discretion over the use of proceeds of this offering.

We will have significant flexibility in applying the proceeds of this offering. We may also pay operating expenses, including due diligence expenses of potential new investments, from the net proceeds. Our ability to achieve our investment objective may be limited to the extent that the net proceeds of the offering, pending full investment, are used to pay operating expenses.

Our shares might trade at discounts from net asset value or at premiums that are unsustainable over the long term.

Shares of business development companies like us may, during some periods, trade at prices higher than their net asset value and during other periods, as frequently occurs with closed-end investment companies, trade at prices lower than their net asset value. The possibility that our shares will trade at discounts from net asset value or at premiums that are unsustainable over the long term are risks separate and distinct from the risk that our net asset value will decrease. The risk of purchasing shares of a business development company that might trade at a discount or unsustainable premium is more pronounced for investors who wish to sell their shares in a relatively short period of time because, for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. Our Common Stock may not trade at a price higher than or equal to net asset value. On June 1, 2004, our stock closed at $14.65 per share, a premium of $11.64 over our net asset value per share of $3.01 as of March 31, 2004.

Our former independent public accountant, Arthur Andersen LLP, has been found guilty of a federal obstruction of justice charge, and you may be unable to exercise effective remedies against it in any legal action.

Our former independent public accountant, Arthur Andersen LLP, provided us with auditing services for prior fiscal periods through December 31, 2001, including issuing an audit report with respect to our audited consolidated financial statements as of and for the year ended December 31, 2001 incorporated by reference in this Prospectus. On June 15, 2002, a jury in Houston, Texas found Arthur Andersen LLP guilty of a federal obstruction of justice charge arising from the federal government's investigation of Enron Corp. On August 31, 2002, Arthur Andersen LLP ceased practicing before the SEC.

We were unable to obtain Arthur Andersen LLP's consent to incorporate by reference in this Prospectus its report with respect to our audited consolidated financial statements as of and for the year ended December 31, 2001. Rule 437(a) under the Securities Act of 1933, or the Securities Act, permits us to dispense with the requirement to file their consent. As a result, you may not have an effective remedy against Arthur Andersen LLP in connection with a material misstatement or omission with respect to our audited consolidated financial statements that are incorporated by reference in this Prospectus or any other filing we may make with the SEC, including, with respect to this offering or any other offering registered under the Securities Act, any claim under Section 11 of the Securities Act. In addition, even if you were able to assert a claim, as a result of its conviction and other lawsuits, Arthur Andersen LLP may fail or otherwise have insufficient assets to satisfy claims made by investors or by us that might arise under federal securities laws or otherwise relating to any alleged material misstatement or omission with respect to our audited consolidated financial statements.

You have no right to require us to repurchase your shares.

You do not have the right to require us to repurchase your shares of Common Stock.

FORWARD-LOOKING INFORMATION

This Prospectus may contain "forward-looking statements" based on our current expectations, assumptions, and estimates about us and our industry. These forward-looking statements involve risks and uncertainties. Words such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will," "may," "continue" and other similar expressions identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of several factors more fully described in "Risk Factors" and elsewhere in this Prospectus. The forward-looking statements made in this Prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

USE OF PROCEEDS

We estimate the total net proceeds of the offering to be up to $112,000,000.

We expect to invest or reserve for potential follow-on investment the net proceeds of any offering within two years from the completion of such offerings. Reserves for follow-on investments referred to above in any particular initial investment may be no more than the greater of twice the investment to date or five times the initial investment in the case of seed-stage investments. Although we intend to make our initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing portfolio companies involved in other technologies. Pending investment in portfolio companies, we intend to invest the net proceeds of any offering of our Common Stock in time deposits and/or income-producing securities that are issued or guaranteed by the federal government or an agency of the federal government or a government owned corporation, which are likely to yield less than our operating expense ratio. We may also use the proceeds of this offering for operating expenses, including due diligence expenses on potential investments. If we pay operating expenses from the proceeds, it will reduce the net proceeds of the offering that we will have available for investment.

PRICE RANGE OF COMMON STOCK

Our Common Stock is traded on the Nasdaq National Market under the symbol "TINY."

The following table sets forth for the quarters indicated, the high and low sale prices on the Nasdaq National Market per share of our Common Stock and the net asset value and the premium or discount from net asset value per share at which the shares of Common Stock were trading, expressed as a percentage of net asset value, at each of the high and low sale prices provided.

Quarter Ended	Market Price High	Market Price Low	Net Asset Value ("NAV") Per Share at End of Period	Premium o % High
March 31, 2000	$35.75	$9.00	$5.08	603.7%
June 30, 2000	18.50	5.13	3.88	376.8
September 30, 2000	10.75	5.50	4.64	131.7
December 31, 2000	7.13	2.25	3.51	103.1
March 31, 2001	4.25	2.06	3.09	37.5
June 30, 2001	3.29	2.01	3.29	0.0
September 30, 2001	2.86	1.60	2.92	(2.1)
December 31, 2001	2.33	1.55	2.75	(15.3)
March 31, 2002	5.50	1.80	2.63	109.1
June 30, 2002	5.10	2.74	2.68	90.3
September 30, 2002	2.99	2.00	2.61	14.6
December 31, 2002	2.50	1.85	2.37	5.5
March 31, 2003	3.99	2.36	2.26	76.5
June 30, 2003	7.95	2.71	2.22	258.1
September 30, 2003	9.49	4.47	2.11	349.8
December 31, 2003	12.29	6.18	2.95	316.6
March 31, 2004	20.70	11.47	3.01	587.7

The last reported price for our Common Stock on June 1, 2004 was $14.65 per share. As of May 12, 2004, we had approximately 130 shareholders of record.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in this section should be read in conjunction with our 2003 Consolidated Financial Statements and the Notes thereto. In addition, this Prospectus contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as "believe," "anticipate," "estimate," "expect," "intend," "plan," "will," "may" or "continue" or the negative thereof or other variations thereon or comparable terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions.

Information presented for portfolio companies has been obtained from the portfolio companies.

Background and Overview

We incorporated under the laws of the state of New York in August 1981. In 1983, we completed an initial public offering and invested $406,936 in Otisville BioTech, Inc., which also completed an initial public offering later that year. In 1984, Charles E. Harris purchased a controlling interest in us, thereby also becoming the control person in Otisville. We then divested our other assets and became a financial services company, with the investment in Otisville as the initial focus of our business activity. We hired new management for Otisville, and Otisville acquired new technology targeting the development of a human blood substitute.

By 1988, we operated two insurance brokerages and a trust company as wholly-owned subsidiaries. In 1989, Otisville changed its name to Alliance Pharmaceutical Corporation, and by 1990, we had completed selling our $406,936 investment in Alliance for total proceeds of $3,923,559.

In 1992, we sold our insurance brokerage and trust company subsidiaries to their respective managements and registered as an investment company under the 1940 Act, commencing operations as a closed-end, non-diversified investment company. In 1995, we elected to become a business development company subject to the provisions of Sections 55 through 65 of the 1940 Act. We have made early stage venture capital investments in a variety of industries since 1983. In 1994, we made our first tiny technology investment. Since August 2001, we have made initial investments exclusively in tiny technology, including our last 15 initial investments.

Since our investment in Otisville in 1983, we have made a total of 57 venture capital investments, including four investments, via private placements, in securities of publicly traded companies. We have sold 38 of these 57 investments, realizing total proceeds of $108,159,142 on our invested capital of $40,094,851. Seventeen of these 38 investments were profitable. The average and median holding periods for these 38 investments were 3.5 years and 3.2 years, respectively, from the first dollar invested to the last dollar received. At March 31, 2004, we valued the 18 venture capital investments remaining in our portfolio at $21,428,191, or 51.6%, of our net assets, net of unrealized depreciation of $1,563,651. At March 31, 2004, the average and median holding periods for our 18 current venture capital investments were 2.9 years and 2.0 years, respectively, from first dollar invested to March 31, 2004. Because most of these investments entailed more than one round of financing, the average and median periods of time that our money was invested were shorter than the average and median holding periods as measured from first dollar invested to last dollar received.

We have invested a substantial portion of our assets in private, development stage or start-up companies. These private businesses tend to be thinly capitalized, unproven, small companies that lack management depth, have little or no history of operations and are developing unproven technologies. At March 31, 2004, $21,428,191, or 51.6%, of our net assets consisted of venture capital investments at fair value, net of unrealized depreciation of

$1,563,651. At December 31, 2003, $15,106,576, or 37.1%, of our net assets consisted of venture capital investments at fair value, of which net unrealized depreciation was $2,375,303. At December 31, 2002, $12,036,077, or 44.2%, of our net assets consisted of venture capital investments at fair value, of which net unrealized appreciation was $2,718,389.

Because none of our current venture capital investments have readily available market values, we value our venture capital investments each quarter at fair value as determined in good faith by our valuation committee within guidelines established by our board of directors in accordance with the 1940 Act. See "Determination of Net Asset Value."

We have broad discretion in the investment of our capital. However, we invest primarily in illiquid equity securities of private companies. Generally, these investments take the form of preferred stock, are subject to restrictions on resale and have no established trading market. Our principal objective is to achieve long-term capital appreciation. Therefore, a significant portion of our investment portfolio provides little or no income in the form of dividends or interest. We do earn interest income from fixed-income securities, including U.S. government and government agency securities. The amount of interest income we earn varies with the average balance of our fixed-income portfolio and the average yield on this portfolio and is not expected to be material to our results of operations.

General business and capital markets conditions in 2002 and 2003 were adverse for the venture capital industry. There were few opportunities to take venture capital-backed companies public or sell them to established companies. During this period, it was also difficult to finance venture capital-backed companies privately and, in general, for venture capital funds themselves to raise capital.

We present the financial results of our operations utilizing accounting principles generally accepted in the United States for investment companies. On this basis, the principal measure of our financial performance during any period is the net increase/(decrease) in our net assets resulting from our operating activities, which is the sum of the following three elements:

Net Operating Income / (Loss) - the difference between our income from interest, dividends, and fees and our operating expenses.

Net Realized Gain / (Loss) on Investments - the difference between the net proceeds of sales of portfolio securities and their stated cost.

Net Increase / (Decrease) in Unrealized Appreciation on Investments - the net change in the fair value of our investment portfolio.

Because of the structure and objectives of our business, we generally expect to experience net operating losses and seek to generate increases in our net assets from operations through the long term appreciation of our venture capital investments. We have in the past relied, and continue to rely, on proceeds from sales of investments, rather than on investment income, to defray a significant portion of our operating expenses. Because sales of our investments are unpredictable, we attempt to maintain adequate working capital to provide for fiscal periods when we have no sales of investments.

SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

BALANCE SHEET DATA

Financial Position as of:	December 31, 2003	2002	2001	2000	1
Total assets	$ 44,115,128	$ 35,951,969	$ 39,682,367	$ 43,343,423	$ 65
Total liabilities	$ 3,432,390	$ 8,695,923	$ 15,347,597	$ 11,509,948	$ 11
Net assets	$ 40,682,738	$ 27,256,046	$ 24,334,770	$ 31,833,475	$ 53
Cash dividends paid	$ 0.00	$ 0.00	$ 0.00	$ 184,817	$ 3
Net asset value per outstanding share	$ 2.95	$ 2.37	$ 2.75	$ 3.51	$
Cash dividends paid per outstanding share	$ 0.00	$ 0.00	$ 0.00	$ 0.02	
Shares outstanding	13,798,845	11,498,845	8,864,231	9,064,231	9

OPERATING DATA

For the twelve months ended December 31,

	2003	2002	2001	2000	
Total investment income	$ 167,785	$ 253,461	$ 510,661	$ 687,050	$
Total expenses(1)	$ 2,731,527	$ 2,124,549	$ 1,035,221	$ (2,623,200)	$
Net operating (loss) income	$ (2,563,742)	$ (1,871,088)	$ (524,560)	$ 3,310,250	$ (
Total tax expense (benefit)	$ 13,761	$ 199,309	$ 27,951	$ (51,869)	$
Net realized gain (loss) on investments	$ (984,925)	$ 2,390,302	$ 1,276,366	$ 18,963,832	$
Net realized income (loss)	$ (3,548,667)	$ 519,214	$ 751,806	$ 22,274,082	$ (
Net increase (decrease) in unrealized appreciation on investments	$ 343,397	$ (3,241,408)	$ (7,641,044)	$ (37,781,289)	$ 3
Net increase (decrease) in net assets resulting from operations	$ (3,205,270)	$ (2,722,194)	$ (6,889,238)	$ (15,507,204)	$ 3
Increase (decrease) in net assets resulting from operations per outstanding share	$ (0.28)	$ (0.24)	$ (0.78)	$ (1.71)	

(1) Included in total expenses are the following profit sharing (reversals)/accruals: $(163,049) in 2002; $(984,021) in 2001; $(4,812,675) in 2000; and $8,110,908 in 1999.

SELECTED QUARTERLY DATA (UNAUDITED)

	2004	2003			
	1st Quarter	1st Quarter	2nd Quarter	3rd Quarter	4th
Total investment income	$ 56,536	$ 64,676	$ 50,564	$ 30,612	$
Net operating loss	$ 749,865	$ 584,460	$ 726,989	$ 572,346	$
Net increase (decrease) in net assets resulting from operations	$ 820,515	$ (1,215,127)	$ (544,709)	$ (1,270,298)	$ (1
Net increase (decrease) in net assets resulting from operations per outstanding share	$ 0.06	$ (0.11)	$ (0.05)	$ (0.11)	$

	2002			
	1st Quarter	2nd Quarter	3rd Quarter	4th
Total investment income	$ 59,462	$ 60,368	$ 77,413	$
Net operating loss	$ 556,233	$ 654,718	$ 479,433	$
Net Increase (decrease) increase in net assets resulting from operations	$ (1,036,934)	$ 434,289	$ 660,988	$ (2
Net Increase (decrease) increase in net assets resulting from operations per outstanding share	$ (0.12)	$ 0.05	$ 0.06	$

Results of Operations

Three months ended March 31, 2004, as compared to the three months ended March 31, 2003

We had a net increase in net assets resulting from operations of $820,515 in the three months ended March 31, 2004, as compared with a net decrease in net assets resulting from operations of $1,215,127 in the three months ended March 31, 2003.

Investment Income and Expenses:

We had net operating losses of $749,865 and $584,460 for the three months ended March 31, 2004, and March 31, 2003, respectively. In the three months ended March 31, 2004, our larger net operating loss reflected a net increase in expenses primarily related to increases in salaries and benefits and in expenses for administration and operations.

Operating expenses were $806,401 and $649,136 for the three months ended March 31, 2004, and March 31, 2003, respectively. In the three months ended March 31, 2004, as compared with the three months ended March 31, 2003, salaries and benefits increased by $107,879 or 29.8%, primarily as a result of an additional employee; administration and operations increased by $64,187, or 67.5%, primarily as a result of an increase in travel and entertainment expenses for due diligence work on potential portfolio companies and a shift in the timing of an annual contribution to the MIT Entrepreneurship Center that we made in the first quarter of 2004 and in the second quarter of 2003.

Realized Gains and Losses on Portfolio Securities:

During the three months ended March 31, 2004, and March 31, 2003, we realized gains of $793,389 and $432, respectively.

During the three months ended March 31, 2004, we realized net gains of $793,389, consisting primarily of a realized gain of $1,681,259 resulting from the sale of our investment in NanoGram Devices Corporation, offset by a realized loss of $915,108 resulting from the sale of our shares of Series D Convertible Preferred Stock in NeoPhotonics Corporation.

Unrealized Appreciation and Depreciation of Portfolio Securities:

Net unrealized depreciation on investments decreased by $783,787, or 33.0%, during the three months ended March 31, 2004, from $2,376,716 at December 31, 2003, to $1,592,929 at March 31, 2004.

During the three months ended March 31, 2004, we recorded a net decrease of $811,652 in unrealized depreciation of our venture capital investments, primarily as a result of the realization of the loss of $915,108 on the sale of our shares of Series D Convertible Preferred stock in NeoPhotonics Corporation.

Years Ended December 31, 2003, 2002, and 2001

During the three years ended December 31, 2003, 2002, and 2001, we had net decreases in net assets resulting from operations of $3,205,270, $2,722,194 and $6,889,238, respectively.

Investment Income and Expenses:

During the three years ended December 31, 2003, 2002, and 2001, we had net operating losses of $2,563,742, $1,871,088 and $524,560, respectively.

The variation in these results is primarily owing to the changes in operating expenses. During the three years ended December 31, 2003, 2002, and 2001, operating expenses were $2,731,527, $2,124,549 and $1,035,221, respectively. The increase during 2003 was primarily owing to increases in salary and benefits. During 2003, the full year effect of a new employee who started in September 2002 was realized. In addition, we recorded expense of $225,000 owing to the establishment of a Mandatory Retirement Plan in 2003 to be amortized over the two-year period of 2003 and 2004 at the rate of $225,000 per annum. The increase in expenses in 2002 was primarily owing to the $163,049 reversal of the profit sharing accrual in 2002 versus the $984,021 reversal of the profit sharing accrual in 2001, as well as an increase in salaries and benefits, primarily owing to an increase in the retirement medical benefit expense and the expense of a new employee who started in September 2002, and an increase in professional fees, primarily as a result of expenses associated with new investments and preparation of our proxy statement.

Realized Gains and Losses on Sales of Portfolio Securities:

During the three years ended December 31, 2003, 2002, and 2001, we realized net (losses) gains on sales of portfolio securities of ($971,164), $3,284,737 and $1,394,781, respectively.

During 2003, we realized a loss of $1,000,001 on the tax write-off of our investment in Kriton Medical, Inc., which had been previously written-off for book purposes. As a result of the loss realized in 2003 on the tax write-off of Kriton Medical, Inc., unrealized appreciation increased by $1,000,001.

During 2002, we realized a gain of $4,776,360 from the liquidation of our partnership interest in PHZ Capital Partners L.P., and losses of $350,583 and $1,248,825 from the liquidation of Informio, Inc., and the sale of our previously written-off investment in Schwoo, Inc., respectively.

During 2001, we realized gains on the sales of our investments in Nanophase Technologies Corporation of $2,762,696 and Genomica Corporation of $1,022,905. We realized losses on the sales of our investments in: Essential.com, Inc., in the amount of $1,349,512; shares of SciQuest.com, Inc. purchased in the open market, in the amount of $1,258,679; and MedLogic Global Corporation, in the amount of $1,033,765. We also realized a gain of $1,266,729 from our partnership interest in PHZ Capital Partners L.P. As a result of the gains and losses realized during 2001, unrealized appreciation decreased by $3,948,271.

Unrealized Appreciation and Depreciation of Portfolio Securities:

During the year ended December 31, 2003, net unrealized depreciation on investments decreased by $343,397. During the years ended December 31, 2002, and 2001, net unrealized appreciation decreased by $3,936,534 and $7,731,508, respectively. The decrease in net unrealized depreciation during 2003 was primarily owing to decreases in the valuations of our venture capital investments of $1,421,220, including increases in unrealized depreciation of Agile Material and Technologies, Inc., of $750,000, Experion Systems, Inc., of $325,662 and NeoPhotonics Corporation of $345,558, offset by a decrease in unrealized depreciation of Continuum Photonics, Inc., of $226,046 and an increase in unrealized appreciation in Nanotechnologies, Inc., of $357,963. In addition, unrealized appreciation increased by $1,000,001 as a result of the loss realized in 2003 on the tax write-off of Kriton Medical, Inc., which had previously been written off for book purposes.

The decrease during 2002 was primarily owing to decreases in the valuations of our venture capital investments of $3,933,834, including a decrease in unrealized appreciation of NeuroMetrix, Inc. of $1,986,081. Unrealized appreciation (depreciation) on investments was ($2,720,113) and $1,216,420 at December 31, 2002, and 2001, respectively.

The decrease in net unrealized appreciation during 2001 was primarily owing to decreases in the valuations of our venture capital investments, including decreases in the valuations of our holdings of Nanophase Technologies Corporation, Genomica Corporation and Schwoo, Inc. of $5,499,664, $1,540,375 and $1,248,827, respectively, offset by increases in unrealized appreciation of $1,528,082 and $1,033,775 as a result of the realization of the losses on the sales of our investments in SciQuest.com, Inc. and MedLogic Global Corporation.

Financial Condition

Three Months ended March 31, 2004

Our total assets and net assets were $55,105,581 and $41,503,253, respectively, at March 31, 2004, compared with $44,115,128 and $40,682,738 at December 31, 2003.

Net asset value per share ("NAV") was $3.01 at March 31, 2004, versus $2.95 at December 31, 2003. Our shares outstanding remained unchanged during the three months ended March 31, 2004.

Significant developments in the three months ended March 31, 2004, were an increase in payable to broker for unsettled trade of $10,583,080 and an increase in the value of our investment in U.S. government and government obligations of $4,492,780.

The increase in the value of our venture capital investments, from $15,106,576 at December 31, 2003, to $21,428,191 at March 31, 2004, resulted primarily from two new venture capital investments and five follow-on investments, partially offset by a net decrease in the net value of our previous venture capital investments, reflecting the sale of NanoGram Devices.

The following table is a summary of additions to our portfolio of venture capital investments during the three months ended March 31, 2004:

New Investment	Amount
Molecular Imprints, Inc.	$2,000,000
NeoPhotonics Corporation	$1,925,000
Follow-on Investment	
Agile Materials & Technologies, Inc.	$ 75,901
Continuum Photonics, Inc.	$ 739,000
Experion Systems, Inc.	$ 121,262
NanoOpto Corporation	$ 612,500
NeuroMetrix, Inc.	$1,749,999
Total	$7,223,662

The following tables summarize the fair values of our portfolios of venture capital investments and U.S. Government and agency Obligations, as compared with their cost, at March 31, 2004, December 31, 2003, and December 31, 2002:

	March 31, 2004	December 31, 2003
Venture capital investments, at cost	$22,991,842	$17,481,879
Unrealized depreciation(1)	1,563,651	2,375,303
Venture capital investments, at fair value	$21,428,191	$15,106,576

	March 31, 2004	December 31, 2003
U.S. Government and Agency Obligations, at cost	$31,642,544	$27,121,899
Unrealized depreciation(1)	29,278	1,413
U.S. Government and Agency Obligations, at fair value	$31,613,266	$27,120,486

(1)At March 31, 2004, December 31, 2003, and December 31, 2002, the accumulated unrealized depreciation on investments, including deferred taxes, was $2,437,848, $3,221,635 and $3,565,032, respectively.

The following table summarizes the fair value composition of our venture capital investment portfolio at March 31, 2004, December 31, 2003, and December 31, 2002:

Category	March 31, 2004	December 3 2003
Tiny Technology	63.6%	60.7%
Other Venture Capital Investments	36.4%	39.3%
Total Venture Capital Investments	100.0%	100.0%

Year ended December 31, 2003

At December 31, 2003, our total assets and net assets were

$44,115,128 and $40,682,738, respectively. Our NAV per share at that date was $2.95, and our shares outstanding increased to 13,798,845 versus 11,498,845 at December 31, 2002.

During the 12 months ended December 31, 2003, significant financial developments included the receipt of net proceeds of $16,631,962 pursuant to the issuance of 2,300,000 new shares of our Common Stock and a decrease in payable to broker for unsettled trade of $5,696,725. In addition, the value of our venture capital investments increased by $3,070,499, to $15,106,576 at December 31, 2003, primarily owing to three new venture capital investments and five follow-on investments totaling $3,727,718 and increases in the valuations of our venture capital investments of $848,883, offset by write-downs in the valuations of our venture capital investments of $1,506,102.

The following table is a summary of additions to our portfolio of venture capital investments during the year ended December 31, 2003:

New Investment	Amount
Chlorogen, Inc.	$ 525,900
NanoGram Devices Corporation	$ 750,000
Nanosys, Inc.	$1,500,000
Follow-on Investment	
Chlorogen, Inc.	$ 259,100
NanoOpto Corporation	$ 125,000
Nanotechnologies, Inc.	$ 169,718
Nantero, Inc.	$ 323,000
NeoPhotonics, Inc.	$ 75,000
Total	$3,727,718

Year Ended December 31, 2002

At December 31, 2002, our total assets and net assets were $35,951,969 and $27,256,046, respectively. Our NAV at that date was $2.37, and our shares outstanding increased to 11,498,845 versus 8,864,231 at December 31, 2001.

During the 12 months ended December 31, 2002, significant financial developments included: (1) the payment of $271,467 in federal income taxes as a result of our deemed dividend distribution to shareholders; (2) a net decrease in the unrealized appreciation of our venture capital investments of $3,933,834, including a decrease in the unrealized appreciation of NeuroMetrix, Inc., of $1,986,081; (3) a decrease in bank loan payable of $12,495,777; (4) the receipt of net proceeds of $5,643,470 pursuant to the issuance and exercise of transferable rights for 2,634,614 new shares of our Common Stock; and (5) the receipt of $5,700,000 in cash and a recorded receivable in the amount of $786,492 related to the liquidation of our partnership interest in PHZ Capital Partners L.P.

In addition, the value of our venture capital investments decreased by $1,084,901, to $12,036,077 at December 31, 2002, primarily owing to seven new venture capital investments and two follow-on investments totaling $7,195,988, partially offset by write-downs in the valuations of our venture capital investments of $5,213,959 and the liquidations of Informio, Inc., and our partnership interest in PHZ Capital Partners L.P., which decreased the value of our venture capital investments by a total of $3,072,382 from the value at December 31, 2001.

The following table is a summary of additions to our portfolio of venture capital investments for the year ended December 31, 2002:

New Investment	Amount
Agile Materials & Technologies, Inc.	$1,000,000
Continuum Photonics, Inc.	$1,000,000
Nanopharma Corp.	700,000
NanoOpto Corporation	625,000
Nanotechnologies, Inc.	750,000
Neo Photonics Corporation	$1,000,000
Optiva, Inc.	$1,250,000
Follow-on Investment	
Experion Systems, Inc.	$ 517,706
NeuroMetrix, Inc.	$ 353,282
Total	$7,195,988

The following tables summarize the fair value of our portfolios of venture capital investments and U.S. Government and Agency Obligations, as compared with their cost, at December 31, 2003, and December 31, 2002:

	December 31
	2003
Venture capital investments, at cost	$17,481,879
Unrealized depreciation(1)	2,375,303
Venture capital investments, at fair value	$15,106,576

	December 31
	2003
U.S. Government and Agency Obligations, at cost	$27,121,899
Unrealized depreciation(1)	1,413
U.S. Government and Agency Obligations, at fair value	$27,120,486

(1)At December 31, 2003, and December 31, 2002, the accumulated unrealized depreciation on investments, including deferred taxes, was $3,221,635 and $3,565,032, respectively.

The following table summarizes the fair value composition of our venture capital investment portfolio at December 31, 2003, and December 31, 2002:

Category	December 31, 2003	December 31, 2002
Tiny Technology	60.7%	49.0%
Other Venture Capital Investments	39.3%	51.0%
Total Venture Capital Investments	100.0%	100.0%

Cash Flow

Year Ended December 31, 2003

Cash flow used in operating activities for the year ended December 31, 2003, was $6,592,321, reflecting the following changes from December 31, 2002, to December 31, 2003: an increase to restricted funds of $455,134; a payment of a payable to a broker for an unsettled trade of $5,696,725; and a decrease to current income tax liability of $857,656. In addition, net realized and unrealized loss on investments was $1,047,140, and the net decrease in net assets resulting from operations was $3,624,643.

Cash used in investing activities for the year ended December 31, 2003, was $15,582,923, primarily reflecting an increase in our investment in U.S. Treasury Bills of $11,669,430 and investments in private placements of $3,727,718.

Cash provided by financing activities for the year ended December 31, 2003, was $16,633,462, primarily reflecting net proceeds of $16,631,962 from the issuance of 2,300,000 new shares of our Common Stock. We expect to invest or earmark for investment the net proceeds of this issuance within approximately one year, depending on the available investment opportunities for the types of investments that we make. Although we intend to make our initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing portfolio companies involved in other technologies. Pending investment in portfolio companies, we intend to invest the net proceeds of any offering of shares of our Common Stock in time deposits and/or income-producing securities that are issued or guaranteed by the federal government or an agency of the federal government of a government owned corporation, which are likely to yield less than our operating expenses. We may also pay operating expenses, including due diligence expenses on potential investments, from the proceeds, which will reduce the net proceeds of any offering of shares of our Common Stock that we will have available for investment.

Year Ended December 31, 2002

Cash flow provided by operating activities for the year ended December 31, 2002, was $1,923,048, reflecting the following changes from December 31, 2001, to December 31, 2002: a payable to a broker for an unsettled trade of $5,969,725; an increase in funds held in escrow of $750,000; and an increase in a receivable from a partnership liquidation of $786,492. In addition, net realized and unrealized loss on investments was $651,797, and the net decrease in net assets resulting from operations was $2,722,194.

Cash provided by investing activities for the year ended December 31, 2002, was $10,751,980, reflecting a decrease in our investment in U.S. Treasury Bills of $10,358,006 and the proceeds from the liquidation of investments of $7,631,100, offset by investments in private placements of $7,195,988.

Cash used in financing activities for the year ended December 31, 2002, was $6,842,807, reflecting the payment of the outstanding balance on the asset line of credit of $12,495,777, offset by the net proceeds from a rights offering of $5,643,470. We intended to invest in tiny technology, under normal circumstances, directly or indirectly, the net proceeds of the rights offering in accordance with our investment objectives and policies, within the 12 months following the receipt of the net proceeds of the rights offering, depending on the available investment opportunities.

Liquidity and Capital Resources

Our primary sources of liquidity are cash, receivables and freely marketable securities, net of short-term indebtedness. Our secondary sources of liquidity are restricted securities of companies that are publicly traded. We currently have no restricted securities of companies that are publicly traded.

Three Months ended March 31, 2004

At March 31, 2004, and December 31, 2003, our total net primary liquidity was $21,451,597 and $27,563,886, respectively.

The decrease in our primary source of liquidity from December 31, 2003, to March 31, 2004, is primarily owing to the receipt of the proceeds from the sale of our investment in NanoGram Devices Corporation offset by our investments in Agile Materials & Technologies, Inc., Continuum Photonics, Inc., Experion Systems, Inc., Molecular Imprints, Inc., NanoOpto Corporation, NeoPhotonics Corporation and NeuroMetrix, Inc., and use of funds for net operating expenses.

Year Ended December 31, 2003

At December 31, 2003, 2002, and 2001, our net primary liquidity was $27,563,886, $16,508,057 and $13,459,654, respectively. On each of those corresponding dates, our secondary liquidity was $0, as we had no restricted securities of companies that are publicly traded.

Our net primary sources of liquidity are more than adequate to cover our gross cash operating expenses over the next 12 months. Our gross cash operating expenses totaled $2,455,454, $2,256,991 and $1,992,341 in 2003, 2002 and 2001, respectively.

During the year ended December 31, 2003, the increase in our net primary liquidity was primarily owing to: (1) our payment of federal, state and local taxes; (2) our investments in Chlorogen, Inc., NanoGram Devices Corporation, NanoOpto Corporation, Nanosys, Inc., Nanotechnologies, Inc., Nantero, Inc., and NeoPhotonics, Inc.; and (3) our use of funds for operating expenses; offset by our receipt of $16,631,962 of net proceeds from an offering of our Common Stock that closed on December 30, 2003.

On November 19, 2001, we established an asset account line of credit. The asset account line of credit is secured by our U.S. government and government agency securities with which we secure the line. Under the asset account line of credit, we may borrow up to 95% of the current value of our U.S. government and government agency securities. Our outstanding balance under the asset line of credit at both December 31, 2003, and December 31, 2002, was $0. When utilized, the asset line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points.

Year Ended December 31, 2002

At December 31, 2002, and 2001, our net primary liquidity was $16,508,057 and $13,459,654, respectively. On each of the corresponding dates, our secondary liquidity was $0. Our tertiary source of liquidity was our partnership interest in PHZ Capital Partners L.P., from which we received cash distributions in 2002 and 2001 of $6,588,661 and $172,068, respectively. We liquidated our 20% partnership interest in PHZ for $5,700,000 effective December 31, 2002, and we received a final distribution of $786,492 on January 16, 2003. At December 31, 2002, this final distribution of $786,492 was included in net primary liquidity as a receivable.

During the year ended December 31, 2002, the increase in our net primary liquidity was primarily owing to: (1) our payment of federal income taxes; (2) our investments in Nanopharma Corp., NanoOpto Corporation, NeoPhotonics Corporation, Experion Systems, Inc., Continuum Photonics, Inc., Nanotechnologies, Inc., Optiva, Inc., Agile Materials & Technologies, Inc., and NeuroMetrix, Inc.; (3) our funds held in escrow for a pending venture capital investment; and (4) our use of funds for operating expenses; offset by our receipt of $5,643,470 of net proceeds from a rights offering of our Common Stock that closed July 31, 2002.

Critical Accounting Policies

Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management's most difficult, complex or subjective judgments. Our critical accounting policies are those applicable to the valuation of investments.

Valuation of Portfolio Investments

As a business development company, we invest primarily in illiquid securities including debt and equity securities of private companies. The investments are generally subject to restrictions on resale and generally have no established trading market. We value substantially all of our equity investments at fair value as determined in good faith by our valuation committee on a quarterly basis. The valuation committee, comprised of at least three or more non-interested board members, reviews and approves the valuation of our investments within the guidelines established by the board of directors. Fair value is generally defined as the amount that an investment could be sold for in an orderly disposition over a reasonable time. Generally, to increase objectivity in valuing our assets, external measures of value, such as public markets or third party transactions, are utilized whenever possible. Valuation is not based on long term work-out value, nor immediate liquidation value, nor incremental value for potential changes that may take place in the future.

Recent Developments

On April 13, 2004, we made a $150,000 follow-on investment in the form of a Convertible Bridge Note of a privately held portfolio company.

On April 20, 2004, we made a $75,901 follow-on investment in the form of a Convertible Bridge Note of a privately held portfolio company.

On May 7, 2004, we made a $50,000 follow-on investment in a privately held portfolio company and a $250,000 initial investment in a privately held portfolio company.

On May 10, 2004, we made a $12,091 follow-on investment in a privately held portfolio company by purchasing shares from selling shareholders.

On May 27, 2004, we made a $1,000,000 new investment in a privately held company.

BUSINESS

We are a venture capital company specializing in tiny technology. We operate as a business development company under the 1940 Act. Our investment objective is to achieve long-term capital appreciation, rather than current income, by making venture capital investments in early stage companies. While our portfolio includes non-tiny technology investments made prior to 2001, we now make our initial investments exclusively in tiny technology companies. By making these investments, we seek to provide our shareholders with an increasingly specific focus on tiny technology through a portfolio of venture capital investments that address a variety of markets and products. We believe that we are the only publicly traded U.S. venture capital company specializing in tiny technology.

As is usual in the venture capital industry, our venture capital investments are primarily in convertible preferred stock, which is usually the most senior security in a portfolio company's equity capital structure until the company has substantial revenues, and which gives us seniority over the holders of Common Stock (usually the founders) while preserving fully our participation in the upside potential of the portfolio company through the conversion feature and, in many cases, a dividend right payable in kind (which increases our participation in the portfolio company) or potentially in cash.

We have a long history of investing in venture capital and of business development. Our approach is traditional, in that we prefer a patient examination of available early stage opportunities, thorough due diligence and close involvement with management. Unlike most private equity and venture capital funds, we will not be subject to any requirement to return capital to investors. Such requirements typically stipulate that these funds can only be invested once and, together with any capital gains on such investment, must be returned to investors after a pre-agreed time period. These provisions often force private equity and venture capital funds to seek investments that are likely to be able to be sold relatively quickly or to seek returns on their investments through mergers, public equity offerings or other liquidity events more quickly than they otherwise might, potentially resulting in both a lower overall return to investors and an adverse impact on their portfolio companies.

In addition, to the investor, we offer:

- a portfolio consisting of investments that are generally available only to a small, highly specialized group of investors;

- a qualified team of professionals including four full time members of management, each of whom are designated as Managing Directors and vote on all purchases and sales of private equity investments, Charles E. Harris, Mel P. Melsheimer, Daniel V. Leff and Douglas W. Jamison, and two directors who are also consultants, Dr. Kelly S. Kirkpatrick and Lori D. Pressman, who collectively have expertise in venture capital, intellectual property and nanotechnology to evaluate and monitor investments;

- the opportunity to benefit from our experience in a new field expected to permeate a variety of industries; and

- through the ownership of our publicly traded shares, a measure of liquidity not available in typical underlying venture capital portfolio investments.

Microsystems, microelectromechanical systems, which we refer to as MEMS, and nanotechnology are often referred to collectively as "tiny technology," or "small technology," by scientists and others in this field. Tiny technology is multidisciplinary and widely applicable, and it incorporates technology that is significantly smaller than is currently in general use. Microsystems are measured in micrometers, which are units of measurement in millionths of a meter. Nanotechnology is measured in nanometers, which are units of measurement in billionths of a meter. Because it is a new field, tiny technology has significant scientific, engineering and commercialization risks.

Tiny technology, particularly nanotechnology, is distinguished by its applicability to a wide range of industries. As a venture capital company, we make it possible, through the ownership of our shares, for our shareholders to participate in this emerging field at an earlier stage than would typically be possible for them. By making investments in companies that control intellectual property relevant to tiny technology, we are building a portfolio that we believe will be difficult to replicate in the future, as we believe it will likely become increasingly difficult to create new intellectual property in tiny technology.

Since registering as an investment company in 1992, we have invested in a variety of industries. In 1994, we invested in our first nanotechnology company, Nanophase Technologies Corporation. In 1995, we elected to be regulated as a business development company. Recognizing the potential of tiny technology, we continued to monitor developments in the field, and since 2001 we have made tiny technology the exclusive focus of our initial investment activity. Since August 2001, all 15 of our initial investments have been in companies involved in the development of products and technologies based on tiny technology.

Our portfolio now includes a total of 19 companies, of which we consider 14 to be involved in tiny technology. While we intend to make initial investments exclusively in companies that we believe are involved significantly in tiny technology, we may also make follow-on investments in existing non-tiny technology portfolio companies. The balance of our funds is primarily invested in short-term U.S. government and government agency securities. We are an internally managed investment company because our officers and employees, under the general supervision of our board of directors, control our operations. We have no investment adviser.

Subject to our compliance with business development company and tax code requirements, there are no limitations on the types of securities or other assets, foreign or domestic, in which we may invest. Investments may include the following:

- equity, equity-related securities (including warrants) and debt with equity features from either private or public issuers, whether in corporate, partnership or other form, including development stage or start-up entities;

- debt obligations of all types having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity; and

- to a limited extent, intellectual property, including patents, research and development in technology or product development that may lead to patents or other marketable technology.

Neither our investments nor an investment in our securities constitutes a balanced investment program. We have been and will continue to be risk seeking rather than risk averse in our investment approach. We reserve the fullest possible freedom of action regarding the types of investments we make and our relationship with our portfolio companies, subject to our certificate of incorporation, applicable law and regulations, and policy statements described herein. Our tiny technology investment policy is not a "fundamental policy" under the 1940 Act and, accordingly, may be changed without shareholder approval, although we will give shareholders at least 60 days prior written notice of any change.

Our business is subject to federal regulation under the 1940 Act, under which we have elected to operate as a business development company. As a business development company, we are subject to regulatory requirements, the most significant of which relate to our investments and borrowings. We are required to invest at least 70% of our assets in qualifying assets and, over time, at least 50% in "eligible portfolio companies." We must also maintain a coverage ratio of assets to senior securities (such as debt and preferred stock) of at least 200% immediately after giving effect to the issuance of any senior securities. We are also required to offer managerial assistance to our portfolio companies, in addition to our investment. For tax purposes, we are a RIC under the Internal Revenue Code of 1986. Because we do not have a diversification policy, both our status as a business development company and our status as a RIC allow us to commit all of our assets to relatively few investments in comparison to a company that is required to diversify its assets.

We believe that increasing our size should lower our expenses as a proportion of average net assets because some of our costs, such as administration and public company expenses, are fixed and can be spread over a larger asset base and will decline as a percentage of assets as our assets increase. In addition, with more assets, we expect the average size of our investments to increase. Each due diligence investigation entails expenses whether or not we complete the transaction, and the cost of due diligence, negotiation and documentation of our investments does not vary significantly with the size of the investment or intended investment.

Some expenses are expected to increase as new investments are made. We plan to add personnel to enable us to enlarge the scope of our activities and our expertise in tiny technology, and our hiring of new employees will increase with more assets under management. We also believe that a larger number of outstanding shares and a larger number of beneficial owners of shares could increase the level of our visibility and improve the trading liquidity of our shares on the Nasdaq National Market. We may not realize any of these benefits.

Tiny Technology

Tiny technology refers to microsystems, MEMS and nanotechnology, a variety of enabling technologies with critical dimensions below 100 micrometers, including both organic and inorganic processes. Tiny technology is neither an industry nor a single technology. Tiny technology manifests itself in tools, materials and devices that address broad markets, including instrumentation, electronics, photonics, computing, medical devices, pharmaceutical manufacturing, drug delivery and drug discovery. The development and commercialization of tiny technology often require the integration of multiple disciplines, including biology, physics, chemistry, materials sciences, computer science and the engineering sciences.

Examples of tiny technology-enabled products currently on the market are quite diverse. They include accelerometers used in automobiles to sense impact and deploy airbags, cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellant surfaces and fast acting painkillers.

Within tiny technology, microsystems and MEMS both refer to materials, devices and processes that are on a micrometer size scale. A micrometer, which is also referred to as a micron, is 0.000001 meter, or one millionth of a meter. In practice, any device from 100 microns down to 0.1 micron in size may be considered "micro." Nanotechnology refers to devices and processes with critical dimensions below 0.1 micron, equal to 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. It is at the scale below 100 nanometers, the nanoscale, that quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow previously unattainable material and device performance.

MEMS

MEMS often refer to three-dimensional devices with features between one and 100 microns that integrate electrical and mechanical structures. MEMS devices often contain a combination of sensors, actuators, mechanical structures and electronics that detect or respond to thermal, biological, chemical or optical information. To date, most commercial MEMS devices are batch fabricated out of silicon, using techniques based on standard semiconductor processes. Examples of devices incorporating MEMS technology include airbag accelerometers, smart pens for digital signatures, the Sony AIBO(TM) entertainment robot and Texas Instruments' Digital Light Processing Cinema(TM) system.

Microsystems

Microsystems are similar to MEMS, but without mechanical parts. Microsystems are microscale machines that sense information from the environment and provide a response to it. A microsystem often integrates mechanical, fluidic, optical and pneumatic components into a single system.

Examples of two established microsystem technologies include microarrays and lab-on-a-chip. Microarrays can identify thousands of genes simultaneously and usually perform one type of analysis multiple times. Lab-on-a-chip is a small chip containing microfluidic channels that quickly separate liquids and gases in order to permit microsensors to analyze the properties of the liquids and gases. The following are additional fields in which microsystems are currently being used:

- Military/Aerospace -- telemetry, communications, guidance systems, control circuitry and avionics.

- o Geophysical Exploration -- seismic data acquisition and geophysical measurement equipment.
- o Medical Instrumentation -- instrument motor controls and diagnostic devices.
- o Satellite Systems -- power monitoring and control circuits.
- o Industrial Electronic Systems -- measurement and diagnostics on rotating machinery.
- o Opto-Electronics -- sub-miniature temperature controls and laser diode drivers for data transmission.

Nanotechnology

There are various definitions of nanotechnology. Regardless of the definition used, the technology being defined qualifies as tiny technology. A commonly used measure of nanotechnology includes all materials, devices and processes with critical dimensions below 100 nanometers. A nanometer is 0.000000001 meter, or one billionth of a meter. Nanotechnology is defined by the U.S. Government's National Nanotechnology Initiative as research and technology development at the atomic, molecular or macromolecular levels, in the length scale of approximately 1 - 100 nanometer range, to provide a fundamental understanding of phenomena and materials at the nanoscale and to create and use structures, devices and systems that have novel properties and functions because of their small and/or intermediate size.

The nanoscale is the scale at which quantum effects begin to dominate classical macroscale physics. At the nanoscale, size- and shape-dependent properties of materials allow heretofore unattainable material and device performance. Nanotechnology science and its implications are currently the subject of intense research and development efforts in the governmental, academic and corporate sectors, in the United States and internationally. According to the National Institute of Science and Technology, in 2003, worldwide research and development efforts in nanotechnology are expected to exceed $3 billion.

Government research funding and patenting activity, prerequisites to successful commercialization of nanotechnology, have been growing rapidly in recent years. Currently, researchers in the field are collaborating with entrepreneurs and venture capitalists to form companies around nanotechnology platforms. According to the National Institute of Science and Technology, in April 2003, more than 1,700 companies in 34 nations were reportedly pursuing the commercialization of nanotechnology.

The first generation of nanotechnology products consists of instrumentation that permits visualization and manipulation of matter at the nanoscale and passive nanostructures such as coatings, nanoparticles and polymers. Examples of commercial instrumentation include nanoimprint lithography equipment, new variations of the atomic force microscope and highly sensitive gene and protein detecting arrays. Examples of commercial nanostructures include cosmetics with ingredients that block ultraviolet light but that are invisible to the human eye, nanoclays used for strength in the running boards of minivans, textiles with liquid-stain repellant surfaces, fast acting painkillers, quantum dot semiconductors that fluoresce different colors based on the size of the particles and nanoscale chemical mechanical polishing slurries for wafer polishing.

We believe that the next generation of nanotechnology products will likely consist of active nanostructures, including transistors, targeted drugs and chemicals, actuators and adaptive structures. We believe that these products are at least two to three years away from commercial application. Examples of products being developed include semiconductor nanowires that act as tiny transistors; functionalized, drug-delivering polymers that allow the release of therapeutics to be controlled by temperature, pH or a magnetic field at specified locations within the body; and engineered membrane structures for filtration.

We project that longer-term product opportunities may include integrated nanosystems involving heterogeneous nanocomponents and various assembling techniques. Patent applications explaining the science of these discoveries have recently been filed, and the first commercial entities formed to develop these technologies are emerging from universities, federal labs and industrial research centers. Future product opportunities may include exponentially denser and faster electronic devices, with individual molecules acting as transistors; tissues and organs engineered from self-assembling polymers that form biomimetic structures; and new forms of computing developed by exploiting the superposition of quantum particles.

Although the practical application of tiny technology requires great expertise to implement in manufacturing processes, we believe that tiny technology's broad applicability presents significant and diverse market opportunities. Our strategy is to invest in the best of these tiny technology companies, with emphasis on nanotechnology companies. This strategy includes making a number of these investments in the current environment, which is characterized by diminished investment by venture capital companies and depressed valuations for privately held, early stage companies.

GENERAL DESCRIPTION OF OUR PORTFOLIO COMPANIES

The following are brief descriptions of each portfolio company in which we are invested. The portfolio companies are presented in two categories: companies where we directly or indirectly own 5% to 25% of the outstanding voting securities of the portfolio company or where we hold one or more seats on the portfolio company's board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies where we directly or indirectly own less than 5% of the outstanding voting securities of the portfolio company and where we have no other affiliations. The value described below for each portfolio company is its fair value. Each portfolio company that we believe is significantly involved in tiny technology is designated by an asterisk (*).

Non-Controlled Affiliated Companies:

*Agile Materials & Technologies, Inc., located at 93 Castilian Drive, Goleta, California 93117, is developing and commercializing variable integrated passive electronic components utilizing thin-film ferroelectric materials in innovative circuit designs for commercial and military radio-frequency electronics. As of March 31, 2004, we held 3,732,736 shares of Series A Convertible Preferred Stock (representing 14.76% of the total Series A Convertible Preferred Stock outstanding) and a $75,901 Convertible Bridge Note with warrants of Agile. As of the date above, our valuation committee fair valued the Series A Preferred Stock and Convertible Bridge Note with warrants of Agile held by us at $187,284. The Chief Executive Officer of the company is Charles A. Bischof. On April 20, 2004, we invested an additional $75,901 in Agile in exchange for a Convertible Bridge Note with Warrants.

*Chlorogen, Inc., located at 893 North Warson Road, St. Louis, Missouri 63141, is developing a high-yield, plant-based protein production technology. In this production technology, DNA molecules are packaged as nanosized expression cassettes and inserted into the plant chloroplast by a high velocity "gene gun." The genes from the expression cassettes are integrated into the chloroplast genome, resulting in the manufacture of the selected protein. As of March 31, 2004, we held 4,478,038 shares of Series A Convertible Preferred Stock (representing 13.57% of the total Series A Convertible Preferred Stock outstanding) of Chlorogen. As of the date above, our valuation committee fair valued the Series A Preferred Stock of Chlorogen held by us at $785,000. The Chief Executive Officer of the company is David N. Duncan.

Experion Systems, Inc., located at 8 Clock Tower Place, Maynard, Massachusetts 01754, develops and sells an e-business software package known as Guided Selling Systems for financial institutions to sell mortgages and other financial products to their members. Experion's initial customers are credit unions. As of March 31, 2004, we held 294,118 shares of Series A Convertible Preferred Stock (representing 22.86% of the total shares of Series A Convertible Preferred Stock outstanding), 35,294 shares of Series B Convertible Preferred Stock (representing 8.31% of the total shares of Series B Convertible Preferred Stock outstanding), 222,184 shares of Series C Convertible Preferred Stock (representing 16.71% of the total shares of Series C Convertible Preferred Stock outstanding) and 64,501 shares of Series D Convertible Preferred Stock (representing 16.17% of the total shares of Series D Convertible Preferred Stock outstanding) of Experion. As of the above date, our valuation committee fair valued the total amount of shares of Experion held by us at $832,600. Charles E. Harris serves as a Director of the company. Ross Blair is the Chief Executive Officer of the company, and Dr. Glen Urban, the David Austin Professor of Marketing at the MIT Sloan School, is the Chairman of the company.

*NanoOpto Corporation, located at 1600 Cottontail Lane, Somerset, New Jersey 08873, is developing and manufacturing high performance, integrated optical communications and optical drive sub-components on a chip, based on patented technology. As of March 31, 2004, we held 267,857 shares of Series A-1 Convertible Preferred Stock (representing 11.49% of the total Series A-1 Convertible Preferred Stock outstanding) and 1,733,664 shares of Series B Convertible Preferred Stock (representing 9.51% of the total Series B Convertible Preferred Stock outstanding) of NanoOpto. As of the date above, our valuation committee fair valued the total amount of shares of NanoOpto held by us at $785,067. The Chief Executive Officer of the company is Barry J. Weinbaum.

*Nanopharma Corp., located at 191 Commonwealth Avenue, Boston, Massachusetts 02116, is a privately held company spun off from Massachusetts General Hospital. Nanopharma is a research-based pharmaceutical company founded to develop advanced drug delivery systems. Nanopharma's main goal is to provide fully biodegradable nanoscopic drug delivery vehicles based on proprietary molecular constructs and "biological stealth" materials. The company plans to pursue an out-licensing program for its platform technologies. As of March 31, 2004, we held 684,516 shares of Series A Convertible Preferred Stock (representing 87.5% of the total Series A Convertible Preferred Stock outstanding) of Nanopharma. As of the date above, our valuation committee fair valued the Series A Convertible Preferred Stock of Nanopharma held by us at $700,000. Charles E. Harris is a Director of the company. The Chief Executive Officer of the company is Michael Tarnow. On April 13, 2004, we invested an additional $150,000 in Nanopharma in exchange for a Convertible Bridge Note.

*Nanotechnologies, Inc., located at 1908 Kramer Lane, Building B, Suite L, Austin, Texas 78758, is developing for production a wide variety of high-performance nanoscale materials for industry. As of March 31, 2004, we held 1,538,837 shares of Series B Convertible Preferred Stock (representing 11.77% of the total Series B Preferred Stock outstanding) and 235,720 shares of Series C Convertible Preferred Stock (representing 6.48 % of the total Series C Preferred Stock outstanding) of Nanotechnologies. As of the date above, our valuation committee fair valued the total amount of shares of Nanotechnologies held by us at $1,277,681. The Chief Executive Officer of the company is Randy Bell. Mel P. Melsheimer serves as a Director of the company.

NeuroMetrix, Inc., located at 62 Fourth Avenue, Waltham, Massachusetts 02451, is a spin-off from the Massachusetts Institute of Technology. NeuroMetrix develops and sells medical diagnostic products based on patented intellectual property related to developing portable instruments that permit low cost, non-invasive diagnostic tests. The company's core technology is focused on utilizing low-level, non-invasively measured, electrophysiological signals from nerves and muscles to perform an array of clinical diagnostic tests. The company's current products test for and monitor lower back pain, carpal tunnel syndrome and diabetic neuropathy. The company is operating in a large, untapped point-of-care neurodiagnostic market. The market opportunity is estimated at over $1 billion with over 90% of it estimated to be in monitoring lower back pain, carpal tunnel syndrome and diabetic neuropathy. There is minimal direct competition but strong indirect competition that takes two forms, ElectroMyoGraphy (EMG) and neurologists. EMG requires expensive capital equipment and is targeted at specialists. Neurologists are expensive, require referral and provide no revenue for referring physicians. The company has a small but rapidly growing market share. The company now has over 1,000 customers. The company achieved initial 510(k) clearance from the Food and Drug Administration in 1998. Revenue is affected by government regulations specific to reimbursement procedures. The company is highly dependent on its intellectual property platform position. As of March 31, 2004, we held 875,000 shares of Series A Convertible Preferred Stock (representing 100% of the total Series A Convertible Preferred Stock outstanding), 625,000 shares of Series B Convertible Preferred Stock (representing 100% of the total Series B Convertible Preferred Stock outstanding), 1,148,100 shares of Series C-2 Convertible Preferred Stock (representing 100.00% of the total Series C-2 Convertible Preferred Stock outstanding), 499,996 shares of Series E Convertible Preferred Stock (representing 6.0% of the total Series E Convertible Preferred Stock outstanding) and 1,402,187 shares of Series E-1 Convertible Preferred Stock (representing 16.72% of the total Series E-1 Convertible Preferred Stock outstanding) of NeuroMetrix. As of the date above, our valuation committee fair valued the total amount of shares of NeuroMetrix held by us at $6,825,426. Charles E. Harris serves as a Director of the company. The company's Chief Executive Officer is Dr. Shai N. Gozani, the Chief Operating Officer is Gary Gregory and the Senior Vice President of Engineering is Michael Williams.

*Questech Corporation, located at 92 Park Street, Rutland, Vermont 05701, manufactures and sells tile and trim products, based on its proprietary technology, with revenue generated from stock products. We originally invested in Questech on May 26, 1994. We did not invest in Questech as a tiny technology company, but Questech's proprietary technology is dependent on micro-scale processes. Thus, Questech may be regarded as a tiny technology holding. As of March 31, 2004, we held 646,954 shares of Common Stock (representing 8.09% of the total Common Stock outstanding) of Questech, as well as warrants to purchase 1,966 shares of Common Stock of the company at $5.00 per share and 18,500 shares of Common Stock of the company at $1.50 per share. As of the date above, our valuation committee fair valued the Common Stock of Questech held by us at $724,588. Mel P. Melsheimer serves as a Director of the company. The Chief Executive Officer of the company is Barry J. Culkin.

Unaffiliated Companies:

Alpha Simplex Group, LLC, located at One Cambridge Center, 9th Floor, Cambridge, Massachusetts 02139, is an investment advisory firm. The company conducts a quantitative based hedge-fund operation. Alpha was founded by Dr. Andrew W. Lo, the Harris & Harris Group Professor at the MIT Sloan School. Charles E. Harris serves as an adviser to the company. As of March 31, 2004, we held 50,000 units (representing 0.5% of the total units outstanding) of Alpha, at no cost. As of the date above, our valuation committee fair valued the units held by us at $125,000. The Managing Member of the company is Dr. Andrew W. Lo.

*Continuum Photonics, Inc., located at 45 Manning Road, Billerica, Massachusetts 01821, is developing a family of MEMS switches for optical network applications. The switches are based on Continuum's proprietary piezoelectric ceramic substrates. As of March 31, 2004, we held 2,000,000 shares of the Series B Convertible Preferred Stock (representing 5.56% of the total Series B Convertible Preferred Stock outstanding) and 2,368,590 shares of Series C Convertible Preferred Stock (representing 4.29% of the total Series C Convertible Preferred Stock outstanding) of Continuum. As of the date above, our valuation committee fair valued the total amount of Shares of Continuum held by us at $1,515,119. The Chief Executive Officer of the company is Jeffrey D. Farmer.

Exponential Business Development Company, located at 216 Walton Street, Syracuse, New York 13202, is a venture capital partnership that invests in early stage manufacturing, software development and communication technology industries in New York's Capitol region. As of March 31, 2004, we held one Limited Partnership Unit (representing 0.87% of the total Limited Partnership Units outstanding) of the company. As of the date above, our valuation committee fair valued the Limited Partnership Unit held by us at $25,000. The Administrative Partner of the company is Dirk E. Sonneborn.

Heartware, Inc., located at 3351 Executive Way, Miramar, Florida 33025, is a privately held company engaged in research and development of implantable rotary blood pumps for patients who suffer from congestive heart failure. On July 10, 2003, we received 47,620 shares of Series A-2 Non-Voting Preferred stock of Heartware, Inc., a new company formed to acquire the assets and assume certain liabilities of Kriton Medical, Inc. ("Kriton") as part of Kriton's bankruptcy. As of March 31, 2004, we held 47,620 shares of Series A-2 Non-Voting Preferred Stock (representing 10.90% of the total Series A-2 Non-Voting Preferred Stock outstanding) of Heartware. As of the date above, our valuation committee fair valued the Series A-2 Non-Voting Preferred Stock of Heartware held by us at $0. The Chief Executive Officer of the company is Seth Harrison.

Molecular Imprints, Inc., located at 1807-C West Braker Lane, Austin, TX 78758, is a privately held company that is providing enabling lithography systems and technology for manufacturing applications in the areas of nano devices, micro structures, advanced packaging, bio devices, optical components and semiconductor devices. As of March 31, 2004, we held 1,333,333 shares of Series B Convertible Preferred Stock (representing 6.79% of the total shares of Series B Preferred Stock outstanding) of Molecular Imprints. As of the date above, our valuation committee fair valued the Series B Convertible Preferred Stock of Moleculac Imprints held by us at $2,000,000. The Chief Executive Officer of the company is

Dr. Norman E. Schumaker.

*NanoGram Corporation, located at 2911 Zanker Road, San Jose, California 95134, owns a patent portfolio of approximately 75 patents and a complementary family of trademarks. NanoGram plans to license its broad intellectual property portfolio in fields including, nanomaterials-based films, discovery of new nanomaterials compositions, and rapid synthesis of nanopowders and films. As of March 31, 2004 we held 63,210 shares of Series 1 Preferred Stock (representing 1.81% of the total shares of Series 1 Convertible Preferred Stock outstanding) of NanoGram. As of the date above, our valuation committee fair valued the Series 1 Convertible Preferred Stock of NanoGram held by us at $21,672. On May 7, 2004, we invested an additional $50,000 in exchange for a Convertible Bridge Note. The Chief Executive Officer of the company is Timothy S. Jenks.

*Nanosys, Inc., located at 2625 Hanover Street, Palo Alto, California 94304, is a company with broad-based intellectual property that is initially commercializing applications in macroelectronics, photovoltaics, and chemical and biological sensing. These applications incorporate novel zero and one-dimensional, nanometer-scale materials, such as nanowires and nanodots (quantum dots), as their principal active elements. As of March 31, 2004, we held 803,428 shares of Series C Convertible Preferred Stock (representing 4.02% of the total Series C Convertible Preferred Stock outstanding) of Nanosys. As of the date above, our valuation committee fair valued the Series C Preferred Stock of Nanosys held by us at $1,500,000. The Chief Executive Officer of the company is Calvin Chow.

*Nantero, Inc., located at 25-D Olympia Avenue, Woburn, Massachusetts 01801, is a spin-off from Harvard University. Nantero intends to be a fabless semiconductor company, focusing on the development of non-volatile random access memory based on carbon nanotubes. As of March 31, 2004, we held 345,070 shares of Series A Convertible Preferred Stock (representing 8.17% of the total Series A Preferred Stock outstanding) and 207,051 shares of Series B Convertible Preferred Stock (representing 3.08% of the total Series B Convertible Preferred Stock outstanding of Nantero. As of the date above, our valuation committee fair valued the total amount of shares of Nantero held by us at $861,309. The Chief Executive Officer of the company is Greg Schmergel.

*NeoPhotonics Corporation, located at 2911 Zanker Road, San Jose, California 95134, is developing planar optical devices and components to manufacture and offer to leading optical component manufacturers using its patented nanomaterials deposition technology. The company is developing functional component arrays to offer integrated optical "systems on a chip" to component vendors. As of March 31, 2004, we held 56,250 shares of Common Stock (representing 7.25% of the total Common Stock outstanding), 1,821,155 shares of Series 1 Convertible Preferred Stock (representing 4.22% of the total Series 1 Convertible Preferred Stock) and Warrants to purchase 28,636 shares of Common Stock (representing 10.50% of the total Warrants outstanding). As of the date above, our valuation committee fair valued the total amount of shares of NeoPhotonics held by us at $2,012,445. On May 10, 2004, for a total of $12,091, we purchased from a selling shareholder, 4,330 shares of Common Stock, bringing our total ownership of Common Stock to 60,580 shares (representing 7.80% of the total shares of Common Stock outstanding); 10,101 shares of Series 1 Convertible Preferred Stock bringing our total ownership of Series 1 Convertible Preferred Stock to 1,828,283 shares (representing 4.24% of the total shares of Series 1 Convertible Preferred Stock outstanding); and Warrants to purchase 1,790 shares of Common Stock bringing our total ownership of Warrants to purchase shares of Common Stock to 30,426 (representing 11.2% of the total Warrants to purchase

Common Stock outstanding) of NeoPhotonics. The Chief Executive Officer of the company is Timothy S. Jenks.

*Optiva, Inc., located at 377 Oyster Point Boulevard, Suite 13, South San Francisco, California 94080, is developing and commercializing a new class of nanomaterials for advanced optical applications initially for the flat panel display industry. As of March 31, 2004, we held 1,249,999 shares of the Series C Preferred Stock (representing 4.13% of the total Series C Convertible Preferred Stock outstanding) of Optiva. As of the date above, our valuation committee fair valued the Series C Convertible Preferred Stock of Optiva held by us at $1,250,000. The Chief Executive Officer of the company is Peter Hopper.

*Starfire Systems, Inc., located at 10 Hermes Road, Malta, New York 12020, offers a family of patented silicon carbide forming polymers for the manufacture of advanced ceramic materials applications. On May 7, 2004, we made our initial investment of $250,000 in exchange for 125,000 shares of Common Stock (representing 1.06% of the total shares of Common Stock outstanding) and 200,000 shares of Series A-1 Convertible Preferred Stock (representing 5.64% of the total shares of Series A-1 Convertible Preferred Stock outstanding). The Chief Executive Officer of the company is Richard Saburro.

With the exceptions of Alpha, NeuroMetrix, Questech and Experion, each of the foregoing portfolio companies is in its developmental stage or is a start-up business. Although Alpha, NeuroMetrix, Questech and Experion are each generating revenues that are material to them, they are still relatively early-stage companies with the attendant risks. Any of the companies may require additional funding that may not be obtainable at all or on the terms of their most recent fundings, which would result in partial or complete write-downs in value. In general, private equity is difficult to obtain, especially in the current economic environment. Each company is dependent upon a single or small number of customers and/or key operating personnel. All of the foregoing companies rely heavily upon the technology associated with their respective business or, in the case of Exponential, with the companies in which it invests. Therefore, each company places great importance on its relevant patents, trademarks, licenses, algorithms, trade secrets, franchises or concessions. Lastly, each company is particularly vulnerable to general economic, private equity and capital markets conditions and to changes in government regulation, interest rates or technology.

DETERMINATION OF NET ASSET VALUE

Our investments can be classified into five broad categories for valuation purposes:

- Equity-related securities;
- Investments in intellectual property or patents or research and development in technology or product development;
- Long-term fixed-income securities;
- Short-term fixed-income investments; and
- All other investments.

The 1940 Act requires periodic valuation of each investment in our portfolio to determine net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the board of directors.

Our board of directors is responsible for (1) determining overall valuation guidelines and (2) ensuring the valuation of investments within the prescribed guidelines.

Our valuation committee, comprised of at least three or more independent board members, is responsible for reviewing and approving the valuation of our assets within the guidelines established by the board of directors.

Fair value is generally defined as the amount that an investment could be sold for in an orderly disposition over a reasonable time. Generally, to increase objectivity in valuing our assets, external measures of value, such as public markets or third-party transactions, are utilized whenever possible. Valuation is not based on long-term work-out value, nor immediate liquidation value, nor incremental value for potential changes that may take place in the future.

The values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as these amounts depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated.

Our valuation policy with respect to the five broad investment categories is as follows:

Equity-Related Securities

Equity-related securities are carried at fair value using one or more of the following basic methods of valuation:

Cost. The cost method is based on our original cost. This method is generally used in the early stages of a company's development until significant positive or negative events occur subsequent to the date of the original investment that dictate a change to another valuation method. Some examples of these events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the development of a meaningful public market for the company's Common Stock; and (5) significant positive or negative changes in a company's business.

Private Market. The private market method uses actual, executed, historical transactions in a company's securities by responsible third parties as a basis for valuation. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

Public Market. The public market method is used when there is an established public market for the class of the company's securities held by us. We discount market value for securities that are subject to significant legal and contractual restrictions. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation. Market value for securities traded on securities exchanges or on the Nasdaq National Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day. This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation.

Analytical Method. The analytical method is generally used to value an investment position when there is no established public or private market in the company's securities or when the factual information available to us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our valuation committee members, based on the data available to them. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the financial condition and operating results of the company, the long-term potential of the business of the company, the values of similar securities issued by companies in similar businesses, the proportion of the company's securities we own and the nature of any rights to require the company to register restricted securities under applicable securities laws.

Investments in Intellectual Property or Patents or Research and Development in Technology or Product Development

These investments are carried at fair value using the following basic methods of valuation:

Cost. The cost method is based on our original cost. This method is generally used in the early stages of commercializing or developing intellectual property or patents or research and development in technology or product development until significant positive or adverse events occur subsequent to the date of the original investment that dictate a change to another valuation method.

Private Market. The private market method uses actual third-party investments in intellectual property or patents or research and development in technology or product development as a basis for valuation, using actual executed historical transactions by responsible third parties. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

Analytical Method. The analytical method is used to value an investment after analysis of the best available outside information where the factual information available to us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our valuation committee members. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the results of research and development, product development progress, commercial prospects, term of patent and projected markets.

As of March 31, 2004, we do not have any investments in intellectual property or patents or research and development in technologies or products.

Long-Term Fixed-Income Securities

Fixed-income securities for which market quotations are readily available are carried at market value as of the time of valuation using the most recent bid quotations when available. Securities for which market quotations are not readily available are carried at fair value using one or more of the following basic methods of valuation:

- Fixed-income securities are valued by independent pricing services that provide market quotations based primarily on quotations from dealers and brokers, market transactions, and other sources.

- o Other fixed-income securities that are not readily marketable are valued at fair value by our valuation committee.

Short-Term Fixed-Income Investments

Short-term fixed-income investments are valued at market value at the time of valuation. We value short-term debt with remaining maturity of 60 days or less at amortized cost.

All Other Investments

All other investments are reported at fair value as determined in good faith by the valuation committee.

The reported values of securities for which market quotations are not readily available and for other assets reflect the valuation committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if we had to sell the securities in an immediate liquidation. Thus, valuations as of any particular date are not necessarily indicative of amounts that we may ultimately realize as a result of future sales or other dispositions of investments we hold.

As of March 31, 2004, we do not have any of these investments.

INVESTMENT POLICIES

Investments and Strategies

The following is a summary description of the types of assets in which we may invest, the investment strategies we may utilize and the attendant risks associated with our investments and strategies. For a full description of our investments and strategies, please refer to our Annual Report on Form 10-K incorporated by reference to this Prospectus.

Equity, Equity-Related Securities and Debt with Equity Features

We may invest in equity, equity-related securities and debt with equity features. These securities include Common Stock, preferred stock, debt instruments convertible into common or preferred stock, limited partnership interests, other beneficial ownership interests and warrants, options or other rights to acquire any of the foregoing.

We may make investments in companies with operating histories that are unprofitable or marginally profitable, that have negative net worth or that are involved in bankruptcy or reorganization proceedings. These investments would involve businesses that management believes have turn around potential through the infusion of additional capital and management assistance. In addition, we may make investments in connection with the acquisition or divestiture of companies or divisions of companies. There is a significantly greater risk of loss with these types of securities than is the case with traditional investment securities.

We may also invest in publicly traded securities of whatever nature, including relatively small, emerging growth companies that management believes have long-term growth possibilities.

Warrants, options and convertible or exchangeable securities generally give the investor the right to acquire specified equity securities of an issuer at a specified price during a specified period or on a specified date. Warrants and options fluctuate in value in relation to the value of the underlying security and the remaining life of the warrant or option, while convertible or exchangeable securities fluctuate in value both in relation to the intrinsic value of the security without the conversion or exchange feature and in relation to the value of the conversion or exchange feature, which is like a warrant or option. When we invest in these securities, we incur the risk that the option feature will expire worthless, thereby either eliminating or diminishing the value of our investment.

Investments in equity securities of private companies involve securities that are restricted as to sale and cannot be sold in the open market without registration under the Securities Act of 1933 or pursuant to a specific exemption from these registrations. Opportunities for sale are more limited than in the case of marketable securities, although these investments may be purchased at more advantageous prices and may offer attractive investment opportunities. Even if one of our portfolio companies completes an initial public offering, we are typically subject to a lock-up agreement, and the stock price may decline substantially before we are free to sell. Even if we have registration rights to make our investments more marketable, a considerable amount of time may elapse between a decision to sell or register the securities for sale and the time when we are able to sell the securities. The prices obtainable upon sale may be adversely affected by market conditions or negative conditions affecting the issuer during the intervening time.

Venture Capital Investments

We expect to invest in development stage or start-up businesses. Substantially all of our long-term investments are in thinly capitalized, unproven, small companies focused on risky technologies. These businesses also tend to lack management depth, to have limited or no history of operations and to have not attained profitability. Because of the speculative nature of these investments, these securities have a significantly greater risk of loss than traditional investment securities. Some of our venture capital investments are likely to be complete losses or unprofitable and some will never realize their potential.

We may own 100% of the securities of a start-up investment for a period of time and may control the company for a substantial period. Start-up companies are more vulnerable than better capitalized companies to adverse business or economic developments. Start-up businesses generally have limited product lines, service niches, markets and/or financial resources. Start-up companies are not well-known to the investing public and are subject to potential bankruptcy, general movements in markets and perceptions of potential growth.

In connection with our venture capital investments, we may participate in providing a variety of services to our portfolio companies, including the following:

- recruiting management;
- formulating operating strategies;
- formulating intellectual property strategies;
- assisting in financial planning;
- providing management in the initial start-up stages; and

o establishing corporate goals.

We may assist in raising additional capital for these companies from other potential investors and may subordinate our own investment to that of other investors. We may also find it necessary or appropriate to provide additional capital of our own. We may introduce these companies to potential joint venture partners, suppliers and customers. In addition, we may assist in establishing relationships with investment bankers and other professionals. We may also assist with mergers and acquisitions. We do not derive income from these companies for the performance of any of the above services.

We may control, be represented on or have observer rights on the board of directors of a portfolio company by one or more of our officers or directors, who may also serve as officers of the portfolio company. We indemnify our officers and directors for serving on the boards of directors or as officers of portfolio companies, which exposes us to additional risks. Particularly during the early stages of an investment, we may in effect be conducting the operations of the portfolio company. As a venture company emerges from the developmental stage with greater management depth and experience, we expect that our role in the portfolio company's operations will diminish. Our goal is to assist each company in establishing its own independent capitalization, management and board of directors. We expect to be able to reduce our interest in those start-up companies which become successful.

Debt Obligations

We may hold debt securities for income and as a reserve pending more speculative investments. Debt obligations may include U.S. government and government agency securities, commercial paper, bankers' acceptances, receivables or other asset-based financing, notes, bonds, debentures, or other debt obligations of any nature and repurchase agreements related to these securities. These obligations may have varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity from private, public or governmental issuers of any type located anywhere in the world. We may invest in debt obligations of companies with operating histories that are unprofitable or marginally profitable, that have negative net worth or are involved in bankruptcy or reorganization proceedings, or that are start-up or development stage entities. In addition, we may participate in the acquisition or divestiture of companies or divisions of companies through issuance or receipt of debt obligations.

It is likely that our investments in debt obligations will be of varying quality, including non-rated, highly speculative debt investments with limited marketability. Investments in lower-rated and non-rated securities, commonly referred to as "junk bonds," are subject to special risks, including a greater risk of loss of principal and non-payment of interest. Generally, lower-rated securities offer a higher return potential than higher-rated securities but involve greater volatility of price and greater risk of loss of income and principal, including the possibility of default or bankruptcy of the issuers of these securities. Lower-rated securities and comparable non-rated securities will likely have large uncertainties or major risk exposure to adverse conditions and are predominantly speculative with respect to the issuer's capacity to pay interest and repay principal in accordance with the terms of the obligation. The occurrence of adverse conditions and uncertainties to issuers of lower-rated securities would likely reduce the value of lower-rated securities held by us, with a commensurate effect on the value of our shares.

The markets in which lower-rated securities or comparable non-rated securities are traded generally are more limited than those in which higher-rated securities are traded. The existence of limited markets for these securities may restrict our ability to obtain accurate market quotations for the purposes of valuing lower-rated or non-rated securities and calculating net asset value or to sell securities at their fair value. Any economic downturn could adversely affect the ability of issuers' lower-rated securities to repay principal and pay interest thereon. The market values of lower-rated and non-rated securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher-rated securities. In addition, lower-rated securities and comparable non-rated securities generally present a higher degree of credit risk. Issuers of lower-rated securities and comparable non-rated securities are often highly leveraged and may not have more traditional methods of financing available to them, so that their ability to service their debt obligations during an economic downturn or during sustained periods of rising interest rates may be impaired. The risk of loss owing to default by these issuers is significantly greater because lower-rated securities and comparable non-rated securities generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. We may incur additional expenses to the extent that we are required to seek recovery upon a default in the payment of principal or interest on our portfolio holdings.

The market value of investments in debt securities that carry no equity participation usually reflects yields generally available on securities of similar quality and type at the time purchased. When interest rates decline, the market value of a debt portfolio already invested at higher yields can be expected to rise if the securities are protected against early call. Similarly, when interest rates increase, the market value of a debt portfolio already invested at lower yields can be expected to decline. Deterioration in credit quality also generally causes a decline in market value of the security, while an improvement in credit quality generally leads to increased value.

Foreign Securities

We may make investments in securities of issuers whose principal operations are conducted outside the United States, and whose earnings and securities are stated in foreign currency. In order to maintain our status as a business development company, our investments in the stocks of companies organized outside the U.S. would be limited to 30% of our assets, because we must invest at least 70% of our assets in "qualifying assets" and foreign companies are not "qualifying assets." We do not anticipate investing a significant portion of our assets in foreign companies.

Compared to otherwise comparable investments in securities of U.S. issuers, currency exchange risk of securities of foreign issuers is a significant variable. The value of these investments to us will vary with the relation of the currency in which they are denominated to the U.S. dollar, as well as with intrinsic elements of value such as credit risk, interest rates and performance of the issuer. Investments in foreign securities also involve risks relating to economic and political developments, including nationalization, expropriation, currency exchange freezes and local recession. Securities of many foreign issuers are less liquid and more volatile than those of comparable U.S. issuers. Interest and dividend income and capital gains on our foreign securities may be subject to withholding and other taxes that may not be recoverable by us. We may seek to hedge all or part of the currency risk of our investments in foreign securities through the use of futures, options and forward currency purchases or sales.

Intellectual Property

We believe there is a role for organizations that can assist in technology transfer. Scientists and institutions that develop and patent intellectual property perceive the need for and rewards of entrepreneurial commercialization of their inventions.

Our form of investment may be:

- funding research and development in the development of a technology;
- obtaining licensing rights to intellectual property or patents;
- acquiring intellectual property or patents; or
- forming and funding companies or joint ventures to further commercialize intellectual property.

Income from our investments in intellectual property or its development may take the form of participation in licensing or royalty income, fee income, or some other form of remuneration. Investment in developmental intellectual property rights involves a high degree of risk that can result in the loss of our entire investment as well as additional risks including uncertainties as to the valuation of an investment and potential difficulty in liquidating an investment. Further, investments in intellectual property generally require investor patience as investment return may be realized only after or over a long period. At some point during the commercialization of a technology, our investment may be transformed into ownership of securities of a development stage or Start-Up Company as discussed under "Venture Capital Investments" above.

Other Strategies

In pursuit of our investment strategy, we may employ one or more of the following strategies in order to enhance investment results.

Borrowing and Margin Transactions

We may from time to time borrow money or obtain credit by any lawful means from banks, lending institutions, other entities or individuals, in negotiated transactions. We may issue, publicly or privately, bonds, debentures or notes, in series or otherwise, with interest rates and other terms and provisions, including conversion rights, on a secured or unsecured basis, for any purpose, up to the maximum amounts and percentages permitted for closed-end investment companies under the 1940 Act. The 1940 Act currently prohibits us from borrowing any money or issuing any other senior securities (other than preferred stock and other than temporary borrowings of up to 5% of our assets), if in giving effect to the borrowing or issuance, the value of our total assets would be less than 200% of our total liabilities (other than liabilities not constituting senior securities). We may pledge assets to secure any borrowings. We currently have no leverage and have no current intention to issue preferred stock.

A primary purpose of our borrowing power is for leverage, to increase our ability to acquire investments both by acquiring larger positions and by acquiring more positions. Borrowings for leverage accentuate any increase or decrease in the market value of our investments and thus our net asset value. Since any decline in the net asset value of our investments will be borne first by holders of Common Stock, the effect of leverage in a declining market would be a greater decrease in net asset value applicable to the Common Stock than if we were not leveraged. Any decrease would likely be reflected in a decline in the market price of the Common Stock. To the extent the income derived from assets acquired with borrowed funds exceeds the interest and other expenses associated with borrowing, our total income will be greater than if borrowings were not used. Conversely, if the income from assets is not sufficient to cover the borrowing costs, our total income will be less than if borrowings were not used. If our current income is not sufficient to meet our borrowing costs (repayment of principal and interest), we might have to liquidate our investments when it may be disadvantageous to do so. Our borrowings for the purpose of buying most liquid equity securities will be subject to the margin rules, which require excess liquid collateral marked to market daily. If we are unable to post sufficient collateral, we would be required to sell securities to remain in compliance with the margin rules. These sales might be at disadvantageous times or prices.

Repurchase of Shares

Our shareholders do not have the right to compel us to redeem our shares. We may, however, purchase outstanding shares of our Common Stock from time to time, subject to approval of our board of directors and compliance with applicable corporate and securities laws. The board of directors may authorize purchases from time to time when they are deemed to be in the best interests of our shareholders, but could do so only after notification to shareholders. The board of directors may or may not decide to undertake any purchases of our Common Stock.

Our repurchases of our common shares would decrease our total assets and would therefore likely have the effect of increasing our expense ratio. Subject to our investment restrictions, we may borrow money to finance the repurchase of our Common Stock in the open market pursuant to any tender offer. Interest on any borrowings to finance share repurchase transactions will reduce our net assets. If, because of market fluctuations or other reasons, the value of our assets falls below the required 1940 Act coverage requirements, we may have to reduce our borrowed debt to the extent necessary to comply with the requirement. To achieve a reduction, it is possible that we may be required to sell portfolio securities at inopportune times when it may be disadvantageous to do so. Since 1998, we have repurchased a total of 1,828,740 shares of our Common Stock at a total cost of $3,405,531, or $1.86 per share. Because we intend to continue investing in tiny technology, our board of directors does not currently intend to authorize the purchase of additional shares of our Common Stock.

Portfolio Company Turnover

Changes with respect to portfolio companies will be made as our management considers necessary in seeking to achieve our investment objective. The rate of portfolio turnover will not be treated as a limiting or relevant factor when circumstances exist which are considered by management to make portfolio changes advisable.

Although we expect that many of our investments will be relatively long term in nature, we may make changes in our particular portfolio holdings whenever it is considered that an investment no longer has substantial growth potential or has reached its anticipated level of performance, or (especially when cash is not otherwise available) that another investment appears to have a relatively greater opportunity for capital appreciation. We may also make general portfolio changes to increase our cash to position us in a defensive posture. We may make portfolio changes without regard to the length of time we have held an investment, or whether a sale results in profit or loss, or whether a purchase results in the reacquisition of an investment which we may have only recently sold.

The portfolio turnover rate may vary greatly from year to year as well as during a year and may also be affected by cash requirements.

Investment Restrictions

When we were a regulated investment company, pursuant to a requirement under the 1940 Act, we provided that our investment objective and the following investment restrictions were fundamental and could not be changed without the approval of the holders of a majority of our outstanding voting securities (defined in the 1940 Act as the lesser of (a) more than 50% of the outstanding shares or (b) 67% or more of the shares represented at a meeting at which more than 50% of the outstanding shares are represented). The provisions of the 1940 Act regarding fundamental investment restrictions and objectives are not applicable to business development companies and accordingly we believe that the following restrictions do not apply to us although we have as a matter of fact conducted our operations consistently with them. Satisfaction of these restrictions was measured only at the time of a transaction, with the result that later changes in percentage resulting from changing market values, for example, would not be considered a deviation from policy. Under these restrictions, prior to becoming a business development company, we could not:

(1) invest more than 25% of the value of our total assets in any one industry;

(2) issue senior securities other than:

(a) preferred stock not in excess of the excess of 50% of our total assets over any senior securities described in clause (b) below that are outstanding,

(b) senior securities other than preferred stock (including borrowing money, including on margin if margin securities are owned and through entering into reverse repurchase agreements, and providing guaranties) not in excess of 33 1/3% of our total assets, and

(c) borrowings of up to 5% of our total assets for temporary purposes without regard to the amount of senior securities outstanding under clauses (a) and (b) above; provided, however, that our obligations under interest rate swaps, when issued and forward commitment transactions and similar transactions are not treated as senior securities if covering assets are appropriately segregated; or pledge our assets other than to secure the issuances or in connection with hedging transactions, short sales, when-issued and forward commitment transactions and similar investment strategies.

For purposes of clauses (a), (b) and (c) above, "total assets" shall be calculated after giving effect to the net proceeds of any issuance and net of any liabilities and indebtedness that do not constitute senior securities except for liabilities and indebtedness as are excluded from treatment as senior securities by the proviso to this item (2);

(3) make loans of money or property to any person, except through loans and guaranties to entities, loans of portfolio securities, the acquisition of fixed income obligations consistent with our investment objective and policies or the acquisition of securities subject to repurchase agreements;

(4) underwrite the securities of other issuers, except to the extent that in connection with the disposition of portfolio securities or the sale of our own securities we may be deemed to be an underwriter;

(5) purchase or sell real estate or interests therein in excess of

our total assets;

(6) purchase or sell commodities or purchase or sell commodity contracts except for hedging purposes or in connection with business operations and except for precious metals and coins; or

(7) make any short sale of securities except in conformity with applicable laws, rules and regulations and unless, in giving effect to the sale, the market value of all securities sold short does not exceed 25%, except short sales "against the box" which are not subject to the limitation, of the value of our total assets and our aggregate short sales of a particular class of securities does not exceed 25% of the then-outstanding securities of that class.

MANAGEMENT OF THE COMPANY

Board of Directors and Certain Executive Officers

Set forth below are the names, ages, positions and principal occupations during the past five years of our directors and executive officers. We have no advisory board. Our business address and that of our officers and directors is 111 West 57th Street, Suite 1100, New York, New York 10019.

Name and Age	Positions(s) Held with Registrant	Term of Office and Length of Time Served	Principal Occupations During Past 5 Years	Othe Held
INTERESTED DIRECTORS:				
Charles E. Harris* Age: 61	Director, Chief Executive Officer, Managing Director and Chairman of the Board	Director, Chairman and Chief Executive Officer since 1984; Chief Compliance Officer from 1997 to 2001; Managing Director since 2004	Chief Executive Officer and Managing Director of the Company.	Harr Ente Neur Expe Inc. Corp
Dr. Kelly S. Kirkpatrick* Age: 37	Director and Consultant	Since 2002	Business consultant. Director, Columbia Nanotechnology Initiative and Director for Research and Technology Initiatives, Office of the Executive Vice	None

			Provost, Columbia University, 2000 to 2002. White House Office of Science and Technology Policy, 1998 to 2000.	
Lori D. Pressman* Age: 46	Director and Consultant	Since 2002	Business consultant. Technology Licensing Officer, 1989 to 1995; Assistant Director, 1996 to 2000; Technology Licensing Office, Massachusetts Institute of Technology.	None
INDEPENDENT DIRECTORS:				
Dr. C. Wayne Bardin Age: 69	Director	Since 1994	Consultant. President, Thyreos Corp., 1998 to 2003.	None
Dr. Phillip A. Bauman Age: 48	Director	Since 1998	Orthopedic surgeon. Assistant Professor, Columbia University.	None
G. Morgan Browne Age: 68	Director	Since 1992	Former Chief Financial Officer, Cold Spring Harbor Laboratory, 2001 to 2003, Administrative Director, Cold Spring Harbor Laboratory, 1995 to 2000.	OSI Inc.
Dugald A. Fletcher Age: 74	Director	Since 1996	President and Director, Fletcher & Company, Inc.	Gabe Secu Fund Gabe
Mark A. Parsells Age: 44	Director	Since November 2003	Chairman, President and Chief Executive Officer of Fusura LLC.	Fusu Syst Wilm Rena and Asso
Charles E. Ramsey Age: 61	Director	Since 2002	Retired Founder and Principal of Ramsey/Beirne Associates, Inc. Chair of Bridges to Community.	Expe Inc. Grou
James E. Roberts Age: 58	Director	Since 1995	Executive Vice President and Underwriting Officer, Alea North America Company – Reinsurance Division, since 2002. Vice Chairman, Chartwell Reinsurance Company. Chief Executive Officer, The Insurance Corporation of New York, Dakota Specialty Insurance Co. and ReCor Insurance Company, Inc., 1999 to 2000. Vice Chairman, Trenwick America	None

			Reinsurance Corporation, 1995 to 2000.	
OFFICERS:				
Charles E. Harris* Age: 61	Director, Chief Executive Officer, Managing Director and Chairman of the Board	Director, Chairman and Chief Executive Officer since 1984; Chief Compliance Officer from 1997 to 2001; Managing Director since 2004.	Chief Executive Officer of the Company.	Harr Ente Neur Expe Inc. Corp
Mel P. Melsheimer Age: 64	President, Managing Director, Chief Operating Officer, Chief Financial Officer, Chief Compliance Officer and Treasurer	President, Chief Operating Officer and Chief Financial Officer since 1997; Chief Compliance Officer and Treasurer since 2001; Managing Director since 2004	President, Managing Director, Chief Operating Officer, Chief Financial Officer, Chief Compliance Officer and Treasurer of the Company. President of Harris & Harris Enterprises, Inc.	Ques Harr Ente Nano
Daniel V. Leff Age: 35	Executive Vice President, Managing Director	Since January 2004	Executive Vice President and Managing Director of the Company. Senior Associate at Sevin Rosen Funds from 2001 to 2003. Venture Capital Consultant for Redpoint Ventures from 2000 – 2001. Manager, Strategic Investments of Intel Corporation from 1997 to 2000.	None
Douglas W. Jamison Age: 34	Vice President and Managing Director	Vice President since September 2002; Managing Director since 2004	Vice President and Managing Director of the Company. Senior technology manager, University of Utah Technology Transfer Office, 1997 to 2002.	None
Daniel B. Wolfe Age: 27	Vice President	Vice President beginning July 2004	Vice President of the Company. Consultant for Nanosys, Inc. from 2002 through 2004. Consultant for CW Group 2001 through 2004. Consultant for Bioscale, Inc. January 2003 through 2004. Co-Founder and President of Scientific Venture Assessments, Inc., February 2002 through January 2002.	
Helene B. Shavin Age: 50	Vice President, Controller and Assistant	Vice President and Controller since 2001; Assistant	Vice President, Controller and Assistant Secretary of the Company. Vice President and Controller of Harris & Harris	None

	Secretary	Secretary since 2002	Enterprises, Inc. since 2001. Vice President, Citicorp Venture Capital, 1986 to 2000.

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* Charles E. Harris is an "interested person" of the Company, as defined in the 1940 Act, as a beneficial owner of more than 5% of our stock, as a control person of ours and as one of our officers. In addition, each of Dr. Kelly S. Kirkpatrick and Lori D. Pressman may be considered to be an "interested person" of the Company because of the work each does consulting for the Company.

Messrs. Harris, Melsheimer, Leff and Jamison are primarily responsible for the day to day management of our portfolio, and have served in this capacity since 1984, 1997, 2004 and 2002, respectively.

We do not consider that any person other than Charles E. Harris "controls" the Company within the meaning of this item.

Executive Officers

Charles E. Harris. Mr. Harris currently serves as our Chairman, Chief Executive Officer and as a Managing Director. He has served as our Chief Executive Officer since July 1984 and as a Managing Director since January 2004. He has been a member of our board of directors and served as Chairman of the board since April 1984. He also served as our Chief Compliance Officer from February 1997 to February 2001. He was a member of the Advisory Panel for the Congressional Office of Technology Assessment. Prior to joining us, he was Chairman of Wood, Struthers and Winthrop Management Corporation, the investment advisory subsidiary of Donaldson, Lufkin and Jenrette. He is currently a member of the New York Society of Security Analysts. He acts as a Trustee and head of the audit committee of Cold Spring Harbor Laboratory, a not-for-profit institution that conducts research and education programs in the fields of molecular biology and genetics. He also serves as a Trustee and head of the audit committee of the Nidus Center, a life sciences business incubator in St. Louis, Missouri. He is a life-sustaining fellow of MIT and a shareholder of its Entrepreneurship Center. He is an "interested person" as defined in Section 2(a)(19) of the 1940 Act, as a beneficial owner of more than 5% of our Common Stock, as a control person and as one of our officers.

Mel P. Melsheimer. Mr. Melsheimer has served as our President, Chief Operating Officer and Chief Financial Officer since February 1997. Since February 2001, he has also served as our Chief Compliance Officer, since July 2001, as Treasurer and since January 2004, as a Managing Director. From March 1994 to February 1997, he served as a nearly full-time consultant to us or as an officer to one of our portfolio companies. From November 1992 to February 1994, he served as Executive Vice President, Chief Operating Officer and Secretary of Dairy Holdings, Inc.

Daniel V. Leff. Mr. Leff has served as our Executive Vice President and as a Managing Director since January 2004. Prior to joining us, he was a Senior Associate with Sevin Rosen Funds in the firm's Dallas, Texas office, where he focused on early-stage investment opportunities in semiconductors, components, and various emerging technology areas. Previously he worked for Redpoint Ventures in the firm's Los Angeles office. In addition, he previously held engineering, marketing and strategic investment positions with Intel

Corporation. He received his Ph.D. degree in Physical Chemistry from UCLA's Department of Chemistry and Biochemistry, where his thesis advisor was Professor James R. Heath (recipient of the 2000 Feynman Prize in Nanotechnology). He also received a B.S. in Chemistry from the University of California, Berkeley and an MBA from The Anderson School at UCLA, where he was an Anderson Venture Fellow. He has published several articles in peer-reviewed scientific journals and has been awarded two patents in the field of Nanotechnology. He is also a member of the business advisory boards of the NanoBusiness Alliance and the California NanoSystems Institute (CNSI).

Douglas W. Jamison. Mr. Jamison has served as our Vice President since September 2002 and as a Managing Director since January 2004. Prior to joining us, he worked for five years as a Senior Technology Manager at the University of Utah Technology Transfer Office, where he managed intellectual property. On January 14, 2004, the Directors named Mr. Jamison as the future President of the Company after Mr. Melsheimer's scheduled retirement on December 31, 2004. He is a member of the Scientific Advisory Board of Chlorogen, Inc., in which the Company has an investment. His professional societies include the Association of University Technology Managers, for which he serves on its Survey Statistics and Metrics Committee, the American Association for the Advancement of Science and the Institute of Electrical and Electronics Engineers. He is a member of the Advisory Board, Massachusetts Technology Collaborative Nanotechnology Venture Forum, of the Advisory Board, Converging Technology Bar Association and the Advisory Board, Nanotechnology Law & Business (Journal for Attorneys, Entrepreneurs and Investors Involved in Small Scale Technologies).

Daniel B. Wolfe. Mr. Wolfe will serve as a Vice President starting in July 2004. Prior to joining us, he served as a consultant to Nanosys, Inc., CW Group and Bioscale, Inc. From February 2000 to January 2002, he was the Co-founder and President of Scientific Venture Assessments, Inc., a provider of scientific analysis of prospective investments for private equity placements and scientific expertise to high-technology companies. He is completing a Ph.D. from Harvard University, where he is conducting research under Professor George Whitesides.

Helene B. Shavin. Ms. Shavin has served as our Vice President and Controller since 2001 and as our Assistant Secretary since 2002. Prior to joining us, she was a Vice President with Citicorp Venture Capital from 1986 to 2000.

Board of Directors

Our board of directors supervises our management. The responsibilities of each director include, among other things, the oversight of the investment approval process, the quarterly valuation of our assets, and the oversight of our financing arrangements.

Interested Directors:

Charles E. Harris. See biography under "Executive Officers."

Kelly S. Kirkpatrick. Dr. Kirkpatrick has served as a member of our board of directors since March 2002. She has served as a consultant to us on nanotechnology and in our due diligence work on Agile Materials & Technologies, Inc. and Optiva, Inc. She is an independent business consultant assessing and advising on early stage, technology start-ups for venture capital companies. From 2000 to 2002, she served in the Office of the Executive Vice Provost of Columbia University as Director of the Columbia University Nanotechnology Initiative and as Director for Research and Technology Initiatives. From 1998 to 2000, she served in the White House Office of Science and Technology Policy as a Senior Policy Analyst involved in the National Nanotechnology Initiative. From 1997 to 1998, she was a Science Policy Coordinator for Sandia National Laboratories. From 1995 to 1996, she served in the office of Senator Joseph Lieberman as Legislative Assistant, Congressional Science and Engineering Fellow. She may be considered to be an "interested person" of the Company because of the consulting work she does for us.

Lori D. Pressman. Ms. Pressman has served as a member of our board of directors since March 2002. She has served as a consultant to us on tiny technology, intellectual property and in our due diligence work on Chlorogen, Inc., Continuum Photonics, Inc., NanoOpto Corporation, Nanopharma Corp., Nanosys, Inc., Nantero, Inc. and NeoPhotonics Corporation. She also acts as an observer for us at board meetings of certain investee companies in the Boston area. She is a business consultant providing advisory services to start-ups and venture capital companies. She consults internationally on technology transfer practices and metrics for non-profit and government organizations. From 1999 to 2001, she was Chair of the Survey Statistics and Metrics Committee of the Association of University Technology Managers. From September 1989 to July 2000, she was employed by MIT in its Technology Licensing Office. She served as its Technology Licensing Officer from 1989 to 1995 and as Assistant Director from 1996 to 2000. From September 1984 to September 1989, she was Senior Development Engineer at Lasertron, Inc. She may be considered to be an "interested person" of the Company because of the consulting work she does for us.

Independent Directors:

C. Wayne Bardin. Dr. Bardin has served as a member of our board of directors since December 1994. From 1998 to 2003, he served as President of Thyreos Corp., a privately held, start-up pharmaceutical company. From 1978 through 1996, he was Vice President of The Population Council. His professional appointments have included: Professor of Medicine, Chief of the Division of Endocrinology, The Milton S. Hershey Medical Center of Pennsylvania State University and Senior Investigator, Endocrinology Branch, National Cancer Institute. He has also served as a consultant to several pharmaceutical companies. He has been appointed to the editorial boards of 15 journals. He has also served on national and international committees and boards for the National Institutes of Health, World Health Organization, The Ford Foundation and numerous scientific societies.

Phillip A. Bauman. Dr. Bauman has served as a member of our board of directors since February 1998. He is Senior Attending in Orthopedic Surgery at St. Luke's/Roosevelt Hospital Center in Manhattan and has served as an elected member of the executive committee of the Medical Board since 2000. He has been Assistant Professor of Orthopedic Surgery at Columbia University since 1998 and a Vice President of Orthopedic Associates of New York since 1994. He was elected a fellow of the American Academy of Orthopaedic Surgeons in 1991. He is an active member of the American Orthopaedic Society for Sports Medicine, the New York State Society of Orthopaedic Surgeons and the American Medical Association.

G. Morgan Browne. Mr. Browne has served as a member of our board of directors since June 1992. From 2001 to 2003, he served as Chief Financial Officer of Cold Spring Harbor Laboratory, a not-for-profit institution that conducts research and education programs in the fields of molecular biology and genetics. From 1985 to 2001, he was the Administrative Director of Cold Spring Harbor Laboratory. In prior years, he was active in the management of numerous scientifically based companies as an officer, as an individual consultant and as an associate of Laurent Oppenheim Associates, Industrial Management Consultants. He is a Director of OSI Pharmaceuticals, Inc., a publicly held company principally engaged in drug discovery based on gene transcription. He was a founding director of the New York Biotechnology

Association and a founding director of the Long Island Research Institute.

Dugald A. Fletcher. Mr. Fletcher has served as a member of our board of directors since 1996. He has served as President of Fletcher & Company, Inc., a management consulting firm since 1984. Until the end of 1997, he was Chairman of Binnings Building Products Company, Inc. His previous business appointments include: adviser to Gabelli/Rosenthal LP, a leveraged buyout fund; Chairman of Keller Industries, building and consumer products; Senior Vice President of Booz-Allen & Hamilton; President of Booz-Allen Acquisition Services; Executive Vice President and a Director of Paine Webber, Inc.; and President of Baker, Weeks and Co., Inc., a New York Stock Exchange member firm. He is currently a Trustee of the Gabelli Growth Fund and a Director of the Gabelli Convertible and Income Securities Fund, Inc.

Mark A. Parsells. Mr. Parsells has served as a member of our board of directors since November 2003. He is the Chairman, President and Chief Executive Officer of Fusura LLC, an AIG company that is an Internet-based, direct to consumer auto insurance business. Since February 2004, he is the Chairman, President and Chief Executive Officer of Montpelier Ventures, a management consulting firm. He graduated from Emory University (BA), Cornell University (MBA) and Vlerick Leuven Gent Business School (MBA). Previously, he was President and Chief Operating Officer of Citibank Online, worked in executive positions for Bank One and American Express and acted as Special Assistant to U.S. Senator John Heinz.

Charles E. Ramsey. Mr. Ramsey has served as a member of our board of directors since October 2002. He is a retired founder and principal of Ramsey/Beirne Associates, Inc., an executive search firm that specialized in recruiting top officers for high technology companies, many of which were backed by venture capital. An active investor, he is a director of three privately held companies, including Experion Systems, Inc., in which we own an equity interest. He works on construction projects in Nicaragua as a member of the Nicaraguan Initiative Committee for the Presbyterian Churches of the Hudson River and as Chair of Bridges to Community, a non-governmental organization dedicated to construction projects in Nicaragua.

James E. Roberts. Mr. Roberts has served as a member of our board of directors since 1995. Since 2002, he has been Executive Vice President and Chief Underwriting Officer of the Reinsurance Division of Alea North America Company. From October 1999 to November 2002, he was Chairman and Chief Executive Officer of the Insurance Corporation of New York, Dakota Specialty Insurance Company, and Recor Insurance Company Inc., all members of the Trenwick Group, Ltd. From October 1999 to March 2000, he served as Vice Chairman of Chartwell Reinsurance Company. Prior to assuming those positions, he was Vice Chairman of Trenwick America Reinsurance Corporation from May 1995 to March 2000.

Committees of the Board of Directors

Our board of directors maintains an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating Committee, a Valuation Committee, a Pricing Committee and an Independent Directors Committee. All of the members of each committee other than Mr. Harris (who sits on the Executive Committee and the Pricing Committee) are non-interested directors (as defined in Section 2(a)(19) of the 1940 Act).

The Executive Committee has and may exercise those rights, powers and authority that the board of directors from time to time grants to it, except where action by the full board is required by statute, an order of the SEC or our charter or bylaws. The Executive Committee did not meet as a separate committee and did not act by unanimous written consent in 2003. The members of the Executive Committee are Messrs. Harris (Chairman), Roberts and Browne and

Dr. Bardin.

The Audit Committee operates pursuant to a charter. The charter was approved by the board of directors on March 13, 2003. The charter was revised on November 13, 2003 and was approved by the Audit Committee, and approved by the board of directors on March 10, 2004. The charter sets forth the responsibilities of the Audit Committee. The Audit Committee's responsibilities include recommending the selection of our independent registered public accounting firm, reviewing with the independent registered public accounting firm the planning, scope and results of their audit and our financial statements and the fees for services performed, reviewing with the independent registered public accounting firm the adequacy of internal control systems, reviewing our annual financial statements and receiving our audit reports and financial statements. The members of the Audit Committee are Messrs. Fletcher (Chairman) and Browne and Dr. Bauman, all of whom are considered independent under the rules promulgated by the Nasdaq National Market.

The Compensation Committee determines the compensation for our executive officers and the amount of salary and bonus to be included in the compensation package for each of our officers and employees. The members of the Compensation Committee are Messrs. Roberts (Chairman), Parsells and Ramsey and Dr. Bauman.

The Nominating Committee recommends candidates for election as directors to the board of directors and makes recommendations to the board as to our corporate governance policies. The members of the Nominating Committee are Messrs. Bardin (Chairman), Parsells and Ramsey and Dr. Bauman.

The Valuation Committee reviews and approves the valuation of our assets, from time to time, as prescribed by the 1940 Act, pursuant to the guidelines established by our board of directors. The members of the Valuation Committee are Messrs. Fletcher (Chairman), Browne, Parsells and Roberts and Dr. Bardin.

The Pricing Committee was established by the board of directors on October 21, 2003. The Pricing Committee is responsible for approving the price of any offering of our shares of stock, approving the number of shares being offered in such offering, providing final approval of the underwriting agreement and handling any other details as are necessary to effect the transaction. The members of the Pricing Committee are Messrs. Harris (Chairman), Fletcher and Mayer.

The Board of Directors approved the appointment of an Independent Directors Committee on March 10, 2004, which will have the responsibility of proposing corporate governance and long-term planning matters to the Board of Directors.

The following table sets forth the dollar range of equity securities beneficially owned by each director as of December 31, 2003.

Name of Director	Dollar Range of Equity Securities Beneficially Owned (1)(2)(3)
Interested Directors:	

Charles E. Harris	Over $100,000
Dr. Kelly S. Kirkpatrick(4)	$50,001 - $100,000
Lori D. Pressman(4)	$50,001-$100,000
Independent Directors:	
Dr. C. Wayne Bardin	Over $100,000
Dr. Phillip A. Bauman	Over $100,000
G. Morgan Browne	Over $100,000
Dugald A. Fletcher	Over $100,000
Mark A. Parsells	None
Charles E. Ramsey	Over $100,000
James E. Roberts	Over $100,000

(1) Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the 1934 Act.

(2) The dollar ranges are: none, $1-$10,000, $10,001-$50,000, $50,001-$100,000 and over $100,000.

(3) The dollar ranges are based on the price of the equity securities as of December 31, 2003.

(4) Denotes an individual who may be considered an "interested person" because of consulting work performed for us.

Principal Shareholders

Set forth below is information as of May 13, 2004 with respect to the beneficial ownership of our Common Stock by (i) each person who is known by us to be the beneficial owner of more than 5% of the outstanding shares of the Common Stock, (ii) each of our directors and executive directors and (iii) all of our directors and executive officers as a group. Except as otherwise indicated, to our knowledge, all shares are beneficially owned and investment and voting power is held by the persons named as owners. Except for holdings by directors and executive officers, the information in the table below is from publicly available information that may be as of dates earlier than May 13, 2004. At this time, we are unaware of any shareholder owning 5% or more of the outstanding shares of Common Stock other than the ones noted below. Unless otherwise provided, the address of each holder is c/o Harris & Harris Group, Inc., 111 West 57th Street, Suite 1100, New York, New York 10019.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Shar
Directors and Executive Officers:		
Charles E. and Susan T. Harris..............	1,050,893(1)	
Dr. C. Wayne Bardin.........................	21,316(2)	
Dr. Phillip A. Bauman.......................	22,476(3)	
G. Morgan Browne............................	34,172	
Dugald A. Fletcher..........................	13,370	
Douglas W. Jamison..........................	625	

Dr. Kelly S. Kirkpatrick....................	3,313
Daniel V. Leff.............................	0
Mel P. Melsheimer..........................	80,210(4)
Mark A. Parsells...........................	0
Lori D. Pressman...........................	3,871
Charles E. Ramsey..........................	28,046
James E. Roberts...........................	16,392
Helene Shavin..............................	3,000
All directors and executive officers as a group (15 persons)........................	1,277,684
5% Shareholders:	
Jonathan Rothschild c/o Arterio, Inc. 1061-B Shary Circle Concord, California 94518..................	770,330
Masters Capital Management LLC/Michael Masters(5) 3060 Peachtree Road, N.E., Suite 1815 Atlanta, Georgia 30305.....................	886,962(6)

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* Less than 1%.

(1) Includes 1,039,559 shares owned by Mrs. Harris and 11,334 shares owned by Mr. Harris.

(2) Includes 3,786 shares owned by Bardin LLC for the Bardin LLC Profit-Sharing Keogh.

(3) Includes 5,637 shares owned by Ms. Milbry C. Polk, Dr. Bauman's wife; 100 shares owned by Adelaide Polk-Bauman, Dr. Bauman's daughter; 100 shares owned by Milbry Polk-Bauman, Dr. Bauman's daughter; and 100 shares owned by Mary Polk-Bauman, Dr. Bauman's daughter. Ms. Milbry C. Polk is the custodian for the accounts of the three children.

(4) Includes 13,334 shares which are owned jointly by Mel P. Melsheimer and his wife.

(5) Pursuant to a Schedule 13G/A dated February 9, 2004, Masters Capital Management LLC ("Masters") and Michael Masters beneficially owned 568,200 shares and Marlin Fund Offshore, Ltd. beneficially owned 318,762 shares (all with shared voting and dispositive power).

(6) See Footnote 5.

Remuneration of Directors and Others

The following table sets forth the compensation paid by us for the fiscal year ended December 31, 2003 to our directors and others. During the fiscal year ended December 31, 2003, we did not pay any pension or retirement benefits.

Total Compens

Name of Director	Aggregate Compensation ($)	Directo
Independent Directors:		
Dr. C. Wayne Bardin	19,000	19
Dr. Phillip A. Bauman	18,000	18
G. Morgan Browne(1)	21,462	21
Dugald A. Fletcher	19,000	19
James E. Roberts	16,000	16
Glenn E. Mayer(6)	18,000	18
Mark A. Parsells(2)	1,214	1
Charles E. Ramsey	13,000	13
Interested Directors:		
Charles E. Harris(3)	0	
Dr. Kelly S. Kirkpatrick(4)	18,926	18
Lori D. Pressman(5)	75,725	75

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(1) Includes $462 for reimbursement for travel expenses to attend board meetings.

(2) Includes $414 for reimbursement for travel expenses to attend board meetings.

(3) Mr. Harris is an "interested person" as defined in the 1940 Act.

(4) Includes $1,613 for reimbursement for travel expenses to attend board meetings and $1,313 for consulting services. Dr. Kirkpatrick may be considered an "interested person" because of consulting work performed for us.

(5) Includes $1,725 for reimbursement for travel expenses to attend board meetings and $57,000 for consulting services. Ms. Pressman may be considered an "interested person" because of consulting work performed for us.

(6) Mr. Mayer was not a nominee for reelection at the Annual Meeting of Shareholders held on May 12, 2004.

Effective June 18, 1998, directors who were not officers received $1,000 for each meeting of the board of directors and $1,000 for each committee meeting they attended in addition to a monthly retainer of $500. Prior to June 18, 1998, the directors were paid $500 for committee meetings and no monthly retainer. We also reimburse our directors for travel, lodging and related expenses they incur in attending board and committee meetings. The total compensation and reimbursement for expenses paid to all directors in 2003 was $162,014.

In 1998, the board of directors approved that effective January 1, 1998, 50% of all director fees be used to purchase our Common Stock from us. However, effective March 1, 1999, the board of directors approved that directors purchase our Common Stock in the open market, rather than from us. In 2001, the outside directors (i.e., all directors except Mr. Harris) bought a total of 7,944 shares in the open market. In 2002, the outside directors bought 9,524 shares in the open market and 43,426 shares through exercise of rights in a public offering of our Common Stock.

Remuneration of Chief Executive Officer and Other Executive Officers

The following table sets forth a summary for each of the last three years ended December 31 of the cash and non-cash compensation paid to our chief executive officer and our other executive officers.

		Annual Compensation		
Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Other Annual Compensation ($)(2)
Charles E. Harris	2003	224,567	0	43,006
Chairman of the Board & Chief	2002	221,217	10,503	46,570
Executive Officer(4)	2001	215,510	0	48,453
Mel P. Melsheimer	2003	254,106	0	0
President, Chief Operating	2002	250,327	3,224	0
Officer, Chief Financial	2001	243,869	0	0
Officer, Treasurer & Chief				
Compliance Officer				
Helene B. Shavin	2003	89,241	0	0
Controller	2002	85,353	1,161	0
	2001	13,333	0	0
Susan T. Harris	2003	9,522	0	0
Secretary(5)	2002	12,703	0	0
	2001	12,376	0	0
Douglas W. Jamison	2003	137,182	0	0
Vice President	2002	35,936	0	0

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(1) For 2002, these amounts represent the actual amounts earned as a result of realized gains during the year ended December 31, 2002 under the Harris & Harris Group Employee Profit-Sharing Plan and paid out in 2003. You may find more information on our Employee Profit-Sharing Plan under Incentive Compensation Plans.

(2) Other than those for Mr. Harris, amounts of "Other Annual Compensation" earned by the named executive officers for the periods presented did not meet the threshold reporting requirements.

(3) Except for Mr. Harris, amounts reported represent our contributions on behalf of the named executive to the Harris & Harris Group, Inc. 401(k) Plan. For 2003, Mr. Harris's "All Other Compensation" consists of: $14,000 401(k) Plan employer contribution; $298,306 for his 2003 SERP contribution; and $5,990 in life insurance premiums for the benefit of his beneficiaries. With respect to 2002 and 2003, an additional $73,739 was accrued for Mr. Harris's SERP account in 2002, but was not paid until 2003.

(4) Mr. Harris has an employment agreement with us.

(5) Ms. Harris also earned $2,000 in 2003 for her participation at board meetings as secretary, but was not paid until 2004.

Incentive Compensation Plans

As of January 1, 1998, we began implementing the Harris & Harris

Group, Inc. Employee Profit-Sharing Plan, which we refer to as the 1998 Plan, which provided for profit sharing equal to 20% of our net realized income as reflected on the Consolidated Statements of Operations for that year, less nonqualifying gains, if any. We terminated the 1998 Plan as of December 31, 1999, subject to the payment of any amounts owed on the 1999 realized gains under the 1998 Plan.

As of January 1, 2000, we implemented the Harris & Harris Group, Inc. Employee Profit-Sharing Plan, which we refer to as the Plan, which provides for profit sharing by our officers and employees equal to 20% of our "qualifying income" for that plan year. For the purposes of the Plan, qualifying income is defined as net realized income as reflected on our consolidated statements of operations for that year, less nonqualifying gains, if any.

Under the Plan, our net realized income includes investment income, realized gains and losses, and operating expenses (including taxes paid or payable by us), but is calculated without including dividends paid or distributions made to shareholders, payments under the Plan, unrealized gains and losses, and loss carry-overs from other years. The portion of net after-tax realized gains attributable to asset values as of September 30, 1997 is considered nonqualifying gain, which reduces qualifying income.

As soon as practicable following the year-end audit, the Compensation Committee will determine whether, and if so how much, qualifying income exists for a plan year. Once determined, 90% of the qualifying income will be paid out to plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10% will be paid out after we have filed our federal tax return for that plan year. At December 31, 2002, the distribution amounts for each officer and employee were as follows: Charles E. Harris, 13.790% ($10,503); Mel P. Melsheimer, 4.233% ($3,224); Helene B. Shavin, 1.524% ($1,161); and Jacqueline M. Matthews, 0.453% ($345), which together equal 20% ($15,233). In one case, for a former employee who left other than due to termination for cause, any amount earned will be accrued and may subsequently be paid to the participant.

On April 26, 2000, our shareholders approved the performance goals under the Plan in accordance with Section 162(m) of the Code, effective as of January 1, 2000. The Code generally provides that a public company such as we are may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to the officer/employee exceeds $1,000,000 in any tax year, unless the payment is made upon the attainment of objective performance goals that are approved by our shareholders.

As of January 1, 2003, we implemented the Amended and Restated Harris & Harris Group, Inc. Employee Profit-Sharing Plan, which we refer to as the 2002 Plan.

On October 15, 2002, our shareholders approved the performance goals under the 2002 Plan in accordance with Section 162(m) of the Code, effective as of January 1, 2003.

Under the 2002 Plan, our net realized income includes investment income, realized qualifying gains and losses, and operating expenses (including taxes paid or payable by us), but is calculated without including dividends paid or loss carry-overs from other years, which we refer to as qualifying income.

Under the 2002 Plan, awards previously granted to the four current Participants (Messrs. Harris and Melsheimer and Ms. Shavin and Matthews, herein referred to as the "grandfathered participants") will be reduced by 10%

with respect to "Non-Tiny Technology Investments" (as defined in the 2002 Plan) and by 25% with respect to "Tiny Technology Investments" (as defined in the 2002 Plan) and will become permanent. These reduced awards are herein referred to as "grandfathered participations." The amount by which the awards are reduced will be allocable and reallocable each year by the Compensation Committee among current and new participants as awards under the 2002 Plan. The grandfathered participations will be honored by us whether or not the grandfathered participant is still employed by us or is still alive (in the event of death, the grandfathered participations will be paid to the grandfathered participant's estate), unless the grandfathered participant is dismissed for cause, in which case all awards, including the grandfathered participations, will be immediately cancelled and forfeited. With regard to new investments and follow-on investments made after the date on which the first new employee begins participating in the 2002 Plan, both current and new participants will be required to be employed by us at the end of a plan year in order to participate in profit-sharing on our investments with respect to that year.

Notwithstanding any provisions of the 2002 Plan, in no event may the aggregate amount of all awards payable for any Plan Year during which we remain a "business development company" within the meaning of the 1940 Act be greater than 20% of our "net income after taxes" within the meaning of Section 57(n)(1)(B) of the 1940 Act. In the event the awards as calculated exceed that amount, the awards will be reduced pro rata.

The 2002 Plan may be modified, amended or terminated by the Compensation Committee at any time. Notwithstanding the foregoing, the grandfathered participations may not be further modified. Nothing in the 2002 Plan will preclude the Compensation Committee from naming additional participants in the 2002 Plan or, except for grandfathered participations, changing the Award Percentage of any Participant (subject to the overall percentage limitations contained in the 2002 Plan). Currently under the 2002 Plan, the distribution amounts for non-grandfathered investments for each officer and employee currently are as follows: Charles E. Harris, 7.790%; Mel P. Melsheimer, 3.733%; Douglas W. Jamison, 3.5%; Daniel V. Leff, 3.0%; Helene B. Shavin, 1.524%; and Jacqueline M. Matthews, 0.453%, which together equal 20%.

The grandfathered participations are set forth below:

	Grandfathered Participations	
Name of Officer/Employee	Non-Tiny Technology (%)	Tiny Tech
Charles E. Harris	12.41100	10.
Mel P. Melsheimer	3.80970	3.
Helene B. Shavin	1.37160	1.
Jacqueline M. Matthews	0.40770	0.
TOTAL	18.00000	15.

Accordingly, an additional 2% of Qualifying Income with respect to grandfathered Non-Tiny Technology Investments, 5% of Qualifying Income with respect to grandfathered Tiny Technology Investments and the full 20% of Qualifying Income with respect to new investments are available for allocation and reallocation from year to year. Currently Douglas W. Jamison and Daniel V. Leff are each allocated 0.80% of the Non-Tiny Technology Grandfathered

Participations and 2% of the Tiny Technology Grandfathered Participations.

During 2002, we decreased the profit-sharing accrual by $163,049, bringing the cumulative accrual under the Plan to $15,233 at December 31, 2002. The amounts payable under the Plan for net realized income during the year ended December 31, 2002 are $15,233. We paid out 90% in March 2003 and the remaining 10% upon the completion and filing of our 2002 federal tax return. During 2003, we made no accrual for profit sharing.

Other Information

We are not subject to any material pending or, to our knowledge, threatened legal proceedings.

Our custodian is J.P. Morgan Chase Bank, 345 Park Avenue, New York, New York 10154-1002.

Our transfer and dividend-paying agent is The Bank of New York, 101 Barclay Street, New York, New York 10286.

DIVIDENDS AND DISTRIBUTIONS

As a regulated investment company under the Code, we will not be subject to U.S. federal income tax on our investment company taxable income that we distribute to shareholders, provided that at least 90% of our investment company taxable income for that taxable year is distributed to our shareholders. We may choose to retain our net capital gains for investment and pay the associated federal corporate income tax.

To the extent that we retain any net capital gain, we may pay deemed capital gain dividends to shareholders. If we do pay a deemed capital gain dividend, you will not receive a cash distribution, but instead you will receive a tax credit equal to your proportionate share of the tax paid by us. When we declare a deemed dividend, our dividend-paying agent will send you an IRS Form 2439 which will reflect receipt of the deemed dividend income and the tax credit. This tax credit, which we pay at the applicable corporate rate, is normally at a higher rate than the rate payable by individual shareholders on the deemed dividend income. The excess credit can be used by the shareholder to offset other taxes due in that year or to generate a tax refund to the shareholder. In addition, each shareholder's tax basis in his shares of Common Stock is increased by the excess of the capital gain on which we paid taxes over the amount of taxes we paid. See "Taxation."

We did not pay a cash dividend or declare a deemed capital gain dividend for 2002. On January 22, 2002, we announced a deemed capital gain dividend for 2001 of $0.0875 per share for a total of $775,620.

TAXATION

Taxation of the Company

We have elected and qualified and intend to continue to qualify to be taxed as a regulated investment company under Subchapter M of the Code. Accordingly, we must, among other things, (a) derive in each taxable year at least 90% of our gross income (including tax-exempt interest) from dividends, interest, payments with respect to certain securities loans, and gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including but not limited to gain from options, futures and forward contracts) derived with respect to our business of investing in stock, securities or currencies; and (b) diversify our holdings so that, at the end of each fiscal quarter (i) at least 50% of the market value of our total assets is represented by cash and cash items, U.S. Government securities, the securities of other regulated investment companies and other securities, with other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of our total assets and not more than 10% of the outstanding voting securities of any issuer (subject to the exception described below), and (ii) not more than 25% of the market value of our total assets is invested in the securities of any issuer (other than U.S. Government securities and the securities of other regulated investment companies) or of any two or more issuers that we control and that are determined to be engaged in the same business or similar or related trades or businesses.

In the case of a regulated investment company which furnishes capital to development corporations, there is an exception to the rule relating to the diversification of investments described above. This exception is available only to registered management investment companies which the SEC determines to be principally engaged in the furnishing of capital to other corporations which are principally engaged in the development or exploitation of inventions, technological improvements, new processes, or products not previously generally available ("SEC Certification"). We have received SEC Certification since 1999, including for 2002, but it is possible that we may not receive SEC Certification in future years. Pursuant to the SEC Certification, we are generally entitled to include, in the computation of the 50% value of our assets (described in (b)(i) above), the value of any securities of an issuer, whether or not we own more than 10% of the outstanding voting securities of the issuer, if the basis of the securities, when added to our basis of any other securities of the issuer that we own, does not exceed 5% of the value of our total assets.

As a regulated investment company, in any fiscal year with respect to which we distribute at least 90% of the sum of our (i) investment company taxable income (which includes, among other items, dividends, interest and the excess of any net short-term capital gains over net long-term capital losses and other taxable income other than any net capital gain reduced by deductible expenses) determined without regard to the deduction for dividends paid and (ii) net tax exempt interest (the excess of its gross tax exempt interest over certain disallowed deductions), we (but not our shareholders) generally will not be subject to U.S. federal income tax on investment company taxable income and net capital gains that we distribute to shareholders. To the extent that we retain our net capital gains for investment, we will be subject to U.S. federal income tax. We may choose to retain our net capital gains for investment and pay the associated federal corporate income tax.

Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax payable by us. To avoid this tax, we must distribute (or be deemed to have distributed) during each calendar year an amount equal to the sum of:

(1) at least 98% of our ordinary income (not taking into account any capital gains or losses) for the calendar year;

(2) at least 98% of our capital gains in excess of our capital losses (adjusted for certain ordinary losses) for a one-year period generally ending on October 31 of the calendar year (unless an election is made by a company with a November or December year-end to use the company's fiscal year); and

(3) any undistributed amounts from previous years on which we paid no U.S. federal income tax.

While we intend to distribute any income and capital gains in the manner necessary to minimize imposition of the 4% excise tax, sufficient amounts of our taxable income and capital gains may not be distributed to avoid entirely the imposition of the tax. In that event, we will be liable for the tax only on the amount by which we do not meet the foregoing distribution requirement.

If in any particular taxable year, we do not qualify as a regulated investment company, all of our taxable income (including its net capital gains) will be subject to tax at regular corporate rates without any deduction for distributions to shareholders, and distributions will be taxable to the shareholders as ordinary dividends to the extent of our current and accumulated earnings and profits.

We may decide to be taxed as a corporation even if we would otherwise qualify as a regulated investment company.

Company Investments

We may make certain investments which would subject us to special provisions of the Code that, among other things, may affect the character of the gains or losses realized by us and require us to recognize income or gain without receiving cash with which to make distributions.

In the event we invest in foreign securities, we may be subject to withholding and other foreign taxes with respect to those securities. We do not expect to satisfy the requirement to pass through to the shareholders their share of the foreign taxes paid by us.

Due to our expected investments, in general, distributions will not be eligible for the dividends received deduction allowed to corporate shareholders and will not qualify for the reduced rate of tax for qualified dividend income allowed to individuals.

Taxation of Shareholders

Distributions we pay to you from our ordinary income or from an excess of net short-term capital gains over net long-term capital losses (together referred to hereinafter as "ordinary income dividends") are taxable to you as ordinary income to the extent of our earnings and profits. Distributions made to you from an excess of net long-term capital gains over net short-term capital losses ("capital gain dividends"), including capital gain dividends credited to you but retained by us, are taxable to you as long-term capital gains, regardless of the length of time you have owned our shares. Distributions in excess of our earnings and profits will first reduce the adjusted tax basis of your shares and, after the adjusted tax basis is reduced to zero, will constitute capital gains to you (assuming the shares are held as a capital asset). Generally, you will be provided with a written notice designating the amount of any (i) ordinary income dividends no later than 30 days after the close of the taxable year, and (ii) capital gain dividends or other distributions no later than 60 days after the close of the taxable year.

In the event that we retain any net capital gains, we may designate the retained amounts as undistributed capital gains in a notice to our shareholders. If a designation is made, shareholders would include in income, as long-term capital gains, their proportionate share of the undistributed amounts, but would be allowed a credit or refund, as the case may be, for their proportionate share of the corporate tax paid by us. In addition, the tax basis of shares owned by a shareholder would be increased by an amount equal to the difference between (i) the amount included in the shareholder's income as long-term capital gains and (ii) the shareholder's proportionate share of the corporate tax paid by us.

Dividends and other taxable distributions are taxable to you even though they are reinvested in additional shares of our common tock. If we pay you a dividend in January which was declared in the previous October, November or December to shareholders of record on a specified date in one of these months, then the dividend will be treated for tax purposes as being paid by us and received by you on December 31 of the year in which the dividend was declared.

A shareholder will realize gain or loss on the sale or exchange of our common shares in an amount equal to the difference between the shareholder's adjusted basis in the shares sold or exchanged and the amount realized on their disposition. Generally, gain recognized by a shareholder on the sale or other disposition of our common shares will result in capital gain or loss to you, and will be a long-term capital gain or loss if the shares have been held for more than one year at the time of sale. Any loss upon the sale or exchange of our shares held for six months or less will be treated as a long-term capital loss to the extent of any capital gain dividends received (including amounts credited as an undistributed capital gain dividend) by you. A loss realized on a sale or exchange of our shares will be disallowed if other substantially identical shares are acquired (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In this case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

In general, federal withholding taxes at a 30% rate (or a lower rate pursuant to a tax treaty) will apply to distributions to shareholders (except to those distributions designated by us as capital gain dividends) that are nonresident aliens or foreign partnerships, trusts or corporations (a "non-U.S. investor"). Different tax consequences may result if a non-U.S. investor is engaged in a trade or business in the United States or, in the case of an individual, is present in the United States for 183 or more days during a taxable year and certain other conditions are met.

Backup Withholding

We are required in some circumstances to backup withhold on taxable dividends and other payments paid to non-corporate holders of our shares who do not furnish us with their correct taxpayer identification number and certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to you may be refunded or credited against your U.S. federal income tax liability, if any, provided that the required information is furnished to the Internal Revenue Service.

The foregoing is a general discussion of the provisions of the Code and the Treasury regulations in effect as they directly govern our taxation and our shareholders. These provisions are subject to change by legislative or administrative action, and any change may be retroactive. The discussion does not purport to deal with all of the U.S. federal income tax consequences applicable to us, or which may be important to particular shareholders in light of their individual investment circumstances or to some types of shareholders subject to special tax rules, such as financial institutions, broker-dealers, insurance companies, tax-exempt organizations, partnerships or other pass-through entities, persons holding notes in connection with a hedging, straddle, conversion or other integrated transaction, persons engaged in a trade or business in the United States or persons who have ceased to be U.S. citizens or to be taxed as resident aliens. Shareholders are urged to consult their tax advisers regarding specific questions as to U.S. federal, foreign, state and local income or other taxes.

CERTAIN GOVERNMENT REGULATIONS

A business development company is regulated by the 1940 Act. A business development company must be organized in the United States for the purpose of investing in primarily private companies and making managerial assistance available to them. A business development company may use capital provided by public shareholders and from other sources to invest in private investments. A business development company provides shareholders the ability to retain the liquidity of a publicly traded stock, while sharing in the possible benefits, if any, of investing primarily in privately owned companies.

As a business development company, we may not acquire any assets other than "qualifying assets" unless, at the time we make the acquisition, the value of our qualifying assets represents at least 70% of the value of our total assets. The principal categories of qualifying assets relevant to our business are:

- securities purchased in transactions not involving any public offering, the issuer of which is an eligible portfolio company;

- securities received in exchange for or distributed with respect to securities described in the bullet above or pursuant to the exercise of options, warrants or rights relating to the securities; and

- cash, cash items, government securities or high quality debt securities (within the meaning of the 1940 Act), maturing in one year or less from the time of investment.

An eligible portfolio company is generally a domestic company that is not an investment company (other than a small business investment company wholly owned by a business development company) and that:

- does not have a class of securities registered on an exchange or a class of securities with respect to which a broker may extend margin credit;

- is actively controlled by the business development company and has an affiliate of a business development company on its board of directors; or

- meets other criteria as may be established by the SEC.

Control under the 1940 Act is presumed to exist where a business development company beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

To include securities described above as qualifying assets for the purpose of the 70% test, a business development company must make available to the issuer of those securities (whether directly or through cooperating parties) significant managerial assistance such as providing significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company. We offer to provide managerial assistance to each of our portfolio companies.

As a business development company, we are entitled to issue senior securities in the form of stock or indebtedness, including bank borrowings and debt securities, as long as our senior securities have an asset coverage of at least 200% immediately after each issuance. See "Risk Factors."

We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of members of our board of directors who are not interested persons and, in some cases, may have to seek prior approval from the SEC.

As with other companies regulated by the 1940 Act, a business development company must adhere to substantive regulatory requirements. A majority of our directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a business development company, we are prohibited from protecting any director or officer against any liability to us or our shareholders arising from willful malfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of that person's office.

We maintain a code of ethics that establishes procedures for personal investment and restricts some transactions by our personnel. Our code of ethics generally does not permit investment by our employees in private securities that may be purchased or held by us. The code of ethics is filed as an exhibit to our registration statement of which this Prospectus is a part. You may read and copy the code of ethics at the SEC's Public Reference Room in Washington, D.C. You may obtain information on operations of the Public Reference Room by calling the SEC at (800) SEC-0330. In addition, the code of ethics is available on the EDGAR Database on the SEC Internet site at http://www.sec.gov. You may obtain copies of the code of ethics, after paying a duplicating fee, by electronic request at the following email address: publicinfo@sec.gov, or by writing to the SEC's Public Reference Section, 450 5th Street, N.W., Washington, D.C. 20549.

We may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company unless authorized by vote of a "majority of the outstanding voting securities," as defined in the 1940 Act, of our shares. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of the company's shares present at a meeting if more than 50% of the outstanding shares of the company are present and represented by proxy or (ii) more than 50% of the outstanding shares of the company.

Pending further clarification from the SEC, as a consequence of the foregoing classifications and eligibility criteria, we will not treat as an eligible portfolio company pursuant to the first alternative criterion described above (that is, no class of securities outstanding against which a broker may extend margin credit) any company that, at the time of our investment, has outstanding any debt securities or equity securities against which the margin rules adopted by the Federal Reserve Board authorize a broker to extend credit.

CAPITALIZATION

We are authorized to issue 25,000,000 shares of Common Stock, par value $0.01 per share, and 2,000,000 shares of preferred stock, par value $0.10 per share. Each share within a particular class or series thereof has equal voting, dividend, distribution and liquidation rights. When issued, in accordance with the terms thereof, shares of Common Stock will be fully paid and non-assessable. All shares issued as a result of exercise of the rights will be newly issued shares. Shares of Common Stock are not redeemable and have no preemptive, conversion or cumulative voting rights.

The following table shows the number of shares of (i) capital stock authorized, (ii) the amount held by us or for our own account and (iii) capital stock outstanding for each class of our authorized securities as of December 31, 2003.

Title of Class	Amount Authorized	Amount Held by Company or for its Own Account	Amount Ou
Common Stock	25,000,000	1,828,740	13,7
Preferred Stock	2,000,000	0	

Issuance of Preferred Stock

Our board of directors is authorized by our articles of incorporation to issue up to 2,000,000 shares of preferred stock having a par value of $0.10 per share. The board of directors is authorized to divide the preferred stock into one or more series and to determine the terms of each series, including but not limited to the voting rights, redemption provisions, dividend rate and liquidation preference. Any terms must be consistent with the requirements of the 1940 Act. The 1940 Act currently prohibits us from issuing any preferred stock if after giving effect to the issuance the value of our total assets, less all liabilities and indebtedness other than senior securities, would be less than 200% of the aggregate amount of senior securities representing indebtedness plus the aggregate involuntary liquidation value of our preferred stock (other than up to 5% borrowings for temporary purposes). Leveraging with preferred stock raises the same general potential for loss or gain and other risks as does leveraging with borrowings described above.

Options and Warrants

We have no options or warrants outstanding. Under the 1940 Act, we cannot issue options and/or warrants for more than 25% of our outstanding voting securities.

PLAN OF DISTRIBUTION

We may sell our Common Stock through underwriters or dealers, directly to one or more purchasers through agents or through a combination of any such methods of sale. Any underwriter or agent involved in the offer and sale of our Common Stock will be named in the applicable Prospectus Supplement.

The distribution of our Common Stock may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share less any underwriting commissions or discounts must equal or exceed the net asset value per share of our Common Stock.

In connection with the sale of our Common Stock, underwriters or agents may receive compensation from us in the form of discounts, concessions or commissions. Underwriters may sell our Common Stock to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our Common Stock may be deemed to be underwriters under the Securities Act of 1933, and any discounts and commissions they receive from us and any profit realized by them on the resale of our Common Stock may be deemed to be underwriting discounts and commissions under the Securities Act of 1933. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable Prospectus Supplement. The maximum commission or discount to be received by any NASD member or independent broker-dealer will not exceed 8%. We will not pay any compensation to any underwriter or agent in the form of warrants, options, consulting or structuring fees or similar arrangements.

Any Common Stock sold pursuant to a Prospectus Supplement will be listed on the Nasdaq National Market.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our Common Stock may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act of 1933. Underwriters, dealers and agents may engage in transactions with us, or perform services for us, in the ordinary course of business.

If so indicated in the applicable Prospectus Supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our Common Stock from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contacts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of the Common Stock shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the Prospectus Supplement, and the Prospectus Supplement will set forth the commission payable for solicitation of such contracts.

In connection with an offering of our Common Stock in December 2003, we and our most senior executive officers have agreed that for a period of 90 days after the date of this Prospectus, we and they will not, without the prior written consent of Punk, Ziegel & Company, directly or indirectly: offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for the sale of or otherwise dispose of or transfer (subject to certain exceptions) any shares of our Common Stock or securities convertible into or exchangeable or exercisable for shares of our Common Stock, whether now owned or acquired after the date of this Prospectus by any person or with respect to which any person acquires after the date of this Prospectus the power of disposition, or file any registration statement under the Securities Act with respect to any of the foregoing for a period of 180 days, or enter into any swap or other agreement or any other agreement that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of shares of our Common Stock whether any swap or transaction is to be settled by delivery of our Common Stock or other securities, in cash or otherwise.

In order to comply with the securities laws of certain states, if applicable, our Common Stock offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers.

LEGAL MATTERS

Certain legal matters will be passed on by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, our special counsel in connection with the offering of Common Stock.

EXPERTS

Our audited financial statements as of December 31, 2003 and for each of the two years in the period then ended have been incorporated by reference from our 2003 Annual Report on Form 10-K in reliance on the report of PricewaterhouseCoopers LLP, independent registered public accounting firm, given on the authority of that firm as experts in accounting and auditing. PricewaterhouseCoopers LLP is located at 1177 Avenue of the Americas, New York, New York 10036. At the 2003 annual meeting, shareholders ratified the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm to audit our December 31, 2003 financial statements.

The financial statements, as of and for the year ended December 31, 2001 incorporated by reference in this Prospectus were audited by Arthur Andersen LLP, independent public accountant, as indicated in their report with respect thereto, are included herein in reliance upon the authority of said firm as experts in giving said report. Arthur Andersen LLP has not consented to the inclusion of their report in this Prospectus, and we have not obtained their consent to do so in reliance upon Rule 437a of the Securities Act of 1933. Because Arthur Andersen LLP has not consented to the inclusion of their report in this Prospectus, you will not be able to recover against Arthur Andersen LLP under Section 11(a) of the Securities Act for any untrue statements of a material fact contained in the financial statements audited by Arthur Andersen LLP or any omissions to state a material fact required to be stated therein.

We will furnish, without charge, a copy of such financial statements upon request by writing to 111 West 57th Street, Suite 1100, New York, New York 10019, Attention: Investor Relations, or calling 212-582-0900.

CHANGE IN INDEPENDENT PUBLIC ACCOUNTANTS

On February 26, 2002, our Audit Committee approved the dismissal of Arthur Andersen LLP as our independent public accountants effective upon completion of the December 31, 2001 audit, and appointed PricewaterhouseCoopers LLP to serve as our independent public accountants for the year ending December 31, 2002. The appointment of PricewaterhouseCoopers LLP was ratified at our 2002 annual meeting of stockholders held on October 15, 2002.

Arthur Andersen LLP's reports on our consolidated financial statements for the year ended December 31, 2001 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the year ended December 31, 2001, there were no disagreements with Arthur Andersen LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen LLP's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our consolidated financial statements for those years; and there were no reportable events as defined in Item 304(a) (1) (v) of Regulation S-K.

FURTHER INFORMATION

We are subject to the informational requirements of the 1934 Act and in accordance therewith file reports, proxy statements and other information with the SEC. The reports, proxy statements and other information filed by us can be inspected and copied at public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, its Northeast Regional Office, 233 Broadway, New York, New York 10279 and its Chicago Regional Office, Suite 900, 175 West Jackson Boulevard, Chicago, Illinois 60604. You can obtain information on the operation of the Public Reference room by calling the SEC at (800) SEC-0330. The SEC also maintains a website that contains reports, proxy statements, and other information. The address of the SEC's website is http://www.sec.gov. Copies of this material may also be obtained from the Public Reference Branch, Office of Consumer Affairs and Information Services of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Our Common Stock is listed on the Nasdaq National Market and our reports, proxy statements and other information concerning us can be inspected and copied at the library of the National Association of Securities Dealers, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

PRIVACY PRINCIPLES OF THE COMPANY

We are committed to maintaining the privacy of our shareholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in some cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our shareholders, although some non-public personal information of our shareholders may become available to us. We do not disclose any non-public personal information about our shareholders or former shareholders to anyone, except as permitted by law or as is necessary in order to service shareholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to non-public personal information about our shareholders to our employees and to employees of our service providers and their affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our shareholders.

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HARRIS & HARRIS GROUP, INC.

7,000,000 Shares

Common Stock

The date of the Prospectus is June 2, 2004

This Prospectus constitutes a part of a registration statement on Form N-2 (together with all the exhibits and the appendix thereto, the "Registration Statement") filed by us with the SEC under the Securities Act. This Prospectus does not contain all of the information set forth in the Registration Statement. Reference is hereby made to the Registration Statement and related exhibits for further information with respect to us and the shares offered hereby. Statements contained herein concerning the provisions of documents are necessarily summaries of the material terms of such documents.

No dealer, salesperson or other person has been authorized to give any information or to make any representations not contained in this Prospectus. If given or made, any information or representation must not be relied upon as having been authorized by us. This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any security other than the shares of Common Stock offered by this Prospectus, nor does it constitute an offer to sell or the solicitation of an offer to buy shares of Common Stock by anyone in any jurisdiction in which such offer or solicitation would be unlawful.

APPENDIX A

Consolidated Financial Statements and Supplementary Data

HARRIS & HARRIS GROUP, INC. - 2003
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

The following reports and consolidated financial schedules of Harris & Harris Group, Inc. are filed herewith and included in response to Item 8.

Schedules other than those listed above have been omitted because they are not applicable or the required information is presented in the consolidated financial statements and/or related notes.

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REPORT OF INDEPENDENT AUDITORS

Report of Independent Auditors

To the Board of Directors and Shareholders of
Harris & Harris Group, Inc.

In our opinion, the accompanying consolidated statements of assets and liabilities, including the consolidated schedule of investments, and the related consolidated statements of operations, of cash flows and of changes in net assets present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. (the "Company") at December 31, 2003 and December 31, 2002, and the results of its operations, its cash flows and the changes in its net assets for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2003 by correspondence with the custodian, provide a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2001 and for the year then ended were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 21, 2002.

As more fully disclosed in Note 2, the financial statements include investments valued at $15,106,576 (37.13% of net assets) at December 31, 2003, the fair values of which have been estimated by the Board of Directors in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

/s/ PricewaterhouseCoopers, LLP

March 10, 2004
New York, N.Y.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

	December 31, 2003
Investments, at value (Cost: $44,603,778 at 12/31/03, $30,206,935 at 12/31/02)	$ 42,227,062
Cash and cash equivalents	425,574
Restricted funds (Note 5)	1,212,078
Funds in escrow	0
Receivable from portfolio company	0
Interest receivable	450
Income tax receivable	17,375
Prepaid expenses	6,841
Other assets	225,748
Total assets	$ 44,115,128

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities	$ 2,723,398
Payable to broker for unsettled trade	0
Accrued profit sharing (Note 3)	0
Deferred rent	39,648
Current income tax liability	0
Deferred income tax liability (Note 6)	669,344

Total liabilities	3,432,390
Commitments and contingencies (Note 7)	
Net assets	$ 40,682,738
Net assets are comprised of:	
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued	$ 0
Common stock, $0.01 par value, 25,000,000 shares authorized; 15,627,585 issued at 12/31/03 and 13,327,585 issued at 12/31/02.	156,276
Additional paid in capital (Note 4)	49,564,475
Additional paid in capital - common stock warrants (Note 4)	0
Accumulated net realized gain (loss)	(2,410,847)
Accumulated unrealized depreciation of investments, including deferred tax liability of $844,918 at 12/31/03 and 12/31/02	(3,221,635)
Treasury stock, at cost (1,828,740 shares at 12/31/03 and 12/31/02).	(3,405,531)
Net assets	$ 40,682,738
Shares outstanding	13,798,845
Net asset value per outstanding share	$ 2.95

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2003	Year December 31,
Investment income:		
Interest from:		
Fixed-income securities	$ 125,173	$ 184,0
Portfolio companies	450	
Dividend income	0	
Other income	42,162	69,4
Total investment income	167,785	253,4
Expenses:		
Profit-sharing (reversal) (Note 3)	0	(163,04
Salaries and benefits	1,540,692	1,130,3
Professional fees	303,795	344,7
Administration and operations	446,185	433,5
Rent	200,711	173,2
Directors' fees and expenses	162,014	154,6
Depreciation	51,073	30,6

Custodian fees	10,178	9,6
Interest expense (Note 4)	16,879	10,7
Total expenses	2,731,527	2,124,5
Operating loss before income taxes	(2,563,742)	(1,871,0
Income tax benefit (Note 6)	0	
Net operating loss	(2,563,742)	(1,871,0
Net realized (loss) from investments:		
Realized (loss) income from investments	(971,164)	3,284,
Total realized (loss) income	(971,164)	3,284,
Income tax expense (Note 6)	(13,761)	(894,4
Net realized (loss) income from investments	(984,925)	2,390,
Net realized (loss) income	(3,548,667)	519,
Net decrease (increase) in unrealized depreciation on investments:		
Increase as a result of investment sales	1,000,001	1,602,0
Decrease as a result of investment sales	0	(322,20
Increase on investments held	764,616	2
Decrease on investments held	(1,421,220)	(5,216,6
Change in unrealized depreciation on investments	343,397	(3,936,53
Income tax benefit (Note 6)	0	695,1
Net decrease (increase) in unrealized depreciation on investments	343,397	(3,241,40
Net decrease in net assets resulting from operations:		
Total	$ (3,205,270)	$ (2,722,19
Per outstanding share	$ (0.28)	$ (0.2

The accompanying notes are an integral part of these consolidated financial stateme

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2003	Year Ended D 3
Cash flows used in operating activities:		
Net decrease in net assets resulting from operations	$ (3,205,270)	$ (2,72
Adjustments to reconcile net		

decrease in net assets resulting from operations to net cash used in operating activities:		
Net realized and unrealized loss on investments.........	627,767	65
Deferred income taxes................................	0	(69
Depreciation...	51,073	3
Other..	0	
Changes in assets and liabilities:		
Restricted funds.....................................	(455,134)	(27
Receivable from broker for unsettled trades............	786,492	(78
Funds in escrow......................................	750,000	(75
Interest receivable..................................	(261)	
Income tax receivable................................	(17,375)	
Prepaid expenses.....................................	89,790	(8
Notes receivable.....................................	0	1
Other assets...	44,130	
Accounts payable and accrued liabilities...............	1,271,830	41
Payable to broker for unsettled trade..................	(5,696,725)	5,69
Accrued profit sharing...............................	(15,233)	(16
Deferred rent..	34,251	(
Current income tax liability..........................	(857,656)	60
Net cash (used in) provided by operating activities.....	(6,592,321)	1,92
Cash provided by investing activities:		
Net (purchase) sale of short-term investments and marketable securities..............................	(11,669,430)	10,35
Investment in private placements and loans.............	(3,727,718)	(7,19
Proceeds from sale of investments......................	27,641	7,63
Purchase of fixed assets..............................	(213,416)	(4
Net cash (used in) provided by investing activities.....	(15,582,923)	10,75
Cash flows used in financing activities:		
Purchase of treasury stock (Note 4)....................	0	
Proceeds from note payable............................	0	
Payment of note payable (Note 4).......................	0	(12,49
Proceeds from public offering, net (Note 4)............	16,631,962	5,64
Collection on notes receivable.........................	1,500	
Net cash provided by (used in) financing activities.....	16,633,462	(6,84
Net (decrease) increase in cash and cash equivalents:		
Cash and cash equivalents at beginning of the year......	5,967,356	13
Cash and cash equivalents at end of the year...........	425,574	5,96
Net (decrease) increase in cash and cash equivalents....	$(5,541,782)	$ 5,83
Supplemental disclosures of cash flow information:		
Income taxes paid....................................	$ 575,100	$ 30
Interest paid..	$ 16,879	$ 1

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended December 31, 2003	Year Ended De 31
Changes in net assets from operations:		
Net operating loss..................................	$ (2,563,742)	$ (1,8
Net realized (loss) on investments..................	(984,925)	2,3
Net increase in unrealized appreciation on investments as a result of sales..............	1,000,001	1,2
Net decrease in unrealized appreciation on investments held................................	(656,604)	(4,5
Net decrease in net assets resulting from operations..................................	(3,205,270)	(2,7
Changes in net assets from capital stock transactions:		
Purchase of treasury stock..........................	0	
Proceeds from sale of stock.........................	23,000	
Additional paid in capital on common stock issued....................................	16,608,962	5,6
Deemed dividend shareholder tax credit	0	
Net increase (decrease) in net assets resulting from capital stock transactions.........................	16,631,962	5,6
Net increase (decrease) in net assets...................	16,631,962	2,9
Net Assets:		
Beginning of the year...............................	27,256,692	24,3
End of the year.....................................	$ 40,682,738	$ 27,2

The accompanying notes are an integral part of these consolidated financial stat

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2003

	Method of Valuation (3)
Investments in Unaffiliated Companies (8)(9)(10) - 11.3% of total investments	

Private Placement Portfolio (Illiquid) - 11.3% of total investments

AlphaSimplex Group, LLC (2)(12) -- Investment advisory firm headed by Dr. Andrew W. Lo, holder of the Harris & Harris Group Chair at MIT Limited Liability Company interest........................	(B)
Continuum Photonics, Inc. (1)(2)(6) -- Develops optical networking components by merging cutting-edge materials, MEMS and electronics technologies -- 3.70% of fully diluted equity Series B Convertible Preferred Stock...	(D)
Exponential Business Development Company (1)(2)(5) (12) -- Venture capital partnership focused on early stage companies Limited partnership interest..	(A)
Heartware, Inc. (1)(2)(6)(15) -- Develops ventricular assist devices -- 0% percent of fully diluted equity Series A-2 Non-Voting Preferred Stock.......................................	(D)
NanoGram Corporation (1)(2)(4)(6)(13) -- Develops a broad suite of intellectual property utilizing nanotechnology -- 1.81% of fully diluted equity Series 1 Convertible Preferred Stock...	(A)
NanoOpto Corporation (1)(2)(6) -- Develops high performance, integrated optical communications sub-components on a chip by utilizing patented nano-manufacturing technology -- 2.60% of fully diluted equity	
Series A-1 Convertible Preferred Stock.......................................	(B)
Series B Convertible Preferred Stock...	(B)
Nanosys, Inc. (1)(2)(4)(6) -- Develops nanotechnology-enabled systems incorporating novel and patent-protected zero and one-dimensional nanometer-scale materials -- 1.65% of fully diluted equity Series C Convertible Preferred Stock...	(A)
Nantero, Inc. (1)(2)(6) -- Develops a high density nonvolatile random access memory chip using nanotechnology -- 3.35% of fully diluted equity Series A Convertible Preferred Stock....................	(B)
Series B Convertible Preferred Stock...	(B)
NeoPhotonics Corporation (1)(2)(6)(13)(14) -- Develops and manufactures planar optical devices and components using nanomaterials deposition technology -- 1.53% of fully diluted equity Series D Convertible Preferred Stock..................................	(D)
Secured Convertible Note...	(D)
Optiva, Inc. (1)(2)(5)(6) -- Develops and commercializes nanomaterials for advanced applications -- 1.96% of fully diluted equity Series C Convertible Preferred Stock....................	(B)

Total Private Placement Portfolio (cost: $6,354,651)..

Total Investments in Unaffiliated Companies (cost: $6,354,651)..................................

The accompanying notes are an integral part of this consolidated sche

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CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2003

	Method of Valuation (3
Investments in Non-Controlled Affiliated Companies (8)(9)(11) -- 24.5% of total investments	
Private Placement Portfolio (Illiquid) - 24.5% of total investments	
Agile Materials & Technologies, Inc. (1)(2)(6) - Develops and sells variable integrated passive RF electronic equipment components -- 8.15% of fully diluted equity	
Series A Convertible Preferred Stock..	(D)
Chlorogen, Inc. (1)(2)(4)(6) -- Develops patented chloroplast technology to produce plant-made proteins -- 9.76% of fully diluted equity	
Series A Convertible Preferred Stock..	(A)
Experion Systems, Inc. (1)(2)(5)(7) -- Develops and sells software to credit unions -- 12.44% of fully diluted equity	
Series A Convertible Preferred Stock..	(B)
Series B Convertible Preferred Stock..	(B)
Series C Convertible Preferred Stock..	(B)
NanoGram Devices Corporation (1)(2)(4)(6)(14) -- Develops power components for biomedical applications by utilizing a patented nanomaterial synthesis process -- 5.00% of fully diluted equity	
Series A-1 Convertible Preferred Stock..	(A)
Series A-2 Convertible Preferred Stock..	(A)
Nanopharma Corp. (1)(2)(5)(6) -- Develops advanced nanoscopic drug delivery vehicles and systems -- 14.39% of fully diluted equity	
Series A Convertible Preferred Stock..	(A)
Nanotechnologies, Inc. (1)(2)(6) -- Develops high-performance nanoscale materials for industry -- 6.48% of fully diluted equity	
Series B Convertible Preferred Stock..	(B)
Series C Convertible Preferred Stock..	(B)
NeuroMetrix, Inc. (1)(2)(5) -- Develops and sells medical devices for monitoring neuromuscular disorders -- 12.08% of fully diluted equity	
Series A Convertible Preferred Stock..	(B)
Series B Convertible Preferred Stock..	(B)
Series C-2 Convertible Preferred Stock..	(B)
Series E Convertible Preferred Stock..	(B)
Series E-1 Convertible Preferred Stock..	(B)
Questech Corporation (1)(2)(5) -- Manufactures and markets proprietary metal decorative tiles -- 6.73% of fully diluted equity	
Common Stock..	(B)
Warrants at $5.00 expiring 10/25/04...	(B)
Warrants at $1.50 expiring 11/16/05...	(B)
Warrants at $1.50 expiring 08/03/06...	(B)
Warrants at $1.50 expiring 11/21/07...	(B)
Warrants at $1.50 expiring 11/19/08...	(B)
Total Private Placement Portfolio (cost: $11,127,228)..	
Total Investments in Non-Controlled Affiliated Companies (cost: $11,127,228)....................	

The accompanying notes are an integral part of this consolidated sc

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2003

	Method of Valuation (3)
U.S. Government and Agency Obligations - 64.2% of total investments	
U.S. Treasury Bills -- due date 01/08/04..................	(J)
U.S. Treasury Bills -- due date 01/15/04..................	(J)
U.S. Treasury Bills -- due date 02/05/04..................	(J)
U.S. Treasury Bills -- due date 02/12/04..................	(J)
U.S. Treasury Bills -- due date 02/19/04..................	(J)
U.S. Treasury Bills -- due date 03/18/04..................	(J)
Total Investments in U.S. Government (cost: $27,121,899)......................................	
Total Investments - 100% (cost: $44,603,778)...	

The accompanying notes are an integral part of this consolidated schedu

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2003

Notes to Consolidated Schedule of Investments

(1) Represents a non-income producing security. Equity investments that have not paid dividends within the last 12 months are considered to be non-income producing.

(2) Legal restrictions on sale of investment.

(3) See Footnote to Schedule of Investments for a description of the Asset Valuation Policy Guidelines.

(4) Initial investment was made during 2003.

(5) No changes in valuation occurred in these investments during the 12 months ended December 31, 2003.

(6) These investments are development stage companies. A development stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations or it has commenced such operations but has not realized significant revenue from them.

(7) Previously named MyPersonalAdvocate.com, Inc.

(8) Investments in unaffiliated companies consist of investments in which we own less than five percent of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own more than five percent but less than 25 percent of the portfolio company. Investments in controlled affiliated companies consist of investments in which we own more than 25 percent of the portfolio company.

(9) The percentage ownership of each portfolio company disclosed in the Consolidated Schedule of Investments expresses the potential equity interest in each such portfolio company. The calculated percentage represents the amount of the issuer's equity securities we own or can acquire as a percentage of the issuer's total outstanding equity securities plus equity securities reserved for issued and outstanding warrants, convertible securities and all authorized stock options, both granted and ungranted.

(10) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $6,354,651. The gross unrealized appreciation based on the tax cost for these securities is $162,198. The gross unrealized depreciation based on the tax cost for these securities is $1,747,516.

(11) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is $11,127,228. The gross unrealized appreciation based on the tax cost for these securities is $2,772,007. The gross unrealized depreciation based on the tax cost for these securities is $3,561,992.

(12) Non-registered investment company.

(13) On April 30, 2003, NeoPhotonics Corporation distributed its shares in NanoGram Corporation to shareholders of record on November 14, 2002. We received 63,210 shares of Series 1 Preferred Stock.

(14) On April 30, 2003, NeoPhotonics Corporation distributed its shares in NanoGram Devices Corporation to shareholders of record on November 14, 2002. We received 63,210 shares of Series A-1 Convertible Preferred Stock.

(15) On July 10, 2003, we received 47,620 shares of Series A-2 Non-Voting Preferred stock of Heartware, Inc., a new company formed to acquire the assets and assume certain liabilities of Kriton Medical, Inc. as part of Kriton's bankruptcy.

The accompanying notes are an integral part of this consolidated schedule.

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

Our investments can be classified into five broad categories for valuation purposes:

1) EQUITY-RELATED SECURITIES

2) INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

3) LONG-TERM FIXED-INCOME SECURITIES

4) SHORT-TERM FIXED-INCOME INVESTMENTS

5) ALL OTHER INVESTMENTS

The Investment Company Act of 1940 (the "1940 Act") requires periodic valuation of each investment in our portfolio to determine net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the Board of Directors.

Our Board of Directors is responsible for (1) determining overall valuation guidelines and (2) ensuring the valuation of investments within the prescribed guidelines.

Our Valuation Committee, comprised of at least three or more independent Board members, is responsible for reviewing and approving the valuation of our assets within the guidelines established by the Board of Directors.

Fair value is generally defined as the amount that an investment could be sold for in an orderly disposition over a reasonable time. Generally, to increase objectivity in valuing our assets, external measures of value, such as public markets or third-party transactions, are utilized whenever possible. Valuation is not based on long-term work-out value, nor immediate liquidation value, nor incremental value for potential changes that may take place in the future.

The values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated.

Our valuation policy with respect to the five broad investment categories is as follows:

EQUITY-RELATED SECURITIES

Equity-related securities are carried at fair value using one or more of the following basic methods of valuation:

A. Cost: The cost method is based on our original cost. This method is generally used in the early stages of a company's development until significant positive or negative events occur subsequent to the date of the original investment that dictate a change to another valuation method. Some examples of these events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the development of a meaningful public market for the company's common stock; and (5) significant positive or negative changes in a company's business.

B. Private Market: The private market method uses actual, executed, historical transactions in a company's securities by responsible third parties as a basis for valuation. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

C. Public Market: The public market method is used when there is an established public market for the class of the company's securities held by us. We discount market value for securities that are subject to significant legal and contractual restrictions. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation. Market value for securities traded on securities exchanges or on the Nasdaq National Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day. This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation.

D. Analytical Method: The analytical method is generally used to value an investment position when there is no established public or private market in the company's securities or when the factual information available to us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our Valuation Committee members, based on the data available to them. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the financial condition and operating results of the company, the long-term potential of the business of the company, the values of similar securities issued by companies in similar businesses, the proportion of the company's securities we owned and the nature of any rights to require the company to register restricted securities under applicable securities laws.

INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

Such investments are carried at fair value using the following basic methods of valuation:

E. Cost: The cost method is based on our original cost. This method is generally used in the early stages of commercializing or developing intellectual property or patents or research and development in technology or product development until significant positive or adverse events occur subsequent to the date of the original investment that dictate a change to another valuation method.

F. Private Market: The private market method uses actual third-party investments in intellectual property or patents or research and development in technology or product development as a basis for valuation, using actual executed historical transactions by responsible third parties. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

G. Analytical Method: The analytical method is used to value an investment after analysis of the best available outside information where the factual information available to us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our Valuation Committee members. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the results of research and development, product development progress, commercial prospects, term of patent, projected markets, and other subjective factors.

LONG-TERM FIXED-INCOME SECURITIES

H. Fixed-Income Securities for which market quotations are readily available are carried at market value as of the time of valuation using the most recent bid quotations when available.

I. Fixed-Income Securities for which market quotations are not readily available are carried at fair value using one or more of the following basic methods of valuation:

Independent pricing services that provide quotations based primarily on quotations from dealers and brokers, market transactions, and other sources.

Fair value as determined in good faith by the Valuation Committee.

SHORT-TERM FIXED-INCOME INVESTMENTS

J. Short-Term Fixed-Income Investments are valued at market value at the time of valuation. Short-term debt with remaining maturity of 60 days or less is valued at amortized cost.

ALL OTHER INVESTMENTS

K. All Other Investments are reported at fair value as determined in good faith by the Valuation Committee.

The reported values of securities for which market quotations are not readily available and for other assets reflect the Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if we had to sell the securities in an immediate liquidation. Thus, valuations as of any particular date are not necessarily indicative of amounts that we may ultimately realize as a result of future sales or other dispositions of investments we hold.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company," "us," "our" and "we") is a venture capital company operating as a business development company ("BDC") under the Investment Company Act of 1940, which we refer to as the 1940 Act. A BDC is a specialized type of company under the 1940 Act. We operate as an internally managed investment company whereby our officers and employees, under the general supervision of our Board of Directors, conduct our operations.

We elected to become a BDC on July 26, 1995, after receiving the necessary approvals. From September 30, 1992, until the election of BDC status, we operated as a closed-end, non-diversified investment company under the 1940 Act. Upon commencement of operations as an investment company, we revalued all of our assets and liabilities at fair value as defined in the 1940 Act. Prior to such time, we were registered and filed under the reporting requirements of the Securities and Exchange Act of 1934 as an operating company and, while an operating company, operated directly and through subsidiaries.

Harris & Harris Enterprises, Inc. ("Enterprises") is a 100 percent wholly owned subsidiary of the Company. Enterprises held the lease for the office space until it expired on July 31, 2003, which it sublet to the Company and an unaffiliated party; is a partner in Harris Partners I, L.P. and is taxed as a C corporation. Harris Partners I, L.P. is a limited partnership and owned, until December 31, 2002, a 20 percent limited partnership interest in PHZ Capital Partners L.P. Currently, Harris Partners I, L.P. owns our interest in AlphaSimplex Group, LLC. The partners of Harris Partners I, L.P. are Enterprises (sole general partner) and Harris & Harris Group, Inc. (sole limited partner).

We filed for the 1999 tax year to elect treatment as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code of 1986 (the "Code") and qualified for the same treatment for 2000-2002. There can be no assurance that we will qualify as a RIC for 2003 and subsequent years or that if we do qualify, we will continue to qualify for subsequent years. In addition, even if we were to qualify as a RIC for a given year, we might take action in a subsequent year to ensure that we would be taxed in that subsequent year as a C Corporation, rather than as a RIC. As a RIC, we must, among other factors, distribute at least 90 percent of our investment company taxable income and may either distribute or retain our realized net capital gains on investments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for investment companies and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. Cash and cash equivalents include money market instruments with maturities of less than three months.

Portfolio Investment Valuations. Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other assets is as determined in good faith by, or under the direction of, the Board of Directors. (See "Asset Valuation Policy Guidelines" in the "Footnote to Consolidated Schedule of Investments.")

Securities Transactions. Securities transactions are accounted for on the date the securities are purchased or sold (trade date); dividend income is recorded on the ex-dividend date; and interest income is accrued as earned. Realized gains and losses on investment transactions are determined on specific identification for financial reporting and tax reporting.

Income Taxes. Prior to January 1, 1999, we recorded income taxes using the liability method in accordance with the provision of Statement of Financial Accounting Standards No. 109. Accordingly, deferred tax liabilities had been established to reflect temporary differences between the recognition of income and expenses for financial reporting and tax purposes, the most significant difference of which relates to our unrealized appreciation on investments.

The December 31, 2003 consolidated financial statements include a provision for deferred taxes on the remaining net built-in gains as of December 31, 1998, net of the unutilized operating and capital loss carryforwards incurred by us through December 31, 1998.

We pay federal, state and local income taxes on behalf of our wholly owned subsidiary, Harris & Harris Enterprises, which is a C corporation. (See "Note 6. Income Taxes.")

Estimates by Management. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 2003, and December 31, 2002, and the reported amounts of revenues and expenses for the three years ended December 31, 2003. The most significant estimates relate to the fair valuations of investments for the years ended December 31, 2003, and 2002. Actual results could differ from these estimates.

NOTE 3. EMPLOYEE PROFIT SHARING PLAN

As of January 1, 2003, we implemented the Amended and Restated Harris & Harris Group, Inc. Employee Profit-Sharing Plan, which we refer to as the 2002 Plan.

The Plan (and its predecessor) provides for profiting sharing by our officers and employees equal to 20% of our "qualifying income" for that plan year. For the purposes of the Plan, qualifying income is defined as net realized income as reflected on our consolidated statements of operations for that year, less nonqualifying gains, if any.

For purposes of the Plan, our net realized income includes investment income, realized gains and losses, and operating expenses (including taxes paid or payable by us), but is calculated without including dividends paid or distributions made to shareholders, payments under the Plan, unrealized gains and losses, and loss carry-overs from other years. The proportion of net after-tax realized gains attributable to asset values as of September 30, 1997 is considered nonqualifying gain, which reduces qualifying income.

On October 15, 2002, our shareholders approved the performance goals under the 2002 Plan in accordance with Section 162(m) of the Code, effective as of January 1, 2003. The Code generally provides that a public company such as we are may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to the officer/employee exceeds $1,000,000 in any tax year, unless payment is made upon the attainment of objective performance goals that are approved by our shareholders.

Under the 2002 Plan, our net realized income includes investment income, realized qualifying gains and losses, and operating expenses (including taxes paid or payable by us), but is calculated without including dividends paid or loss carry-overs from other years, which we refer to as qualifying income. As soon as practicable following the year-end audit, the Audit Committee will determine whether, and if so how much, qualifying income exists for a plan year. Once determined, 90% of the qualifying income will be paid out to Plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10% will be paid out after we have filed our federal tax return for that plan year.

Under the 2002 Plan, awards previously granted to the four current Participants (Messrs. Harris and Melsheimer and Ms. Shavin and Matthews, herein referred to as the "grandfathered participants") will be reduced by 10% with respect to "Non-Tiny Technology Investments" (as defined in the 2002 Plan) and by 25% with respect to "Tiny Technology Investments" (as defined in the 2002 Plan) and will become permanent. These reduced awards are herein referred to as "grandfathered participations." The amount by which the awards are reduced will be allocable and reallocable each year by the Compensation Committee among current and new participants as awards under the 2002 Plan. The grandfathered participations will be honored by us whether or not the grandfathered participant is still employed by us or is still alive (in the event of death, the grandfathered participations will be paid to the grandfathered participant's estate), unless the grandfathered participant is dismissed for cause, in which case all awards, including the grandfathered participations, will be immediately cancelled and forfeited. With regard to new investments and follow-on investments made after the date on which the first new employee begins participating in the 2002 Plan, both current and new participants will be required to be employed by us at the end of a plan year in order to participate in profit-sharing on our investments with respect to that year.

Notwithstanding any provisions of the 2002 Plan, in no event may the aggregate amount of all awards payable for any Plan Year during which we remain a "business development company" within the meaning of the 1940 Act be greater than 20% of our "net income after taxes" within the meaning of Section 57(n)(1)(B) of the 1940 Act. In the event the awards as calculated exceed that amount, the awards will be reduced pro rata.

The 2002 Plan may be modified, amended or terminated by the Compensation Committee at any time. Notwithstanding the foregoing, the grandfathered participations may not be further modified. Nothing in the 2002 Plan will preclude the Compensation Committee from naming additional participants in the 2002 Plan or, except for grandfathered participations, changing the Award Percentage of any Participant (subject to the overall percentage limitations contained in the 2002 Plan). Currently, under the 2002 Plan, the distribution amounts for non-grandfathered investments for each officer and employee are: Charles E. Harris, 7.790%; Mel P. Melsheimer, 3.733%; Douglas W. Jamison, 3.5%; Daniel V. Leff, 3.0%; Helene B. Shavin, 1.524%; and Jacqueline M. Matthews, 0.453%, which together equal 20%. In one case, for a former employee who left other than due to termination for cause, any amount earned will be accrued and may subsequently be paid to the participant.

The grandfathered participations are set forth below:

	Grandfathered Participations	
Name of Officer/Employee	Non-Tiny Technology (%)	Tiny Technology (%)
Charles E. Harris	12.41100	10.34250
Mel P. Melsheimer	3.80970	3.17475
Helene B. Shavin	1.37160	1.14300
Jacqueline M. Matthews	0.40770	0.33975
TOTAL	18.00000	15.00000

Accordingly, an additional 2% of Qualifying Income with respect to grandfathered Non-Tiny Technology Investments, 5% of Qualifying Income with respect to grandfathered Tiny Technology Investments and the full 20% of Qualifying Income with respect to new investments are available for allocation and reallocation from year to year. Currently, Douglas W. Jamison and Daniel V. Leff are each allocated 0.80% of the Non-Tiny Technology Grandfathered Participations and 2% of the Tiny Technology Grandfathered Participations.

We calculate the profit-sharing accrual based on the terms of the plan in effect. During the first quarter of 2003, we paid out 90 percent of the 2002 profit sharing in the amount of $13,710. The remaining 10 percent of the 2002 profit sharing, $1,523, was paid out upon the completion and filing of our 2002 federal tax return. During 2003, we made no accrual for profit sharing.

NOTE 4. CAPITAL TRANSACTIONS

In 1998, the Board of Directors approved that effective January 1, 1998, 50 percent of all Directors' fees be used to purchase our common stock from us. However, effective March 1, 1999, the Board of Directors approved that Directors may purchase our common stock in the open market, rather than from us.

Since 1998, we have repurchased a total of 1,859,047 of our shares for a total of $3,496,388, including commissions and expenses, at an average price of $1.88 per share. These treasury shares were reduced by the purchases made by the Directors. On July 23, 2002, because of our strategic decision to invest in tiny technology, the Board of Directors reaffirmed its commitment not to authorize the purchase of additional shares of stock in the foreseeable future.

On July 8, 2002, we filed a final prospectus under Rule 497 of the Securities Act of 1933 with the SEC for the issuance of transferable rights to our shareholders. The rights allowed the shareholders to subscribe for a maximum of 2,954,743 new shares of our common stock, of which 2,634,614 new shares were subscribed for pursuant to the rights offering. The actual amount of gross proceeds raised upon completion of the offer was $5,927,882; net proceeds were $5,643,470, after expenses of $284,412. From the completion of the offering through December 31, 2003, we have invested $5,477,718 in accordance with our investment objectives and policies.

On December 24, 2003, we filed a final prospectus under Rule 497 of the Securities Act of 1933 with the SEC for issuance of 2,000,000 shares of our common stock plus 300,000 additional shares if the underwriter exercised its over-allotment option. All of the 2,300,000 shares were sold. The actual amount of net proceeds raised upon completion of the offering was $17,296,000; net proceeds of the offering, less offering costs of $664,038, were $16,631,962. We intend to use the net proceeds of the offering, less offering costs, to make new investments in tiny technology as well as follow-on investments in our existing venture capital investments, and for working capital.

As of December 31, 2003, there are no distributable earnings. The difference between the book basis and tax basis components of distributable earnings is primarily attributed to Built-In Gains generated at the time of our qualification as a RIC (see Note 6. "Income Taxes"), nondeductible deferred compensation and net operating losses.

Beginning with the Consolidated Statements of Assets and Liabilities at December 31, 2003, additional paid in capital common stock warrants and additional paid in capital have been combined and are reported as additional paid in capital.

NOTE 5. EMPLOYEE BENEFITS

On October 19, 1999, Charles E. Harris signed an Employment Agreement with us (disclosed in a Form 8-K filed on October 27, 1999) (the "Employment Agreement"), which superseded an employment agreement that was about to expire on December 31, 1999. The Employment Agreement shall terminate on December 31, 2004 ("Term") subject to either an earlier termination or an extension in accordance with the terms; on January 1, 2000 and on each day thereafter, the Term extends automatically by one day unless at any time we or Mr. Harris, by written notice, decides not to extend the Term, in which case the Term will expire five years from the date of the written notice.

During the period of employment, Mr. Harris shall serve as our

Chairman and Chief Executive Officer; be responsible for the general management of our affairs and all our subsidiaries, reporting directly to our Board of Directors; serve as a member of the Board for the period of which he is and shall from time to time be elected or reelected; and serve, if elected, as our President and as an officer and director of any subsidiary or affiliate of us.

Mr. Harris is to receive compensation under his Employment Agreement in the form of base salary of $208,315 for 2000, with automatic yearly adjustments to reflect inflation. In addition, the Board may increase such salary, and consequently decrease it, but not below the level provided for by the automatic adjustments described above. Mr. Harris is also entitled to participate in our Profit-Sharing Plan as well as in all compensation or employee benefit plans or programs, and to receive all benefits, perquisites, and emoluments for which salaried employees are eligible. Under the Employment Agreement, we will furnish Mr. Harris with certain perquisites which include a company car, membership in certain clubs and up to a $5,000 annual reimbursement for personal, financial or tax advice.

The Employment Agreement provides Mr. Harris with life insurance for the benefit of his designated beneficiaries in the amount of $2,000,000; provides reimbursement for uninsured medical expenses, not to exceed $10,000 per annum, adjusted for inflation, over the period of the contract; provides Mr. Harris and his spouse with long-term care insurance; and disability insurance in the amount of 100 percent of his base salary. These benefits are for the term of the Employment Agreement.

The Employment Agreement provides for us to adopt a supplemental executive retirement plan (the "SERP") for the benefit of Mr. Harris. Under the SERP, we will cause an amount equal to one-twelfth of Mr. Harris's current annual salary to be credited each month (a "Monthly Credit") to a special account maintained for this purpose on our books for the benefit of Mr. Harris (the "SERP Account"). The amounts credited to the SERP Account will be deemed invested or reinvested in such mutual funds or U.S. Government securities as determined by Mr. Harris. The SERP Account will be credited and debited to reflect the deemed investment returns, losses and expenses attributed to such deemed investments and reinvestments. Mr. Harris's benefit under the SERP will equal the balance in the SERP Account and such benefit will always be 100 percent vested (i.e., not forfeitable). Mr. Harris will determine the form and timing of the distribution of the balance in the SERP Account; provided, however, in the event of the termination of his employment, the balance in the SERP Account will be distributed to Mr. Harris or his beneficiary, as the case may be, in a lump-sum payment within 30 days of such termination. We will establish a rabbi trust for the purpose of accumulating funds to satisfy the obligations incurred by us under the SERP. The restricted funds for the SERP Plan total $1,212,078 as December 31, 2003. Mr. Harris' rights to benefits pursuant to this SERP will be no greater than those of a general creditor of us.

The Employment Agreement provides severance pay in the event of termination without cause or by constructive discharge and also provides for certain death benefits payable to the surviving spouse equal to the executive's base salary for a period of two years.

In addition, Mr. Harris is entitled to receive severance pay pursuant to the severance compensation agreement that he entered into with us, effective August 15, 1990. The severance compensation agreement provides that if, following a change in our control, as defined in the agreement, such individual's employment is terminated by us without cause or by the executive within one year of such change in control, the individual shall be entitled to receive compensation in a lump sum payment equal to 2.99 times the individual's average annualized compensation and payment of other welfare benefits. If Mr. Harris's termination is without cause or is a constructive discharge, the amount payable under the Employment Agreement will be reduced by the amounts paid pursuant to the severance compensation agreement.

As of January 1, 1989, we adopted an employee benefits program covering substantially all of our employees under a 401(k) Plan and Trust Agreement. As of January 1, 1999, we adopted the Harris & Harris Pension Plan and Trust, a money purchase plan which would allow us to stay compliant with the 401(k) top-heavy regulations and deduction limitation regulations. In 2001, Congress enacted the Economic Growth and Tax Relief Reconciliation Act of 2001 which has increased the deduction limits for plans such as the 401(k) Plan. This Act eliminates the need for us to maintain two separate plans. Effective December 31, 2001, the Pension Plan merged into the 401(k) Plan, with the 401(k) Plan being the surviving plan. Contributions to the plan are at our discretion.

On June 30, 1994, we adopted a plan to provide medical and dental insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with us and have attained 50 years of age or have attained 45 years of age and have 15 years of service with us. On February 10, 1997, we amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government provided or subsequent employer provided health insurance plans. The annual premium cost to us with respect to the entitled retiree shall not exceed $12,000, subject to an index for inflation. Based upon actuarial estimates, we provided an original reserve of $176,520 that was charged to operations for the period ending June 30, 1994. As of December 31, 2003, we had a reserve of $531,293 for the plan. Recent changes to the Medicare program may affect our costs under this plan. In accordance with FASB Staff Position 106-1, our estimates of the obligation under this standard do not reflect these changes. Specific authoritative guidance regarding these changes is pending and when issued, could require us to change previously reported information.

We are making the following disclosures about our plan to provide medical and dental insurance for retirees.

Reconciliation of Accumulated Postretirement Benefit Obligations	2003	2002
Projected accumulated postretirement benefit obligation at beginning of year	$404,912	$324,100
Service cost	58,710	38,772
Interest cost	26,281	22,347
Actual (gain)/loss	35,385	19,693
Projected accumulated postretirement benefit obligation at end of year	$525,288	$404,912

In accounting for the plan, the assumption made in 2003 for the discount rate was 6%. The assumed health care cost trend rates in 2003 were 12% grading to 6% over six years for medical and 3% per year for dental. The effect on disclosure information of a one percentage point change in the assumed health care cost trend rate for each future year is shown below.

	1% Decrease in Rates	Assumed Rates
Aggregated service and interest cost	$ 76,271	$ 84,991
Accumulated postretirement benefit obligation	$477,410	$525,288

On March 20, 2003, in order to begin planning for eventual management succession, the Board of Directors voted to establish a mandatory retirement plan for individuals who are employed by us in a bona fide executive or high policy making position. There are currently two such individuals, the Chairman and CEO, and the President and COO. Under this plan, mandatory retirement will take place effective December 31 of the year in which the eligible individuals attain the age of 65. On an annual basis beginning in the year in which the designated individual attains the age of 65, a committee of the Board consisting of non-interested directors may determine to postpone the mandatory retirement date for that individual for one additional year for our benefit.

Under applicable law prohibiting discrimination in employment on the basis of age, we can impose a mandatory retirement age of 65 for our executives or employees in high policy-making positions only if each employee subject to the mandatory retirement age is entitled to an immediate retirement benefit at retirement age of at least $44,000 per year. The benefits payable at retirement to Charles E. Harris, our Chairman and Chief Executive Officer, and Mel P. Melsheimer, our President, Chief Operating Officer and Chief Financial Officer, under our existing retirement plans do not equal this threshold. Mr. Harris has offered, for our benefit, to waive his right to exclude certain other benefits from this calculation, which makes it unlikely that any provision will have to be made for him in order for us to comply with this threshold requirement. For Mr. Melsheimer, however, a new plan must be established to provide him with the difference between the benefit required under the age discrimination laws and that provided under our existing plans. The expense to us of providing the benefit under this new plan is currently estimated to be $450,000. This benefit will be unfunded, and the expense is being amortized over the fiscal periods through the year ended December 31, 2004.

NOTE 6. INCOME TAXES

Provided that a proper election is made, a corporation taxable under Subchapter C of the Internal Revenue Code (a "C Corporation") that elects to qualify as a RIC continues to be taxable as a C Corporation on any gains realized within 10 years of its qualification as a RIC (the "Inclusion Period") from sales of assets that were held by the corporation on the effective date of the RIC election ("C Corporation Assets") to the extent of any gain built into the assets on such date ("Built-In Gain"). (If the corporation fails to make a proper election, it is taxable on its Built-In Gain as of the effective date of its RIC election.) We had Built-In Gains at the time of our qualification as a RIC and made the election to be taxed on any Built-In Gain realized during the Inclusion Period. Prior to 1999, we incurred ordinary and capital losses from operations. After our election of RIC status, those losses remained available to be carried forward to subsequent taxable years. We have previously used loss carryforwards to offset Built-In Gains. As of January 1, 2004, we had $501,640 of pre-1999 loss carryforwards remaining and $4,663,457 of unrealized Built-In Gains remaining.

Continued qualification as a RIC requires us to satisfy certain investment asset diversification requirements in future years. Our ability to satisfy those requirements may not be controllable by us. There can be no assurance that we will qualify as a RIC in subsequent years.

To the extent that we retain capital gains and declare a deemed dividend to shareholders, the dividend is taxable to the shareholders. We would pay tax, at the corporate rate, on the distribution, and the shareholders would receive a tax credit equal to their proportionate share of the tax paid. We took advantage of this rule for 2001. Our financial statements for 2001 include a tax liability of $290,748. The taxes paid by our shareholders as a result of our deemed dividend declaration 2001 ($271,467) are reflected as a deduction to the additional paid-in capital in our Consolidated Statement of Assets and Liabilities rather than an expense in the Consolidated Statement of Operations.

We pay federal, state and local taxes on behalf of our wholly owned subsidiary, Harris & Harris Enterprises, Inc., which is taxed as a C Corporation.

In 2003, we realized long-term capital losses of $1,000,001 from the tax write-off of Kriton Medical, Inc. We also had net realized short-term gains of $17,590 from the sale of U.S. Government and Agency obligations. We offset our net realized short-term capital gains with our long-term capital losses and neither owed federal income on the gain nor were required to distribute any portion of this gain to shareholders. As of December 31, 2003, we have a capital loss carryforward of $914,225 which will expire in 2011. To the extent that these carryover losses are used to offset future capital gains, it is probable that the gains so offset will not be distributed to shareholders.

In 2002, we realized long-term capital losses of $470,622 primarily from long-term capital gains of $1,008,653 from the liquidation of our partnership interest in PHZ Capital Partners L.P. offset by losses on the sale of Schwoo, Inc. of $1,248,825 and on the liquidation of Informio, Inc. of $350,583. We also realized short-term capital gains of $732,936 primarily from the liquidation of our partnership interest in PHZ Capital Partners L.P. Realized short-term capital gains were reduced by realized long-term capital losses resulting in net realized short-term capital gains. We offset the net realized short-term gains with 2002 expenses and neither owed federal income taxes on the gain nor were required to distribute any portion of this gain to shareholders.

For the years ended December 31, 2003, 2002 and 2001, the Company's income tax (benefit) expense was allocated as follows:

	2003	2002
Investment operations	$ 0	$ 0
Realized income on investments	13,761	894,435
Decrease in unrealized appreciation on investments	0	(695,126)
Total income tax expense	$ 13,761	$ 199,309

The above tax expense consists of the following:

	2003	2002
Current	$ 13,761	$ 894,435
Deferred -- Federal	0	(695,126)
Total income tax expense	$ 13,761	$ 199,309

The Company's net deferred tax liability at December 31, 2003 and 2002 consists of the following:

	2003	2
Unrealized appreciation on investments	$ 844,918	$ 844,
Net operating and capital loss carryforward	(175,574)	(175,
Net deferred income tax liability	$ 669,344	$ 669,

NOTE 7. COMMITMENTS AND CONTINGENCIES

During 1993, we signed a 10-year lease for office space which expired on July 31, 2003. On April 17, 2003, we signed a seven-year sublease for office space at 111 West 57th Street in New York City to replace the expired lease. Total rent expense was $200,711 for 2003. Future minimum sublease payments in each of the following years are: 2004 -- $134,816; 2005 -- $138,187; 2006 -- $141,641; 2007 -- $145,182; 2008 -- $148,811; and thereafter for the remaining term -- $203,571.

NOTE 8. ASSET ACCOUNT LINE OF CREDIT

On November 19, 2001, we established an asset account line of credit. The asset account line of credit is secured by government and government agency securities. Under the asset account line of credit, we may borrow up to 95 percent of the current value of the government and government agency securities with which we secure the line. Our available line of credit at December 31, 2003, was $23,572,275. Our outstanding balance under the asset account line of credit at both December 31, 2002, and December 31, 2003, was $0. The asset account line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points.

NOTE 9. SUBSEQUENT EVENTS

During 2004, we have made three follow-on investments totaling $688,401 and one new investment of $150,000 in privately held tiny technology companies.

In January 2004, we sold our investment in the preferred stock of NeoPhotonics, Inc., which had been valued at $0, for $10. We realized a loss of $915,108 on the transaction.

On February 17, 2004, we filed a registration statement with the Securities and Exchange Commission on Form N-2 with respect to 3,000,000 shares of our Common Stock. After the effective date, the Common Stock may be sold at prices and on terms to be set forth in one or more supplements to the prospectus from time to time.

NOTE 10. SELECTED QUARTERLY DATA (UNAUDITED)

	2003		
	1st Quarter	2nd Quarter	3rd Quarter
Total investment income	$ 64,676	$ 50,564	$ 30,61
Net operating loss	$ 584,460	$ 726,989	$ 572,34

Net (decrease) in net assets resulting from operations	$(1,215,127)	$(544,709)	$(1,270,298
Net (decrease) in net assets resulting from operations per outstanding share	$ (0.11)	$ (0.05)	$ (0.11

	2002		
	1st Quarter	2nd Quarter	3rd Quarter
Total investment income	$ 59,462	$ 60,368	$ 77,41
Net operating loss	$ 556,233	$ 654,718	$ 479,43
Net (decrease) increase in net assets resulting from operations	$(1,036,934)	$ 434,289	$ 660,98
Net (decrease) increase in net assets resulting from operations per outstanding share	$ (0.12)	$ 0.05	$ 0.0

FINANCIAL HIGHLIGHTS

Per share operating performance
for a share outstanding throughout the year:*

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001	De
Net asset value, beginning of year	$ 2.37	$ 2.75	$ 3.51	$
Net operating (loss) income	(0.22)	(0.19)	(0.06)	
Net realized (loss) gain on investments	(0.09)	0.24	0.14	
Net increase (decrease) in unrealized appreciation (depreciation) as a result of sales	0.09	0.13	0.45	
Net (decrease) increase in unrealized appreciation (depreciation) on investments held	(0.06)	(0.46)	(1.30)	
Total from investment operations	(0.28)	(0.28)	(0.77)	
Net decrease as a result of cash dividend	0.00	0.00	0.00	
Net decrease as a result of deemed dividend	0.00	0.00	(0.03)	
Total distributions	0.00	0.00	(0.03)	
Net increase (decrease) from capital stock transactions	0.86	(0.10)	0.04	
Net asset value, end of year**	$ 2.95	$ 2.37	$ 2.75	$
Cash dividends paid per share	$ 0.00	$ 0.00	$ 0.00	$
Deemed dividend per share	$ 0.00	$ 0.00	$ 0.0875	$
Market value per share, end of				

year	$ 11.53	$ 2.46	$ 1.90	$
Total income tax liability per share	$ 0.06	$ 0.15	$ 0.18	$
Ratio of expenses to average net assets	9.5%	8.3%	3.45%	
Ratio of net operating (loss) gain to average net assets	(8.9)%	(7.3)%	(1.75)%	
Investment return based on:				
Stock price	368.7%	40.5%	(22.1)%	
Net asset value	24.5%	(13.8)%	(21.7)%	
Portfolio turnover	0%	46.00%	9.00%	
Net assets, end of year	$ 40,682,738	$ 27,256,046	$ 24,334,770	$
Number of shares outstanding	13,798,845	11,498,845	8,864,231	

* Based on average shares outstanding.
** Reflects the decline in net asset value as a result of the $0.02 dividend paid in 2000.

The accompanying notes are an integral part of this sch

Consolidated Financial Statements and Supplementary Data

HARRIS & HARRIS GROUP, INC. - 2002
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

The following reports and consolidated financial schedules of Harris & Harris Group, Inc. are filed herewith and included in response to Item 8.

Schedules other than those listed above have been omitted because they are not applicable or the required information is presented in the consolidated financial statements and/or related notes.

REPORT OF INDEPENDENT ACCOUNTANTS

Report of Independent Accountants

To the Board of Directors and Shareholders of
Harris & Harris Group, Inc.

In our opinion, the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, and the related consolidated statements of operations, of cash flows, of changes in net assets and of financial highlights present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. (the "Company") at December 31, 2002, and the results of its operations, its cash flows, the changes in its net assets and the financial highlights for the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at December 31, 2002 by correspondence with the custodian, provides a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2001 and 2000, and for the years then ended were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 21, 2002.

As more fully disclosed in Note 2, the financial statements include investments valued at $12,036,077 (44.16% of net assets) at December 31, 2002, the fair values of which have been estimated by the Board of Directors in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

/s/ PricewaterhouseCoopers, LLP

March 18, 2003

New York, N.Y.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

		December 31, 2002
Investments, at value (Cost: $30,206,935 at 12/31/02, $37,714,285 at 12/31/01	$	27,496,822
Cash and cash equivalents		5,967,356
Restricted funds (Note 5)		756,944
Funds in escrow		750,000
Receivable from portfolio company		786,492
Interest receivable		189
Prepaid expenses		96,631
Note receivable ($987, net of reserve of $987 at 12/31/02)		0
Other assets		107,535
Total assets		35,951,969

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities	$	1,451,568
Payable to broker for unsettled trade		5,696,725
Bank loan payable (Note 8)		0
Accrued profit sharing (Note 3)		15,233
Deferred rent		5,397
Current income tax liability		857,656
Deferred income tax liability (Note 6)		669,344
Total liabilities		8,695,923
Commitments and contingencies (Note 7)		
Net assets	$	27,256,046
Net assets are comprised of:		
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued	$	0
Common stock, $0.01 par value, 25,000,000 shares authorized; 13,327,585 issued at 12/31/02 and 10,692,971 issued at 12/31/00		133,276
Additional paid in capital (Note 4)		32,845,872
Additional paid in capital - common stock warrants		109,641
Accumulated net realized gain (loss)		1,137,820
Accumulated unrealized appreciation of investments, net of deferred tax liability of $844,918 at 12/31/02 and $1,540,044 at 12/31/01		(3,565,032)
Treasury stock, at cost (1,828,740 shares at 12/31/01 and 1,628,740 at 12/31/00)		(3,405,531)
Net assets	$	27,256,046
Shares outstanding	$	11,498,835
Net asset value per outstanding share	$	2.37

The accompanying notes are an integral part of these consolidated financial

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended	Year Ended

		December 31, 2002		December 31,
Investment income:				
Interest from:				
Fixed-income securities..........................	$	184,050	$	422
Portfolio companies..............................		0		9
Dividend income......................................		0		1
Other income...		69,411		77
Total investment income..........................		253,461		510
Expenses:				
Profit-sharing (reversal) accrual (Note 3)...........		(163,049)		(984,
Salaries and benefits................................		1,130,352		1,045
Professional fees....................................		344,717		261
Administration and operations........................		433,569		406
Rent...		173,291		166
Directors' fees and expenses.........................		154,682		90
Depreciation...		30,607		26
Custodian fees.......................................		9,604		14
Interest expense (Note 4)............................		10,776		8
Total expenses...................................		2,124,549		1,035
Operating income (loss) before income taxes..........		(1,871,088)		(524,
Income tax benefit (Note 6)..........................		0		
Net operating (loss) income..............................		(1,871,088)		(524,
Net realized income (loss) from investments:				
Realized income from investments.....................		3,284,737		1,394
Total realized income............................		3,284,737		1,394
Income tax expense (Note 6)..........................		(894,435)		(118,
Net realized income from investments.................		2,390,302		1,276
Net realized income......................................		519,214		751
Net decrease increase in unrealized appreciation on investments:				
Increase as a result of investment sales............		1,602,048		4,802
Decrease as a result of investment sales............		(322,208)		(854,
Increase on investments held.........................		285		3,232
Decrease on investments held.........................		(5,216,659)		(14,912,
Change in unrealized appreciation on investments.......................................		(3,936,534)		(7,731,
Income tax benefit (Note 6)..........................		695,126		90
Net decrease in unrealized appreciation on investments		(3,241,408)		(7,641,
Net decrease in net assets resulting from operations:				
Total..	$	2,722,194)	$	6,889,
Per outstanding share................................	$	(0.24)	$	(0

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2002	Year Ended December 31,
Cash flows used in operating activities:		

Net (decrease) increase in net assets resulting from operations	$ (2,722,194)	$ (6,8
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:		
Net realized and unrealized loss (gain) on investments	651,797	5,9
Deferred income taxes	(695,126)	
Depreciation	30,607	
Other	0	
Interest received in stock	0	
Changes in assets and liabilities:		
Restricted funds	(274,924)	(21
Receivable from investment company	(786,492)	
Funds in escrow	(750,000)	
Interest receivable	(107)	
Prepaid expenses	(81,798)	
Notes receivable	10,487	
Other assets	1,570	
Accounts payable and accrued liabilities	412,217	2
Payable to broker for unsettled trade	5,696,725	(11
Accrued profit sharing	(163,049)	(3,30
Deferred rent	(9,253)	(
Current income tax liability	602,588	(5,49
Net cash used in operating activities	1,923,048	(9,57
Cash provided by investing activities:		
Net (purchase) sale of short-term investments and marketable securities	10,358,006	(10,26
Investment in private placements and loans	(7,195,988)	(1,81
Proceeds from sale of investments	7,631,100	9,3
Purchase of fixed assets	(41,138)	(
Net cash (used in) provided by investing activities	10,751,980	(2,70
Cash flows used in financing activities:		
Payment of dividend	0	
Purchase of treasury stock (Note 4)	0	(33
Proceeds from note payable	0	12,4
Payment of note payable (Note 4)	(12,495,777)	
Proceeds from rights offering, net (Note 4)	5,643,470	
Collection on notes receivable	9,500	
Net cash provided by (used in) financing activities	(6,842,807)	12,1
Net increase (decrease) in cash and cash equivalents:		
Cash and cash equivalents at beginning of the year	135,135	2
Cash and cash equivalents at end of the year	5,967,356	1
Net increase (decrease) in cash and cash equivalents	$ 5,832,221	$ (11
Supplemental disclosures of cash flow information:		
Income taxes paid	$ 307,585	$ 5,7
Interest paid	$ 19,106	$

The accompanying notes are an integral part of these consolidated financial

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended December 31, 2002	Year End December 31,
Changes in net assets from operations:		
Net operating income (loss)................................	$ (1,871,088)	$ (524,
Net realized gain (loss) on investments....................	2,390,302	1,276
Net (decrease) increase in unrealized appreciation on investments as a result of sales..................	1,279,840	4,038
Net (decrease) increase in unrealized appreciation on investments held	(4,521,248)	(11,679,
Net (decrease) increase in net assets resulting from operations	(2,722,194)	(6,889,
Changes in net assets from capital stock transactions:		
Payment of dividend..	0	
Purchase of treasury stock.................................	0	(338,
Proceeds from sale of stock	26,346	
Additional paid in capital on common stock issued.........	5,617,124	
Deemed dividend shareholder tax credit....................	0	(271,
Additional paid in capital warrants.......................	0	
Net decrease in net assets resulting from capital stock transactions..	5,643,470	(609,
Net increase (decrease) in net assets	2,921,276	(7,498,
Net Assets		
Beginning of the year.................................	24,334,770	31,833
End of the year.......................................	$ 27,256,046	$ 24,334

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2

(Audited)

	Method of Valuation (3)	Shares
Investments in Unaffiliated Companies (8)(9)(10) - 10.0% of total investments		
Private Placement Portfolio (Illiquid)		

- 10.0% of total investments

AlphaSimplex Group, LLC (2) -- Investment advisory firm headed by Dr. Andrew W. Lo, holder of the Harris & Harris Group Chair at MIT Limited Liability Company interest..........	(D)	--
Continuum Photonics, Inc. (1)(2)(4)(6) -- Develops optical networking components by merging cutting-edge materials, MEMS and electronics technologies 3.73% of fully diluted equity Series B Convertible Preferred Stock....................	(D)	2,0
Exponential Business Development Company (1)(2)(5) -- Venture capital partnership focused on early stage companies Limited partnership interest...........................	(A)	--
Kriton Medical, Inc. (1)(2)(6) -- Develops ventricular assist devices -- 1.73% of fully diluted equity Series B Convertible Preferred Stock....................	(D)	476
NanoOpto Corporation (1)(2)(4)(6) -- Develops high performance, integrated optical communications sub-components on a chip by utilizing patented nano-manufacturing technology -- 1.45% of fully diluted equity Series A-1 Convertible Preferred Stock......................................	(D)	267
Nantero, Inc. (1)(2)(5)(6) -- Develops a high density nonvolatile random access memory chip using nano-technology -- 4.15% of fully diluted equity Series A Convertible Preferred Stock............................	(A)	345
NeoPhotonics Corporation (1)(2)(4)(6) -- Develops and manufactures planar optical devices and components using nanomaterials deposition technology -- 1.76% of fully diluted equity Series D Convertible Preferred Stock......	(D)	1,4
Optiva, Inc. (1)(2)(4)(5)(6) -- Develops and commercializes nanomaterials for advanced applications -- 1.99% of fully diluted equity Series C Convertible Preferred Stock......	(B)	1,2

Total Private Placement Portfolio (cost: $5,395,166)..................................

Total Investments in Unaffiliated Companies (cost: $5,395,166)...............................

The accompanying notes are an integral part of this consolidated schedule.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2002

(Audited)

	Method of Valuation (3)	Shares/Prin

Investments in Non-Controlled Affiliated Companies (8)(9)(11) - 33.8% of total investments		
Private Placement Portfolio (Illiquid) - 33.8% of total investments		
Agile Materials & Technologies, Inc. (1)(2)(4)(5)(6) -- Develops and sells variable integrated passive electronic equipment components- 8.21% of fully diluted equity Series A Convertible Preferred Stock...	(A)	3,7
Experion Systems, Inc. (1)(2)(7) -- Develops and sells software to credit unions - 12.45% of fully diluted equity		
Series A Convertible Preferred Stock...................	(B)	2
Series B Convertible Preferred Stock...................	(B)	
Series C Convertible Preferred Stock...................	(B)	2
Nanopharma Corp. (1)(2)(4)(5)(6) -- Develops advanced nanoscopic drug delivery vehicles and systems -- 14.69% of fully diluted equity		
Series A Convertible Preferred Stock...................	(A)	6
Nanotechnologies, Inc. (1)(2)(4)(5)(6) -- Develops high-performance nanoscale materials for industry -- 6.48% of fully diluted equity		
Series B Convertible Preferred Stock	(A)	1,5
NeuroMetrix, Inc. (1)(2) -- Develops and sells medical devices for monitoring neuromuscular disorders - 12.10% of fully diluted equity		
Series A Convertible Preferred Stock...................	(B)	8
Series B Convertible Preferred Stock...................	(B)	6
Series C-2 Convertible Preferred Stock.................	(B)	1,1
Series E Convertible Preferred Stock...................	(B)	4
Series E-1 Convertible Preferred Stock.................	(B)	2
Questech Corporation (1)(2)(5) -- Manufactures and markets proprietary metal decorative tiles -- 6.68% of fully diluted equity		
Common Stock...	(B)	6
Warrants at $5.00 expiring 11/15/04....................	(B)	
Warrants at $1.50 expiring 11/16/05....................	(B)	
Warrants at $1.50 expiring 12/14/06....................	(B)	
Warrants at $1.50 expiring 11/21/07....................	(B)	
Total Private Placement Portfolio (cost: $9,359,300)..		
Total Investments in Non-Controlled Affiliated Companies (cost: $9,359,300).....................		

The accompanying notes are an integral part of this consolidated schedule.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2002

(Audited)

	Method of Valuation (3)	Shares/Prin
U.S. Government and Agency Obligations - 56.2% of total investments		
U.S. Treasury Bills -- due date 01/16/03...............	(K)	$1,045,
U.S. Treasury Bills -- due date 01/23/03...............	(K)	9,470,
U.S. Treasury Bills -- due date 02/13/03...............	(K)	4,950,
Total Investments in U.S. Government (cost: $15,452,469)...................................		
Total Investments -- 100% (cost: $30,206,935)..		

The accompanying notes are an integral part of this consolidated schedule.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2002

(Audited)

Notes to Consolidated Schedule of Investments

(1) Represents a non-income producing security. Equity investments that have not paid dividends within the last 12 months are considered to be non-income producing.

(2) Legal restrictions on sale of investment.

(3) See Footnote to Schedule of Investments for a description of the Asset Valuation Policy Guidelines.

(4) Initial investment was made during 2002.

(5) No changes in valuation occurred in these investments during the 12 months ended December 31, 2002.

(6) These investments are development stage companies. A development stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations or it has commenced such operations but has not realized significant revenue from them.

(7) Previously named MyPersonalAdvocate.com, Inc.

(8) Investments in unaffiliated companies consist of investments in which the Company owns less than five percent of the portfolio company. Investments in non-controlled affiliated companies consist of

investments in which the Company owns more than five percent but less than 25 percent of the portfolio company. Investments in controlled affiliated companies consist of investments in which the Company owns more than 25 percent of the portfolio company.

(9) The percentage ownership of each portfolio company disclosed in the Consolidated Schedule of Investments expresses the potential equity interest in each such portfolio company. The calculated percentage represents the amount of the issuer's equity securities the Company owns or can acquire as a percentage of the issuer's total outstanding equity securities plus equity securities reserved for issued and outstanding warrants, convertible securities and all authorized stock options, both granted and ungranted.

(10) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $5,395,166. The gross unrealized appreciation based on the tax cost for these securities is $1,069. The gross unrealized depreciation based on the tax cost for these securities is $2,647,172.

(11) The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is $9,359,300. The gross unrealized appreciation based on the tax cost for these securities is $2,414,044. The gross unrealized depreciation based on the tax cost for these securities is $2,486,330.

The accompanying notes are an integral part of this consolidated schedule.

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

The Company's investments can be classified into five broad categories for valuation purposes:

1) EQUITY-RELATED SECURITIES

2) INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

3) LONG-TERM FIXED-INCOME SECURITIES

4) SHORT-TERM FIXED-INCOME INVESTMENTS

5) ALL OTHER INVESTMENTS

The Investment Company Act of 1940 (the "1940 Act") requires periodic valuation of each investment in the Company's portfolio to determine net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the Board of Directors.

The Company's Board of Directors is responsible for (1) determining overall valuation guidelines and (2) ensuring the valuation of investments within the prescribed guidelines.

The Company's Investment and Valuation Committee, comprised of at least three or more independent Board members, is responsible for reviewing and approving the valuation of the Company's assets within the guidelines established by the Board of Directors.

Fair value is generally defined as the amount that an investment could be sold for in an orderly disposition over a reasonable time. Generally, to increase objectivity in valuing the assets of the Company, external measures of value, such as public markets or third-party transactions, are utilized whenever possible. Valuation is not based on long-term work-out value, nor immediate liquidation value, nor incremental value for potential changes that may take place in the future.

The values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated.

The Company's valuation policy with respect to the five broad investment categories is as follows:

EQUITY-RELATED SECURITIES

Equity-related securities are carried at fair value using one or more of the following basic methods of valuation:

A. Cost: The cost method is based on the original cost to the Company. This method is generally used in the early stages of a company's development until significant positive or negative events occur subsequent to the date of the original investment that dictate a change to another valuation method.

Some examples of such events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the development of a meaningful public market for the company's common stock; and (5) significant positive or negative changes in the company's business.

B. Private Market: The private market method uses actual third-party transactions in the company's securities as a basis for valuation, using actual, executed, historical transactions in the company's securities by responsible third parties. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

C. Public Market: The public market method is used when there is an established public market for the class of the company's securities held by the Company. The Company discounts market value for securities that are subject to significant legal and contractual restrictions. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation.

Market value for securities traded on securities exchanges or on the Nasdaq National Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day.

This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation.

D. Analytical Method: The analytical method is generally used to value an investment position when there is no established public or private market in the company's securities or when the factual information available to the Company dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of the Company's Investment and Valuation Committee members, based on the data available to them. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the financial condition and operating results of the company, the long-term potential of the business of the company, the values of similar securities issued by companies in similar businesses, the proportion of the company's securities owned by the Company and the nature of any rights to require the company to register restricted securities under applicable securities laws.

INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

Such investments are carried at fair value using the following basic methods of valuation:

E. Cost: The cost method is based on the original cost to the Company. Such method is generally used in the early stages of commercializing or developing intellectual property or patents or research and development in technology or product development until significant positive or adverse events occur subsequent to the date of the original investment that dictate a change to another valuation method.

F. Private Market: The private market method uses actual third-party investments in intellectual property or patents or research and development in technology or product development as a basis for valuation, using actual executed historical transactions by responsible third parties. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

G. Analytical Method: The analytical method is used to value an investment after analysis of the best available outside information where the factual information available to the Company dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of the Company's Investment and Valuation Committee members. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the results of research and development, product development progress, commercial prospects, term of patent and projected markets.

LONG-TERM FIXED-INCOME SECURITIES

H. Fixed-Income Securities for which market quotations are readily available are carried at market value as of the time of valuation using the most recent bid quotations when available.

Securities for which market quotations are not readily available are carried at fair value using one or more of the following basic methods of valuation:

I. Fixed-Income Securities are valued by independent pricing services that provide market quotations based primarily on quotations from dealers and brokers, market transactions, and other sources.

J. Other Fixed-Income Securities that are not readily marketable are valued at fair value by the Investment and Valuation Committee.

SHORT-TERM FIXED-INCOME INVESTMENTS

K. Short-Term Fixed-Income Investments are valued at market value at the time of valuation. Short-term debt with remaining maturity of 60 days or less is valued at amortized cost.

ALL OTHER INVESTMENTS

L. All Other Investments are reported at fair value as determined in good faith by the Investment and Valuation Committee.

The reported values of securities for which market quotations are not readily available and for other assets reflect the Investment and Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if the securities had to be sold in an immediate liquidation. Thus valuations as of any particular date are not necessarily indicative of amounts that may ultimately be realized as a result of future sales or other dispositions of investments held.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company") is a venture capital investment company operating as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). A BDC is a specialized type of investment company under the 1940 Act. The Company operates as an internally managed investment company whereby its officers and employees, under the general supervision of its Board of Directors, conduct its operations.

The Company elected to become a BDC on July 26, 1995, after receiving the necessary approvals. From September 30, 1992 until the election of BDC status, the Company operated as a closed-end, non-diversified, investment company under the 1940 Act. Upon commencement of operations as an investment company, the Company revalued all of its assets and liabilities at fair value as defined in the 1940 Act. Prior to such time, the Company was registered and filed under the reporting requirements of the Securities and Exchange Act of 1934 as an operating company and, while an operating company, operated directly and through subsidiaries.

Harris & Harris Enterprises, Inc. ("Enterprises") is a 100 percent wholly owned subsidiary of the Company. Enterprises holds the lease for the office space, which it subleases to the Company and an unaffiliated party; operates a financial relations and consulting firm; is a partner in Harris Partners I, L.P. and is taxed as a C corporation. Harris Partners I, L.P. is a limited partnership and owned, until December 31, 2002, a 20 percent limited partnership interest in PHZ Capital Partners L.P. The partners of Harris Partners I, L.P. are Enterprises (sole general partner) and Harris & Harris Group, Inc. (sole limited partner).

The Company filed for 1999 to elect treatment as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code of 1986 (the "Code") and qualified for the same treatment for 2000 and 2001. There can be no assurance that the Company will qualify as a RIC for 2002 and subsequent years or that if it does qualify, it will continue to qualify for subsequent years. In addition, even if the Company were to qualify as a RIC for a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than as a RIC. As a RIC, the Company must, among other factors, distribute at least 90 percent of its investment company taxable income and may either distribute or retain its realized net capital gains on investments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for investment companies and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. Cash and cash equivalents include money market instruments with maturities of less than three months.

Portfolio Investment Valuations. Investments are stated at "fair value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. All assets are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors. (See "Asset Valuation Policy Guidelines" in the "Footnote to Consolidated Schedule of Investments.")

Securities Transactions. Securities transactions are accounted for on the date the securities are purchased or sold (trade date); dividend income is recorded on the ex-dividend date; and interest income is accrued as earned. Realized gains and losses on investment transactions are determined on specific identification for financial reporting and tax reporting.

Income Taxes. Prior to January 1, 1999, the Company recorded income taxes using the liability method in accordance with the provision of Statement of Financial Accounting Standards No. 109. Accordingly, deferred tax liabilities had been established to reflect temporary differences between the recognition of income and expenses for financial reporting and tax purposes, the most significant difference of which relates to the Company's unrealized appreciation on investments.

The December 31, 2002 consolidated financial statements include a provision for deferred taxes on the remaining net built-in gains as of December 31, 1998, net of the unutilized operating and capital loss carryforwards incurred by the Company through December 31, 1998.

The Company pays federal, state and local income taxes on behalf of its wholly owned subsidiary, Harris & Harris Enterprises, which is a C corporation. (See "Note 6 Income Taxes.")

Estimates by Management. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 2002 and 2001, and the reported amounts of revenues and expenses for the three years ended December 31, 2002. The most significant estimate relates to the fair valuations of investments for the years ended December 31, 2002 and 2001. Actual results could differ from these estimates.

NOTE 3. EMPLOYEE PROFIT SHARING PLAN

On August 3, 1989, the shareholders of the Company approved the 1988 Long Term Incentive Compensation Plan (the "1988 Plan"). The Company's 1988 Plan was cancelled as of December 31, 1997, canceling all outstanding stock options and eliminating all potential stock option grants. As a substitution for the 1988 Plan, the Company adopted an employee profit-sharing plan.

As of January 1, 1998, the Company implemented the Harris & Harris Group, Inc. Employee Profit-Sharing Plan (the "1998 Plan") that provided for profit sharing equal to 20 percent of the net realized income of the Company as reflected on the Consolidated Statements of Operations for such year, less the nonqualifying gain, if any. The 1998 Plan was terminated by the Company as of December 31, 1999, subject to the payment of any amounts owed on the 1999 realized gains under the 1998 Plan.

In March 2000, the Company paid out 90 percent of the profit sharing in the amount of $1,024,696 on the 1999 realized gains; the remaining 10 percent or $113,855 was paid out in September 2000, upon the completion and filing of the Company's 1999 federal tax return.

As of January 1, 2000, the Company implemented the Harris & Harris Group, Inc. Employee Profit-Sharing Plan (the "Plan") that provides for profit sharing by its officers and employees equal to 20 percent of the net realized income of the Company as reflected on the consolidated statements of operations of the Company for such year, less the nonqualifying gain, if any.

On April 26, 2000 the shareholders of the Company approved the performance goals under the Plan in accordance with Section 162(m) of the Internal Revenue Code of 1986 ("Code"), effective as of January 1, 2000. The Code generally provides that a public company such as the Company may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to any such officer/employee exceeds $1 million in any tax year, unless the payment is made upon the attainment of objective performance goals that are approved by the Company's shareholders.

Under the Plan, net realized income of the Company includes investment income, realized gains and losses, and operating expenses (including taxes paid or payable by the Company), but is calculated without regard to dividends paid or distributions made to shareholders, payments under the Plan, unrealized gains and losses, and loss carry-overs from other years ("Qualifying Income"). The portion of net after-tax realized gains attributable to asset values as of September 30, 1997 is considered nonqualifying gain, which reduces Qualifying Income.

As soon as practicable following the year-end audit, the Committee will determine whether, and if so how much, Qualifying Income exists for a plan year, and 90 percent of the Qualifying Income will be paid out to Plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10 percent will be paid out after the Company has filed its federal tax return for that year in which Qualifying Income exists. At December 31, 2002, the distribution amounts for each officer and employee were as follows: Charles E. Harris, 13.790 percent; Mel P. Melsheimer, 4.233 percent; Helene B. Shavin, 1.524 percent; and Jacqueline M. Matthews, 0.453 percent. In one case, for a former employee, who left the Company other than due to termination for cause, any amount earned will be accrued and may subsequently be paid to such participant.

On October 15, 2002 the shareholders of the Company approved the performance goals under the 2002 Plan in accordance with Section 162(m) of the

Internal Revenue Code of 1986 ("Code"), effective as of January 1, 2003. The Code generally provides that a public company such as the Company may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to any such officer/employee exceeds $1 million in any tax year, unless the payment is made upon the attainment of objective performance goals that are approved by the Company's shareholders.

As of January 1, 2003, the Company implemented the Amended and Restated Harris & Harris Group, Inc. Employee Profit-Sharing Plan (the "2002" Plan").

Under the 2002 Plan, net realized income of the Company includes investment income, realized qualifying gains and losses, and operating expenses (including taxes paid or payable by the Company), but is calculated without regard to dividends paid or loss carry-overs from other years ("Qualifying Income").

Under the 2002 Plan, awards previously granted to the Plan's four current Participants (Messrs. Harris and Melsheimer and Mss. Shavin and Matthews, herein referred to as the "grandfathered participants") will be reduced by 10% with respect to "Non-Tiny Technology Investments" (as defined in the 2002 Plan) and by 25% with respect to "Tiny Technology Investments" (as defined in the 2002 Plan) and will become permanent. These reduced awards are herein referred to as "grandfathered participations." The amount by which such awards are reduced will be allocable and reallocable each year by the Compensation Committee ("Committee") among current and new participants as awards under the 2002 Plan. The grandfathered participations will be honored by the Company whether or not the grandfathered participant is still employed by the Company or is still alive (in the event of death, the grandfathered participations will be paid to the grandfathered participant's estate), unless the grandfathered participant is dismissed for cause, in which case all awards, including the grandfathered participations, will be immediately cancelled and forfeited. With regard to new investments and follow-on investments made after the date on which the first new employee begins participating in the 2002 Plan, both current and new participants will be required to be employed by the Company at the end of a plan year in order to participate in profit sharing on such investments with respect to such year.

Notwithstanding any provisions of the 2002 Plan, in no event may the aggregate amount of all awards payable for any Plan Year during which the Company remains a "business development company" within the meaning of 1940 Act be greater than 20 percent of the Company's "net income after taxes" within the meaning of Section 57(n)(1)(B) of the 1940 Act. In the event the awards as calculated exceed such amount, the awards will be reduced pro rata.

The 2002 Plan may be modified, amended or terminated by the Committee at any time. Notwithstanding the foregoing, the grandfathered participations may not be modified further. Nothing in the 2002 Plan will preclude the Committee from naming additional participants in the 2002 Plan or, except for grandfathered participations, changing the Award Percentage of any Participant (subject to the overall percentage limitations contained in the 2002 Plan). Under the 2002 Plan, the distribution amounts for non-grandfathered investments for each officer and employee currently are as follows: Charles E. Harris, 10.790 percent; Mel P. Melsheimer, 4.233 percent; Douglas W. Jamison, 3.0 percent; Helene B. Shavin, 1.524 percent; and Jacqueline M. Matthews, 0.453 percent.

The grandfathered participations are set forth below:

Officer/Employee	Grandfathered Participations Non-Tiny Technology (%)	Tiny Technolog
Charles E. Harris	12.41100	10.342
Mel P. Melsheimer	3.80970	3.174
Helene B. Shavin	1.37160	1.143
Jacqueline M. Matthews	.40770	.339
Total	18.00000	15.000

Accordingly, an additional 2.00% of Qualifying Income with respect to grandfathered Non-Tiny Technology Investments, 5.00% of Qualifying Income with respect to grandfathered Tiny Technology Investments and the full 20.00% of Qualifying Income with respect to new investments are available for allocation and reallocation from year to year. Currently Douglas W. Jamison is allocated ..80% of the Non-Tiny Technology Grandfathered Participations and 2.00 % of the Tiny Technology Grandfathered Participations.

During 2002, the Company decreased the profit-sharing accrual by $163,049, bringing the cumulative accrual under the Plan to $15,233 at December 31, 2002. The amounts payable under the Plan for net realized income during the year ended December 31, 2002 are $15,233. The Company will pay out 90 percent in March 2003 and the remaining 10 percent upon the completion and filing of the Company's 2002 federal tax return.

NOTE 4. CAPITAL TRANSACTIONS

In 1998, the Board of Directors approved that, effective January 1, 1998, 50 percent of all Directors' fees be used to purchase Company common stock from the Company. However, effective March 1, 1999, the directors may purchase the Company's common stock in the open market, rather than from the Company. During 1999, the Directors bought directly from the Company 5,816 shares.

On July 14, 1999, the Board of Directors announced a tender offer to purchase up to 1,100,000 shares of its common stock for cash at a price equal to $1.63 per share. A total of 1,080,569 shares were tendered for a total cost, including related expenses of approximately $71,500, of $1,832,831. Of these shares, 1,075,269 were tendered by one shareholder, which tendered all of its holdings.

On January 27, 2000, the Company placed privately, with an unaffiliated investor, for $3 million in cash, a one-year, 12 percent note with one-year warrants to purchase 25,263 shares of the Company's common stock at $11.8750 per share. Unless the note was prepaid, six months after its issuance, the investor would have received additional one-year warrants to purchase an additional $300,000 worth of the Company's common stock at the then-current market price. During March 2000, with part of the proceeds from the sale of SciQuest.com stock, the Company prepaid the Note. The Company incurred total interest costs of $146,141: $36,500 in interest paid on the note and $109,641 on warrants. The warrants expired unexercised.

On July 8, 2002, the Company filed a final prospectus under Rule 497 of the Securities Act of 1933 with the SEC for the issuance of transferable rights to its shareholders. The rights allowed the shareholders to subscribe for a maximum of 2,954,743 new shares of the Company's common stock, of which 2,634,614 new shares were subscribed for pursuant to the rights offering. The actual amount of gross proceeds raised upon completion of the offer was $5,927,882; net proceeds were $5,643,470, after expenses of $284,412. The Company intends to invest, under normal circumstances, directly or indirectly, the net proceeds of the offer in accordance with its investment objectives and policies, within the 12 months following the receipt of such proceeds, depending on the available investment opportunities for the types of investments in which the Company principally invests.

Since 1998, the Company has repurchased a total of 1,859,047 of its shares for a total of $3,496,388, including commissions and expenses, at an average price of $1.88 per share. These treasury shares were reduced by the purchases made by the Directors. On July 23, 2002, because of the Company's strategic decision to invest in tiny technology, the Board of Directors reaffirmed its commitment not be authorize the purchase of additional shares of stock in the foreseeable future.

On December 14, 2000, the Company declared a deemed dividend of $1.78 per share for a total of $16,253,987, and in 2001, the Company paid federal income taxes on behalf of shareholders of $0.62 per share for a total of $5,688,896. The Company paid the tax at the corporate rate on the distribution, and the shareholders received a tax credit equal to their proportionate share of the tax paid.

On January 22, 2002, the Company announced a deemed dividend of $0.0875 per share for a total of $775,620, and in 2002 the Company paid federal income taxes on behalf of shareholders of $0.030625 per share for a total of $271,467. The Company paid the tax at the corporate rate on the distribution, and the shareholders received a tax credit equal to their proportionate share of the tax paid.

The net of the total deemed dividends declared in 2000 ($16,253,987) and 2001 ($775,620) and the taxes paid on behalf of shareholders in 2000 ($5,688,896) and 2001 ($271,467) is considered to be reinvested by the shareholders; therefore, during 2000 and 2001, additional paid in capital has increased by $10,565,091 and $504,153, respectively.

The tax character of the 2000 and 2001 deemed dividends was long-term capital gain.

As of December 31, 2002, there are no distributable earnings. The difference between the book basis and tax basis components of distributable earnings is attributed to Built-In Gains generated at the time of the Company's qualification as a RIC (see Note 6. "Income Taxes") and after tax earnings that are not required to be distributed.

NOTE 5. EMPLOYEE BENEFITS

On October 19, 1999, Charles E. Harris signed an Employment Agreement with the Company (disclosed in a Form 8-K filed on October 27, 1999) (the "Employment Agreement"), which superseded an employment agreement that was about to expire on December 31, 1999. The Employment Agreement shall terminate on December 31, 2004 ("Term") subject to either an earlier termination or an extension in accordance with the terms; on January 1, 2000 and on each day thereafter, the Term extends automatically by one day unless at any time the Company or Mr. Harris, by written notice, decides not to extend the Term, in which case the Term will expire five years from the date of the written notice.

During the period of employment, Mr. Harris shall serve as the Chairman and Chief Executive Officer of the Company; be responsible for the general management of the affairs of the Company and all its subsidiaries, reporting directly to the Board of Directors of the Company; serve as a member of the Board for the period of which he is and shall from time to time be elected or reelected; and serve, if elected, as President of the Company and as an officer and director of any subsidiary or affiliate of the Company.

Mr. Harris is to receive compensation under his Employment Agreement in the form of base salary of $208,315 for 2000, with automatic yearly adjustments to reflect inflation. In addition, the Board may increase such salary, and consequently decrease it, but not below the level provided for by the automatic adjustments described above. Mr. Harris is also entitled to participate in the Company's Profit-Sharing Plan as well as in all compensation or employee benefit plans or programs, and to receive all benefits, perquisites, and emoluments for which salaried employees are eligible. Under the Employment Agreement, the Company is to furnish Mr. Harris with certain perquisites which include a company car, membership in certain clubs and up to a $5,000 annual reimbursement for personal, financial or tax advice.

The Employment Agreement provides Mr. Harris with life insurance for the benefit of his designated beneficiaries in the amount of $2,000,000; provides reimbursement for uninsured medical expenses, not to exceed $10,000 per annum, adjusted for inflation, over the period of the contract; provides Mr. Harris and his spouse with long-term care insurance; and disability insurance in the amount of 100 percent of his base salary. These benefits are for the term of the Employment Agreement.

The Employment Agreement provides for the Company to adopt a supplemental executive retirement plan (the "SERP") for the benefit of Mr. Harris. Under the SERP, the Company will cause an amount equal to one-twelfth of Mr. Harris's current annual salary to be credited each month (a "Monthly Credit") to a special account maintained for this purpose on the books of the Company for the benefit of Mr. Harris (the "SERP Account"). The amounts credited to the SERP Account will be deemed invested or reinvested in such mutual funds or U.S. Government securities as determined by Mr. Harris. The SERP Account will be credited and debited to reflect the deemed investment returns, losses and expenses attributed to such deemed investments and reinvestments. Mr. Harris' benefit under the SERP will equal the balance in the SERP Account and such benefit will always be 100 percent vested (i.e., not forfeitable). Mr. Harris will determine the form and timing of the distribution of the balance in the SERP Account; provided, however, in the event of the termination, the balance in the SERP Account will be distributed to Mr. Harris or his beneficiary, as the case may be, in a lump-sum payment within 30 days of such termination. The Company will establish a rabbi trust for the purpose of accumulating funds to satisfy the obligations incurred by the Company under the SERP. The restricted funds for the SERP Plan total $756,944 as of December 31, 2002. Mr. Harris' rights to benefits pursuant to this SERP will be no greater than those of a general creditor of the Company.

The Employment Agreement provides severance pay in the event of termination without cause or by constructive discharge and also provides for certain death benefits payable to the surviving spouse equal to the executive's base salary for a period of two years.

In addition, Mr. Harris is entitled to receive severance pay pursuant to the severance compensation agreement that he entered into with the Company, effective August 15, 1990. The severance compensation agreement provides that if, following a change in control of the Company, as defined in the agreement, such individual's employment is terminated by the Company without cause or by the executive within one year of such change in control, the individual shall be entitled to receive compensation in a lump sum payment equal to 2.99 times the individual's average annualized compensation and payment of other welfare benefits. If Mr. Harris' termination is without cause or is a constructive discharge, the amount payable under the Employment Agreement will be reduced by the amounts paid pursuant to the severance compensation agreement.

As of January 1, 1989, the Company adopted an employee benefits program covering substantially all employees of the Company under a 401(k) Plan and Trust Agreement. As of January 1, 1999, the Company adopted the Harris & Harris Pension Plan and Trust, a money purchase plan which would allow the Company to stay compliant with the 401(k) top-heavy regulations and deduction limitation regulations. In 2001, Congress enacted the Economic Growth and Tax Relief Reconciliation Act of 2001 which has increased the deduction limits for plans such as the 401(k) Plan. This Act eliminates the need for the Company to maintain two separate plans. Effective December 31, 2001, the Pension Plan merged into the 401(k) Plan, with the 401(k) Plan being the surviving plan. Contributions to the plan are at the discretion of the Company. During 2002, contributions to the plan that have been charged to salaries and benefits totaled approximately $51,500.

On June 30, 1994, the Company adopted a plan to provide medical and health insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with the Company and have attained 50 years of age or have attained 45 years of age and have 15 years of service with the Company. On February 10, 1997, the Company amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, the Company provided an original reserve of $176,520 that was charged to operations for the period ending June 30, 1994. As of December 31, 2002 the Company had a reserve of $446,302 for the plan.

NOTE 6. INCOME TAXES

The Company elected Sub-Chapter M status for the year ended December 31, 1999. On February 23, 1999, the Company declared a cash dividend of $0.35 per share (for a total of $3,647,017), thereby distributing part of the long-term capital gain generated in 1999 by the sale of NBX Corporation to 3Com Corporation. Approximately $143,261 of the long-term capital gain for 1999 was not distributed during 1999. Accordingly, on September 20, 2000, the Company declared a $0.02 dividend (for a total of $184,817). For the year ended December 31, 1999, the Company incurred approximately $20,000 in excise taxes.

Provided that a proper election is made, a corporation taxable under Sub-Chapter C of the Internal Revenue Code (a "C Corporation") that elects to qualify as a RIC continues to be taxable as a C Corporation on any gains realized within 10 years of its qualification as a RIC (the "Inclusion Period") from sales of assets that were held by the corporation on the effective date of the RIC election ("C Corporation Assets") to the extent of any gain built into the assets on such date ("Built-In Gain"). (If the corporation fails to make a proper election, it is taxable on its Built-In Gain as of the effective date of its RIC election.) The Company had Built-In Gains at the time of its qualification as a RIC and made the election to be taxed on any Built-In Gain realized during the Inclusion Period. Prior to 1999, the Company incurred ordinary and capital losses from its operations. After the Company's election of RIC status, those losses remained available to be carried forward to subsequent taxable years. The Company has previously used loss carryforwards to offset Built-In Gains. As of January 1, 2003, the Company had $501,640 of loss carryforwards remaining and $4,663,457 of unrealized Built-In Gains.

Continued qualification as a RIC requires the Company to satisfy certain investment asset diversification requirements in future years. The Company's ability to satisfy those requirements may not be controllable by the Company. (See "Sub-Chapter M Status" contained in Item 1. "Business.") There can be no assurance that the Company will qualify as a RIC in subsequent years.

To the extent that the Company retains capital gains, and declares a deemed dividend to shareholders, the dividend is taxable to the shareholders. The Company would pay tax, at the corporate rate, on the distribution, and the shareholders would receive a tax credit equal to their proportionate share of the tax paid. The Company took advantage of this rule for 2000 and 2001. The Company's financial statements for 2000 and 2001 include a tax liability of $5,709,884 and $290,748, respectively. The taxes paid by the Company's shareholders as a result of its deemed dividend declaration for 2000 ($5,688,896) and 2001 ($271,467) are reflected as a deduction to the additional paid-in capital in the Company's Consolidated Statement of Assets and Liabilities rather than an expense in the Consolidated Statement of Operations.

The Company also realized short-term capital gains of approximately $2,111,865 in 2000, primarily on sales of shares of Alliance Pharmaceutical Corp. The Company offset the realized short-term gain with 2000 expenses and neither owed federal income taxes on the gain nor was required to distribute any portion of this gain to shareholders.

In 2002, the Company realized long-term capital losses of $470,622 primarily from long-term capital gains of $1,008,653 from the Company's liquidation of its partnership interest in PHZ Capital Partners L.P. offset by losses on the sale of Schwoo, Inc. of $1,248,825 and on the liquidation of Informio, Inc. of $350,583. The Company also realized short-term capital gains of $732,936 primarily from the liquidation of its partnership interest in PHZ Capital Partners L.P. Realized short-term capital gains were reduced by realized long-term capital losses resulting in net realized short-term capital gains. The Company offset the net realized short-term gains with 2002 expenses and neither owed federal income taxes on the gain nor was required to distribute any portion of this gain to shareholders.

For the years ended December 31, 2002, 2001 and 2000, the Company's income tax (benefit) expense was allocated as follows:

	2002	2001
Investment operations	$ 0	$ 0
Realized income on investments	894,435	118,415
Decrease in unrealized appreciation on investments	(695,126)	(90,464)
Total income tax (benefit) expense	$ 199,309	27,951

The above tax (benefit) expense consists of the following:

	2002	2001
Current	$ 894,435	$ 118,415
Deferred -- Federal	(695,126)	(90,464)
Total income tax (benefit) expense	$ 199,309	$ 27,951

The Company's net deferred tax liability at December 31, 2002 and 2001 consists of the f

	2002
Unrealized appreciation on investments	$ $844,918
Net operating and capital loss carryforward	(175,574)
Net deferred income tax liability	$ 669,344

NOTE 7. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a ten-year lease with sublet provisions for office space. In 1995, this lease was amended to include additional office space. During 1999, the Company sublet this additional space to an unaffiliated party. Rent expense under this lease for the year ended December 31, 2002 was $178,561. Future minimum lease payments in 2003 are $101,946.

The Company had $750,000 of funds in escrow as of December 31, 2002, in anticipation of closing an investment in NanoGram Devices Corporation. On February 3, 2003, the Company announced that it had invested in a convertible preferred security of Nanogram Devices Corporation.

NOTE 8. ASSET ACCOUNT LINE OF CREDIT

On November 19, 2001, the Company established an asset account line of credit of up to $12,700,000. The asset account line of credit is secured by the Company's government agency securities. Under the asset account line of credit, the Company may borrow up to 95 percent of the current value of its government agency securities. The Company's outstanding balance under the asset line of credit at December 31, 2001 and December 31, 2002 was $12,495,777 and $0, respectively. The asset line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points.

NOTE 9. SUBSEQUENT EVENTS

On January 16, 2003, the Company received $786,492 as final payment in the liquidation of the Company's investment in PHZ Capital Partners L.P.

On February 3, 2003, the Company announced that it had invested $750,000 in a convertible preferred security of Nanogram Devices Corporation. Nanogram Devices has developed and is commercializing specialized power sources for medical devices and other medical equipment based on its patented, laser-based nanomaterials synthesis technology.

On March 20, 2003, in order to begin planning for eventual management succession, the Board of Directors voted to establish a mandatory retirement plan for individuals who are employed by the Company in a bona fide executive or high policy making position. There are currently two such individuals, the Chairman and CEO, and the President and COO. Under this plan, mandatory retirement will take place effective December 31 of the year in which the eligible individuals attain the age of 65. On an annual basis beginning in the year in which the designated individual attains the age of 65, a committee of the Board consisting of non-interested directors may determine to postpone the mandatory retirement date for that individual for one additional year for the benefit of the Company.

Pursuant to applicable age discrimination laws, the Company is required to establish a pension benefit plan (the "Plan") for such individuals. The Company's Chairman and CEO has offered, for the benefit of the Company in connection with its establishment of the Plan, to waive certain of his existing benefit rights, which is expected to relieve the Company from having to provide for Plan expense for him. Plan expense to cover the President and COO's anticipated benefit under the Plan will total approximately a currently estimated $450,000, which will be unfunded and will be amortized over the fiscal periods through the year ended December 31, 2004.

FINANCIAL HIGHLIGHTS

Per share operating performance:

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
Net asset value, beginning of period	$ 2.75	$ 3.51	$ 5.80
Net operating income (loss)	(0.19)	(0.06)	0.37
Net realized gain (loss) on investments	0.24	0.14	2.09
Net (decrease) increase in unrealized appreciation as a result of sales	0.13	0.45	(2.35)
Net decrease (increase) in unrealized appreciation on investments held	(0.46)	(1.30)	(1.82)
Net decrease as a result of cash dividend	0.00	0.00	(0.02)
Net decrease as a result of deemed dividend	0.00	(0.03)	(0.62)
Net increase (decrease) from capital stock transactions	(0.10)	0.04	0.06
Net asset value, end of period*	$ 2.37	$ 2.75	$ 3.51
Cash dividends paid per share	$ 0.00	$ 0.00	$ 0.02
Deemed dividend per share	$ 0.00	$ 0.0875	$ 1.78
Market value per share, end of period	$ 2.46	$ 1.90	$2.4375
Total income tax liability per share	$ 0.15	$ 0.18	$ 0.78
Ratio of expenses to average net assets	8.3%	3.45%	(6.21)%
Ratio of net operating gain (loss) to average net assets	(7.3)%	(1.75)%	52.7%
Investment return based on:			
Stock price	40.5%	(22.1)%	(78.8)%
Net asset value	(13.8)%	(21.7)%	(39.5)%
Portfolio turnover	46.00%	9.00 %	20.56 %
Net assets, end of period	$ 27,256,046	$ 24,334,770	$31,833,475
Number of shares outstanding	11,498,845	8,864,231	9,064,231

*Reflects the decline in net asset value as a result of the $0.02 dividend paid in 2000.

The accompanying notes are an integral part of this schedule.

Consolidated Financial Statements and Supplementary Data

HARRIS & HARRIS GROUP, INC. - 2001
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

The following reports and consolidated financial schedules of Harris & Harris Group, Inc. are filed herewith and included in response to Item 8.

Schedules other than those listed above have been omitted because they are not applicable or the required information is presented in the consolidated financial statements and/or related notes.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Harris & Harris Group, Inc.:

We have audited the accompanying consolidated statements of assets and liabilities of Harris & Harris Group, Inc. (a New York corporation) as of December 31, 2001 and 2000, including the consolidated schedule of investments as of December 31, 2001, and the related consolidated statements of operations, cash flows and changes in net assets for each of the three years ended December 31, 2001, and the selected per share data and ratios for each of the five years ended December 31, 2001. These consolidated financial statements and selected per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and selected per share data and ratios based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and selected per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2001 and 2000, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 2, the consolidated financial statements include securities valued at $13,120,978 (53.92 percent of net assets), whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

In our opinion, the consolidated financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of Harris & Harris Group, Inc. as of December 31, 2001 and 2000, the results of their operations, their cash flows and the changes in their net assets for the three years ended December 31, 2001, and the selected per share data and ratios for each of the five years ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

New York, New York
March 21, 2002

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

ASSETS		December 31, 2001
Investments, at value (See accompanying consolidated schedule of investments and notes).................	$	38,930,705
Cash and cash equivalents..		135,135
Restricted funds (Note 5)..		482,020
Interest receivable..		82
Prepaid expenses...		14,833
Note receivable..		10,487
Other assets...		109,105
Total assets...		$39,682,367
LIABILITIES & NET ASSETS		
Accounts payable and accrued liabilities...........................	$	1,039,350
Payable to broker for unsettled trade..............................		0
Bank loan payable (Note 8)...		12,495,777

Accrued profit sharing (Note 3)......................................		178,282
Deferred rent..		14,650
Current income tax liability (Note 6)................................		255,068
Deferred income tax liability (Note 6)...............................		1,364,470
Total liabilities..		15,347,597
Commitments and contingencies (Note 7)...............................		
Net assets...	$	24,334,770
Net assets are comprised of:		
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued.......................	$	0
Common stock, $0.01 par value, 25,000,000 shares authorized; 10,692,971 issued at 12/31/01 and at 12/31/00..		106,930
Additional paid in capital (Note 4)..................................		27,228,748
Additional paid in capital - common stock warrants...................		109,641
Accumulated net realized gain (loss).................................		618,606
Accumulated unrealized appreciation of investments, net of deferred tax liability of $1,540,044 at 12/31/01 and $1,630,506 at 12/31/00.........................		(323,624)
Treasury stock, at cost (1,828,740 shares at 12/31/01 and 1,628,740 at 12/31/00)............................		(3,405,531)
Net assets...	$	24,334,770
Shares outstanding...		8,864,231
Net asset value per outstanding share................................	$	2.75

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2001	Year Ended Decembe 31, 2000
Investment income:		
Interest from:		
Fixed-income securities..................	$ 422,196	$ 554,2
Portfolio companies......................	9,616	64,9
Dividend income............................	1,000	2,0
Other income...............................	77,849	65,8
Total investment income.................	510,661	687,0
Expenses:		
Profit-sharing (reversal) accrual (Note 3)..................................	(984,021)	(4,812,67
Salaries and benefits......................	1,045,063	1,036,7
Professional fees..........................	261,582	310,6
Administration and operations...............	406,488	385,6
Rent.......................................	166,312	166,8
Directors' fees and expenses................	90,047	100,4
Depreciation...............................	26,901	28,7
Custodian fees.............................	14,518	14,3
Interest expense (Note 4)...................	8,331	146,1
Total expenses..........................	1,035,221	(2,623,20
Operating income (loss) before income taxes........................	(524,560)	3,310,2

Income tax benefit (Note 6)		0		
Net operating income (loss)		(524,560)		3,310,2
Net realized gain (loss) from investments:				
Realized gain (loss) from investments		1,394,781		19,065,2
Total realized gain (loss)		1,394,781		19,065,2
Income tax expense (Note 6)		(118,415)		(101,43
Net realized gain (loss) from investments		1,276,366		18,963,8
Net realized income (loss)		751,806		22,274,0
Net (decrease) increase in unrealized appreciation on investments:				
Increase as a result of investment sales		4,802,738		
Decrease as a result of investment sales		(854,467)		(21,400,03
Increase on investments held		3,232,919		26,741,2
Decrease on investments held		(14,912,698)		(43,275,84
Change in unrealized appreciation on investments		(7,731,508)		(37,934,59
Income tax benefit (Note 6)		90,464		153,3
Net (decrease) increase in unrealized appreciation on investments		(7,641,044)		(37,781,28
Net (decrease) increase in net assets resulting from operations:				
Total	$	(6,889,238)	$	(15,507,20
Per outstanding share	$	(0.78)	$	(1.7

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year Ended December 31, 2001		Year Ended D 31, 20
Cash flows used in operating activities:				
Net (decrease) increase in net assets resulting from operations	$	(6,889,238)	$	(15,
Adjustments to reconcile net (decrease) increase in net assets resulting from operations to net cash used in operating activities:				
Net realized and unrealized loss (gain) on investments		5,950,398		18
Deferred income taxes		90,464		(
Depreciation		26,901		
Other		2,010		
Interest received in stock		0		
Changes in assets and liabilities:				
Restricted funds		(216,837)		(

Receivable from broker for unsettled trades............	0	
Funds in escrow..	0	1
Interest receivable....................................	30,000	
Prepaid expenses.......................................	67,782	
Notes receivable.......................................	401	
Other assets...	23,667	
Accounts payable and accrued liabilities...............	267,587	
Payable to broker for unsettled trade..................	(115,005)	
Accrued profit sharing.................................	(3,304,959)	(5,
Deferred rent..	(9,253)	
Current income tax liability...........................	(5,496,498)	
Net cash used in operating activities..................	(9,572,580)	(1,
Cash provided by investing activities:		
Net (purchase) sale of short-term investments and marketable securities...........................	(10,263,667)	(14,
Investment in private placements and loans.............	(1,818,826)	(6,
Proceeds from sale of investments......................	9,385,615	23
Purchase of fixed assets...............................	(6,508)	
Net cash (used in) provided by investing activities.....	(2,703,386)	2
Cash flows used in financing activities:		
Payment of dividend....................................	0	(
Purchase of treasury stock (Note 4)....................	(338,000)	(
Proceeds from note payable.............................	12,495,777	3
Payment of note payable (Note 4).......................	0	(3,
Proceeds from sale of stock (Note 4)...................	0	
Collection on notes receivable.........................	0	
Net cash provided by (used in) financing activities.....	12,157,777	(
Net increase (decrease) in cash and cash equivalents:		
Cash and cash equivalents at beginning of the year......	253,324	
Cash and cash equivalents at end of the year...........	135,135	
Net increase (decrease) in cash and cash equivalents	$ (118,189)	$
Supplemental disclosures of cash flow information:		
Income taxes paid......................................	$ 5,795,916	$
Interest paid..	$ 0	$

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended December 31, 2001	Year Ended D 31, 20
Changes in net assets from operations:		
Net operating income (loss)`......................	$ (524,560)	$ 3
Net realized gain (loss) on investments...........	1,276,366	18
Net (decrease) increase in unrealized appreciation on investments as a result of sales............	4,038,735	(21,
Net (decrease) increase in unrealized appreciation on		

investments held................................	(11,679,779)	(16,
Net (decrease) increase in net assets resulting from operations......................................	(6,889,238)	(15,
Changes in net assets from capital stock transactions:		
Payment of dividend...............................	0	(
Purchase of treasury stock........................	(338,000)	(
Proceeds from sale of stock	0	
Deemed dividend shareholder tax credit............	(271,467)	(5,
Additional paid in capital warrants...............	0	
Net decrease in net assets resulting from capital stock transactions..................................	(609,467)	(6,
Net (decrease) increase in net assets.................	(7,498,705)	(21,
Net Assets:		
Beginning of the year............................	31,833,475	53
End of the year..................................	$ 24,334,770	$ 31

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INVESTMENTS AS OF DECEMBER 31, 2001

	Method of Valuation (3)	Sh Pri
Investments in Unaffiliated Companies (10)(11)(12) -- 4.3% of total investments		
Private Placement Portfolio (Illiquid) -- 4.3% of total investments		
AlphaSimplex Group, LLC (1)(2) -- Investment advisory firm headed by Dr. Andrew W. Lo, holder of the Harris & Harris Group Chair at MIT.................	(D)	
Exponential Business Development Company (1)(2)(5) Venture capital partnership focused on early stage companies		
Limited partnership interest............................	(A)	
Informio, Inc. (1)(2)(6)(7) -- Develops audio web portal technology -- 0.86% of fully diluted equity		
Series A Convertible Preferred Stock	(D)	
Kriton Medical, Inc. (1)(2)(5)(6) -- Develops ventricular assist devices -- 1.83% of fully diluted equity		

Series B Convertible Preferred Stock......................... (A)

Nantero, Inc. (1)(2)(4)(6) -- Develops a high density nonvolatile random access memory chip using nanotechnology -- 4.18% of fully diluted equity
Series A Convertible Preferred Stock......................... (A)

Total Private Placement Portfolio (cost: $2,019,601)..

Total Investments in Unaffiliated Companies (cost: $2,019,601).................................

The accompanying notes are an integral part of this consolidated schedule.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2001

	Method of Valuation (3)	Sh Pri
Investments in Non-Controlled Affiliated Companies (16)(19) -- 29.4% of total investments		
Private Placement Portfolio (Illiquid) -- 29.4% of total investments		
Experion Systems, Inc. (1)(2)(6)(8) -- Develops and sells software to credit unions -- 10.77% of fully diluted equity		
Convertible Preferred Stock..............................	(D)	
NeuroMetrix, Inc. (1)(2)(5)(6) -- Develops and sells medical devices for monitoring neuromuscular disorders -- 13.40% of fully diluted equity		
Series A Convertible Preferred Stock......................	(D)	
Series B Convertible Preferred Stock......................	(D)	
Series C-2 Convertible Preferred Stock....................	(D)	
Series E Convertible Preferred Stock......................	(D)	
PHZCapital Partners Limited Partnership (2)(9) -- Organizes and manages investment partnerships utilizing its proprietary algorithms -- 20.0% of fully diluted equity		
Limited partnership interest.............................	(D)	
Questech Corporation (1)(2)(6) -- Manufactures and markets proprietary metal decorative		

tiles -- 7.35% of fully diluted equity		
Common Stock..	(B)	
Warrants at $5.00 expiring 11/15/04......................	(B)	
Warrants at $1.50 expiring 11/16/05......................	(B)	
Schwoo, Inc. (1)(2)(4) -- Develops software that automatically manages e-commerce security infrastructure -- 14.88% of fully diluted equity		
Series B Convertible Stock................................	(D)	
Convertible Bridge Loans..................................	(D)	$
Series B Convertible Preferred Warrants...................	(D)	
Total Private Placement Portfolio (cost: $9,885,933)..		
Total Investments in Non-Controlled Affiliated Companies (cost: $9,885,933)......................		

The accompanying notes are an integral part of this consolidated schedule.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2001

	Method of Valuation (3)	Sh Pri
U.S. Government and Agency Obligations -- 66.3% of total investments		
U.S. Treasury Bills -- due date 01/10/02..................	(K)	$
U.S. Treasury Bills -- due date 01/10/02..................	(K)	$
U.S. Treasury Bills -- due date 01/17/02..................	(K)	$
U.S. Treasury Bills -- due date 02/07/02..................	(K)	$
U.S. Treasury Bills -- due date 02/14/02..................	(K)	$
U.S. Treasury Bills -- due date 02/28/02..................	(K)	$
U.S. Treasury Bills -- due date 03/07/02..................	(K)	$
U.S. Treasury Bills -- due date 03/21/02..................	(K)	$
Total Investments in U.S. Government (cost: $25,808,751)....................................		
Total Investments -- 100% (cost: $37,714,285)...		

The accompanying notes are an integral part of this consolidated schedule.

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 2001

Notes to Consolidated Schedule of Investments

(1) Represents a non-income producing security. Equity investments that have not paid dividends within the last 12 months are considered to be non-income producing.

(2) Legal restrictions on sale of investment.

(3) See Footnote to Schedule of Investments for a description of the Methods of Valuation A to L.

(4) Initial investment was made during 2001. The amounts shown on the schedule as cost represent the gross additions in 2001.

(5) No changes in valuation occurred in these investments during the 12 months ended December 31, 2001.

(6) These investments are development stage companies. A development stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations or it has commenced such operations but has not realized significant revenue from them.

(7) Previously named iPacer Corporation.

(8) Previously named MyPersonalAdvocate.com, Inc.

(9) Harris Partners I, L.P. owns a 20 percent limited partnership interest in PHZ Capital Partners L.P. The partners of Harris Partners I, L.P. are Harris & Harris Enterprises, Inc. (sole general partner) and Harris & Harris Group, Inc. (sole limited partner). Harris & Harris Enterprises, Inc. is a 100 percent owned subsidiary of Harris & Harris Group, Inc.

(10) Investments in unaffiliated companies consist of investments in which the Company owns less than five percent of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which the Company owns more than five percent but less than 25 percent of the portfolio company. Investments in controlled affiliated companies consist of investments in which the Company owns more than 25 percent of the portfolio company.

(11) The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $2,019,601. The gross unrealized depreciation based on the tax cost for these securities is $353,221. The gross unrealized appreciation based on the tax cost for these securities is $784.

(12) The percentage ownership of each portfolio company disclosed in the Consolidated Schedule of Investments expresses the potential common equity interest in each such portfolio. The calculated percentage represents the amount of the issuer's common stock the Company owns or can acquire as a percentage of the issuer's total outstanding common stock plus common shares reserved for issued and outstanding warrants, convertible securities and stock options.

The accompanying notes are an integral part of this consolidated schedule.

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

The Company's investments can be classified into five broad categories for valuation purposes:

1) EQUITY-RELATED SECURITIES

2) INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

3) LONG-TERM FIXED-INCOME SECURITIES

4) SHORT-TERM FIXED-INCOME INVESTMENTS

5) ALL OTHER INVESTMENTS

The Investment Company Act of 1940 (the "1940 Act") requires periodic valuation of each investment in the Company's portfolio to determine net asset value of the Company. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the Board of Directors.

The Company's Board of Directors is responsible for 1) determining overall valuation guidelines and 2) ensuring the valuation of investments within the prescribed guidelines.

The Company's Investment and Valuation Committee is responsible for reviewing and approving the valuation of the Company's assets within the guidelines established by the Board of Directors.

Fair value is generally defined as the amount that an investment could be sold for in an orderly disposition over a reasonable time. Generally, to increase objectivity in valuing the assets of the Company, external measures of value, such as public markets or third-party transactions, are utilized whenever possible. Valuation is not based on long-term work-out value, nor immediate liquidation value, nor incremental value for potential changes that may take place in the future.

Valuation assumes that, in the ordinary course of its business, the Company will eventually sell its investment.

The Company's valuation policy with respect to the five broad investment categories is as follows:

EQUITY-RELATED SECURITIES

Equity-related securities are carried at fair value using one or more of the following basic methods of valuation:

A. Cost: The cost method is based on the original cost to the Company. This method is generally used in the early stages of a company's development until significant positive or negative events occur subsequent to the date of the original investment that dictate a change to another valuation method. Some examples of such events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the development of a meaningful public market for the company's common stock; (5) significant positive or negative changes in the company's business.

B. Private Market: The private market method uses actual third-party transactions in the company's securities as a basis for valuation, using actual, executed, historical transactions in the company's securities by responsible third parties. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

C. Public Market: The public market method is used when there is an established public market for the class of the company's securities held by the Company. The Company discounts market value for securities that are subject to significant legal, contractual or practical restrictions. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation.

Market value for securities traded on securities exchanges or on the Nasdaq National Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day.

This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation.

D. Analytical Method: The analytical method is generally used to value an investment position when there is no established public or private market in the company's securities or when the factual information available to the Company dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of the Company's Investment and Valuation Committee members, based on the data available to them. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the financial condition and operating results of the company, the long-term potential of the business of the company, the values of similar securities issued by companies in similar businesses, the proportion of the company's securities owned by the Company and the nature of any rights to require the company to register restricted securities under applicable securities laws.

INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

Such investments are carried at fair value using the following basic methods of valuation:

E. Cost: The cost method is based on the original cost to the Company. Such method is generally used in the early stages of commercializing or developing intellectual property or patents or research and development in technology or product development until significant positive or adverse events occur subsequent to the date of the original investment that dictate a change to another valuation method.

F. Private Market: The private market method uses actual third-party investments in intellectual property or patents or research and development in technology or product development as a basis for valuation, using actual executed historical transactions by responsible third parties. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

G. Analytical Method: The analytical method is used to value an investment after analysis of the best available outside information where the factual information available to the Company dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of the Company's Investment and Valuation Committee members. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the results of research and development, product development progress, commercial prospects, term of patent and projected markets.

LONG-TERM FIXED-INCOME SECURITIES

H. Fixed-Income Securities for which market quotations are readily available are carried at market value as of the time of valuation using the most recent bid quotations when available.

Securities for which market quotations are not readily available are carried at fair value using one or more of the following basic methods of valuation:

I. Fixed-Income Securities are valued by independent pricing services that provide market quotations based primarily on quotations from dealers and brokers, market transactions, and other sources.

J. Other Fixed-Income Securities that are not readily marketable are valued at fair value by the Investment and Valuation Committee.

SHORT-TERM FIXED-INCOME INVESTMENTS

K. Short-Term Fixed-Income Investments are valued at market value at the time of valuation. Short-term debt with remaining maturity of 60 days or less is valued at amortized cost.

ALL OTHER INVESTMENTS

L. All Other Investments are reported at fair value as determined in good faith by the Investment and Valuation Committee.

The reported values of securities for which market quotations are not readily available and for other assets reflect the Investment and Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if the securities had to be sold in an immediate liquidation. The Company makes many of its portfolio investments with the view of holding them for a number of years, and the reported value of such investments may be considered in terms of disposition over a period of time. Thus valuations as of any particular date are not necessarily indicative of amounts that may ultimately be realized as a result of future sales or other dispositions of investments held.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company") is a venture capital investment company operating as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). A BDC is a specialized type of investment company under the 1940 Act. The Company operates as an internally managed investment company whereby its officers and employees, under the general supervision of its Board of Directors, conduct its operations.

The Company elected to become a BDC on July 26, 1995, after receiving the necessary approvals. From September 30, 1992 until the election of BDC status, the Company operated as a closed-end, non-diversified, investment company under the 1940 Act. Upon commencement of operations as an investment company, the Company revalued all of its assets and liabilities at fair value as defined in the 1940 Act. Prior to such time, the Company was registered and filed under the reporting requirements of the Securities and Exchange Act of 1934 as an operating company and, while an operating company, operated directly and through subsidiaries.

Harris & Harris Enterprises, Inc. ("Enterprises") is a 100 percent wholly owned subsidiary of the Company. Enterprises holds the lease for the office space, which it subleases to the Company and an unaffiliated party; operates a financial relations and consulting firm; is a partner in Harris Partners I, L.P. and is taxed as a C corporation. Harris Partners I, L.P. is a limited partnership and owns a 20 percent limited partnership interest in PHZ Capital Partners L.P. The partners of Harris Partners I, L.P. are Enterprises (sole general partner) and Harris & Harris Group, Inc. (sole limited partner).

The Company filed for 1999 to elect treatment as a Regulated Investment Company ("RIC") under Sub-Chapter M of the Internal Revenue Code of 1986 (the "Code") and qualified for the same treatment for 2000 and 2001. There can be no assurance that the Company will qualify as a RIC in subsequent years or that if it does qualify, it will continue to qualify for subsequent years. In addition, even if the Company were to qualify as a RIC for a given year, the Company might take action in a subsequent year to ensure that it would be taxed in that subsequent year as a C Corporation, rather than as a RIC. As a RIC, the Company must, among other things, distribute at least 90 percent of its taxable net income and may either distribute or retain its realized net capital gains on investments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for investment companies and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. Cash and cash equivalents include money market instruments with maturities of less than three months.

Portfolio Investment Valuations. Investments are stated at "fair value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. All assets are valued at fair value as determined in good faith by, or under the direction of, the Board of Directors. (See "Asset Valuation Policy Guidelines" in the "Footnote to Consolidated Schedule of Investments.")

Securities Transactions. Securities transactions are accounted for on the date the securities are purchased or sold (trade date); dividend income is recorded on the ex-dividend date; and interest income is accrued as earned. Realized gains and losses on investment transactions are determined on specific identification for financial reporting and tax reporting.

Income Taxes. Prior to January 1, 1999, the Company recorded income taxes using the liability method in accordance with the provision of Statement of Financial Accounting Standards No. 109. Accordingly, deferred tax liabilities had been established to reflect temporary differences between the recognition of income and expenses for financial reporting and tax purposes, the most significant difference of which relates to the Company's unrealized appreciation on investments.

The December 31, 2001 consolidated financial statements include a provision for deferred taxes on the remaining net built-in gains as of December 31, 1998, net of the unutilized operating and capital loss carryforwards incurred by the Company through December 31, 1998.

These statements also reflect a tax liability on realized net long-term capital gains which the Company intends to retain for liquidity and to fund investment opportunities, rather than distribute to shareholders as a cash distribution. Accordingly, the Company declared a designated undistributed capital gain dividend for the year. (See "Note 6 Income Taxes" and Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operation -- Recent Developments -- Sub-Chapter M Status.")The Company pays federal, state and local income taxes on behalf of its wholly owned subsidiary, Harris & Harris Enterprises, which is a C corporation. (See "Note 6 Income Taxes.")

Reclassifications. Certain reclassifications have been made to the December 31, 1998 and December 31, 1999 financial statements to conform to the December 31, 2000 presentation.

Estimates by Management. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of December 31, 2001 and 2000, and the reported amounts of revenues and expenses for the three years ended December 31, 2001. Actual results could differ from these estimates.

NOTE 3. EMPLOYEE PROFIT SHARING PLAN

On August 3, 1989, the shareholders of the Company approved the 1988 Long Term Incentive Compensation Plan. The Company's 1988 Plan was cancelled as of December 31, 1997, canceling all outstanding stock options and eliminating all potential stock option grants. As a substitution for the 1988 Stock Option Plan, the Company adopted an employee profit-sharing plan.

As of January 1, 1998, the Company began implementing the Harris & Harris Group, Inc. Employee Profit Sharing Plan (the "1998 Plan") that provides for profit sharing equal to 20 percent of the net realized income of the Company as reflected on the Consolidated Statements of Operations for such year, less the nonqualifying gain, if any. The 1998 Plan was terminated by the

Company as of December 31, 1999, subject to the payment of any amounts owed on the 1999 realized gains under the 1998 Plan.

In March 2000, the Company paid out, under the 1998 Plan, 90 percent of the profit sharing in the amount of $1,024,696 on the 1999 realized gains; the remaining 10 percent or $113,855 was paid out in September 2000, upon the completion and filing of the Company's 1999 federal tax return.

As of January 1, 2000, the Company implemented the Harris & Harris Group, Inc. Employee Profit-Sharing Plan (the "Plan") that provides for profit sharing equal to 20 percent of the net realized income of the Company as reflected on the Consolidated Statements of Operations of the Company for such year, less the nonqualifying gain, if any.

Under the Plan, net realized income of the Company includes investment income, realized gains and losses, and operating expenses (including taxes paid or payable by the Company), but is calculated without regard to dividends paid or distributions made to shareholders, payments under the Plan, unrealized gains and losses, and loss carry-overs from other years ("Qualifying Income"). The portion of net after-tax realized gains attributable to asset values as of September 30, 1997 is considered non-qualifying gain, which reduces Qualifying Income.

As soon as practicable following the year-end audit, the Board of Directors will determine whether, and if so how much, Qualifying Income exists for a plan year, and 90 percent of the Qualifying Income will be paid out to Plan participants pursuant to the distribution percentages set forth in the Plan. The remaining 10 percent will be paid out after the Company has filed its federal tax return for that year in which Qualifying Income exists. Currently, the distribution amounts for each officer and employee are as follows: Charles E. Harris, 13.790 percent; Mel P. Melsheimer, 4.233 percent; Helene B. Shavin, 1.524 percent; and Jacqueline M. Matthews, 0.453 percent. If a participant leaves the Company for other than cause, the amount earned will be accrued and may subsequently be paid to such participant.

Notwithstanding any provisions of the Plan, in no event may the aggregate amount of all awards payable for any Plan year during which the Company remains a "business development company" within the meaning of 1940 Act be greater than 20 percent of the Company's "net income after taxes" within the meaning of Section 57(n)(1)(B) of the 1940 Act. In the event the awards exceed such amount, the awards will be reduced pro rata.

The Plan may be modified, amended or terminated by the Company's Board of Directors at any time with the stipulation that no such modification, amendment or termination may adversely affect any participant that has not consented to such modification, amendment or termination. Nothing in this Plan shall preclude the Committee from, for any Plan Year subsequent to the current Plan Year, naming additional Participants in the Plan or changing the Award Percentage of any Full Participant or New Participant (subject to the overall percentage limitations contained herein).

The Company calculates the Plan accrual at each quarter end based on the realized and unrealized gains at that date, net of operating expenses and income taxes for the year. Any adjustments to the Plan accrual are then reflected in the Consolidated Statements of Operations for that quarter. The Plan accrual is not paid out until the gains are realized. During 2000, the Company, as a result of a net decrease in the unrealized appreciation, decreased the profit-sharing accrual by $4,812,675 and paid out the 1999 profit sharing in the amount of $1,138,551, which decreased the cumulative accrual under the Plan to $3,483,241 at December 31, 2000.

The amounts payable under the Plan of $2,320,939 for the gains realized during the year ended December 31, 2000 were paid out as follows: 90 percent in February 2001; the remaining 10 percent upon the completion and filing of the Company's 2000 federal tax return. Additionally, during 2001, the Company decreased the profit-sharing accrual by $984,021, bringing the cumulative accrual under the Plan to $178,282 at December 31, 2001.

On April 26, 2000, the shareholders of the Company approved the performance goals under the Plan in accordance with Section 162(m) of the Code. The Code generally provides that a public company such as the Company may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to any such officer/employee exceeds $1 million in any tax year, unless the payment is made upon the attainment of objective performance goals that are approved by the Company's shareholders.

NOTE 4. CAPITAL TRANSACTIONS

In 1998, the Board of Directors approved that, effective January 1, 1998, 50 percent of all Directors' fees be used to purchase Company common stock from the Company. However, effective March 1, 1999, the directors may purchase the Company's common stock in the open market, rather than from the Company. During 1999, the Directors bought directly from the Company 5,816 shares.

On July 14, 1999, the Board of Directors announced a tender offer to purchase up to 1,100,000 shares of its common stock for cash at a price equal to $1.63 per share. A total of 1,080,569 shares were tendered for a total cost, including related expenses of approximately $71,500, of $1,832,831. Of these shares, 1,075,269 were tendered by one shareholder, which tendered all of its holdings.

On January 27, 2000, the Company placed privately, with an unaffiliated investor, for $3 million in cash, a one-year, 12 percent note with one-year warrants to purchase 25,263 shares of the Company's common stock at $11.8750 per share. Unless the note was prepaid, six months after its issuance, the investor would have received additional one-year warrants to purchase an additional $300,000 worth of the Company's common stock at the then-current market price. During March 2000, with part of the proceeds from the sale of SciQuest.com stock, the Company prepaid the Note. The Company incurred total interest costs of $146,141: $36,500 in interest paid on the note and $109,641 on warrants. The warrants expired unexercised.

On October 12, 2000, the Company announced that the Board of Directors had authorized a repurchase program in the open market of up to $2 million of the Company's stock, at the discretion of management. As of December 31, 2001, the Company had repurchased a total of 376,600 shares in the open market, at approximately $2.30 per share, for a total of $868,051.

Since 1998, the Company has repurchased a total of 1,859,047 of its shares for a total of $3,496,388, including commissions and expenses, at an average price of $1.88 per share. These treasury shares were reduced by the purchases made by the Directors.

On December 14, 2000, the Company declared a deemed dividend of $1.78 per share for a total of $16,253,987, and in 2001, the Company paid federal income taxes on behalf of shareholders of $0.62 per share for a total of $5,688,896. The Company paid the tax at the corporate rate on the distribution, and the shareholders received a tax credit equal to their proportionate share of the tax paid.

On January 22, 2002, the Company declared a deemed dividend of

$0.0875 per share for a total of $775,620, and in 2002 the Company paid federal income taxes on behalf of shareholders of $0.030625 per share for a total of $271,467. The Company paid the tax at the corporate rate on the distribution, and the shareholders received a tax credit equal to their proportionate share of the tax paid.

The net of the total deemed dividends declared in 2000 ($16,253,987) and 2001 ($775,620) and the taxes paid on behalf of shareholders in 2000 ($5,688,896) and 2001 ($271,467) is considered to be reinvested by the shareholders; therefore, during 2000 and 2001, additional paid in capital has increased by $10,565,091 and $504,153, respectively.

The tax character of the 2001 deemed dividend is long-term capital gain.

As of December 31, 2001, there are no distributable earnings. The difference between the book basis and tax basis components of distributable earnings is attributed to Built-In Gains generated at the time of the Company's qualification as a RIC (see Note 6. "Income Taxes") and after tax earnings that are not required to be distributed.

NOTE 5. EMPLOYEE BENEFITS

On October 19, 1999, Charles E. Harris signed an Employment Agreement with the Company (disclosed in a Form 8-K filed on October 27, 1999) (the "Employment Agreement"), which superseded an employment agreement that was about to expire on December 31, 1999. The Employment Agreement shall terminate on December 31, 2004 ("Term") subject to either an earlier termination or an extension in accordance with the terms; on January 1, 2000 and on each day thereafter, the Term extends automatically by one day unless at any time the Company or Mr. Harris, by written notice, decides not to extend the Term, in which case the Term will expire five years from the date of the written notice.

During the period of employment, Mr. Harris shall serve as the Chairman and Chief Executive Officer of the Company; be responsible for the general management of the affairs of the Company and all its subsidiaries, reporting directly to the Board of Directors of the Company; serve as a member of the Board for the period of which he is and shall from time to time be elected or reelected; and serve, if elected, as President of the Company and as an officer and director of any subsidiary or affiliate of the Company.

Mr. Harris is to receive compensation under his Employment Agreement in the form of base salary of $208,315 for 2000, with automatic yearly adjustments to reflect inflation. In addition, the Board may increase such salary, and consequently decrease it, but not below the level provided for by the automatic adjustments described above. Mr. Harris is also entitled to participate in the Company's Profit-Sharing Plan as well as in all compensation or employee benefit plans or programs, and to receive all benefits, perquisites, and emoluments for which salaried employees are eligible. Under the Employment Agreement, the Company is to furnish Mr. Harris with certain perquisites which include a company car, membership in certain clubs and up to a $5,000 annual reimbursement for personal, financial or tax advice.

The Employment Agreement provides Mr. Harris with life insurance for the benefit of his designated beneficiaries in the amount of $2,000,000; provides reimbursement for uninsured medical expenses, not to exceed $10,000 per annum, adjusted for inflation, over the period of the contract; provides Mr. Harris and his spouse with long-term care insurance; and disability insurance in the amount of 100 percent of his base salary. These benefits are for the term of the Employment Agreement.

The Employment Agreement provides for the Company to adopt a supplemental executive retirement plan (the "SERP") for the benefit of Mr. Harris. Under the SERP, the Company will cause an amount equal to one-twelfth of the Mr. Harris's current base salary to be credited each month (a "Monthly Credit") to a special account maintained for this purpose on the books of the Company for the benefit of Mr. Harris (the "SERP Account"). The amounts credited to the SERP Account will be deemed invested or reinvested in such mutual funds or U.S. Government securities as determined by Mr. Harris. The SERP Account will be credited and debited to reflect the deemed investment returns, losses and expenses attributed to such deemed investments and reinvestments. Mr. Harris' benefit under the SERP will equal the balance in the SERP Account and such benefit will always be 100 percent vested (i.e., not forfeitable). Mr. Harris will determine the form and timing of the distribution of the balance in the SERP Account; provided, however, in the event of the termination, the balance in the SERP Account will be distributed to Mr. Harris or his beneficiary, as the case may be, in a lump-sum payment within 30 days of such termination. The Company will establish a rabbi trust for the purpose of accumulating funds to satisfy the obligations incurred by the Company under the SERP. The restricted funds for the SERP Plan total $482,020 as of December 31, 2001. Mr. Harris' rights to benefits pursuant to this SERP will be no greater than those of a general creditor of the Company.

The Employment Agreement provides severance pay in the event of termination without cause or by constructive discharge and also provides for certain death benefits payable to the surviving spouse equal to the executive's base salary for a period of two years.

In addition, Mr. Harris is entitled to receive severance pay pursuant to the severance compensation agreement that he entered into with the Company, effective August 15, 1990. The severance compensation agreement provides that if, following a change in control of the Company, as defined in the agreement, such individual's employment is terminated by the Company without cause or by the executive within one year of such change in control, the individual shall be entitled to receive compensation in a lump sum payment equal to 2.99 times the individual's average annualized compensation and payment of other welfare benefits. If Mr. Harris' termination is without cause or is a constructive discharge, the amount payable under the Employment Agreement will be reduced by the amounts paid pursuant to the severance compensation agreement.

As of January 1, 1989, the Company adopted an employee benefits program covering substantially all employees of the Company under a 401(k) Plan and Trust Agreement. As of January 1, 1999, the Company adopted the Harris & Harris Pension Plan and Trust, a money purchase plan which would allow the Company to stay compliant with the 401(k) top-heavy regulations and deduction limitation regulations. In 2001, Congress enacted the Economic Growth and Tax Relief Reconciliation Act of 2001 which has increased the deduction limits for plans such as the 401(k) Plan. This Act eliminates the need for the Company to maintain two separate plans. Effective December 31, 2001, the Pension Plan merged into the 401(k) Plan, with the 401(k) Plan being the surviving plan. Contributions to the plan are at the discretion of the Company. During 2001, contributions to the plan that have been charged to salaries and benefits totaled approximately $40,000.

On June 30, 1994, the Company adopted a plan to provide medical and health insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with the Company and have attained 50 years of age or have attained 45 years of age and have 15 years of service with the Company. On February 10, 1997, the Company amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government provided or subsequent employer provided health insurance plans. Based upon actuarial estimates, the Company provided an original reserve of $176,520 that was charged to operations for the period ending June 30, 1994. As of December 31, 2001 the Company had a reserve of $385,935 for the plan.

NOTE 6. INCOME TAXES

On September 25, 1997, the Company's Board of Directors approved a proposal to seek qualification as a RIC under Sub-Chapter M of the Code. As a RIC, the Company annually must distribute at least 90 percent of its investment company taxable income as a dividend and may either distribute or retain its realized net capital gains from investments. To initially qualify as a RIC, among other requirements, the Company had to pay a dividend to shareholders equal to the Company's cumulative realized earnings and profits ("E&P"). On April 9, 1998, the Company declared a one-time cash dividend of $0.75 per share to meet this requirement (for a total of $8,019,728). The cash dividend was paid on May 12, 1998.

The Company elected Sub-Chapter M status for the year ended December 31, 1999. On February 23, 1999, the Company declared a cash dividend of $0.35 per share (for a total of $3,647,017), thereby distributing part of the long-term capital gain generated in 1999 by the sale of NBX Corporation to 3Com Corporation. Approximately $143,261 of the long-term capital gain for 1999 was not distributed during 1999. Accordingly, on September 20, 2000, the Company declared a $0.02 dividend (for a total of $184,817). For the year ended December 31, 1999, the Company incurred approximately $20,000 in excise taxes.

A corporation that elects to qualify as a RIC continues to be taxable as a C Corporation on any gains realized within 10 years of its qualification as a RIC from sales of assets that were held by the corporation on the effective date of the election ("C Corporation Assets") to the extent of any gain built into the assets on such date ("Built-In Gain"). The Company had Built-In Gains at the time of its qualification as a RIC. Prior to 1999, the Company incurred ordinary and capital losses from its operations. After the Company's election of RIC status, those losses remained available to be carried forward to subsequent taxable years. Recently issued Internal Revenue Service regulations (issued in temporary and proposed form) confirm that such losses may be used to offset realized Built-In Gains and, to the extent so used, to eliminate C Corporation taxation of such gains. Notwithstanding any such offset, however, the new regulations also provide that all realized Built-In Gains (calculated without regard to the offset, but net of any C Corporation tax imposed on the Built-In Gains after application of the offset) must be included in calculating a RIC's investment company taxable income or net capital gains, as the case may be, and therefore appear to require that such Built-In Gains must be distributed to avoid Sub-Chapter M taxation of such investment company taxable income or net capital gains (and, in the case of any Built-In Gains that are includible in investment company taxable income, possible loss of RIC status). The Company has previously used loss carryforwards to offset Built-In Gains. As of January 1, 2002, the Company had $501,640 of loss carryforwards remaining and $4,663,457 of unrealized Built-In Gains.

Continued qualification as a RIC requires the Company to satisfy certain portfolio diversification requirements in future years. The Company's ability to satisfy those requirements may not be controllable by the Company. (See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation -- Sub-Chapter M Status.") There can be no assurance that the Company will qualify as a RIC in subsequent years.

To the extent that the Company retains capital gains, and declares a deemed dividend to shareholders, the dividend is taxable to the shareholders. The Company would pay tax, at the corporate rate, on the distribution, and the shareholders would receive a tax credit equal to their proportionate share of the tax paid. The Company took advantage of this rule for 2000 and 2001. Accordingly, the Company's financial statements for 2000 and 2001 include a tax liability of $5,709,884 and $290,748, respectively. The taxes paid by the Company's shareholders as a result of its deemed dividend declaration for 2000 ($5,688,896) and 2001 ($271,467) are reflected as a deduction to the additional paid-in capital in the Company's Consolidated Statement of Assets and Liabilities rather than an expense in the Consolidated Statement of Operations.

The Company also realized short-term capital gains of approximately $2,111,865 in 2000, primarily on sales of shares of Alliance Pharmaceutical Corp. The Company offset the realized short-term gain with 2000 expenses and neither owed federal income taxes on the gain nor was required to distribute any portion of this gain to shareholders.

For the years ended December 31, 2001, 2000 and 1999, the Company's income tax (benefit) expense was allocated as follows:

	2001	2000	1999
Investment operations	$ 0	$ 0	$ 0
Realized loss on investments	118,415	101,435	2,361,044
Decrease in unrealized appreciation on investments	(90,464)	(153,304)	(1,627,074)
Total income tax (benefit) expense	$ 27,951	$ (51,869)	$ 733,970

The above tax (benefit) expense consists of the following:

	2001	2000	1999
Current	$ 118,415	$ 101,435	$ 2,361,044
Deferred -- Federal	(90,464)	(153,304)	(1,627,074)
Total income tax (benefit) expense	$ 27,951	$ (51,869)	$ 733,970

The Company's net deferred tax liability at December 31, 2001 and 2000 consists of the following:

	2001	2000
Unrealized appreciation on investments	$ 1,540,044	$ 1,630,506
Net operating and capital loss carryforward	(175,574)	(266,036)

Net deferred income tax liability	$ 1,364,470	$ 1,364,470

NOTE 7. COMMITMENTS AND CONTINGENCIES

During 1993, the Company signed a ten-year lease with sublet provisions for office space. In 1995, this lease was amended to include additional office space. During 1999, the Company sublet this additional space to an unaffiliated party. Rent expense under this lease for the year ended December 31, 2001 was $178,561. Future minimum lease payments in each of the following years are: 2002 -- $178,561; 2003 -- $101,946.

The Company had a total of $1,475,276 of funds in escrow as of December 31, 1999 as a result of the sale of NBX Corporation to 3Com Corporation. These funds were in a one-year interest-bearing escrow account for the benefit of the Company, subject to any 3Com Corporation warranty claims associated with its acquisition of NBX Corporation. The Company set up a reserve of 10 percent for any potential claims, therefore the funds in escrow reflected $1,327,748 net of the reserve of $147,528. The Company received the full escrow monies including interest of $65,860 for a total of $1,541,136 on March 6, 2000, and accordingly realized the $147,528 in 2000.

NOTE 8. ASSET ACCOUNT LINE OF CREDIT

On November 19, 2001, the Company established an asset account line of credit of up to $12,700,000. The asset account line of credit is secured by the Company's government agency securities. Under the asset account line of credit, the Company may borrow up to 95 percent of the current value of its government agency securities. The Company's outstanding balance under the asset line of credit at December 31, 2001 was $12,495,777. The asset line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points. On January 3, 2002, the Company repaid the entire outstanding balance under the asset line of credit.

NOTE 9. SUBSEQUENT EVENTS

On January 3, 2002, the Company paid the balance due on the credit line of $12,495,777.

On January 29, 2002, the Company invested an additional $100,000 in Series B preferred stock of Experion Systems, Inc.

On February 12, 2002, the Company announced that it had purchased for $700,000 a Series A preferred stock which represented an approximate 15 percent fully diluted equity interest in Nanopharma Corp. Nanopharma is a privately held company spun off from Massachusetts General Hospital. Nanopharma, which is based in Massachusetts, is a research company founded to develop advanced drug delivery systems based on patented technology.

On February 20, 2002, Schwoo, Inc. filed for Chapter 7 bankruptcy. The Company wrote off its investment in Schwoo in 2001.

On March 7, 2002, the Company invested approximately $625,000 in Series A-1 preferred stock of a privately held company engaged in the production of nanoscale components based on patented technology. Under certain conditions, the Company will be obligated to invest an additional $375,000 in the Series A-1 preferred.

On March 8, 2002, the Company invested $1,000,000 in Series D preferred stock of privately held NEO Photonics Corporation. NEO Photonics has developed patented technology that enables the manufacture of unique nanoscale optical compositions for the telecommunications industry.

On March 8, 2002, the Company announced that its Board of Directors has expanded its size from eight to nine and has elected Kelly S. Kirkpatrick, a consulting materials scientist, as a member of its board of directors.

On March 22, 2002, the Company announced that its Board of Directors has expanded its size from nine to ten and has elected Lori D. Pressman, a business consultant, as a member of its board of directors.

SELECTED PER SHARE DATA AND RATIOS

Per share operating performance:

	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Y De
Net asset value, beginning of period	$ 3.51	$ 5.80	$ 2.13	$
Net operating income (loss)	(0.06)	0.37	(1.04)	
Net realized gain (loss) on investments	0.14	2.09	0.93	
Net (decrease) increase in unrealized appreciation as a result of sales	0.45	(2.35)	(0.46)	
Net decrease (increase) in unrealized appreciation on investments held	(1.30)	(1.82)	4.58	
Net decrease as a result of cash dividend	0.00	(0.02)	(0.35)	
Net decrease as a result of deemed dividend	(0.03)	(0.62)	0.00	
Net increase (decrease) from capital stock transactions	0.04	0.06	0.01	
Net asset value, end of period*	$ 2.75	$ 3.51	$ 5.80	$
Cash dividends paid per share	$ 0.00	$ 0.02	$ 0.35	$
Deemed dividend per share	$ 0.0875	$ 1.78	$ 0.00	$
Market value per share, end of period	$ 1.90	$ 2.4375	$ 11.50	$
Total income tax liability per share	$ 0.18	$ 0.78	$ 0.16	$
Ratio of expenses to average net assets	3.45%	(6.21)%	34.08%	

Ratio of net operating gain (loss) to average net assets	(1.75)%	52.7%	(3.50)%	
Investment return based on:				
Stock price	(22.1)%	(78.8)%	666.7%	
Net asset value	(21.7)%	(39.5)%	188.7%	
Portfolio turnover	9.00%	20.56%	53.54%	
Net assets, end of period	$ 24,334,770	$ 31,833,475	$ 53,634,805	$
Number of shares outstanding	8,864,231	9,064,231	9,240,831	

* Reflects the decline in net asset value as a result of the $0.02 dividend paid in 2000, the $ in 1999 and the $0.75 dividend paid in 1998.

The accompanying notes are an integral part of this schedule.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

	March 31, 2004 (Unaudited)
Investments, at value (Cost: $54,634,386 at 3/31/04, $44,603,778 at 12/31/03)	$ 53,041,4
Cash and cash equivalents	389,8
Restricted funds (Note 5)	1,330,6
Interest receivable	20,5
Income tax receivable	11,0
Prepaid expenses	79,1
Other assets, net of reserve of $255,486 at 3/31/04	232,9
Total assets	$ 55,105,5

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities	$ 2,311,8
Payable to broker for unsettled trade	10,583,0
Deferred rent	38,0
Deferred income tax liability (Note 6)	669,3
Total liabilities	13,602,3
Net assets	$ 41,503,2

Net assets are comprised of:	
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued...........................	$
Common stock, $0.01 par value, 25,000,000 shares authorized; 15,627,585 issued at 3/31/04 and 12/31/03..........................	156,2
Additional paid in capital (Note 4)...................................	49,564,4
Accumulated net realized gain (loss)..................................	(2,374,1
Accumulated unrealized appreciation of investments, net of deferred tax liability of $844,918 at 3/31/04 and 12/31/03..........	(2,437,8
Treasury stock, at cost (1,828,740 shares at 3/31/04 and 12/31/03)...	(3,405,5
Net assets..	$ 41,503,2
Shares outstanding..	13,798,8
Net asset value per outstanding share.................................	$ 3.

The accompanying notes are an integral part of this consolidated schedu

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2004
Investment income:	
Interest from:	
Fixed income securities..	$ 55,853
Portfolio companies..	683
Other income..	0
Total investment income..	56,536
Expenses:	
Salaries and benefits...	470,075
Administration and operations.................................	159,299
Professional fees...	79,061
Rent..	33,737
Directors' fees and expenses..................................	52,446
Depreciation..	9,283
Custodian fees..	2,500
Interest expense (Note 4).....................................	0

Total expenses	806,401
Operating loss before income taxes	(749,865)
Income tax provision (Note 6)	0
Net operating loss	(749,865)
Net realized gain on investments:	
Realized gain on investments	793,389
Total realized gain	793,389
Income tax provision (Note 6)	(6,796)
Net realized gain (loss) on investments	786,593
Net realized gain (loss)	36,728
Net decrease in unrealized appreciation on investments:	
Decrease as a result of investment sales	0
Increase as a result of investment sales	915,118
Increase on investments held	40,258
Decrease on investments held	(171,589)
Change in unrealized appreciation on investments	783,787
Income tax provision (Note 6)	0
Net increase (decrease) in unrealized appreciation on investments	783,787
Net increase (decrease) in net assets resulting from operations:	
Total	$ 820,515
Per outstanding share	$ 0.06

The accompanying notes are an integral part of this consolidated schedu

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2004
Cash flows from operating activities:	
Net increase (decrease) in net assets resulting from operations	$ 820,515
Adjustments to reconcile net increase (decrease) in net assets resulting from operations to net cash used in operating activities:	
Net realized and unrealized gain on investments	(1,577,176)

Depreciation	9,283
Changes in assets and liabilities:	
Restricted funds	(118,567)
Receivable from portfolio company	0
Funds in escrow	0
Interest receivable	(20,115)
Current income tax receivable	6,340
Prepaid expenses	(72,324)
Other assets	(3,212)
Accounts payable and accrued liabilities	(411,567)
Payable to broker for unsettled trade	10,583,080
Accrued profit sharing	0
Current income tax liability	0
Deferred rent	(1,575)
Net cash provided by (used in) operating activities	9,214,682
Cash flows from investing activities:	
Net purchase of short-term investments and marketable securities	(4,520,645)
Proceeds from investments	2,506,588
Investment in private placements and loans	(7,223,662)
Purchase of fixed assets	(12,726)
Net cash used in investing activities	(9,250,445)
Cash flows from financing activities:	
Proceeds from bank loan payable	0
Net cash provided by financing activities	0
Net decrease in cash and cash equivalents:	
Cash and cash equivalents at beginning of the period	425,574
Cash and cash equivalents at end of the period	389,811
Net decrease in cash and cash equivalents	$ (35,763)
Supplemental disclosures of cash flow information:	
Income taxes paid	$ 0

The accompanying notes are an integral part of this consolidated sched

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(Unaudited)

Three Months Ended
March 31, 2004

Changes in net assets from operations:

Net operating loss...	$ (749,865)
Net realized gain (loss) on investments.........................	786,593
Net increase in unrealized appreciation on investments as a result of sales...	915,118
Net decrease in unrealized appreciation on investments held......	(131,331)
Net increase (decrease) in net assets resulting from operations..	820,515
Net increase (decrease) in net assets.................................	820,515
Net assets:	
Beginning of the period...	40,682,738
End of the period...	$ 41,503,253

The accompanying notes are an integral part of this consolidated schedu

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2004
(UNAUDITED)

	Method of Valuation (3)
Investments in Unaffiliated Companies (8)(9)(10) - 17.6% of total investments	
Private Placement Portfolio (Illiquid) - 17.6% of total investments	
AlphaSimplex Group, LLC (2)(12) - Investment advisory firm headed by Dr. Andrew W. Lo, holder of the Harris & Harris Group Chair at MIT Limited Liability Company Interest.........................	(B)

Continuum Photonics, Inc. (1)(2)(6) - Develops optical networking components by merging cutting-edge materials, MEMS and electronics technologies - 4.00% of fully diluted equity
Series B Convertible Preferred Stock..(B)
Series C Convertible Preferred Stock..(B)

Exponential Business Development Company (1)(2)(5)(12) -
Venture capital partnership focused on early stage companies
Limited Partnership Interest..(A)

Heartware, Inc. (1)(2)(5)(6) - Develops ventricular assist devices - 0% of fully diluted equity
Series A-2 Non-Voting Preferred Stock...(D)

Molecular Imprints, Inc. (1)(2)(4)(6) - Develops nanoimprint lithography capital equipment - 2.09% of fully diluted equity
Series B Convertible Preferred Stock..(A)

NanoGram Corporation (1)(2)(5)(6) - Develops a broad suite of intellectual property utilizing nanotechnology - 1.81% of fully diluted equity
Series 1 Convertible Preferred Stock..(A)

Nanosys, Inc. (1)(2)(5)(6) - Develops nanotechnology-enabled systems incorporating novel and patent-protected zero and one-dimensional nanometer-scale materials - 1.55% of fully diluted equity
Series C Convertible Preferred Stock..(A)

Nantero, Inc. (1)(2)(5)(6) - Develops a high density nonvolatile random access memory chip using nanotechnology - 3.35% of fully diluted equity
Series A Convertible Preferred Stock..(B)
Series B Convertible Preferred Stock..(B)

NeoPhotonics Corporation (1)(2)(6)(13) - Develops and manufactures planar optical devices and components using nanomaterials deposition technology -
3.66% of fully diluted equity Common Stock....................................(B)
Series 1 Convertible Preferred Stock..(A)
Warrants at $0.15 expiring 3/12/11..(B)

Optiva, Inc. (1)(2)(5)(6) - Develops and commercializes nanomaterials for advanced applications - 1.96% of fully diluted equity
Series C Convertible Preferred Stock..(B)

Total Unaffiliated Private Placement Portfolio (cost: $9,367,478).................................

Total Investments in Unaffiliated Companies (cost: $9,367,478)...................................

The accompanying notes are an integral part of this consolidated schedu

CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2004
(UNAUDITED)

	Method of Valuation (3)
Investments in Non-Controlled Affiliated Companies (8)(9)(11) - 22.8% of total investments	
Private Placement Portfolio (Illiquid) - 22.8% of total investments	
Agile Materials & Technologies, Inc. (1)(2)(6) - Develops and sells variable integrated passive RF electronic equipment components - 8.15% of fully diluted equity	
Series A Convertible Preferred Stock	(D)
Convertible Bridge Note	(D)
Chlorogen, Inc. (1)(2)(5)(6) - Develops patented chloroplast technology to produce plant-made proteins - 9.74% of fully diluted equity	
Series A Convertible Preferred Stock	(A)
Experion Systems, Inc. (1)(2)(7) - Develops and sells software to credit unions - 12.49% of fully diluted equity	
Series A Convertible Preferred Stock	(D)
Series B Convertible Preferred Stock	(D)
Series C Convertible Preferred Stock	(D)
Series D Convertible Preferred Stock	(D)
NanoOpto Corporation (1)(2)(6) - Develops high performance, integrated optical communications sub-components on a chip by utilizing patented nano-manufacturing technology - 7.28% of fully diluted equity	
Series A-1 Convertible Preferred Stock	(B)
Series B Convertible Preferred Stock	(B)
Nanopharma Corp. (1)(2)(5)(6) - Develops advanced nanoscopic drug delivery vehicles and systems - 14.39% of fully diluted equity	
Series A Convertible Preferred Stock	(A)
Nanotechnologies, Inc. (1)(2)(6) - Develops high-performance nanoscale materials for industry - 6.48% of fully diluted equity	
Series B Convertible Preferred Stock	(B)
Series C Convertible Preferred Stock	(B)
NeuroMetrix, Inc. (1)(2) - Develops and sells medical devices for monitoring neuromuscular disorders - 12.42% of fully diluted equity	
Series A Convertible Preferred Stock	(B)
Series B Convertible Preferred Stock	(B)
Series C-2 Convertible Preferred Stock	(B)
Series E Convertible Preferred Stock	(B)
Series E-1 Convertible Preferred Stock	(B)

Questech Corporation (1)(2)(5) - Manufactures and markets proprietary metal decorative tiles - 6.73% of fully diluted equity

Common Stock	(B)
Warrants at $5.00 expiring 10/25/04	(B)
Warrants at $1.50 expiring 11/16/05	(B)
Warrants at $1.50 expiring 08/03/06	(B)
Warrants at $1.50 expiring 11/21/07	(B)
Warrants at $1.50 expiring 11/19/08	(B)

Total Non-Controlled Private Placement Portfolio (cost: $13,624,364)..............................

Total Investments in Non-Controlled Affiliated Companies (cost: $13,624,364)....................

The accompanying notes are an integral part of this consolidated schedu

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CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2004
(UNAUDITED)

	Method of Valuation (3)	Sh Pr
U.S. Government and Agency Obligations - 59.6% of total investments		
U.S. Treasury Bills - due date 04/01/04	(J)	$
U.S. Treasury Bills - due date 04/08/04	(J)	
U.S. Treasury Bills - due date 04/29/04	(J)	
U.S. Treasury Bills - due date 05/13/04	(J)	
U.S. Treasury Bills - due date 05/20/04	(J)	
U.S. Treasury Notes - due date 05/15/08, coupon 2.625%	(H)	
U.S. Treasury Notes - due date 03/15/09, coupon 2.625%	(H)	

Total Investments in U.S. Government and Agency Obligations (cost: $31,642,544)..................

Total Investments - 100% (cost: $54,634,386)..

The accompanying notes are an integral part of this consolidated schedu

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CONSOLIDATED SCHEDULE OF INVESTMENTS AS OF MARCH 31, 2004

Notes to Consolidated Schedule of Investments

1. Represents a non-income producing security. Equity investments that have not paid dividends within the last 12 months are considered to be non-income producing.

2. Legal restrictions on sale of investment.

3. See Footnote to Schedule of Investments for a description of the Asset Valuation Policy Guidelines.

4. Initial investment was made during 2004.

5. No changes in valuation occurred in these investments during the three months ended March 31, 2004.

6. These investments are development stage companies. A development stage company is defined as a company that is devoting substantially all of its efforts to establishing a new business, and either it has not yet commenced its planned principal operations, or it has commenced such operations but has not realized significant revenue from them.

7. Previously named MyPersonalAdvocate.com, Inc.

8. Investments in unaffiliated companies consist of investments in which we own less than 5% of the portfolio company. Investments in non-controlled affiliated companies consist of investments in which we own more than 5% but less than 25% of the portfolio company. Investments in controlled affiliated companies consist of investments in which we own more than 25% of the portfolio company.

9. The percentage ownership of each portfolio company disclosed in the Consolidated Schedule of Investments expresses the potential equity interest in each such portfolio company. The calculated percentage represents the amount of the issuer's equity securities we own or can acquire as a percentage of the issuer's total outstanding equity securities plus equity securities reserved for issued and outstanding warrants, convertible securities and all authorized stock options, both granted and ungranted.

10. The aggregate cost for federal income tax purposes of investments in unaffiliated companies is $9,367,478. The gross unrealized appreciation based on the tax cost for these securities is $166,948. The gross unrealized depreciation based on the tax cost for these securities is $223,881.

11. The aggregate cost for federal income tax purposes of investments in non-controlled affiliated companies is $13,624,364. The gross unrealized appreciation based on the tax cost for these securities is $2,772,007. The gross unrealized depreciation based on the tax cost for these securities

is $4,278,725.

12. Non-registered investment company.

13. NeoPhotonics filed for bankruptcy on November 17, 2003. We sold our investment in the Series D Preferred Stock in January 2004. NeoPhotonics emerged from bankruptcy, as a newly reorganized company, after obtaining financing from us and other investors.

The accompanying notes are an integral part of this consolidated schedule.

FOOTNOTE TO CONSOLIDATED SCHEDULE OF INVESTMENTS

ASSET VALUATION POLICY GUIDELINES

Our investments can be classified into five broad categories for valuation purposes:

(a) EQUITY-RELATED SECURITIES

(b) INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

(c) LONG-TERM FIXED-INCOME SECURITIES

(d) SHORT-TERM FIXED-INCOME INVESTMENTS

(e) ALL OTHER INVESTMENTS

The Investment Company Act of 1940 (the "1940 Act") requires periodic valuation of each investment in our portfolio to determine net asset value. Under the 1940 Act, unrestricted securities with readily available market quotations are to be valued at the current market value; all other assets must be valued at "fair value" as determined in good faith by or under the direction of the Board of Directors.

Our Board of Directors is responsible for (1) determining overall valuation guidelines and (2) ensuring the valuation of investments within the prescribed guidelines.

Our Valuation Committee, comprised of at least three or more independent Board members, is responsible for reviewing and approving the valuation of our assets within the guidelines established by the Board of Directors.

Fair value is generally defined as the amount that an investment could be sold for in an orderly disposition over a reasonable time. Generally, to increase objectivity in valuing our assets, external measures of value, such as public markets or third-party transactions, are utilized whenever possible. Valuation is not based on long-term work-out value, nor immediate liquidation value, nor incremental value for potential changes that may take place in the future.

The values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized, as such amounts depend on future circumstances and cannot reasonably be determined until the individual investments are actually liquidated.

Our valuation policy with respect to the five broad investment categories is as follows:

EQUITY-RELATED SECURITIES

Equity-related securities are carried at fair value using one or more of the following basic methods of valuation:

A. Cost: The cost method is based on our original cost. This method is generally used in the early stages of a company's development until significant positive or negative events occur subs110equent to the date of the original investment that dictate a change to another valuation method. Some examples of these events are: (1) a major recapitalization; (2) a major refinancing; (3) a significant third-party transaction; (4) the development of a meaningful public market for the company's common stock; and (5) significant positive or negative changes in a company's business.

B. Private Market: The private market method uses actual, executed, historical transactions in a company's securities by responsible third parties as a basis for valuation. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

C. Public Market: The public market method is used when there is an established public market for the class of the company's securities held by us. We discount market value for securities that are subject to significant legal and contractual restrictions. Other securities, for which market quotations are readily available, are carried at market value as of the time of valuation. Market value for securities traded on securities exchanges or on the Nasdaq National Market is the last reported sales price on the day of valuation. For other securities traded in the over-the-counter market and listed securities for which no sale was reported on that day, market value is the mean of the closing bid price and asked price on that day. This method is the preferred method of valuation when there is an established public market for a company's securities, as that market provides the most objective basis for valuation.

D. Analytical Method: The analytical method is generally used to value an investment position when there is no established public or private market in the company's securities or when the factual information available to us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our Valuation Committee members, based on the data available to them. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the financial condition and operating results of the company, the long-term potential of the business of the company, the values of similar securities issued by companies in similar businesses, the proportion of the company's securities we own and the nature of any rights to require the company to register restricted securities under applicable securities laws.

INVESTMENTS IN INTELLECTUAL PROPERTY OR PATENTS OR RESEARCH AND DEVELOPMENT IN TECHNOLOGY OR PRODUCT DEVELOPMENT

Such investments are carried at fair value using the following basic methods of valuation:

E. Cost: The cost method is based on our original cost. This method is generally used in the early stages of commercializing or developing intellectual property or patents or research and development in technology or product development until significant positive or adverse events occur subsequent to the date of the original investment that dictate a change to another valuation method.

F. Private Market: The private market method uses actual third-party investments in intellectual property or patents or research and development in technology or product development as a basis for valuation, using actual executed historical transactions by responsible third parties. The private market method may also use, where applicable, unconditional firm offers by responsible third parties as a basis for valuation.

G. Analytical Method: The analytical method is used to value an investment after analysis of the best available outside information where the factual information available to us dictates that an investment should no longer be valued under either the cost or private market method. This valuation method is inherently imprecise and ultimately the result of reconciling the judgments of our Valuation Committee members. The resulting valuation, although stated as a precise number, is necessarily within a range of values that vary depending upon the significance attributed to the various factors being considered. Some of the factors considered may include the results of research and development, product development progress, commercial prospects, term of patent, projected markets, and other subjective factors.

LONG-TERM FIXED-INCOME SECURITIES

H. Fixed-Income Securities for which market quotations are readily available are carried at market value as of the time of valuation using the most recent bid quotations when available.

I. Fixed-Income Securities for which market quotations are not readily available are carried at fair value using one or more of the following basic methods of valuation:

Independent pricing services that provide quotations based primarily on quotations from dealers and brokers, market transactions, and other sources.

Fair value as determined in good faith by the Valuation Committee.

SHORT-TERM FIXED-INCOME INVESTMENTS

J. Short-Term Fixed-Income Investments are valued at market value at the time of valuation. Short-term debt with remaining maturity of 60 days or less is valued at amortized cost.

ALL OTHER INVESTMENTS

K. All Other Investments are reported at fair value as determined in good faith by the Valuation Committee.

The reported values of securities for which market quotations are not readily available and for other assets reflect the Valuation Committee's judgment of fair values as of the valuation date using the outlined basic methods of valuation. They do not necessarily represent an amount of money that would be realized if we had to sell the securities in an immediate liquidation. Thus, valuations as of any particular date are not necessarily indicative of amounts that we may ultimately realize as a result of future sales or other dispositions of investments we hold.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. THE COMPANY

Harris & Harris Group, Inc. (the "Company," "us," "our" and "we") is a venture capital company operating as a business development company ("BDC") under the Investment Company Act of 1940 ("1940 Act"). We operate as an internally managed company whereby our officers and employees, under the general supervision of our Board of Directors, conduct our operations.

We elected to become a BDC on July 26, 1995, after receiving the necessary approvals. From September 30, 1992, until the election of BDC status, we operated as a closed-end, non-diversified investment company under the 1940 Act. Upon commencement of operations as an investment company, we revalued all of our assets and liabilities at fair value as defined in the 1940 Act. Prior to September 30, 1992, we were registered and filed under the reporting requirements of the Securities and Exchange Act of 1934 as an operating company and, while an operating company, operated directly and through subsidiaries.

Harris & Harris Enterprises, Inc. ("Enterprises") is a 100% wholly owned subsidiary of the Company. Enterprises held a lease for office space until the lease expired on July 31, 2003, which office space it sublet to the Company and an unaffiliated party; is a partner in Harris Partners I, L.P., and is taxed as a C corporation. Harris Partners I, L.P., is a limited partnership and owned, until December 31, 2002, a 20% limited partnership interest in PHZ Capital Partners L.P. Currently, Harris Partners I, L.P. owns our interest in AlphaSimplex Group, LLC. The partners of Harris Partners I, L.P. are Enterprises (sole general partner) and Harris & Harris Group, Inc. (sole limited partner).

We filed for the 1999 tax year to elect treatment as a Regulated Investment Company ("RIC") under Subchapter M of the Internal Revenue Code of 1986 (the "Code") and qualified for the same treatment for 2000-2002. There can be no assurance that we will qualify as a RIC for 2003 and subsequent years or that if we do qualify, we will continue to qualify for subsequent years. In addition, even if we were to qualify as a RIC for a given year, we might take action in a subsequent year to ensure that we would be taxed in that subsequent year as a C Corporation, rather than as a RIC. As a RIC, we must, among other factors, distribute at least 90% of our investment company taxable income and may either distribute or retain our realized net capital gains on investments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the consolidated financial statements:

Principles of Consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for investment companies and include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents. Cash and cash equivalents include money market instruments with maturities of less than three months.

Portfolio Investment Valuations. Investments are stated at "value" as defined in the 1940 Act and in the applicable regulations of the Securities and Exchange Commission. Value, as defined in Section 2(a)(41) of the 1940 Act, is (i) the market price for those securities for which a market quotation is readily available and (ii) for all other assets is as determined in good faith by, or under the direction of, the Board of Directors. (See "Asset Valuation Policy Guidelines" in the "Footnote to Consolidated Schedule of Investments.")

Securities Transactions. Securities transactions are accounted for on the date the securities are purchased or sold (trade date); dividend income is recorded on the ex-dividend date; and interest income is accrued as earned. Realized gains and losses on investment transactions are determined by specific identification for financial reporting and tax reporting.

Income Taxes. Prior to January 1, 1999, we recorded income taxes using the liability method in accordance with the provision of Statement of Financial Accounting Standards No. 109. Accordingly, deferred tax liabilities had been established to reflect temporary differences between the recognition of income and expenses for financial reporting and tax purposes; the most significant such difference relates to our unrealized appreciation on investments.

The March 31, 2004, consolidated financial statements include a provision for deferred taxes on the remaining net built-in gains as of December 31, 1998, net of the unutilized operating and capital loss carryforwards incurred by us through December 31, 1998.

We pay federal, state and local income taxes on behalf of our wholly owned subsidiary, Harris & Harris Enterprises, which is a C corporation. (See "Note 6. Income Taxes.")

Estimates by Management. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of March 31, 2004, and December 31, 2003, and the reported amounts of revenues and expenses for the three months ended March 31, 2004, and March 31, 2003. The most significant estimates relate to the fair valuations of investments. Actual results could differ from these estimates.

NOTE 3. EMPLOYEE PROFIT SHARING PLAN

As of January 1, 2003, we implemented the Amended and Restated Harris & Harris Group, Inc. Employee Profit-Sharing Plan, which we refer to as the 2002 Plan.

The 2002 Plan (and its predecessor) provides for profiting sharing by our officers and employees equal to 20% of our "qualifying income" for that plan year. For the purposes of the 2002 Plan, qualifying income is defined as net realized income as reflected on our consolidated statements of operations for that year, less nonqualifying gains, if any.

For purposes of the 2002 Plan, our net realized income includes investment income, realized gains and losses, and operating expenses (including taxes paid or payable by us), but is calculated without including dividends paid or distributions made to shareholders, payments under the Plan, unrealized gains and losses, and loss carry-overs from other years. The proportion of net after-tax realized gains attributable to asset values as of September 30, 1997, is considered nonqualifying gain, which reduces qualifying income.

On October 15, 2002, our shareholders approved the performance goals under the 2002 Plan in accordance with Section 162(m) of the Code, effective as of January 1, 2003. The Code generally provides that a public company such as we may not deduct compensation paid to its chief executive officer or to any of its four most highly compensated officers to the extent that the compensation paid to the officer/employee exceeds $1,000,000 in any tax year, unless payment is made upon the attainment of objective performance goals that are approved by our shareholders.

Under the 2002 Plan, our net realized income, which we refer to as qualifying income, includes investment income, realized qualifying gains and losses, and operating expenses (including taxes paid or payable by us), but is calculated without including dividends paid or loss carry-overs from other years. As soon as practicable following the year-end audit, the Audit Committee will determine whether, and if so how much, qualifying income exists for a plan year. Once determined, 90% of the qualifying income will be paid out to 2002 Plan participants pursuant to the distribution percentages set forth in the 2002 Plan. The remaining 10% will be paid out after we have filed our federal tax return for that plan year.

Under the 2002 Plan, awards previously granted to four current Participants (Messrs. Harris and Melsheimer and Ms. Shavin and Matthews, herein referred to as the "grandfathered participants") will be reduced by 10% with respect to "Non-Tiny Technology Investments" (as defined in the 2002 Plan) and by 25% with respect to "Tiny Technology Investments" (as defined in the 2002 Plan) and will become permanent. These reduced awards are herein referred to as "grandfathered participations." The amount by which the awards are reduced will be allocable and reallocable each year by the Compensation Committee among current and new participants as awards under the 2002 Plan. The grandfathered participations will be honored by us whether or not the grandfathered participant is still employed by us or is still alive (in the event of death, the grandfathered participations will be paid to the grandfathered participant's estate), unless the grandfathered participant is dismissed for cause, in which case all awards, including the grandfathered participations, will be immediately cancelled and forfeited. With regard to new investments and follow-on investments made after the date on which the first new employee begins participating in the 2002 Plan, both current and new participants will be required to be employed by us at the end of a plan year in order to participate in profit-sharing on our investments with respect to that year.

Notwithstanding any provisions of the 2002 Plan, in no event may the aggregate amount of all awards payable for any Plan Year during which we remain a "business development company" within the meaning of the 1940 Act be greater than 20% of our "net income after taxes" within the meaning of Section 57(n)(1)(B) of the 1940 Act. In the event the awards as calculated exceed that amount, the awards will be reduced pro rata.

The 2002 Plan may be modified, amended or terminated by the Compensation Committee at any time. Notwithstanding the foregoing, the grandfathered participations may not be further modified. Nothing in the 2002 Plan will preclude the Compensation Committee from naming additional participants in the 2002 Plan or, except for grandfathered participations, changing the Award Percentage of any Participant (subject to the overall percentage limitations contained in the 2002 Plan). Currently, under the 2002 Plan, the distribution amounts for non-grandfathered investments for each officer and employee are: Charles E. Harris, 7.790%; Mel P. Melsheimer, 3.733%; Douglas W. Jamison, 3.5%; Daniel V. Leff, 3.0%; Helene B. Shavin, 1.524%; and Jacqueline M. Matthews, 0.453%, which together equal 20%. In one case, for a former employee who left other than due to termination for cause, any amount earned will be accrued and may subsequently be paid to the participant.

The grandfathered participations are set forth below:

Name of Officer/Employee	Grandfathered Participations Non-Tiny Technology (%)	Tiny Technology (
Charles E. Harris	12.41100	10.3
Mel P. Melsheimer	3.80970	3.1
Helene B. Shavin	1.37160	1.1
Jacqueline M. Matthews	0.40770	0.3
TOTAL	18.00000	15.0

Accordingly, an additional 2% of Qualifying Income with respect to grandfathered Non-Tiny Technology Investments, 5% of Qualifying Income with respect to grandfathered Tiny Technology Investments and the full 20% of Qualifying Income with respect to new investments are available for allocation and reallocation from year to year. Currently, Douglas W. Jamison and Daniel V. Leff are each allocated 0.80% of the Non-Tiny Technology Grandfathered Participations and 2% of the Tiny Technology Grandfathered Participations.

During 2003, we made no accrual for profit sharing. At March 31, 2004, we have no accrual for profit sharing.

NOTE 4. CAPITAL TRANSACTIONS

In 1998, the Board of Directors approved that effective January 1, 1998, 50% of all Directors' fees be used to purchase our common stock from us. However, effective March 1, 1999, the Board of Directors approved that Directors may purchase our common stock in the open market, rather than from us.

Since 1998, we have repurchased a total of 1,859,047 of our shares for a total of $3,496,388, including commissions and expenses, at an average price of $1.88 per share. These treasury shares were reduced by the purchases made by the Directors. On July 23, 2002, because of our strategic decision to invest in tiny technology, the Board of Directors reaffirmed its commitment not to authorize the purchase of additional shares of stock in the foreseeable future.

On July 8, 2002, we filed a final prospectus under Rule 497 of the Securities Act of 1933 with the SEC for the issuance of transferable rights to our shareholders. The rights allowed the shareholders to subscribe for a maximum of 2,954,743 new shares of our common stock, of which 2,634,614 new shares were subscribed for pursuant to the rights offering. The actual amount of gross proceeds raised upon completion of the offer was $5,927,882; net proceeds were $5,643,470, after expenses of $284,412. We have invested all of the net proceeds raised from the offering in accordance with our investment objectives and policies.

On December 24, 2003, we filed a final prospectus under Rule 497 of the Securities Act of 1933 with the SEC for issuance of 2,000,000 shares of our common stock plus 300,000 additional shares if the underwriter exercised its over-allotment option. All of the 2,300,000 shares were sold. The actual amount of net proceeds raised upon completion of the offering was $17,296,000; net proceeds of the offering, less offering costs of $664,038, were $16,631,962. We intend to use the net proceeds of the offering, less offering costs, to make new investments in tiny technology as well as follow-on investments in our existing venture capital investments, and for working capital. From the completion of the offering through March 31, 2004, we have used $7,951,609 of the $16,631,962.

On February 17, 2004, we filed a registration statement with the Securities and Exchange Commission on Form N-2 with respect to 3,000,000 shares of our Common Stock. After the effective date, the Common Stock may be sold at prices and on terms to be set forth in one or more supplements to the prospectus from time to time.

As of December 31, 2003, there are no distributable earnings. The difference between the book basis and tax basis components of distributable earnings is primarily attributed to Built-In Gains generated at the time of our qualification as a RIC (see Note 6. "Income Taxes"), nondeductible deferred compensation and net operating losses.

Beginning with the Consolidated Statements of Assets and Liabilities at December 31, 2003, additional paid-in capital and common stock warrants have been combined and are reported as additional paid-in capital. There have been no common stock warrants outstanding since March 2000.

NOTE 5. EMPLOYEE BENEFITS

On October 19, 1999, Charles E. Harris signed an Employment Agreement with us (disclosed in a Form 8-K filed on October 27, 1999) (the "Employment Agreement"), which superseded an employment agreement that was about to expire on December 31, 1999. The Employment Agreement shall terminate on December 31, 2004 ("Term") subject to either an earlier termination or an extension in accordance with the terms; on January 1, 2000 and on each day thereafter, the Term extends automatically by one day unless at any time we or Mr. Harris, by written notice, decide not to extend the Term, in which case the Term will expire five years from the date of the written notice.

During the period of employment, Mr. Harris shall serve as our Chairman and Chief Executive Officer; be responsible for the general management of our affairs and all our subsidiaries, reporting directly to our Board of Directors; serve as a member of the Board for the period of which he is and shall from time to time be elected or reelected; and serve, if elected, as our President and as an officer and director of any subsidiary or affiliate of us.

Mr. Harris is to receive compensation under his Employment Agreement in the form of base salary of $208,315 for 2000, with automatic yearly adjustments to reflect inflation. In addition, the Board may increase such salary, and consequently decrease it, but not below the level provided for by the automatic adjustments described above. Mr. Harris is also entitled to participate in our Profit-Sharing Plan as well as in all compensation or employee benefit plans or programs, and to receive all benefits, perquisites, and emoluments for which salaried employees are eligible. Under the Employment Agreement, we will furnish Mr. Harris with certain perquisites which include a company car, membership in certain clubs and up to a $5,000 annual reimbursement for personal, financial or tax advice.

The Employment Agreement provides Mr. Harris with life insurance for the benefit of his designated beneficiaries in the amount of $2,000,000; provides reimbursement for uninsured medical expenses, not to exceed $10,000 per annum, adjusted for inflation, over the period of the contract; provides Mr. Harris and his spouse with long-term care insurance; and with disability insurance in the amount of 100% of his base salary. These benefits are for the term of the Employment Agreement.

The Employment Agreement provides for us to adopt a supplemental executive retirement plan (the "SERP") for the benefit of Mr. Harris. Under the SERP, we will cause an amount equal to one-twelfth of Mr. Harris's current annual salary to be credited each month (a "Monthly Credit") to a special account maintained for this purpose on our books for the benefit of Mr. Harris (the "SERP Account"). The amounts credited to the SERP Account will be deemed invested or reinvested in such mutual funds or U.S. Government securities as determined by Mr. Harris. The SERP Account will be credited and debited to reflect the deemed investment returns, losses and expenses attributed to such deemed investments and reinvestments. Mr. Harris's benefit under the SERP will equal the balance in the SERP Account and such benefit will always be 100% vested (i.e., not forfeitable). Mr. Harris will determine the form and timing of the distribution of the balance in the SERP Account; provided, however, in the event of the termination of his employment, the balance in the SERP Account will be distributed to Mr. Harris or his beneficiary, as the case may be, in a lump-sum payment within 30 days of such termination. We will establish a rabbi trust for the purpose of accumulating funds to satisfy the obligations incurred by us under the SERP. The restricted funds for the SERP Plan total $1,330,645 at March 31, 2004. Mr. Harris's rights to benefits pursuant to this SERP will be no greater than those of a general creditor of us.

The Employment Agreement provides severance pay in the event of termination without cause or by constructive discharge and also provides for certain death benefits payable to the surviving spouse equal to the executive's base salary for a period of two years.

In addition, Mr. Harris is entitled to receive severance pay pursuant to the severance compensation agreement that he entered into with us, effective August 15, 1990. The severance compensation agreement provides that if, following a change in our control, as defined in the agreement, such individual's employment is terminated by us without cause or by the executive within one year of such change in control, the individual shall be entitled to receive compensation in a lump sum payment equal to 2.99 times the individual's average annualized compensation and payment of other welfare benefits. If Mr. Harris's termination is without cause or is a constructive discharge, the amount payable under the Employment Agreement will be reduced by the amounts paid pursuant to the severance compensation agreement.

As of January 1, 1989, we adopted an employee benefits program covering substantially all of our employees under a 401(k) Plan and Trust Agreement. As of January 1, 1999, we adopted the Harris & Harris Pension Plan and Trust, a money purchase plan which would allow us to stay compliant with the 401(k) top-heavy regulations and deduction limitation regulations. In 2001, Congress enacted the Economic Growth and Tax Relief Reconciliation Act of 2001 which has increased the deduction limits for plans such as the 401(k) Plan. This Act eliminates the need for us to maintain two separate plans. Effective December 31, 2001, the Pension Plan merged into the 401(k) Plan, with the 401(k) Plan being the surviving plan. Contributions to the plan are at our discretion.

On June 30, 1994, we adopted a plan to provide medical and dental insurance for retirees, their spouses and dependents who, at the time of their retirement, have ten years of service with us and have attained 50 years of age or have attained 45 years of age and have 15 years of service with us. On February 10, 1997, we amended this plan to include employees who "have seven full years of service and have attained 58 years of age." The coverage is secondary to any government provided or subsequent employer provided health insurance plans. The annual premium cost to us with respect to the entitled retiree shall not exceed $12,000, subject to an index for inflation. Based upon actuarial estimates, we provided an original reserve of $176,520 that was charged to operations for the period ending June 30, 1994. As of March 31, 2004, we had a reserve of $555,129 for the plan. Recent changes to the Medicare program may affect our costs under this plan. In accordance with FASB Staff Position 106-1, our estimates of the obligation under this standard do not reflect these changes. Specific authoritative guidance regarding these changes is pending and when issued, could require us to change previously reported information.

We are making the following disclosures about our plan to provide medical and dental insurance for retirees.

Reconciliation of Accumulated
Postretirement Benefit Obligations

Projected accumulated postretirement benefit obligation at January 1, 2004.............	$525,288
Service cost....................................	15,988
Interest cost...................................	7,848
Projected accumulated postretirement benefit obligation at March 31, 2004..............	$549,124

On March 20, 2003, in order to begin planning for eventual management succession, the Board of Directors voted to establish a mandatory retirement plan for individuals who are employed by us in a bona fide executive or high policy-making position. There are currently two such individuals, the Chairman and CEO, and the President and COO. Under this plan, mandatory retirement will take place effective December 31 of the year in which the eligible individuals attain the age of 65. On an annual basis beginning in the year in which the designated individual attains the age of 65, a committee of the Board consisting of non-interested directors may determine to postpone the mandatory retirement date for that individual for one additional year for our benefit.

Under applicable law prohibiting discrimination in employment on the basis of age, we can impose a mandatory retirement age of 65 for our executives or employees in high policy-making positions only if each employee subject to the mandatory retirement age is entitled to an immediate retirement benefit at retirement age of at least $44,000 per year. The benefits payable at retirement to Charles E. Harris, our Chairman and Chief Executive Officer, and Mel P. Melsheimer, our President, Chief Operating Officer and Chief Financial Officer, under our existing retirement plans do not equal this threshold. Mr. Harris has offered, for our benefit, to waive his right to exclude certain other benefits from this calculation, which makes it unlikely that any provision will have to be made for him in order for us to comply with this threshold requirement. For Mr. Melsheimer, however, a new plan was established to provide him with the difference between the benefit required under the age discrimination laws and that provided under our existing plans. The expense to us of providing the benefit under this new plan is currently estimated to be $450,000. This benefit will be unfunded, and the expense is being amortized over the fiscal periods through the year ended December 31, 2004.

NOTE 6. INCOME TAXES

Provided that a proper election is made, a corporation taxable under Subchapter C of the Internal Revenue Code (a "C Corporation") that elects to qualify as a RIC continues to be taxable as a C Corporation on any gains realized within 10 years of its qualification as a RIC (the "Inclusion Period") from sales of assets that were held by the corporation on the effective date of the RIC election ("C Corporation Assets") to the extent of any gain built into the assets on such date ("Built-In Gain"). (If the corporation fails to make a proper election, it is taxable on its Built-In Gain as of the effective date of its RIC election.) We had Built-In Gains at the time of our qualification as a RIC and made the election to be taxed on any Built-In Gain realized during the Inclusion Period. Prior to 1999, we incurred ordinary and capital losses from operations. After our election of RIC status, those losses remained available to be carried forward to subsequent taxable years. We have previously used loss carryforwards to offset Built-In Gains. As of January 1, 2004, we had $501,640 of pre-1999 loss carryforwards remaining and $4,663,457 of unrealized Built-In Gains remaining.

Continued qualification as a RIC requires us to satisfy certain investment asset diversification requirements in future years. Our ability to satisfy those requirements may not be controllable by us. There can be no assurance that we will qualify as a RIC in subsequent years.

To the extent that we retain capital gains and declare a deemed dividend to shareholders, the dividend is taxable to the shareholders. We would pay tax, at the corporate rate, on the distribution, and the shareholders would receive a tax credit equal to their proportionate share of the tax paid. We took advantage of this rule for 2001. Our financial statements for 2001 include a tax liability of $290,748. The taxes paid by our shareholders as a result of our deemed dividend declaration 2001 ($271,467) are reflected as a deduction to the additional paid-in capital in our Consolidated Statement of Assets and Liabilities, rather than an expense in the Consolidated Statement of Operations.

We pay federal, state and local taxes on behalf of our wholly owned subsidiary, Harris & Harris Enterprises, Inc., which is taxed as a C Corporation.

During the three months ended March 31, 2004, we accrued a net tax provision of $6,796.

For the three months ended March 31, 2004, and 2003, our income tax provision was allocated as follows:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
Investment operations	$ 0	$ 0
Net realized gain on investments	6,796	2,973
Net decrease in unrealized appreciation on investments	0	0
Total income tax provision	$ 6,796	$ 2,973
The above tax provision consists of the following:		
Current	$ 6,796	$ 2,973
Deferred - Federal	0	0
Total income tax provision	$ 6,796	$ 2,973

Our net deferred tax liability at March 31, 2004, and December 31, 2003, consists of the following:

	March 31, 2004	December 31, 2003
Tax on unrealized appreciation on investments	$ 844,918	$ 844,918
Net operating loss and capital carryforward	(175,574)	(175,574)
Net deferred income tax liability	$ 669,344	$ 669,344

NOTE 7. COMMITMENTS

During 1993, we signed a 10-year lease for office space, which lease expired on July 31, 2003. On April 17, 2003, we signed a seven-year sublease for office space at 111 West 57th Street in New York City to replace the expired lease. Total rent expense was $200,711 for 2003. Future minimum sublease payments in each of the following years are: 2004 - $134,816; 2005 - $138,187; 2006 - $141,641; 2007 - $145,182; 2008 - $148,811; and thereafter, for the remaining term - $203,571.

NOTE 8. ASSET ACCOUNT LINE OF CREDIT

On November 19, 2001, we established an asset account line of credit. The asset account line of credit is secured by government and government agency securities. Under the asset account line of credit, we may borrow up to 95% of the current value of the government and government agency securities with which we secure the line. Our available line of credit at March 31, 2004, was $30,032,603. Our outstanding balance under the asset account line of credit at March 31, 2004, and March 31, 2003, was $0 and $7,724,207, respectively. The asset account line of credit bears interest at a rate of the Broker Call Rate plus 50 basis points.

NOTE 9. SUBSEQUENT EVENTS

On April 13, 2004, we filed an amended registration statement with the Securities and Exchange Commission on Form N-2 with respect to shares of our Common Stock. After the effective date, the Common Stock may be sold at prices and on terms to be set forth in one or more supplements to the prospectus from time to time.

On April 13, 2004, we wired $150,000 into an escrow account in anticipation of making a follow-on investment in the form of a Convertible Bridge Note of a privately held portfolio company.

On April 20, 2004, we made a $75,901 follow-on investment in the form of a Convertible Bridge Note of a privately held portfolio company.

On May 7, 2004, we made a $50,000 follow-on investment in a privately held portfolio company and a $250,000 initial investment in a privately held portfolio company.

On May 10, 2004, we made a $12,091 follow-on investment in a privately held portfolio company by purchasing shares from selling shareholders.

NOTE 10. OTHER

We have a total of $255,486 of funds in escrow as a result of the merger of NanoGram Devices Corporation and a wholly owned subsidiary of Wilson Greatbatch Technologies, Inc. The funds are being held for one year in an interest-bearing escrow account to secure the indemnification obligations of the former stockholders of NanoGram Devices Corporation. We set up a reserve of 100% of the $255,486.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

	March 31, 2 (Unaudited)
Investments, at value (Cost: $38,148,077 at 3/31/03, $30,206,935 at 12/31/02)	$ 34,799,838
Cash and cash equivalents	115,948
Restricted funds (Note 5)	762,532
Funds in escrow	0
Receivable from portfolio company	0
Interest receivable	22,086
Income tax receivable	72,546
Prepaid expenses	75,867
Other assets	109,607
Total assets	$ 35,958,424

LIABILITIES & NET ASSETS

Accounts payable and accrued liabilities	$ 1,519,347
Payable to broker for unsettled trade	0
Bank loan payable (Note 8)	7,724,207
Accrued profit sharing (Note 3)	1,523
Deferred rent	3,084
Current income tax liability	0
Deferred income tax liability (Note 6)	669,344
Total liabilities	9,917,505
Commitments and contingencies (Note 7)	
Net assets	$ 26,040,919
Net assets are comprised of:	
Preferred stock, $0.10 par value, 2,000,000 shares authorized; none issued	$ 0
Common stock, $0.01 par value, 25,000,000 shares authorized;	

13,327,585 issued at 3/31/03 and 12/31/02.............................	133,276
Additional paid in capital (Note 4)..	32,845,872
Additional paid in capital - common stock warrants..........................	109,641
Accumulated net realized gain...	550,819
Accumulated unrealized appreciation of investments, net of deferred tax liability of $844,918 at 3/31/03 and 12/31/02.............	(4,193,158
Treasury stock, at cost (1,828,740 shares at 3/31/03 and 12/31/02)...........	(3,405,531
Net assets..	$ 26,040,919
Shares outstanding..	11,498,845
Net asset value per outstanding share......................................	$ 2.26

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Three months ended June 30,

Six months ended June 30,
(in millions, except per share and ratio data)
Jun 30,
2015
Dec 31,
2014

2015
2014

2015
2014
Common stockholders' equity
$
216,287

$
211,664

$
213,738

$
206,159

$
213,049

$
203,989

Less: Goodwill

47,476

47,647

47,485

48,084

47,488

48,069

Less: Certain identifiable intangible assets
1,091

1,192

1,113

1,416

1,138

1,482

Add: Deferred tax liabilities[(a)]
2,876

2,853

2,873

2,952

2,868

2,948

Tangible common equity
$
170,596

$
165,678

$
168,013

$
159,611

$
167,291

$
157,386

Return on tangible common equity
NA

NA

14
%
14
%

14
%
14
%
Tangible book value per share
$
46.13

$
44.60

NA

NA

NA

NA

(a) Represents deferred tax liabilities related to tax-deductible goodwill and to identifiable intangibles created in non-taxable transactions, which are netted against goodwill and other intangibles when calculating TCE.

Net interest income excluding markets (formerly core net interest income)

In addition to reviewing net interest income on a managed basis, management also reviews net interest income excluding CIB's markets-based activities to assess the performance of its lending, investing (including asset-liability management) and deposit-raising activities. The data presented below are non-GAAP financial measures due

to the exclusion of CIB's markets-based net interest income and related assets. Management believes this exclusion provides investors and analysts with another measure by which to analyze the non-market-related business trends of the Firm and provides a comparable measure to other financial institutions that are primarily focused on lending, investing and deposit-raising activities.

Net interest income excluding CIB markets-based activities data

	Three months ended June 30,			Six months ended June 30,		
(in millions, except rates)	2015	2014	Change	2015	2014	Change
Net interest income – managed basis[(a)(b)]	$10,956	$11,042	(1)%	$21,906	$21,935	—
Less: Markets-based net interest income	1,238	1,291	(4)	2,497	2,560	(2)
Net interest income excluding markets[(a)]	$9,718	$9,751	—	$19,409	$19,375	—
Average interest-earning assets	$2,097,637	$2,023,945	4	$2,123,078	$2,014,846	5
Less: Average markets-based interest earning assets	500,915	502,413	—	505,290	504,942	—
Average interest-earning assets excluding markets	$1,596,722	$1,521,532	5 %	$1,617,788	$1,509,904	7 %
Net interest yield on interest-earning assets – managed basis	2.09 %	2.19 %		2.08 %	2.20 %	
Net interest yield on markets-based activities	0.99	1.03		1.00	1.02	
Net interest yield on average interest-earning assets excluding markets	2.44 %	2.57 %		2.42 %	2.59 %	

(a) Interest includes the effect of related hedging derivatives. Taxable-equivalent amounts are used where applicable.

(b) For a reconciliation of net interest income on a reported and managed basis, see reconciliation from the Firm's reported U.S. GAAP results to managed basis on page 14.

Quarterly and year-to-date results

Net interest income excluding CIB's markets-based activities was flat at $9.7 billion and $19.4 billion, respectively, for the three and six months ended June 30, 2015, when compared with the prior year periods. Results in 2015 reflected lower loan yields due to the runoff of higher yielding loans, new originations of lower yielding loans and lower average investment securities balances, offset by higher average loan balances and the impact of lower deposits and long-term debt interest expense. Average

interest-earning assets excluding assets related to CIB's markets-based activities increased by $75.2 billion to $1.6 trillion and by $107.9 billion to $1.6 trillion, respectively, for the three and six months ended June 30, 2015, when compared with the prior year periods; these increases primarily reflected the impact of higher average deposits with banks. The net interest yield excluding CIB's markets-based activities decreased by 13 basis points to 2.44% and by 17 basis points to 2.42%, respectively, for the three and six months ended June 30, 2015.

BUSINESS SEGMENT RESULTS

The Firm is managed on a line of business basis. There are four major reportable business segments – Consumer & Community Banking, Corporate & Investment Bank, Commercial Banking and Asset Management. In addition, there is a Corporate segment.

The business segments are determined based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For a definition of managed basis, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures, on pages 14–15.

Description of business segment reporting methodology

Results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. The management reporting process that derives business segment results allocates income and expense using market-based methodologies. The Firm continues to assess the assumptions, methodologies and reporting

classifications used for segment reporting, and further refinements may be implemented in future periods.

For a further discussion of those methodologies, see Business Segment Results – Description of business segment reporting methodology on pages 79–80 of JPMorgan Chase's 2014 Annual Report.

Business segment capital allocation changes

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, regulatory capital requirements (as estimated under Basel III Advanced Fully Phased-In) and economic risk measures. The amount of capital assigned to each business is referred to as equity. On at least an annual basis, the Firm assesses the level of capital required for each line of business as well as the assumptions and methodologies used to allocate capital to its lines of business and updates the equity allocations to its lines of business as refinements are implemented. For further information about these capital changes, see Line of business equity on page 72.

Segment Results – Managed basis

The following tables summarize the business segment results for the periods indicated.

Three months ended June 30,	Total net revenue			Total noninterest expense			Pre-provision profit/(loss)		
(in millions)	2015	2014	Change	2015	2014	Change	2015	2014	Change
Consumer & Community Banking	$11,015	$11,518	(4)%	$6,210	$6,456	(4)%	$4,805	$5,062	(5)%
Corporate & Investment Bank	8,723	9,265	(6)	5,137	6,058	(15)	3,586	3,207	12
Commercial Banking	1,739	1,731	—	703	675	4	1,036	1,056	(2)
Asset Management	3,175	2,982	6	2,406	2,062	17	769	920	(16)
Corporate	(121)	(159)	24	44	180	(76)	(165)	(339)	51
Total	$24,531	$25,337	(3)%	$14,500	$15,431	(6)%	$10,031	$9,906	1%

Three months ended June 30,	Provision for credit losses			Net income			Return on common equity	
(in millions, except ratios)	2015	2014	Change	2015	2014	Change	2015	2014
Consumer & Community Banking	$702	$852	(18)%	$2,533	$2,496	1%	19%	19%
Corporate & Investment Bank	50	(84)	NM	2,341	2,131	10	14	13
Commercial Banking	182	(67)	NM	525	677	(22)	14	19
Asset Management	—	1	(100)	451	569	(21)	19	25
Corporate	1	(10)	NM	440	107	311	NM	NM
Total	$935	$692	35%	$6,290	$5,980	5%	11%	11%

Six months ended June 30,	Total net revenue			Total noninterest expense			Pre-provision profit/(loss)		
(in millions)	2015	2014	Change	2015	2014	Change	2015	2014	Change
	$21,719	$22,052	(2)%	$12,400	$12,893	(4)%	$9,319	$9,159	2%

Consumer & Community Banking									
Corporate & Investment Bank	18,305	18,107	1	10,794	11,662	(7)	7,511	6,445	17
Commercial Banking	3,481	3,409	2	1,412	1,361	4	2,069	2,048	1
Asset Management	6,180	5,782	7	4,581	4,137	11	1,599	1,645	(3)
Corporate	(334)	(160)	(109)	196	14	NM	(530)	(174)	(205)
Total	$49,351	$49,190	—	$29,383	$30,067	(2)%	$19,968	$19,123	4%

Six months ended June 30,	Provision for credit losses			Net income			Return on common equity	
(in millions, except ratios)	2015	2014	Change	2015	2014	Change	2015	2014
Consumer & Community Banking	$1,632	$1,668	(2)%	$4,752	$4,477	6%	18%	17%
Corporate & Investment Bank	19	(35)	NM	4,878	4,256	15	15	13
Commercial Banking	243	(62)	NM	1,123	1,271	(12)	15	18
Asset Management	4	(8)	NM	953	1,023	(7)	21	22
Corporate	(4)	(21)	81	498	222	124	NM	NM
Total	$1,894	$1,542	23%	$12,204	$11,249	8%	11%	11%

CONSUMER & COMMUNITY BANKING

For a discussion of the business profile of CCB, see pages 81–91 of JPMorgan Chase's 2014 Annual Report and Line of Business Metrics on page 180.

Selected income statement data

	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	2015	2014	Change	2015	2014	Change
Revenue						
Lending- and deposit-related fees	$766	$750	2 %	$1,484	$1,453	2 %
Asset management, administration and commissions	553	521	6	1,083	1,024	6
Mortgage fees and related income	782	1,290	(39)	1,486	1,804	(18)
Card income	1,506	1,486	1	2,830	2,834	—
All other income	482	421	14	942	787	20
Noninterest revenue	4,089	4,468	(8)	7,825	7,902	(1)
Net interest income	6,926	7,050	(2)	13,894	14,150	(2)
Total net revenue	11,015	11,518	(4)	21,719	22,052	(2)
Provision for credit losses	702	852	(18)	1,632	1,668	(2)
Noninterest expense						
Compensation expense	2,478	2,637	(6)	5,008	5,376	(7)
Noncompensation expense	3,732	3,819	(2)	7,392	7,517	(2)
Total noninterest expense	6,210	6,456	(4)	12,400	12,893	(4)
Income before income tax expense	4,103	4,210	(3)	7,687	7,491	3
Income tax expense	1,570	1,714	(8)	2,935	3,014	(3)
Net income	$2,533	$2,496	1 %	$4,752	$4,477	6 %
Financial ratios						
Return on common equity	19 %	19 %		18 %	17 %	
Overhead ratio	56	56		57	58	

Note: In the discussion and the tables which follow, CCB presents certain financial measures which exclude the impact of PCI loans; these are non-GAAP financial measures. For additional information, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 14–15.

Quarterly results

Consumer & Community Banking net income was $2.5 billion, an increase of 1% compared with the prior year.

Net revenue was $11.0 billion, a decrease of 4% compared with the prior year. Net interest income was $6.9 billion, down 2%, driven by spread compression, largely offset by higher deposit balances, higher loan balances and lower reversals of interest and fees due to lower net charge-offs in Credit Card. Noninterest revenue was $4.1 billion, down 8%, driven by lower mortgage fees and related income, partially offset by higher Auto lease income and higher net interchange income in Credit Card.

The provision for credit losses was $702 million, a decrease of 18% compared with the prior year, reflecting lower net charge-offs, partially offset by a lower reduction in the allowance for loan losses. The current-quarter provision reflected a $326 million reduction in the allowance for loan losses. The prior year included a $357 million reduction in the allowance for loan losses. For more information, including net charge-off amounts and rates, see Consumer Credit Portfolio on pages 46–51.

Noninterest expense was $6.2 billion, a decrease of 4% from the prior year, predominantly driven by lower Mortgage Banking expense.

Year-to-date results

Consumer & Community Banking net income was $4.8 billion, an increase of 6% compared with the prior year, driven by lower noninterest expense, largely offset by lower net revenue.

Net revenue was $21.7 billion, a decrease of 2% compared with the prior year. Net interest income was $13.9 billion, down 2%, driven by spread compression, largely offset by higher deposit and loan balances. Noninterest revenue was $7.8 billion, down 1%, driven by lower mortgage fees and related income, predominantly offset by higher Auto lease income and higher net interchange income in Credit Card.

The provision for credit losses was $1.6 billion, a decrease of 2% from the prior year, reflecting lower net charge-offs, predominantly offset by a lower reduction in the allowance for loan losses. The current-year provision reflected a $451 million reduction in the allowance for loan losses. The prior year included a $807 million reduction in the allowance for loan losses. For more information, including net charge-off amounts and rates, see Consumer Credit Portfolio on pages 46–51.

Noninterest expense was $12.4 billion, a decrease of 4% from the prior year, predominantly driven by lower Mortgage Banking expense.

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Selected metrics

(in millions, except headcount)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Selected balance sheet data (period-end)						
Total assets	$472,181	$447,277	6 %	$472,181	$447,277	6 %
Trading assets – loans[a]	6,700	7,409	(10)	6,700	7,409	(10)
Loans:						
Loans retained	413,363	390,211	6	413,363	390,211	6
Loans held-for-sale[b]	2,825	1,472	92	2,825	1,472	92
Total loans	416,188	391,683	6	416,188	391,683	6
Core loans	301,154	253,817	19	301,154	253,817	19
Deposits	530,767	488,681	9	530,767	488,681	9
Equity[c]	51,000	51,000	—	51,000	51,000	—
Selected balance sheet data (average)						
Total assets	$463,404	$443,204	5	$459,108	$446,794	3
Trading assets – loans[a]	7,068	6,593	7	7,528	7,017	7
Loans:						
Loans retained	406,029	388,252	5	400,587	388,464	3
Loans held-for-sale[d]	2,100	710	196	2,539	683	272
Total loans	408,129	388,962	5	403,126	389,147	4
Deposits	529,448	486,064	9	520,850	478,862	9
Equity[c]	51,000	51,000	—	51,000	51,000	—
Headcount	132,302	141,688	(7)%	132,302	141,688	(7)%

(a) Predominantly consists of prime mortgages originated with the intent to sell that are accounted for at fair value.

(b) Included period-end credit card loans held-for-sale of $1.3 billion and $508 million at June 30, 2015 and 2014, respectively. These amounts were excluded when calculating delinquency rates and the allowance for loan losses to period-end loans.

(c) Equity is allocated to the sub-business segments with $5.0 billion and $3.0 billion of capital in 2015 and 2014, respectively, held at the CCB level related to legacy mortgage servicing matters.

(d) Included average credit card loans held-for-sale of $1.8 billion and $405 million for the three months ended June 30, 2015 and 2014, respectively, and $2.2 billion and $360 million for the six months ended June 30, 2015 and 2014. These amounts are excluded when calculating the net charge-off rate.

Selected metrics

(in millions, except ratios and where otherwise noted)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Credit data and quality statistics						
Net charge-offs[a]	$1,027	$1,208	(15)%	$2,081	$2,474	(16)%
Nonaccrual loans[b][c]	5,876	7,003	(16)	5,876	7,003	(16)
Nonperforming assets[b][c]	6,250	7,555	(17)	6,250	7,555	(17)
Allowance for loan losses[a]	9,838	11,284	(13)	9,838	11,284	(13)
Net charge-off rate[a]	1.01 %	1.25 %		1.05 %	1.28 %	
Net charge-off rate, excluding PCI loans	1.14	1.44		1.18	1.48	
Allowance for loan losses to period-end loans retained	2.38	2.89		2.38	2.89	
Allowance for loan losses to period-end loans retained, excluding PCI loans[d]	1.79	2.22		1.79	2.22	
Allowance for loan losses to nonaccrual loans retained, excluding credit card[b][d]	56	58		56	58	
Nonaccrual loans to total period-end loans, excluding credit card	2.03	2.64		2.03	2.64	
Nonaccrual loans to total period-end loans, excluding credit card and PCI loans [b]	2.39	3.25		2.39	3.25	
Business metrics						
Number of:						
Branches	5,504	5,636	(2)%	5,504	5,636	(2)%
ATMs	18,050	20,394	(11)	18,050	20,394	(11)
Active online customers (in thousands)	37,878	35,105	8	37,878	35,105	8
Active mobile customers (in thousands)	21,001	17,201	22	21,001	17,201	22
CCB households (in millions)	57.8	57.2	1	57.8	57.2	1

(a) Net charge-offs and the net charge-off rates excluded $55 million and $48 million of write-offs in the PCI portfolio for the three months ended June 30, 2015 and 2014, respectively and $110 million and $109 million of write-offs in the PCI portfolio for the six months ended June 30, 2015 and 2014, respectively. These write-offs decreased the allowance for loan losses for PCI loans. For further information on PCI write-offs, see Allowance for Credit Losses on pages 58–60.

(b) Excludes PCI loans. The Firm is recognizing interest income on each pool of PCI loans as they are all performing.

(c) At June 30, 2015 and 2014, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $7.0 billion and $8.1 billion, respectively, that are 90 or more days past due; (2) student loans insured by U.S. government agencies under the Federal Family Education Loan Program ("FFELP") of $282 million and $316 million, respectively, that are 90 or more days past due; (3) real estate owned ("REO") insured by U.S. government agencies of $384 million and $528 million, respectively. These amounts have been excluded based upon the government guarantee.

(d) The allowance for loan losses for PCI loans was $3.2 billion and $3.7 billion at June 30, 2015 and 2014, respectively; these amounts were also excluded from the applicable ratios.

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Consumer & Business Banking

Selected financial statement data

(in millions, except ratios)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Revenue						
Lending- and deposit-related fees	$760	$747	2 %	$1,471	$1,438	2 %
Asset management, administration and commissions	534	507	5	1,046	990	6
Card income	435	406	7	839	782	7
All other income	135	162	(17)	257	284	(10)
Noninterest revenue	1,864	1,822	2	3,613	3,494	3
Net interest income	2,619	2,786	(6)	5,228	5,512	(5)
Total net revenue	4,483	4,608	(3)	8,841	9,006	(2)
Provision for credit losses	68	66	3	128	142	(10)
Noninterest expense	3,056	3,026	1	6,014	6,091	(1)
Income before income tax expense	1,359	1,516	(10)	2,699	2,773	(3)
Net income	$831	$904	(8)	$1,659	$1,655	—
Return on common equity	28 %	33 %		28%	30 %	
Overhead ratio	68	66		68	68	
Equity (period-end and average)	$11,500	$11,000	5 %	$11,500	$11,000	5 %

Quarterly results

Consumer & Business Banking net income was $831 million, a decrease of 8% compared with the prior year, driven by lower net revenue.

Net revenue was $4.5 billion, down 3% compared with the prior year. Net interest income was $2.6 billion, down 6% due to deposit spread compression, largely offset by higher deposit balances. Noninterest revenue was $1.9 billion, up 2%, driven by higher debit card revenue, reflecting an increase in transaction volume, and higher investment revenue, reflecting record client investment assets.

Noninterest expense was $3.1 billion, an increase of 1% from the prior year, driven by higher legal expense, largely offset by branch efficiencies.

Year-to-date results

Consumer & Business Banking net income was $1.7 billion, flat compared with the prior year.

Net revenue was $8.8 billion, down 2% compared with the prior year. Net interest income was $5.2 billion, down 5% due to deposit spread compression, largely offset by higher deposit balances. Noninterest revenue was $3.6 billion, up 3%, driven by higher debit card revenue, reflecting an increase in transaction volume and higher investment revenue, reflecting record client investment assets.

Noninterest expense was $6.0 billion, a decrease of 1% from the prior year, driven by branch efficiencies, largely offset by higher legal expense.

Selected metrics

(in millions, except ratios and where otherwise noted)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Business metrics						
Business banking origination volume	$1,911	$1,917	—	$3,451	$3,421	1 %
Period-end loans	21,940	20,276	8	21,940	20,276	8
Period-end deposits:						
Checking	226,888	200,560	13	226,888	200,560	13
Savings	268,777	249,175	8	268,777	249,175	8
Time and other	19,317	24,421	(21)	19,317	24,421	(21)
Total period-end deposits	514,982	474,156	9	514,982	474,156	9
Average loans	21,732	19,928	9	21,526	19,691	9
Average deposits:						
Checking	225,803	197,490	14	221,084	193,511	14
Savings	267,212	249,240	7	263,855	246,386	7
Time and other	19,829	24,832	(20)	20,330	25,153	(19)
Total average deposits	512,844	471,562	9	505,269	465,050	9
Deposit margin	1.92 %	2.23 %		1.95 %	2.25 %	
Average assets	$41,290	$37,810	9	$41,531	$37,964	9
Credit data and quality statistics						
Net charge-offs	$68	$69	(1)	$127	$145	(12)
Net charge-off rate	1.26 %	1.39 %		1.19 %	1.48 %	
Allowance for loan losses	$703	$703	—	$703	$703	—
Nonperforming assets	246	335	(27)	246	335	(27)
Retail branch business metrics						
Net new investment assets	$3,362	$4,324	(22)	$7,183	$8,565	(16)
Client investment assets	221,490	205,206	8	221,490	205,206	8
% managed accounts	41 %	38 %		41 %	38 %	
Number of:						
Chase Private Client locations	2,661	2,408	11	2,661	2,408	11
Personal bankers	19,735	21,728	(9)	19,735	21,728	(9)
Sales specialists	3,763	4,405	(15)	3,763	4,405	(15)
Client advisors	2,996	3,075	(3)	2,996	3,075	(3)
Chase Private Clients	390,220	262,965	48	390,220	262,965	48
Accounts (in thousands)[(a)]	31,041	30,144	3 %	31,041	30,144	3 %

(a) Includes checking accounts and Chase Liquid® cards.

Mortgage Banking
Selected financial statement data

(in millions, except ratios)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Revenue						
Mortgage fees and related income[(a)]	$782	$1,290	(39)%	$1,486	$1,804	(18)%
All other income	(5)	(17)	71	(16)	(20)	20
Noninterest revenue	777	1,273	(39)	1,470	1,784	(18)
Net interest income	1,056	1,053	—	2,112	2,140	(1)
Total net revenue	1,833	2,326	(21)	3,582	3,924	(9)
Provision for credit losses	(219)	(188)	(16)	(215)	(211)	(2)
Noninterest expense	1,110	1,306	(15)	2,329	2,709	(14)
Income before income tax expense	942	1,208	(22)	1,468	1,426	3
Net income	$584	$733	(20)	$910	$865	5
Return on common equity	14%	16%		11%	9%	
Overhead ratio	61	56		65	69	
Equity (period-end and average)	$16,000	$18,000	(11)%	$16,000	$18,000	(11)%

(a) For further information on mortgage fees and related income, see Note 16.

Quarterly results

Mortgage Banking net income was $584 million, a decrease of 20% from the prior year.

Net revenue was $1.8 billion, a decrease of 21% compared with the prior year. Noninterest revenue was $777 million, a decrease of 39% from the prior year. This decrease was driven by lower MSR risk management income, reflecting the absence of a positive $220 million model assumption update in the prior year, lower servicing revenue, largely driven by lower average third-party loans serviced and lower net production revenue, reflecting a lower repurchase benefit. See Note 16 for further information regarding changes in value of the MSR asset and related hedges.

The provision for credit losses was a benefit of $219 million, compared with a benefit of $188 million in the prior year, reflecting lower net charge-offs. The current-quarter provision reflected a $300 million reduction in the non credit-impaired allowance for loan losses, due to continued improvement in home prices and delinquencies. The prior-year included a $300 million reduction in the purchased credit-impaired allowance for loan losses. See Consumer Credit Portfolio on pages 46–51 for the net charge-off amounts and rates.

Noninterest expense was $1.1 billion, a decrease of 15% from the prior year, reflecting lower headcount-related expense and lower professional fees.

Year-to-date results

Mortgage Banking net income was $910 million, an increase of 5% from the prior year.

Net revenue was $3.6 billion, a decrease of 9% compared with the prior year. Noninterest revenue was $1.5 billion, a decrease of 18% from the prior year. This decrease was driven by lower servicing revenue, largely as a result of lower average third-party loans serviced and lower net production revenue, reflecting a lower repurchase benefit.

The provision for credit losses was a benefit of $215 million, compared with a benefit of $211 million in the prior year, reflecting lower net charge-offs, offset by a lower reduction in the allowance for loan losses. The current-year provision reflected a $400 million reduction in the non credit-impaired allowance for loan losses, due to continued improvement in home prices and delinquencies. The prior-year included a $500 million reduction allowance for loan losses, $300 million from the purchased credit-impaired allowance for loan losses and $200 million for the non credit-impaired allowance for loan losses. See Consumer Credit Portfolio on pages 46–51 for the net charge-off amounts and rates.

Noninterest expense was $2.3 billion, a decrease of 14% from the prior year, reflecting lower headcount-related expense and lower professional fees.

Supplemental information

	Three months ended June 30,				Six months ended June 30,			
(in millions)	2015	2014	Change		2015	2014	Change	
Net interest income:								
Mortgage Production and Mortgage Servicing	$139	$171	(19	)%	$297	$360	(18	)%
Real Estate Portfolios	917	882	4		1,815	1,780	2	
Total net interest income	$1,056	$1,053	—		$2,112	$2,140	(1	)
Noninterest expense:								
Mortgage Production	$360	$414	(13	)	$781	$890	(12	)
Mortgage Servicing	466	550	(15	)	1,048	1,131	(7	)
Real Estate Portfolios	284	342	(17	)	500	688	(27	)
Total noninterest expense	$1,110	$1,306	(15	)%	$2,329	$2,709	(14	)%

Selected balance sheet data

(in millions)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Trading assets – loans (period-end)[a]	$6,700	$7,409	(10)%	$6,700	$7,409	(10)%
Trading assets – loans (average)[a]	7,068	6,593	7	7,528	7,017	7
Loans, excluding PCI loans						
Period-end loans owned						
Home equity	47,228	54,485	(13)	47,228	54,485	(13)
Prime mortgage, including option ARMs	107,001	70,495	52	107,001	70,495	52
Subprime mortgage	4,660	6,636	(30)	4,660	6,636	(30)
Other	435	510	(15)	435	510	(15)
Total period-end loans owned	159,324	132,126	21	159,324	132,126	21
Average loans owned						
Home equity	48,148	55,329	(13)	49,072	56,167	(13)
Prime mortgage, including option ARMs	99,315	68,922	44	92,749	67,701	37
Subprime mortgage	4,735	6,754	(30)	4,851	6,880	(29)
Other	445	520	(14)	456	530	(14)
Total average loans owned	152,643	131,525	16	147,128	131,278	12
PCI loans						
Period-end loans owned						
Home equity	16,088	18,070	(11)	16,088	18,070	(11)
Prime mortgage	9,553	11,302	(15)	9,553	11,302	(15)
Subprime mortgage	3,449	3,947	(13)	3,449	3,947	(13)
Option ARMs	14,716	16,799	(12)	14,716	16,799	(12)
Total period-end loans owned	43,806	50,118	(13)	43,806	50,118	(13)
Average loans owned						
Home equity	16,354	18,295	(11)	16,599	18,506	(10)
Prime mortgage	9,724	11,487	(15)	9,893	11,677	(15)
Subprime mortgage	3,490	4,001	(13)	3,546	4,064	(13)
Option ARMs	14,940	17,074	(12)	15,192	17,379	(13)
Total average loans owned	44,508	50,857	(12)	45,230	51,626	(12)
Total Mortgage Banking						
Period-end loans owned						
Home equity	63,316	72,555	(13)	63,316	72,555	(13)
Prime mortgage, including option ARMs	131,270	98,596	33	131,270	98,596	33
Subprime mortgage	8,109	10,583	(23)	8,109	10,583	(23)
Other	435	510	(15)	435	510	(15)
Total period-end loans owned	203,130	182,244	11	203,130	182,244	11
Average loans owned						
Home equity	64,502	73,624	(12)	65,671	74,673	(12)
Prime mortgage, including option ARMs	123,979	97,483	27	117,834	96,757	22
Subprime mortgage	8,225	10,755	(24)	8,397	10,944	(23)

Other	445	520	(14)	456	530	(14)
Total average loans owned	197,151	182,382	8%	192,358	182,904	5%

(a) Predominantly consists of prime mortgages originated with the intent to sell that are accounted for at fair value.

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Credit data and quality statistics

(in millions, except ratios)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Net charge-offs/(recoveries), excluding PCI loans[(a)]						
Home equity	$69	$125	(45)%	$156	$291	(46)%
Prime mortgage, including option ARMs	11	(11)	NM	25	(15)	NM
Subprime mortgage	(1)	(5)	80	—	8	(100)
Other	2	3	(33)	4	5	(20)
Total net charge-offs/(recoveries), excluding PCI loans	81	112	(28)	185	289	(36)
Net charge-off/(recovery) rate, excluding PCI loans						
Home equity	0.57%	0.91%		0.64%	1.04%	
Prime mortgage, including option ARMs	0.04	(0.06)		0.05	(0.04)	
Subprime mortgage	(0.08)	(0.30)		—	0.23	
Other	1.80	2.31		1.77	1.90	
Total net charge-off/(recovery) rate, excluding PCI loans	0.21	0.34		0.25	0.45	
Net charge-off/(recovery) rate – reported[(a)]						
Home equity	0.43	0.68		0.48	0.79	
Prime mortgage, including option ARMs	0.04	(0.05)		0.04	(0.03)	
Subprime mortgage	(0.05)	(0.19)		—	0.15	
Other	1.80	2.31		1.77	1.90	
Total net charge-off/(recovery) rate – reported	0.17	0.25		0.19	0.32	
30+ day delinquency rate, excluding PCI loans[(b)(c)]	1.95	2.94		1.95	2.94	
Allowance for loan losses, excluding PCI loans	$1,788	$2,388	(25)	$1,788	$2,388	(25)
Allowance for PCI loans[(a)]	3,215	3,749	(14)	3,215	3,749	(14)
Allowance for loan losses	5,003	6,137	(18)	5,003	6,137	(18)
Nonperforming assets[(d)(e)]	5,630	6,919	(19)%	5,630	6,919	(19)%
Allowance for loan losses to period-end loans retained	2.48%	3.39%		2.48%	3.39%	
Allowance for loan losses to period-end loans retained, excluding PCI loans	1.13	1.82		1.13	1.82	

(a) Net charge-offs and the net charge-off rates excluded $55 million and $48 million, write-offs in the PCI portfolio for the three months ended June 30, 2015 and 2014, respectively, and $110 million and $109 million of write-offs in the PCI portfolio for the six months ended June 30, 2015 and 2014. These write-offs decreased the allowance for loan losses for PCI loans. For further information on PCI write-offs, see Allowance for Credit Losses on pages 58–60.

(b)

At June 30, 2015 and 2014, excluded mortgage loans insured by U.S. government agencies of $8.8 billion and $9.6 billion, respectively, that are 30 or more days past due. These amounts have been excluded based upon the government guarantee. For further discussion, see Note 13 which summarizes loan delinquency information.

(c) The 30+ day delinquency rate for PCI loans was 11.65% and 14.08%, at June 30, 2015, and 2014, respectively.

(d) At June 30, 2015 and 2014, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $7.0 billion and $8.1 billion, respectively, that are 90 or more days past due and (2) real estate owned (“REO”) insured by U.S. government agencies of $384 million and $528 million, respectively. These amounts have been excluded based upon the government guarantee.

(e) Excludes PCI loans. The Firm is recognizing interest income on each pool of PCI loans as they are all performing.

Business metrics

(in billions, except ratios)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Mortgage origination volume by channel						
Retail	$9.8	$7.2	36 %	$17.9	$13.9	29 %
Correspondent	19.5	9.6	103	36.1	19.9	81
Total mortgage origination volume[a]	29.3	16.8	74	54.0	33.8	60
Total loans serviced (period-end)	917.0	980.4	(6)	917.0	980.4	(6)
Third-party mortgage loans serviced (period-end)	723.4	786.2	(8)	723.4	786.2	(8)
Third-party mortgage loans serviced (average)	723.5	794.7	(9)	730.5	802.0	(9)
MSR carrying value (period-end)	7.6	8.3	(8)%	7.6	8.3	(8)%
Ratio of MSR carrying value (period-end) to third-party mortgage loans serviced (period-end)	1.05 %	1.06 %		1.05 %	1.06 %	
Ratio of annualized loan servicing-related revenue to third-party mortgage loans serviced (average)	0.35	0.36		0.35	0.37	
MSR revenue multiple[b]	3.00 x	2.94 x		3.00 x	2.86 x	

(a) Firmwide mortgage origination volume was $31.7 billion and $18.0 billion for the three months ended June 30, 2015, and 2014, respectively, and $58.3 billion and $36.2 billion for the six months ended June 30, 2015, and 2014, respectively.

(b) Represents the ratio of MSR carrying value (period-end) to third-party mortgage loans serviced (period-end) divided by the ratio of annualized loan servicing-related revenue to third-party mortgage loans serviced (average).

Mortgage servicing-related matters

The financial crisis resulted in unprecedented levels of delinquencies and defaults of 1–4 family residential real estate loans. Such loans required varying degrees of loss mitigation activities. Foreclosure is usually a last resort, and accordingly, the Firm has made, and continues to make, significant efforts to help borrowers remain in their homes. The Firm has entered into various Consent Orders and settlements with federal and state governmental agencies and private parties related to mortgage servicing, origination, and residential mortgage-backed securities activities. The requirements of these Consent Orders and settlements vary, but in the aggregate, include cash compensatory payments (in addition to fines) and/or "borrower relief," which may include principal reduction, refinancing, short sale assistance, and other specified types of borrower relief. Other obligations required under certain Consent Orders and settlements, as well as under new regulatory requirements, include enhanced mortgage servicing and foreclosure standards and processes.

On June 11, 2015, the Firm signed an Amended Mortgage Banking Consent Order focused on the subset of ten items that must be resolved to complete the requirements of the Consent Orders with the OCC and Federal Reserve. The Firm has completed its work on those items and is awaiting confirmation by the banking regulators of its satisfactory compliance with the items in the Amended Consent Order. The Amended Consent Order also requires a supervisory non-objection before the Firm may acquire new contracts to perform mortgage servicing rights; outsource or subservice new mortgage servicing activities; offshore new mortgage servicing activities; or appoint senior officers in mortgage servicing.

The mortgage servicing Consent Orders and settlements are subject to ongoing oversight by the Mortgage Compliance Committee of the Firm's Board of Directors. In addition, certain of the Consent Orders and settlements are the subject of ongoing reporting to various regulators and independent overseers. The Firm's compliance with certain of these settlements is detailed in periodic reports published by the independent overseers.

Card, Commerce Solutions & Auto (“Card”)
Selected financial statement data

(in millions, except ratios)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Revenue						
Card income	$1,070	$1,080	(1)%	$1,990	$2,052	(3)%
All other income	378	293	29	752	572	31
Noninterest revenue	1,448	1,373	5	2,742	2,624	4
Net interest income	3,251	3,211	1	6,554	6,498	1
Total net revenue	4,699	4,584	3	9,296	9,122	2
Provision for credit losses	853	974	(12)	1,719	1,737	(1)
Noninterest expense[(a)]	2,044	2,124	(4)	4,057	4,093	(1)
Income before income tax expense	1,802	1,486	21	3,520	3,292	7
Net income	$1,118	$859	30	$2,183	$1,957	12
Return on common equity	23 %	18 %		23 %	20 %	
Overhead ratio	43	46		44	45	
Equity (period-end and average)	$18,500	$19,000	(3)%	$18,500	$19,000	(3)%

Note: Chase Commerce Solutions, formerly known as Merchant Services, includes Chase Paymentech, ChaseNet and Chase Offers businesses.

(a) Included operating lease depreciation expense of $348 million and $284 million for the three months ended June 30, 2015 and 2014, respectively, and $674 million and $558 million for the six months ended June 30, 2015 and 2014, respectively.

Quarterly results

Card net income was $1.1 billion, an increase of 30% compared with the prior year, driven by lower provision for credit losses, higher net revenue and lower noninterest expense.

Net revenue was $4.7 billion, an increase of 3% compared with the prior year. Net interest income was $3.3 billion, up 1% from the prior year, driven by higher average loan balances and lower reversals of interest and fees due to lower net charge-offs in Credit Card, largely offset by spread compression. Noninterest revenue was $1.4 billion, up 5% compared with the prior year, driven by higher Auto lease income and net interchange income from higher sales volume, partially offset by higher amortization of new account origination costs.

The provision for credit losses was $853 million, compared with $974 million in the prior year, reflecting lower net charge-offs, partially offset by a lower reduction in the allowance for loan losses. The current-quarter provision reflected a $26 million reduction in the allowance for loan losses, primarily due to runoff in the student loan portfolio. The prior year included a $53 million reduction in the allowance for loan losses.

Noninterest expense was $2.0 billion, down 4% from the prior year, driven by lower legal and marketing expense, partially offset by higher auto lease depreciation.

Year-to-date results

Card net income was $2.2 billion, an increase of 12% compared with the prior year, driven by higher net revenue.

Net revenue was $9.3 billion, an increase of 2% compared with the prior year. Net interest income was $6.6 billion, up 1% from the prior year, driven by higher loan balances, predominantly offset by spread compression. Noninterest revenue was $2.7 billion, up 4% compared with the prior year, driven by higher Auto lease income and net interchange income from higher sales volume, partially offset by higher amortization of new account origination costs.

The provision for credit losses was $1.7 billion, down 1% compared with the prior year, reflecting lower net charge-offs, predominantly offset by a lower reduction in the allowance for loan losses. The current-year provision reflected a $51 million reduction in the allowance for loan losses, primarily due to runoff in the student loan portfolio.

The prior year included a $303 million reduction in the allowance for loan losses.
Noninterest expense was $4.1 billion, down 1% from the prior year driven by lower legal expense, offset by higher auto lease depreciation.

Selected metrics

(in millions, except ratios and where otherwise noted)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Selected balance sheet data (period-end)						
Loans:						
Credit Card	$126,025	$126,129	—	$126,025	$126,129	—
Auto	56,330	53,042	6	56,330	53,042	6
Student	8,763	9,992	(12)	8,763	9,992	(12)
Total loans	$191,118	$189,163	1	$191,118	$189,163	1
Auto operating lease assets	7,742	6,098	27	7,742	$6,098	27
Selected balance sheet data (average)						
Total assets	$204,596	$200,710	2	$204,262	$201,238	2
Loans:						
Credit Card	124,539	123,679	1	124,780	123,471	1
Auto	55,800	52,818	6	55,405	52,780	5
Student	8,907	10,155	(12)	9,057	10,301	(12)
Total loans	$189,246	$186,652	1	$189,242	$186,552	1
Auto operating lease assets	7,437	5,939	25	7,170	5,796	24
Business metrics						
Credit Card, excluding Commercial Card						
Sales volume (in billions)	$125.7	$118.0	7	$238.5	$222.5	7
New accounts opened	2.1	2.1	—	4.2	4.2	—
Open accounts	62.8	65.8	(5)	62.8	65.8	(5)
Accounts with sales activity	32.6	31.8	3	32.6	31.8	3
% of accounts acquired online	62%	54%		62%	53%	
Commerce Solutions (Chase Paymentech Solutions)						
Merchant processing volume (in billions)	$234.1	$209.0	12	$455.3	$404.4	13
Total transactions (in billions)	10.1	9.3	9	19.9	18.4	8
Auto						
Loan and lease origination volume (in billions)	$7.8	$7.1	10%	$15.1	$13.8	9%

Selected metrics

(in millions, except ratios)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Credit data and quality statistics						
Net charge-offs:						
Credit Card	$800	$885	(10)%	$1,589	$1,773	(10)%
Auto	32	29	10	83	70	19
Student	46	113	(59)	97	197	(51)
Total net charge-offs	$878	$1,027	(15)	$1,769	$2,040	(13)
Net charge-off rate:						
Credit Card[(a)]	2.61 %	2.88 %		2.61 %	2.90 %	
Auto	0.23	0.22		0.30	0.27	
Student	2.07	4.46		2.16	3.86	
Total net charge-off rate	1.88	2.21		1.91	2.21	
Delinquency rates						
30+ day delinquency rate:						
Credit Card[(b)]	1.29	1.41		1.29	1.41	
Auto	0.95	0.93		0.95	0.93	
Student[(c)]	2.00	2.67		2.00	2.67	
Total 30+ day delinquency rate	1.22	1.34		1.22	1.34	
90+ day delinquency rate – Credit Card[(b)]	0.63	0.69		0.63	0.69	
Nonperforming assets[(d)]	$374	$301	24	$374	$301	24
Allowance for loan losses:						
Credit Card	$3,434	$3,594	(4)	$3,434	$3,594	(4)
Auto & Student	698	850	(18)	698	850	(18)
Total allowance for loan losses	$4,132	$4,444	(7)%	$4,132	$4,444	(7)%
Allowance for loan losses to period-end loans:						
Credit Card[(b)]	2.75 %	2.86 %		2.75 %	2.86 %	
Auto & Student	1.07	1.35		1.07	1.35	
Total allowance for loan losses to period-end loans	2.18	2.36		2.18	2.36	

(a) Average credit card loans included loans held-for-sale of $1.8 billion and $405 million for the three months ended June 30, 2015 and 2014, respectively, and $2.2 billion and $360 million for the six months ended June 30, 2015 and 2014, respectively. These amounts are excluded when calculating the net charge-off rate.

(b) Period-end credit card loans included loans held-for-sale of $1.3 billion and $508 million at June 30, 2015 and 2014, respectively. These amounts were excluded when calculating delinquency rates and the allowance for loan losses to period-end loans.

(c) Excluded student loans insured by U.S. government agencies under the FFELP of $546 million and $630 million at June 30, 2015 and 2014, respectively, that are 30 or more days past due. These amounts have been excluded based upon the government guarantee.

(d) Nonperforming assets excluded student loans insured by U.S. government agencies under the FFELP of $282 million and $316 million at June 30, 2015 and 2014, respectively, that are 90 or more days past due. These amounts have been excluded from nonaccrual loans based upon the government guarantee.

Card Services supplemental information

(in millions, except ratios)	Three months ended June 30, 2015	2014	Change	Six months ended June 30, 2015	2014	Change
Revenue						

Noninterest revenue	$980	$982	—	$1,838	$1,866	(2)%
Net interest income	2,855	2,789	2	5,756	5,639	2
Total net revenue	3,835	3,771	2	7,594	7,505	1
Provision for credit losses	800	885	(10)	1,589	1,573	1
Noninterest expense	1,478	1,625	(9)	2,940	3,090	(5)
Income before income tax expense	1,557	1,261	23	3,065	2,842	8
Net income	$965	$724	33%	$1,900	$1,689	12 %
Percentage of average loans:						
Noninterest revenue	3.16 %	3.18 %		2.97 %	3.05 %	
Net interest income	9.20	9.04		9.30	9.21	
Total net revenue	12.35	12.23		12.27	12.26	

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CORPORATE & INVESTMENT BANK

For a discussion of the business profile of CIB, see pages 92–96 of JPMorgan Chase's 2014 Annual Report and Line of Business Metrics on pages 180–181.

Selected income statement data

	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	2015	2014	Change	2015	2014	Change
Revenue						
Investment banking fees	$1,825	$1,773	3 %	$3,586	$3,217	11 %
Principal transactions	2,657	2,782	(4)	6,139	5,668	8
Lending- and deposit-related fees	400	449	(11)	797	893	(11)
Asset management, administration and commissions	1,181	1,186	—	2,335	2,365	(1)
All other income	170	329	(48)	450	602	(25)
Noninterest revenue	6,233	6,519	(4)	13,307	12,745	4
Net interest income	2,490	2,746	(9)	4,998	5,362	(7)
Total net revenue[(a)]	8,723	9,265	(6)	18,305	18,107	1
Provision for credit losses	50	(84)	NM	19	(35)	NM
Noninterest expense						
Compensation expense	2,656	2,757	(4)	5,679	5,627	1
Noncompensation expense	2,481	3,301	(25)	5,115	6,035	(15)
Total noninterest expense	5,137	6,058	(15)	10,794	11,662	(7)
Income before income tax expense	3,536	3,291	7	7,492	6,480	16
Income tax expense	1,195	1,160	3	2,614	2,224	18
Net income	$2,341	$2,131	10 %	$4,878	$4,256	15 %
Financial ratios						
Return on common equity	14 %	13 %		15 %	13 %	
Overhead ratio	59	65		59	64 %	
Compensation expense as a percentage of total net revenue	30	30		31	31	

(a) Included tax-equivalent adjustments, predominantly due to income tax credits related to alternative energy investments; income tax credits and amortization of the cost of investments in affordable housing projects; as well as tax-exempt income from municipal bond investments of $396 million and $371 million for the three months ended June 30, 2015 and 2014, respectively, and $828 million and $739 million for the six months ended June 30, 2015 and 2014, respectively.

Selected income statement data

	Three months ended June 30,			Six months ended June 30,		
(in millions)	2015	2014	Change	2015	2014	Change
Revenue by business						
Investment banking revenue[(a)]	$1,746	$1,676	4 %	$3,376	$3,021	12 %
Treasury Services[(b)]	901	924	(2)	1,831	1,851	(1)
Lending[(b)]	302	446	(32)	737	876	(16)
Total Banking[(a)]	2,949	3,046	(3)	5,944	5,748	3
Fixed Income Markets[(a)]	2,931	3,704	(21)	7,085	7,635	(7)
Equity Markets[(a)]	1,576	1,243	27	3,227	2,615	23
Securities Services	995	1,147	(13)	1,929	2,169	(11)
Credit Adjustments & Other[(c)]	272	125	118	120	(60)	NM
Total Markets & Investor Services[(a)]	5,774	6,219	(7)	12,361	12,359	—
Total net revenue	$8,723	$9,265	(6)%	$18,305	$18,107	1%

(a) Effective in the second quarter of 2015, Investment banking revenue (formerly Investment banking fees) incorporates all revenue associated with investment banking activities, and is reported net of investment banking revenue shared with other lines of business; previously such shared revenue had been reported in Fixed Income Markets and Equity Markets. Prior period amounts have been revised to conform with the current period presentation.

(b) Effective in the second quarter of 2015, Trade Finance revenue was transferred from Treasury Services to Lending. Prior period amounts have been revised to conform with the current period presentation.

(c) Consists primarily of credit valuation adjustments (“CVA”) managed by the credit portfolio group, and funding valuation adjustments (“FVA”) and debit valuation adjustments (“DVA”) on OTC derivatives and structured notes. Results are presented net of associated hedging activities and net of CVA and FVA amounts allocated to Fixed Income Markets and Equity Markets.

Quarterly results
Net income was $2.3 billion, up 10%, compared with $2.1 billion in the prior year.
Banking revenue was $2.9 billion, down 3% from the prior year, on lower lending revenue. Investment banking revenue was up 4% compared with the prior year. Advisory fees were up 17% driven by a greater share of fees for completed transactions and growth in industry-wide fee levels. Debt underwriting fees were up 1% reflecting a higher share of fees for high grade bond issuance. Equity underwriting fees were down 5% as industry wide IPO volumes declined. Treasury Services revenue was $901 million, down 2% compared with the prior year, driven by lower net interest income largely offset by higher noninterest revenue. Lending revenue was $302 million, down 32% from the prior year, largely reflecting losses on securities received from restructurings.
Markets & Investor Services revenue was $5.8 billion, down 7% from the prior year. Fixed Income Markets revenue of $2.9 billion was down 21% from the prior year predominantly driven by the impact of business simplification, continued weakness in Credit and Securitized Products and lower revenue in Currencies & Emerging Markets, partially offset by strength in Rates. Equity Markets revenue of $1.6 billion was up 27% primarily on higher derivatives and cash revenue, with strong performance in Asia. Credit Adjustments & Other was a gain of $272 million, primarily driven by net FVA/DVA gains due to wider spreads.
Noninterest expense was $5.1 billion, down 15% from the prior year, driven by business simplification, lower legal expense and lower compensation expense.
The provision for credit losses was $50 million, compared with a benefit of $84 million from the prior year, reflecting higher allowance for loan losses, including the impact of select downgrades within the Oil & Gas portfolio.

Year-to-date results
Net income was $4.9 billion, up 15% compared with $4.3 billion in the prior year. These results reflected both lower noninterest expense of 7% and higher net revenue of 1%. Net revenue was $18.3 billion compared with $18.1 billion in the prior year.
Banking revenue was $5.9 billion, up 3% from the prior year. Investment banking revenue was $3.4 billion, up 12% from the prior year. The increase was primarily driven by higher advisory and debt underwriting fees. Advisory fees of $1.0 billion were up 29% driven by the combined impact of a greater share of fees for completed transactions and growth in industry-wide fee levels. Debt underwriting fees were $1.7 billion, up 7%, primarily driven by the combined impact of a higher share of fees for high grade bond issuance and growth in industry-wide fee levels. Equity underwriting fees of $851 million were up 3% on a higher share of fees compared with the prior year. Treasury Services revenue was $1.8 billion, down 1% compared with the prior year, primarily driven by lower net interest income. Lending revenue was $737 million, down from $876 million in the prior year, primarily driven by losses on securities received from restructurings, as well as lower trade finance revenue.
Markets & Investor Services revenue was $12.4 billion, flat compared with the prior year. Fixed Income Markets revenue of $7.1 billion was down 7% from the prior year driven by business simplification and weakness in Credit and Securitized Products, largely offset by higher revenue in Rates and Currencies & Emerging Markets. Equity Markets revenue of $3.2 billion was up 23% on higher derivatives and cash revenue. Credit Adjustments & Other was a gain of $120 million, primarily driven by net CVA gains, compared with a loss in the prior year.
Noninterest expense was $10.8 billion, down 7% from the prior year, primarily driven by business simplification and lower legal expense.

Selected metrics

	As of or for the three months ended June 30,			As of or for the six months ended June 30,		
(in millions, except headcount)	2015	2014	Change	2015	2014	Change
Selected balance sheet data (period-end)						
Assets	$819,745	$872,947	(6)%	$819,745	$872,947	(6)%
Loans:						
Loans retained[(a)]	96,579	99,733	(3)	96,579	99,733	(3)
Loans held-for-sale and loans at fair value	7,211	9,048	(20)	7,211	9,048	(20)
Total loans	103,790	108,781	(5)	103,790	108,781	(5)
Core loans	103,235	104,520	(1)	103,235	104,520	(1)
Equity	62,000	61,000	2	62,000	61,000	2
Selected balance sheet data (average)						
Assets	$845,225	$846,142	—	$855,220	$848,791	1
Trading assets-debt and equity instruments	317,385	317,054	—	314,837	311,627	1
Trading assets-derivative receivables	68,949	59,560	16	73,128	61,811	18
Loans:						
Loans retained[(a)]	94,711	96,750	(2)	96,900	96,277	1
Loans held-for-sale and loans at fair value	5,504	8,891	(38)	4,786	8,491	(44)
Total loans	100,215	105,641	(5)	101,686	104,768	(3)
Equity	62,000	61,000	2	62,000	61,000	2
Headcount[(b)]	49,367	51,554	(4)%	49,367	51,554	(4)%

(a) Loans retained includes credit portfolio loans, trade finance loans, other held-for-investment loans and overdrafts.

(b) Effective in the second quarter of 2015, certain technology staff were transferred from CIB to CB; previously reported headcount has been revised to conform with the current presentation. As the related expense for these staff is not material, prior period expenses have not been revised. Prior to the second quarter of 2015 compensation expense related to this headcount was recorded in the CIB, with an allocation to CB (reported in noncompensation expense); commencing with the second quarter, such expense will be recorded as compensation expense in CB and accordingly total noninterest expense related to this headcount in both CB and CIB will remain unchanged.

Selected metrics

	As of or for the three months ended June 30,			As of or for the six months ended June 30,		
(in millions, except ratios and where otherwise noted)	2015	2014	Change	2015	2014	Change
Credit data and quality statistics						
Net charge-offs/(recoveries)	$(15)	$(4)	(275)%	$(26)	$(5)	(420)%
Nonperforming assets:						
Nonaccrual loans:						
Nonaccrual loans retained[(a)(b)]	324	111	192	324	111	192
Nonaccrual loans held-for-sale and loans at fair value	12	167	(93)	12	167	(93)
Total nonaccrual loans	336	278	21	336	278	21
Derivative receivables	256	361	(29)	256	361	(29)
Assets acquired in loan satisfactions	60	106	(43)	60	106	(43)
Total nonperforming assets	652	745	(12)	652	745	(12)
Allowance for credit losses:						
Allowance for loan losses	1,086	1,112	(2)	1,086	1,112	(2)
Allowance for lending-related commitments	437	479	(9)	437	479	(9)
Total allowance for credit losses	1,523	1,591	(4)%	1,523	1,591	(4)%

Net charge-off/(recovery) rate[(a)]	(0.06)%	(0.02)%	(0.05)%	(0.01)%
Allowance for loan losses to period-end loans retained[(a)]	1.12	1.11	1.12	1.11
Allowance for loan losses to period-end loans retained, excluding trade finance and conduits[(c)]	1.73	1.80	1.73	1.80
Allowance for loan losses to nonaccrual loans retained[(a)(b)]	335	1,002	335	1,002
Nonaccrual loans to total period-end loans	0.32 %	0.26 %	0.32 %	0.26 %

(a) Loans retained includes credit portfolio loans, trade finance loans, other held-for-investment loans and overdrafts.

(b) Allowance for loan losses of $64 million and $22 million were held against these nonaccrual loans at June 30, 2015 and 2014, respectively.

(c) Management uses allowance for loan losses to period-end loans retained, excluding trade finance and conduits, a non-GAAP financial measure, to provide a more meaningful assessment of CIB’s allowance coverage ratio.

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Business metrics

(in millions, except where otherwise noted)	Three months ended June 30, 2015	2014	Change	Six months ended June 30, 2015	2014	Change
Advisory	$466	$397	17%	$1,008	$780	29%
Equity underwriting	452	477	(5)	851	830	3
Debt underwriting	907	899	1	1,727	1,607	7
Total investment banking fees	$1,825	$1,773	3%	$3,586	$3,217	11%

League table results – wallet share

	Six months ended June 30, 2015 Share	Rank	Full-year 2014 Share	Rank
Based on fees[(a)]				
Debt, equity and equity-related				
Global	8.0 %	#1	7.6 %	#1
U.S.	11.8	1	10.7	1
Long-term debt[(b)]				
Global	8.6	1	8.0	1
U.S.	11.7	1	11.6	1
Equity and equity-related				
Global[(c)]	7.4	2	7.1	3
U.S.	12.0	1	9.6	2
M&A[(d)]				
Global	8.9	2	8.0	2
U.S.	10.4	2	9.8	2
Loan syndications				
Global	8.5	1	9.3	1
U.S.	11.2	1	13.1	1
Global investment banking fees[(e)]	8.3 %	#1	8.1 %	#1

League table results – volumes

	Six months ended June 30, 2015 Share	Rank	Full-year 2014 Share	Rank
Based on volumes[(f)]				
Debt, equity and equity-related				
Global	7.3 %	#1	6.8 %	#1
U.S.	12.3	1	11.8	1
Long-term debt[(b)]				
Global	7.3	1	6.7	1
U.S.	11.7	1	11.3	1
Equity and equity-related				
Global[(c)]	7.6	2	7.5	3
U.S.	13.7	1	11.0	2
M&A announced[(d)]				
Global	24.4	3	20.5	2
U.S.	29.6	3	25.2	3
Loan syndications				

Global	11.1		1	12.3		1
U.S.	16.5	%	#1	19.0	%	#1

(a) Source: Dealogic. Reflects the ranking of revenue wallet and market share
(b) Long-term debt rankings include investment-grade, high-yield, supranationals, sovereigns, agencies, covered bonds, asset-backed securities ("ABS") and mortgage-backed securities; and exclude money market, short-term debt, and U.S. municipal securities.
(c) Global equity and equity-related rankings include rights offerings and Chinese A-Shares.
(d) M&A and Announced M&A rankings reflect the removal of any withdrawn transactions. U.S. M&A revenue wallet represents wallet from client parents based in the U.S. U.S. announced M&A volumes represents any U.S. involvement ranking.
(e) Global investment banking fees per Dealogic exclude money market, short-term debt and shelf deals.
(f) Source: Dealogic. Reflects transaction volume and market share. Global announced M&A is based on transaction value at announcement; because of joint M&A assignments, M&A market share of all participants will add up to more than 100%. All other transaction volume-based rankings are based on proceeds, with full credit to each book manager/equal if joint.

Business metrics

	As of or for the three months ended June 30,				As of or for the six months ended June 30,			
(in millions, except where otherwise noted)	2015	2014	Change		2015	2014	Change	
Assets under custody ("AUC") by asset class (period-end) (in billions):								
Fixed Income	$12,134	$12,579	(4)%		$12,134	$12,579	(4)%	
Equity	6,652	7,275	(9	)	6,652	7,275	(9	)
Other[(a)]	1,711	1,805	(5	)	1,711	1,805	(5	)
Total AUC	$20,497	$21,659	(5	)	$20,497	$21,659	(5	)
Client deposits and other third party liabilities (average)	$401,280	$403,268	—		$422,607	$407,884	4	
Trade finance loans (period-end)	21,195	28,291	(25	)%	21,195	28,291	(25	)%

(a) Consists of mutual funds, unit investment trusts, currencies, annuities, insurance contracts, options and other contracts.

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International metrics

	As of or for the three months ended June 30,			As of or for the six months ended June 30,		
(in millions, except where otherwise noted)	2015	2014	Change	2015	2014	Change
Total net revenue[(a)]						
Europe/Middle East/Africa	$2,685	$3,410	(21)%	$6,181	$6,446	(4)%
Asia/Pacific	1,358	1,127	20	2,621	2,172	21
Latin America/Caribbean	220	290	(24)	551	566	(3)
Total international net revenue	4,263	4,827	(12)	9,353	9,184	2
North America	4,460	4,438	—	8,952	8,923	—
Total net revenue	$8,723	$9,265	(6)	$18,305	$18,107	1
Loans (period-end)[(a)]						
Europe/Middle East/Africa	$25,874	$29,831	(13)	$25,874	$29,831	(13)
Asia/Pacific	17,430	25,004	(30)	17,430	25,004	(30)
Latin America/Caribbean	8,768	8,811	—	8,768	8,811	—
Total international loans	52,072	63,646	(18)	52,072	63,646	(18)
North America	44,507	36,087	23	44,507	36,087	23
Total loans	$96,579	$99,733	(3)	$96,579	$99,733	(3)
Client deposits and other third-party liabilities (average)[(a)]						
Europe/Middle East/Africa	$149,055	$147,859	1	$154,217	$147,205	5
Asia/Pacific	64,860	65,387	(1)	67,872	63,165	7
Latin America/Caribbean	23,518	23,619	—	23,480	22,834	3
Total international	$237,433	$236,865	—	$245,569	$233,204	5
North America	163,847	166,403	(2)	177,038	174,680	1
Total client deposits and other third-party liabilities	$401,280	$403,268	—	$422,607	$407,884	4
AUC (period-end) (in billions)[(a)]						
North America	$12,068	$11,764	3	$12,068	$11,764	3
All other regions	8,429	9,895	(15)	8,429	9,895	(15)
Total AUC	$20,497	$21,659	(5)%	$20,497	$21,659	(5)%

(a) Total net revenue is based predominantly on the domicile of the client or location of the trading desk, as applicable. Loans outstanding (excluding loans held-for-sale and loans at fair value), client deposits and other third-party liabilities, and AUC are based predominantly on the domicile of the client.

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COMMERCIAL BANKING

For a discussion of the business profile of CB, see pages 97–99 of JPMorgan Chase's 2014 Annual Report and Line of Business Metrics on page 181.

Selected income statement data

	Three months ended June 30,			Six months ended June 30,		
(in millions)	2015	2014	Change	2015	2014	Change
Revenue						
Lending- and deposit-related fees	$242	$252	(4)%	$479	$498	(4)%
Asset management, administration and commissions	22	26	(15)	46	49	(6)
All other income[(a)]	345	299	15	720	588	22
Noninterest revenue	609	577	6	1,245	1,135	10
Net interest income	1,130	1,154	(2)	2,236	2,274	(2)
Total net revenue[(b)]	1,739	1,731	—	3,481	3,409	2
Provision for credit losses	182	(67)	NM	243	(62)	NM
Noninterest expense						
Compensation expense	308	292	5	617	599	3
Noncompensation expense	395	383	3	795	762	4
Total noninterest expense	703	675	4	1,412	1,361	4
Income before income tax expense	854	1,123	(24)	1,826	2,110	(13)
Income tax expense	329	446	(26)	703	839	(16)
Net income	$525	$677	(22)%	$1,123	$1,271	(12)%

(a) Includes revenue from investment banking products and commercial card transactions.

(b) Total net revenue included tax-equivalent adjustments from income tax credits related to equity investments in designated community development entities that provide loans to qualified businesses in low-income communities, as well as tax-exempt income from municipal bond activity of $115 million and $105 million for the three months ended June 30, 2015 and 2014, respectively, and $228 million and $209 million for the six months ended June 30, 2015 and 2014, respectively.

Quarterly results

Net income was $525 million, a decrease of 22% compared with the prior year, driven by a higher provision for credit losses.

Net revenue was $1.7 billion, flat compared with the prior year. Net interest income was $1.1 billion, down 2% compared with the prior year, reflecting spread compression, largely offset by higher lending balances. Noninterest revenue was $609 million, up 6% compared with the prior year, driven by higher investment banking revenue.

Noninterest expense was $703 million, up 4% compared with the prior year, driven by higher investment in controls.

The provision for credit losses was $182 million, $249 million higher than the prior year, driven by an increase in the allowance for loan losses due to select downgrades.

Year-to-date results

Net income was $1.1 billion, a decrease of 12% compared with the prior year, driven by a higher provision for credit losses and higher noninterest expense, offset by higher investment banking revenue.

Net revenue was $3.5 billion, up 2% compared with prior year. Net interest income was $2.2 billion, down 2% compared with the prior year, reflecting spread compression, largely offset by higher lending and deposit balances.

Noninterest expense was $1.4 billion, up 4% compared with the prior year, driven by higher investment in controls.

The provision for credit losses was $243 million, $305 million higher than the prior year, predominantly related to an increase in the allowance for loan losses due to select downgrades.

Selected metrics

	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	2015	2014	Change	2015	2014	Change
Revenue by product						
Lending[a]	$867	$850	2 %	$1,692	$1,687	— %
Treasury services[a]	646	687	(6)	1,293	1,354	(5)
Investment banking	196	166	18	444	312	42
Other[a]	30	28	7	52	56	(7)
Total Commercial Banking net revenue	$1,739	$1,731	—	$3,481	$3,409	2
Investment banking revenue, gross[b]	$589	$481	22	$1,342	$928	45
Revenue by client segment						
Middle Market Banking[c]	$688	$713	(4)	$1,365	$1,413	(3)
Corporate Client Banking[c]	532	494	8	1,096	956	15
Commercial Term Lending	318	313	2	626	627	—
Real Estate Banking	117	132	(11)	233	251	(7)
Other	84	79	6	161	162	(1)
Total Commercial Banking net revenue	$1,739	$1,731	— %	$3,481	$3,409	2 %
Financial ratios						
Return on common equity	14%	19 %		15 %	18 %	
Overhead ratio	40	39		41	40	

(a) Effective in the second quarter of 2015, Commercial Card and Chase Commerce Solutions/Paymentech product revenue was reclassified from Lending and Other, respectively, to Treasury Services. Prior period amounts were revised to conform with the current period presentation.

(b) Represents the total revenue from investment banking products sold to CB clients.

(c) Effective in the first quarter of 2015, mortgage warehouse lending clients were transferred from Middle Market Banking to Corporate Client Banking. Prior period revenue, period-end loans, and average loans by client segment were revised to conform with the current period presentation.

Selected metrics (continued)

(in millions, except headcount)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Selected balance sheet data (period-end)						
Total assets	$201,377	$192,523	5 %	$201,377	$192,523	5 %
Loans:						
Loans retained	157,947	141,181	12	157,947	141,181	12
Loans held-for-sale and loans at fair value	1,506	1,094	38	1,506	1,094	38
Total loans	$159,453	$142,275	12	$159,453	$142,275	12
Core loans	158,568	140,887	13	158,568	140,887	13
Equity	14,000	14,000	—	14,000	14,000	—
Period-end loans by client segment						
Middle Market Banking[(a)]	$51,713	$51,435	1	$51,713	$51,435	1
Corporate Client Banking[(a)]	30,171	23,397	29	30,171	23,397	29
Commercial Term Lending	58,314	50,986	14	58,314	50,986	14
Real Estate Banking	14,231	11,903	20	14,231	11,903	20
Other	5,024	4,554	10	5,024	4,554	10
Total Commercial Banking loans	$159,453	$142,275	12	$159,453	$142,275	12
Selected balance sheet data (average)						
Total assets	$198,740	$192,363	3	$197,341	$192,554	2
Loans:						
Loans retained	155,110	139,848	11	152,435	138,259	10
Loans held-for-sale and loans at fair value	870	982	(11)	715	1,010	(29)
Total loans	$155,980	$140,830	11	$153,150	$139,269	10
Client deposits and other third-party liabilities	197,004	199,979	(1)	203,489	201,453	1
Equity	14,000	14,000	—	14,000	14,000	—
Average loans by client segment						
Middle Market Banking[(a)]	$51,440	$51,352	—	$50,991	$51,014	—
Corporate Client Banking[(a)]	28,986	22,846	27	27,826	22,379	24
Commercial Term Lending	56,814	50,451	13	55,790	49,926	12
Real Estate Banking	13,732	11,724	17	13,603	11,567	18
Other	5,008	4,457	12	4,940	4,383	13
Total Commercial Banking loans	$155,980	$140,830	11	$153,150	$139,269	10
Headcount[(b)]	7,568	7,330	3 %	7,568	7,330	3 %

(a) Effective in the first quarter of 2015, mortgage warehouse lending clients were transferred from Middle Market Banking to Corporate Client Banking. Prior period revenue, period-end loans, and average loans by client segment were revised to conform with the current period presentation.

(b) Effective in the second quarter of 2015, certain technology staff were transferred from CIB to CB; previously reported headcount has been revised to conform with the current presentation. As the related expense for these staff is not material, prior period expenses have not been revised. Prior to the second quarter of 2015, compensation expense related to this headcount was recorded in the CIB, with an allocation to CB (reported in noncompensation expense); commencing with the second quarter, such expense will be recorded as compensation expense in CB and accordingly total noninterest expense related to this headcount in both CB and CIB will remain unchanged.

Selected metrics (continued)

(in millions, except ratios)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Credit data and quality statistics						
Net charge-offs/(recoveries)	$(4)	$(26)	85%	$7	$(40)	NM
Nonperforming assets						
Nonaccrual loans:						
Nonaccrual loans retained[(a)]	384	429	(10)	384	429	(10)%
Nonaccrual loans held-for-sale and loans at fair value	14	17	(18)	14	17	(18)
Total nonaccrual loans	398	446	(11)	398	446	(11)
Assets acquired in loan satisfactions	5	12	(58)	5	12	(58)
Total nonperforming assets	403	458	(12)	403	458	(12)
Allowance for credit losses:						
Allowance for loan losses	2,705	2,637	3	2,705	2,637	3
Allowance for lending-related commitments	163	155	5	163	155	5
Total allowance for credit losses	2,868	2,792	3%	2,868	2,792	3%
Net charge-off/(recovery) rate[(b)]	(0.01)%	(0.07)%		0.01%	(0.06)%	
Allowance for loan losses to period-end loans retained	1.71	1.87		1.71	1.87	
Allowance for loan losses to nonaccrual loans retained[(a)]	704	615		704	615	
Nonaccrual loans to period-end total loans	0.25	0.31		0.25	0.31	

(a) Allowance for loan losses of $42 million and $75 million was held against nonaccrual loans retained at June 30, 2015 and 2014, respectively.

(b) Loans held-for-sale and loans at fair value were excluded when calculating the net charge-off/ (recovery) rate.

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ASSET MANAGEMENT

For a discussion of the business profile of AM, see pages 100–102 of JPMorgan Chase's 2014 Annual Report and Line of Business Metrics on pages 181–182.

Selected income statement data

(in millions, except ratios and headcount)	Three months ended June 30, 2015	2014	Change	Six months ended June 30, 2015	2014	Change
Revenue						
Asset management, administration and commissions	$2,381	$2,242	6 %	$4,610	$4,342	6 %
All other income	163	138	18	318	256	24
Noninterest revenue	2,544	2,380	7	4,928	4,598	7
Net interest income	631	602	5	1,252	1,184	6
Total net revenue	3,175	2,982	6	6,180	5,782	7
Provision for credit losses	—	1	(100)	4	(8)	NM
Noninterest expense						
Compensation expense	1,299	1,231	6	2,588	2,487	4
Noncompensation expense	1,107	831	33	1,993	1,650	21
Total noninterest expense	2,406	2,062	17	4,581	4,137	11
Income before income tax expense	769	919	(16)	1,595	1,653	(4)
Income tax expense	318	350	(9)	642	630	2
Net income	$451	$569	(21)	$953	$1,023	(7)
Revenue by line of business						
Global Investment Management	$1,670	$1,560	7	$3,203	$2,978	8
Global Wealth Management	1,505	1,422	6	2,977	2,804	6
Total net revenue	$3,175	$2,982	6	$6,180	$5,782	7
Financial ratios						
Return on common equity	19 %	25 %		21 %	22 %	
Overhead ratio	76	69		74	72	
Pretax margin ratio:						
Global Investment Management	26	32		28	29	
Global Wealth Management	22	29		24	28	
Asset Management	24	31		26	29	
Headcount	20,237	20,322	—	20,237	20,322	—
Number of client advisors	2,746	2,828	(3)%	2,746	2,828	(3)%

Quarterly results

Net income was $451 million, a decrease of 21%, reflecting higher noninterest expense, largely offset by higher revenue.

Net revenue was $3.2 billion, an increase of 6%. Net interest income was $631 million, up 5%, driven by higher loan and deposit balances. Noninterest revenue was $2.5 billion, up 7%, on higher market levels and net client inflows into assets under management.

Noninterest expense was $2.4 billion, an increase of 17%, due to higher legal expense, the impact of a loss from a held-for-sale asset and continued investment in both infrastructure and controls.

Year-to-date results

Net income was $1.0 billion, a decrease of 7%, reflecting higher noninterest expense, predominantly offset by higher revenue.

Net revenue was $6.2 billion, an increase of 7%. Net interest income was $1.3 billion, up 6%, driven by higher loan and deposit balances. Noninterest revenue was $4.9 billion, up 7%, on net client inflows into assets under management and higher market levels.

Noninterest expense was $4.6 billion, an increase of 11%, due to higher legal expense, the impact of a loss from a held-for-sale asset and continued investment in both infrastructure and controls.

Selected metrics	As of or for the three months ended June 30,			As of or for the six months ended June 30,		
(in millions, except ranking data and ratios)	2015	2014	Change	2015	2014	Change
% of JPM mutual fund assets rated as 4- or 5-star[(a)]	54 %	51 %		54 %	51 %	
% of JPM mutual fund assets ranked in 1st or 2nd quartile:[(b)]						
1 year	78	48		78	48	
3 years	64	67		64	67	
5 years	78	69		78	69	
Selected balance sheet data (period-end)						
Total assets	$134,059	$128,362	4 %	$134,059	$128,362	4 %
Loans[(c)]	109,336	100,907	8	109,336	100,907	8
Core loans	109,336	100,907	8	109,336	100,907	8
Deposits	141,179	145,655	(3)	141,179	145,655	(3)
Equity	9,000	9,000	—	9,000	9,000	—
Selected balance sheet data (average)						
Total assets	$130,548	$125,492	4	$128,424	$124,088	3
Loans	107,250	98,695	9	105,279	97,186	8
Deposits	152,563	147,747	3	155,386	148,585	5
Equity	9,000	9,000	—	9,000	9,000	—
Credit data and quality statistics						
Net charge-offs	$(1)	$(13)	92	$2	$(8)	NM
Nonaccrual loans	209	182	15	209	182	15
Allowance for credit losses:						
Allowance for loan losses	273	276	(1)	273	276	(1)
Allowance for lending-related commitments	5	5	—	5	5	—
Total allowance for credit losses	278	281	(1)%	278	281	(1)%
Net charge-off rate	—	(0.05)%		—	(0.02)%	
Allowance for loan losses to period-end loans	0.25	0.27		0.25	0.27	
Allowance for loan losses to nonaccrual loans	131	152		131	152	
Nonaccrual loans to period-end loans	0.19	0.18		0.19	0.18	

(a) Represents the "overall star rating" derived from Morningstar for the U.S., the U.K., Luxembourg, Hong Kong and Taiwan domiciled funds; and Nomura "star rating" for Japan domiciled funds. Includes only Global Investment Management retail open ended mutual funds that have a rating. Excludes money market funds, Undiscovered Managers Fund, and Brazil and India domiciled funds.

(b) Quartile ranking sourced from: Lipper for the U.S. and Taiwan domiciled funds; Morningstar for the U.K., Luxembourg and Hong Kong domiciled funds; Nomura for Japan domiciled funds and FundDoctor for South Korea domiciled funds. Includes only Global Investment Management retail open ended mutual funds that are ranked by the aforementioned sources. Excludes money market funds, Undiscovered Managers Fund, and Brazil and India domiciled funds.

(c) Included $24.0 billion and $20.4 billion of prime mortgage loans reported in the Consumer, excluding credit card, loan portfolio at June 30, 2015 and 2014, respectively. For the same periods, excluded $2.4 billion and $3.2 billion, respectively, of prime mortgage loans reported in the Chief Investment Office ("CIO") portfolio within the Corporate segment.

Client assets
Assets under management were $1.8 trillion, an increase of 4% from the prior year, due to net inflows to long-term products and liquidity products.

Client assets were $2.4 trillion, down 2% from the prior year. Excluding Retirement Plan Services, client assets were up 4% compared with the prior year.

Client assets	June 30,			
(in billions)	2015	2014	Change	
Assets by asset class				
Liquidity	$466	$435	7	%
Fixed income	357	367	(3	)
Equity	380	390	(3	)
Multi-asset and alternatives	578	515	12	
Total assets under management	1,781	1,707	4	
Custody/brokerage/administration/deposits	642	766	(16	)
Total client assets	$2,423	$2,473	(2	)
Memo:				
Alternatives client assets[(a)]	$173	$163	6	
Assets by client segment				
Private Banking	$452	$383	18	
Institutional	830	798	4	
Retail	499	526	(5	)
Total assets under management	$1,781	$1,707	4	
Private Banking	$1,080	$1,012	7	
Institutional	838	798	5	
Retail	505	663	(24	)
Total client assets	$2,423	$2,473	(2	)%

(a) Represents assets under management, as well as client balances in brokerage accounts.

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Client assets (continued)	Three months ended June 30,		Six months ended June 30,	
(in billions)	2015	2014	2015	2014
Assets under management rollforward				
Beginning balance	$1,759	$1,648	$1,744	$1,598
Net asset flows:				
Liquidity	6	(11)	5	(17)
Fixed income	3	20	5	25
Equity	(1)	—	3	3
Multi-asset and alternatives	11	14	21	26
Market/performance/other impacts	3	36	3	72
Ending balance, June 30	$1,781	$1,707	$1,781	$1,707
Client assets rollforward				
Beginning balance	$2,405	$2,394	$2,387	$2,343
Net asset flows	16	21	33	36
Market/performance/other impacts	2	58	3	94
Ending balance, June 30	$2,423	$2,473	$2,423	$2,473

International metrics	As of or for the three months ended June 30,			As of or for the six months ended June 30,		
(in billions, except where otherwise noted)	2015	2014	Change	2015	2014	Change
Total net revenue (in millions)[(a)]						
Europe/Middle East/Africa	$524	$522	—	$995	$1,013	(2)%
Asia/Pacific	302	287	5	588	562	5
Latin America/Caribbean	211	217	(3)	408	415	(2)
Total international net revenue	1,037	1,026	1	1,991	1,990	—
North America	2,138	1,956	9	4,189	3,792	10
Total net revenue	$3,175	$2,982	6	$6,180	$5,782	7
Assets under management						
Europe/Middle East/Africa	$315	$327	(4)	$315	$327	(4)
Asia/Pacific	132	138	(4)	132	138	(4)
Latin America/Caribbean	47	48	(2)	47	48	(2)
Total international assets under management	494	513	(4)	494	513	(4)
North America	1,287	1,194	8	1,287	1,194	8
Total assets under management	$1,781	$1,707	4	$1,781	$1,707	4
Client assets						
Europe/Middle East/Africa	$366	$393	(7)	$366	$393	(7)
Asia/Pacific	183	186	(2)	183	186	(2)
Latin America/Caribbean	114	119	(4)	114	119	(4)
Total international client assets	663	698	(5)	663	698	(5)
North America	1,760	1,775	(1)	1,760	1,775	(1)
Total client assets	$2,423	$2,473	(2)%	$2,423	$2,473	(2)%

(a) Regional revenue is based on the domicile of the client.

CORPORATE

For a discussion of Corporate, see pages 103–104 of JPMorgan Chase's 2014 Annual Report.

Selected income statement data

(in millions, except headcount)	As of or for the three months ended June 30, 2015	2014	Change	As of or for the six months ended June 30, 2015	2014	Change
Revenue						
Principal transactions	$67	$28	139 %	$167	$378	(56)%
Securities gains	40	11	264	93	37	151
All other income	(7)	312	NM	(120)	460	NM
Noninterest revenue	100	351	(72)	140	875	(84)
Net interest income	(221)	(510)	57	(474)	(1,035)	54
Total net revenue[(a)]	(121)	(159)	24	(334)	(160)	(109)
Provision for credit losses	1	(10)	NM	(4)	(21)	81
Noninterest expense						
Compensation expense	953	693	38	1,845	1,380	34
Noncompensation expense[(b)]	791	1,091	(27)	1,737	1,774	(2)
Subtotal	1,744	1,784	(2)	3,582	3,154	14
Net expense allocated to other businesses	(1,700)	(1,604)	(6)	(3,386)	(3,140)	(8)
Total noninterest expense	44	180	(76)	196	14	NM
Income/(loss) before income tax expense/(benefit)	(166)	(329)	50	(526)	(153)	(244)
Income tax expense/(benefit)	(606)	(436)	(39)	(1,024)	(375)	(173)
Net income/(loss)	$440	$107	311	$498	$222	124
Total net revenue						
Treasury and CIO	(163)	(342)	52	(541)	(709)	24
Other Corporate [(c)]	42	183	(77)	207	549	(62)
Total net revenue	$(121)	$(159)	24	$(334)	$(160)	(109)
Net income/(loss)						
Treasury and CIO	(112)	(308)	64	(333)	(627)	47
Other Corporate [(c)]	552	415	33	831	849	(2)
Total net income/(loss)	$440	$107	311	$498	$222	124
Selected balance sheet data (period-end)						
Total assets	$822,237	$878,886	(6)	$822,237	$878,886	(6)
Loans	2,480	3,337	(26)	2,480	3,337	(26)
Core loans	2,474	3,309	(25)	2,474	3,309	(25)
Headcount	27,985	24,298	15 %	27,985	24,298	15 %

(a) Included tax-equivalent adjustments, predominantly due to tax-exempt income from municipal bond investments of $202 million and $180 million for the three months ended June 30, 2015 and 2014, respectively, and $405 million and $344 million for the six months ended June 30, 2015 and 2014, respectively.

(b) Included legal expense of $18 million and $227 million for the three months ended June 30, 2015 and 2014, respectively, and $323 million and $225 million for the six months ended June 30, 2015 and 2014, respectively.

(c) Effective with the first quarter of 2015, the Firm began including the results of Private Equity in the Other Corporate line within the Corporate segment. Prior period amounts have been revised to conform with the current period presentation. The Corporate segment's balance sheets and results of operations were not impacted by this reporting change.

Quarterly results

Net Income was $440 million, compared with $107 million in the prior year. The current quarter reflected higher income tax benefits related to audit settlements and lower legal expenses.
Net revenue was a loss of $121 million compared with a loss of $159 million in the prior year. Noninterest revenue decreased compared with the prior year as a result of the absence in the current period of a benefit recognized in the second quarter of 2014 from a franchise tax settlement.
Noninterest expense was $44 million, a decrease of $136 million from the prior year driven by lower legal expense.

Year-to-date results
Net Income was $498 million, compared with $222 million in the prior year. Higher Income tax benefits related to audit settlements were partially offset by higher expense and lower revenue. Treasury & CIO was a net loss of $333 million, which included a $173 million pretax loss primarily related to the accelerated amortization of cash flow hedges associated with the exit of certain non-operational deposits.
Net revenue was a loss of $334 million, compared with a loss of $160 million in the prior year, driven by lower private equity gains.

Noninterest expense was $196 million, an increase of $182 million from the prior year, largely due to higher legal expense.

Treasury and CIO overview

For a discussion of Treasury and CIO, see page 104 of the Firm's 2014 Annual Report.

At June 30, 2015, the total Treasury and CIO investment securities portfolio was $314.0 billion, and the average credit rating of the securities comprising the portfolio was AA+ (based upon external ratings where available and,

where not available, based primarily upon internal ratings that correspond to ratings as defined by S&P and Moody's). See Note 11 for further information on the Firm's investment securities portfolio.

For further information on liquidity and funding risk, see Liquidity Risk Management on pages 74–78. For information on interest rate, foreign exchange and other risks, Treasury and CIO value-at-risk ("VaR") and the Firm's earnings-at-risk, see Market Risk Management on pages 61–64.

Selected income statement and balance sheet data

	As of or for the three months ended June 30,			As of or for the six months ended June 30,		
(in millions)	2015	2014	Change	2015	2014	Change
Securities gains	$40	$11	264 %	$93	$37	151 %
Investment securities portfolio (average)[(a)]	322,954	348,841	(7)	328,293	347,004	(5)
Investment securities portfolio (period-end)[(b)]	314,048	353,989	(11)	314,048	353,989	(11)
Mortgage loans (average)	2,599	3,425	(24)	2,694	3,547	(24)
Mortgage loans (period-end)	2,455	3,295	(25)%	2,455	3,295	(25)%

(a) Average investment securities included held-to-maturity balances of $50.7 billion and $47.5 billion for the three months ended June 30, 2015 and 2014, respectively, and $50.0 billion and $45.7 billion for the six months ended June 30, 2015 and 2014, respectively.

(b) Period-end investment securities included held-to-maturity balance of $51.6 billion and $47.8 billion at June 30, 2015 and 2014, respectively.

Private equity portfolio information[(a)(b)]

(in millions)	June 30, 2015	December 31, 2014	Change
Carrying value	$2,718	$5,866	(54)%
Cost	4,252	6,281	(32)%

(a) For more information on the Firm's methodologies regarding the valuation of the private equity portfolio, see Note 3 of JPMorgan Chase's 2014 Annual Report.

(b) The sale of a portion of the Private Equity business was completed on January 9, 2015.

ENTERPRISE-WIDE RISK MANAGEMENT

Risk is an inherent part of JPMorgan Chase's business activities. When the Firm extends a consumer or wholesale loan, advises customers on their investment decisions, makes markets in securities, or conducts any number of other services or activities, the Firm takes on some degree of risk. The Firm's overall objective in managing risk is to protect the safety and soundness of the Firm, avoid excessive risk taking, and manage and balance risk in a manner that serves the interest of its clients, customers and shareholders.

The Firm's approach to risk management covers a broad spectrum of risk areas, such as credit, market, liquidity, model, structural interest rate, principal, country, operational, fiduciary and reputation risk.

The Firm believes that effective risk management requires:

- Acceptance of responsibility, including identification and escalation of risk issues, by all individuals within the Firm;
- Ownership of risk management within each line of business and corporate function; and
- Firmwide structures for risk governance.

Firmwide Risk Management is overseen and managed on an enterprise-wide basis. The Firm's Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Chief Risk Officer ("CRO") and Chief Operating Officer ("COO") develop and set the risk management framework and governance structure for the Firm, which is intended to provide comprehensive controls and ongoing management of the major risks inherent in the Firm's business activities. The Firm's risk management framework is intended to create a culture of transparency, awareness and personal responsibility through reporting, collaboration, discussion, escalation and sharing of information. The CEO, CFO, CRO and COO are ultimately responsible and accountable to the Firm's Board of Directors.

The Firm's risk culture strives for continual improvement through ongoing employee training and development, as well as talent retention. The Firm also approaches its incentive compensation arrangements through an integrated risk, compensation and financial management framework to encourage a culture of risk awareness and personal accountability.

The following provides an index of key risk management disclosures. For further information on these disclosures, refer to the page references noted below in both this Form 10-Q and JPMorgan Chase's 2014 Annual Report.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss arising from the default of a customer, client or counterparty. The Firm provides credit to a variety of customers, ranging from large corporate and institutional clients to individual consumers and small businesses. For a further discussion of the Firm's Credit Risk Management framework and organization, and the identification, monitoring and management of credit risks, see Credit Risk Management on pages 110–130 of JPMorgan Chase's 2014 Annual Report.

In the following tables, reported loans include loans retained (i.e., held-for-investment); loans held-for-sale (which are carried at the lower of cost or fair value, with valuation changes recorded in noninterest revenue); and certain loans accounted for at fair value. In addition, the Firm records certain loans accounted for at fair value in trading assets. For further information regarding these loans, see Note 3. For additional information on the Firm's loans and derivative receivables, including the Firm's accounting policies, see Note 13 and Note 5, respectively.

For further information regarding the credit risk inherent in the Firm's investment securities portfolio, see Note 11 of this Form 10-Q and Note 12 of JPMorgan Chase's 2014 Annual Report.

For information on the changes in the credit portfolio, see Consumer Credit Portfolio on pages 46–51, and Wholesale Credit Portfolio on pages 52–57 of this Form 10-Q.

Effective January 1, 2015, the Firm no longer includes within its disclosure of wholesale lending-related commitments the unused amount of advised uncommitted lines of credit as it is within the Firm's discretion whether or not to make a loan under these lines, and the Firm's approval is generally required prior to funding. Prior period amounts have been revised to conform with the current period presentation.

Total credit portfolio

(in millions)	Credit exposure Jun 30, 2015	Credit exposure Dec 31, 2014	Nonperforming[b][c][d] Jun 30, 2015	Nonperforming[b][c][d] Dec 31, 2014
Loans retained	$779,705	$747,508	$6,645	$7,017
Loans held-for-sale	9,111	7,217	217	95
Loans at fair value	2,431	2,611	21	21
Total loans – reported	791,247	757,336	6,883	7,133
Derivative receivables	67,451	78,975	256	275
Receivables from customers and other	22,591	29,080	—	—
Total credit-related assets	881,289	865,391	7,139	7,408
Assets acquired in loan satisfactions				
Real estate owned	NA	NA	408	515
Other	NA	NA	41	44
Total assets acquired in loan satisfactions	NA	NA	449	559
Total assets	881,289	865,391	7,588	7,967
Lending-related commitments	935,582	950,997	133	103
Total credit portfolio	$1,816,871	$1,816,388	$7,721	$8,070
Credit portfolio management derivatives notional, net[a]	$(23,548)	$(26,703)	$(12)	$—
Liquid securities and other cash collateral held against derivatives	(18,440)	(19,604)	NA	NA

(in millions, except ratios)	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Net charge-offs	$1,007	$1,158	$2,059	$2,427
Average retained loans				
Loans – reported	765,730	727,030	757,926	723,798
	721,219	676,168	712,693	672,166

Loans – reported, excluding residential real estate PCI loans				
Net charge-off rates				
Loans – reported	0.53 %	0.64 %	0.55 %	0.68 %
Loans – reported, excluding PCI	0.56	0.69	0.58	0.73

(a) Represents the net notional amount of protection purchased and sold through credit derivatives used to manage both performing and nonperforming wholesale credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on page 57 and Note 5.

(b) Excludes PCI loans. The Firm is recognizing interest income on each pool of PCI loans as they are all performing.

(c) At June 30, 2015, and December 31, 2014, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $7.0 billion and $7.8 billion, respectively, that are 90 or more days past due; (2) student loans insured by U.S. government agencies under the FFELP of $282 million and $367 million, respectively, that are 90 or more days past due; and (3) real estate owned (“REO”) insured by U.S. government agencies of $384 million and $462 million, respectively. These amounts have been excluded based upon the government guarantee. In addition, the Firm’s policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council (“FFIEC”).

(d) At June 30, 2015, and December 31, 2014, total nonaccrual loans represented 0.87% and 0.94%, respectively, of total loans.

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CONSUMER CREDIT PORTFOLIO

The Firm's consumer portfolio consists primarily of residential real estate loans, credit card loans, auto loans, business banking loans, and student loans. The Firm's focus is on serving the prime segment of the consumer credit

market. For further information on consumer loans, see Note 13 of this Form 10-Q and Consumer Credit Portfolio on pages 113–119 and Note 14 of JPMorgan Chase's 2014 Annual Report.

The following table presents consumer credit-related information with respect to the credit portfolio held by CCB, prime mortgage and home equity loans held by AM, and prime mortgage loans held by Corporate.

Consumer credit portfolio

					Three months ended June 30,				Six months ended June 30,			
(in millions, except ratios)	Credit exposure		Nonaccrual loans[f][g]		Net charge-offs/(recoveries)[h]		Average annual net charge-off/(recovery) rate[h][i]		Net charge-offs/(recoveries)[h]		Average annual net charge-off/(recovery) rate[h][i]	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	2015	2014	2015	2014	2015	2014	2015	2014
Consumer, excluding credit card												
Loans, excluding PCI loans and loans held-for-sale												
Home equity – senior lien	$15,541	$16,367	$907	$938	$15	$19	0.38 %	0.46 %	$35	$46	0.44 %	0.55 %
Home equity – junior lien	33,434	36,375	1,461	1,590	56	106	0.66	1.09	127	245	0.74	1.25
Prime mortgage, including option ARMs	132,556	104,921	1,960	2,190	13	(6)	0.04	(0.03)	27	(9)	0.05	(0.02)
Subprime mortgage	3,976	5,056	855	1,036	(1)	(5)	(0.08)	(0.30)	—	8	—	0.23
Auto[a]	56,330	54,536	97	115	32	29	0.23	0.22	83	70	0.30	0.27
Business banking	20,564	20,058	239	279	68	69	1.34	1.44	127	145	1.26	1.53
Student and other	10,574	10,970	253	270	43	105	1.62	3.70	91	180	1.70	3.17
Total loans, excluding PCI loans and loans held-for-sale	272,975	248,283	5,772	6,418	226	317	0.34	0.54	490	685	0.38	0.58
Loans – PCI												
Home equity	16,088	17,095	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Prime mortgage	9,553	10,220	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Subprime mortgage	3,449	3,673	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Option ARMs	14,716	15,708	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Total loans – PCI	43,806	46,696	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	316,781	294,979	5,772	6,418	226	317	0.29	0.44	490	685	0.32	0.48

Total loans – retained												
Loans held-for-sale	1,505 [e]	395 [e]	212	91	—	—	—	—	—	—	—	—
Total consumer, excluding credit card loans	318,286	295,374	5,984	6,509	226	317	0.29	0.44	490	685	0.32	0.48
Lending-related commitments[b]	59,817	58,153										
Receivables from customers[c]	113	108										
Total consumer exposure, excluding credit card	378,216	353,635										
Credit card												
Loans retained[d]	124,705	128,027	—	—	800	885	2.61	2.88	1,589	1,773	2.61	2.90
Loans held-for-sale	1,320	3,021	—	—	—	—	—	—	—	—	—	—
Total credit card loans	126,025	131,048	—	—	800	885	2.61	2.88	1,589	1,773	2.61	2.90
Lending-related commitments[b]	523,717	525,963										
Total credit card exposure	649,742	657,011										
Total consumer credit portfolio	$1,027,958	$1,010,646	$5,984	$6,509	$1,026	$1,202	0.95 %	1.17 %	$2,079	$2,458	0.98 %	1.20
Memo: Total consumer credit portfolio, excluding PCI	$984,152	$963,950	$5,984	$6,509	$1,026	$1,202	1.06 %	1.34 %	$2,079	$2,458	1.10 %	1.38

(a) At June 30, 2015, and December 31, 2014, excluded operating lease assets of $7.7 billion and $6.7 billion, respectively.

(b) Credit card and home equity lending-related commitments represent the total available lines of credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit would be used at the same time. For credit card and home equity commitments (if certain conditions are met), the Firm can reduce or cancel these lines of credit by providing the borrower notice or, in some cases as permitted by law, without notice.

(c) Receivables from customers represent margin loans to retail brokerage customers, and are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.

(d) Includes accrued interest and fees net of an allowance for the uncollectible portion of accrued interest and fee income.

(e) Predominantly represents prime mortgage loans held-for-sale.

(f) At June 30, 2015, and December 31, 2014, nonaccrual loans excluded: (1) mortgage loans insured by U.S. government agencies of $7.0 billion and $7.8 billion, respectively, that are 90 or more days past due; and (2) student loans insured by U.S. government agencies under the FFELP of $282 million and $367 million, respectively, that are 90 or more days past due. These amounts have been excluded from nonaccrual loans based upon the government guarantee. In addition, credit card loans are generally exempt from being placed on nonaccrual status, as permitted by regulatory guidance.

(g) Excludes PCI loans. The Firm is recognizing interest income on each pool of PCI loans as they are all performing.

(h) Net charge-offs and the net charge-off rates excluded write-offs in the PCI portfolio of $55 million and $48 million for the three months ended June 30, 2015 and 2014, respectively, and $110 million and $109 million for the six months ended June 30, 2015 and 2014, respectively. These write-offs decreased the allowance for loan losses for PCI loans. See Consumer Credit Portfolio on pages 113–119 of JPMorgan Chase's 2014 Annual Report for further details.

(i) Average consumer loans held-for-sale were $2.1 billion and $710 million for the three months ended June 30, 2015 and 2014, respectively, and $2.5 billion and $683 million for the six months ended June 30, 2015 and 2014, respectively. These amounts were excluded when calculating net charge-off rates.

Consumer, excluding credit card

Portfolio analysis

Consumer loan balances increased during the six months ended June 30, 2015, predominantly due to originations of high-quality prime mortgage loans that have been retained, partially offset by paydowns and the charge-off or liquidation of delinquent loans. Credit performance has improved across most portfolios as the economy strengthened and home prices increased.

In the following discussion of loan and lending-related categories, PCI loans are excluded from individual loan product discussions and are addressed separately below. For further information about the Firm's consumer portfolio, including information about delinquencies, loan modifications and other credit quality indicators, see Note 14 of JPMorgan Chase's 2014 Annual Report.

Home equity: The home equity portfolio declined from 2014 year-end primarily reflecting loan paydowns and charge-offs. Early-stage delinquencies showed improvement from December 31, 2014. Late-stage delinquencies continue to be elevated as improvement in the number of loans becoming severely delinquent was offset by lower write-downs on these delinquent loans, reflecting higher collateral values. Both senior and junior lien nonaccrual loans decreased from December 31, 2014. Net charge-offs for the three and six months ended June 30, 2015 for both senior and junior lien home equity loans declined when compared with the same period of the prior year as a result of improvement in home prices and delinquencies, but charge-offs remain elevated compared with pre-recessionary levels.

Approximately 15% of the Firm's home equity portfolio consists of home equity loans ("HELOANs") and the remainder consists of home equity lines of credit ("HELOCs"). Approximately half of the HELOANs are senior liens and the remainder are junior liens. For further information on the Firm's home equity portfolio, see Consumer Credit Portfolio on pages 113–119 of JPMorgan Chase's 2014 Annual Report.

The unpaid principal balance of HELOCs outstanding was $44 billion at June 30, 2015. Of this $44 billion, approximately $5 billion has recently recast from interest-only to fully amortizing payments and based upon contractual terms, approximately $21 billion is scheduled to recast, comprised of $3 billion during the remainder of 2015, $7 billion in 2016, $6 billion in 2017 and $5 billion in 2018 and beyond. However, of the total $21 billion scheduled to recast, $14 billion is expected to actually recast; and the remaining $7 billion represents loans to borrowers who are expected either to pre-pay or charge-off prior to recast. The Firm has considered this payment recast risk in its allowance for loan losses based upon the estimated amount of payment shock (i.e., the excess of the fully-amortizing payment over the interest-only payment in effect prior to recast) expected to occur at the payment recast date, along with the corresponding estimated probability of default and loss severity assumptions. Certain factors, such as future developments in both unemployment rates and home prices, could have a significant impact on the performance of these loans.

The Firm manages the risk of HELOCs during their revolving period by closing or reducing the undrawn line to the extent permitted by law when borrowers are exhibiting a material deterioration in their credit risk profile. The Firm will continue to evaluate both the near-term and longer-term repricing and recast risks inherent in its HELOC portfolio to ensure that changes in the Firm's estimate of incurred losses are appropriately considered in the allowance for loan losses and that the Firm's account management practices are appropriate given the portfolio's risk profile.

High-risk seconds are junior lien loans where the borrower has a senior lien loan that is either delinquent or has been modified. Such loans are considered to pose a higher risk of default than junior lien loans for which the senior lien is neither delinquent nor modified. At June 30, 2015, the Firm estimated that its home equity portfolio contained approximately $1.5 billion of current junior lien loans that were considered high risk seconds, compared with $1.8 billion at December 31, 2014. The Firm estimates the balance of its total exposure to high-risk seconds on a quarterly basis using internal data and loan level credit bureau data (which typically provides the delinquency status of the senior lien). The estimated balance of these high-risk seconds may vary from quarter to quarter for reasons such as the movement of related senior liens into and out of the 30+ day delinquency bucket.

Current high-risk seconds

(in billions)	June 30, 2015	December 31, 2014
Junior liens subordinate to:		
Modified current senior lien	$0.6	$0.7
Senior lien 30 – 89 days delinquent	0.4	0.5
Senior lien 90 days or more delinquent[(a)]	0.5	0.6
Total current high-risk seconds	$1.5	$1.8

(a) Junior liens subordinate to senior liens that are 90 days or more past due are classified as nonaccrual loans. At June 30, 2015 and December 31, 2014, excluded approximately $40 million and approximately $50 million, respectively, of junior liens that are performing but not current, which were placed on nonaccrual status in accordance with the regulatory guidance.

Of the estimated $1.5 billion of high-risk junior liens at June 30, 2015, the Firm owns approximately 10% and services approximately 25% of the related senior lien loans to the same borrowers. The performance of the Firm's junior lien loans is generally consistent regardless of whether the Firm owns or services, or does not own or service, the senior lien. The increased probability of default associated with these higher-risk junior lien loans was considered in estimating the allowance for loan losses.

Mortgage: Prime mortgages, including option adjustable-rate mortgages ("ARMs") and loans held-for-sale, increased from December 31, 2014 as originations of high-quality loans that have been retained were partially offset by paydowns, the runoff of option ARM loans and the charge-off or liquidation of delinquent loans. Excluding loans insured by U.S. government agencies, both early-stage and late-stage delinquencies showed improvement from December 31, 2014. Nonaccrual loans decreased from December 31, 2014, but remain elevated primarily as a result of loss mitigation activities. Net charge-offs for the three and six months ended June 30, 2015 remain low, reflecting continued improvement in home prices and delinquencies.

At June 30, 2015, and December 31, 2014, the Firm's prime mortgage portfolio included $11.7 billion and $12.4 billion, respectively, of mortgage loans insured and/or guaranteed by U.S. government agencies, of which $8.8 billion and $9.7 billion, respectively, were 30 days or more past due (of these past due loans, $7.0 billion and $7.8 billion, respectively, were 90 days or more past due). The Firm has entered into a settlement regarding loans insured under federal mortgage insurance programs overseen by the FHA, HUD, and VA; the Firm will continue to monitor exposure on future claim payments for government insured loans, but any financial impact related to exposure on future claims is not expected to be significant and was considered in estimating the allowance for loan losses. For further discussion of the settlement, see Note 31 of JPMorgan Chase's 2014 Annual Report.

At June 30, 2015, and December 31, 2014, the Firm's prime mortgage portfolio included $16.8 billion and $16.3 billion, respectively, of interest-only loans, which represented 12% and 15%, respectively, of the prime mortgage portfolio. These loans have an interest-only payment period generally followed by an adjustable-rate or fixed-rate fully amortizing payment period to maturity and are typically originated as higher-balance loans to higher-income borrowers. To date, losses on this portfolio generally have been consistent with the broader prime mortgage portfolio and the Firm's expectations. The Firm continues to monitor the risks associated with these loans.

Subprime mortgages continued to decrease due to portfolio runoff. Early-stage and late-stage delinquencies have improved from December 31, 2014. Net charge-offs for the three and six months ended June 30, 2015 have benefited from improvement in home prices and delinquencies compared with the prior year.

Auto: Auto loans increased compared with December 31, 2014 as new originations outpaced paydowns and payoffs. Nonaccrual loans improved compared with December 31, 2014. Net charge-offs for the three and six months ended June 30, 2015 increased compared with the same periods of the prior year, reflecting higher average loss per default as new car prices have increased but used car valuations remained essentially flat. The auto loan portfolio predominantly consists of prime-quality credits.

Business banking: Business banking loans increased compared with December 31, 2014 as new originations outpaced paydowns and payoffs. Nonaccrual loans improved compared with December 31, 2014. Net charge-offs for the three and six months ended June 30, 2015 decreased from the same periods of the prior year.

Student and other: Student and other loans decreased from December 31, 2014, due primarily to the runoff of the student loan portfolio. Student nonaccrual loans decreased from December 31, 2014. Net charge-offs for the three and six months ended June 30, 2015 decreased from the same periods of the prior year.

Purchased credit-impaired loans: PCI loans acquired in the Washington Mutual transaction decreased as the portfolio continues to run off.

As of June 30, 2015, approximately 15% of the option ARM PCI loans were delinquent and approximately 64% of the portfolio has been modified into fixed-rate, fully amortizing loans. Substantially all of the remaining loans are making amortizing payments, although such payments are not necessarily fully amortizing. This latter group of loans is subject to the risk of payment shock due to future payment recast. Default rates generally increase on option ARM loans when payment recast results in a payment increase. The expected increase in default rates is considered in the Firm’s quarterly impairment assessment.

The following table provides a summary of lifetime principal loss estimates included in either the nonaccretable difference or the allowance for loan losses.

Summary of PCI loans lifetime principal loss estimates

(in billions)	Lifetime loss estimates[(a)] Jun 30, 2015	Dec 31, 2014	LTD liquidation losses[(b)] Jun 30, 2015	Dec 31, 2014
Home equity	$14.6	$14.6	$12.6	$12.4
Prime mortgage	3.8	3.8	3.6	3.5
Subprime mortgage	3.4	3.3	3.0	2.8
Option ARMs	9.9	9.9	9.4	9.3
Total	$31.7	$31.6	$28.6	$28.0

(a) Includes the original nonaccretable difference established in purchase accounting of $30.5 billion for principal losses plus additional principal losses recognized subsequent to acquisition through the provision and allowance for loan losses. The remaining nonaccretable difference for principal losses was $1.8 billion and $2.3 billion at June 30, 2015, and December 31, 2014, respectively.

(b) Life-to-date ("LTD") liquidation losses represent both realization of loss upon loan resolution and any principal forgiven upon modification.

Current estimated LTVs of residential real estate loans

The current estimated average loan-to-value ("LTV") ratio for residential real estate loans retained, excluding mortgage loans insured by U.S. government agencies and PCI loans, was 61% at both June 30, 2015 and December 31, 2014. The following table presents the current estimated LTV ratios for PCI loans, as well as the ratios of the carrying value of the underlying loans to the current estimated collateral value. Because such loans were initially measured at fair value, the ratios of the carrying value to the current estimated collateral value will be lower than the current estimated LTV ratios, which are based on the unpaid principal balances. The estimated collateral values used to calculate these ratios do not represent actual appraised loan-level collateral values; as such, the resulting ratios are necessarily imprecise and should therefore be viewed as estimates.

LTV ratios and ratios of carrying values to current estimated collateral values – PCI loans

(in millions, except ratios)	June 30, 2015 Unpaid principal balance	Current estimated LTV ratio[(a)]	Net carrying value[(c)]	Ratio of net carrying value to current estimated collateral value[(c)]	December 31, 2014 Unpaid principal balance	Current estimated LTV ratio[(a)]	Net carrying value[(c)]	Ratio of net carrying value to current estimated collateral value[(c)]
Home equity	$16,496	80 %[(b)]	$14,330	70 %	$17,740	83 %[(b)]	$15,337	72 %
Prime mortgage	9,580	73	8,470	64	10,249	76	9,027	67
Subprime mortgage	4,331	79	3,269	59	4,652	82	3,493	62
Option ARMs	15,338	71	14,522	67	16,496	74	15,514	70

(a) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated at least quarterly based on home valuation models that utilize nationally recognized home price index valuation estimates; such models incorporate actual data to the extent available and forecasted data where actual data is not available.

(b) Represents current estimated combined LTV for junior home equity liens, which considers all available lien positions, as well as unused lines, related to the property. All other products are presented without consideration of subordinate liens on the property.

(c)

Net carrying value includes the effect of fair value adjustments that were applied to the consumer PCI portfolio at the date of acquisition and is also net of the allowance for loan losses at June 30, 2015, and December 31, 2014 of $1.1 billion and $1.2 billion for prime mortgage, respectively, and $194 million for option ARMs, $1.8 billion for home equity, and $180 million for subprime mortgage for both periods.

The current estimated average LTV ratios were 74% and 83% for California and Florida PCI loans, respectively, at June 30, 2015, compared with 77% and 88%, respectively, at December 31, 2014. Average LTV ratios have declined consistent with recent improvements in home prices. Although home prices have improved, home prices in most areas of California and Florida are still lower than at the peak of the housing market; this continues to negatively contribute to current estimated average LTV ratios and the ratio of net carrying value to current estimated collateral value for loans in the PCI portfolio.
For further information on current estimated LTVs on residential real estate loans, see Note 13.

Geographic composition of residential real estate loans
For information on the geographic composition of the Firm's residential real estate loans, see Note 13.
Loan modification activities – residential real estate loans
The performance of modified loans generally differs by product type due to differences in both the credit quality and the types of modifications provided. Performance metrics for modifications to the residential real estate portfolio, excluding PCI loans, that have been seasoned more than six months show weighted-average redefault rates of 19% for senior lien home equity, 22% for junior lien home equity, 17% for prime mortgages including option ARMs, and 29% for subprime mortgages. The cumulative performance metrics for modifications to the PCI residential real estate portfolio that have been seasoned more than six months show weighted average redefault rates of 20% for home equity, 18% for prime mortgages, 16% for option ARMs and 32% for subprime mortgages. The favorable performance of the PCI option ARM

modifications is the result of a targeted proactive program which fixed the borrower's payment to the amount at the point of modification. The cumulative redefault rates reflect the performance of modifications completed under both the Home Affordable Modification Program ("HAMP") and the Firm's proprietary modification programs (primarily the Firm's modification program that was modeled after HAMP) from October 1, 2009, through June 30, 2015.
Certain loans that were modified under HAMP and the Firm's proprietary modification programs have interest rate reset provisions ("step-rate modifications"). Interest rates on these loans generally began to increase beginning in 2014 by 1% per year until the rate reaches a specified cap, typically at a prevailing market interest rate for a fixed-rate loan as of the modification date. The carrying value of non-PCI loans modified in step-rate modifications was $4 billion at June 30, 2015, with $1 billion that have recently experienced or are scheduled to experience the initial interest rate increase in 2015 and $1 billion that are scheduled to experience the initial rate increase in both 2016 and 2017. The unpaid principal balance of PCI loans modified in step-rate modifications was $10 billion at June 30, 2015, with $2 billion that have recently experienced or are scheduled to experience the initial interest rate increase in 2015, and $3 billion, and $2 billion scheduled to experience the initial interest rate increase in 2016 and 2017, respectively. The impact of these potential interest rate increases is considered in the Firm's allowance for loan losses. The Firm will continue to monitor this risk exposure to ensure that it is appropriately considered in the Firm's allowance for loan losses.
The following table presents information as of June 30, 2015, and December 31, 2014, relating to modified retained residential real estate loans for which concessions have been granted to borrowers experiencing financial difficulty. For further information on modifications for the three and six months ended June 30, 2015 and 2014, see Note 13.

Modified residential real estate loans

	June 30, 2015		December 31, 2014	
(in millions)	Retained loans	Non-accrual retained loans[d]	Retained loans	Non-accrual retained loans[d]
Modified residential real estate loans, excluding PCI loans[a][b]				
Home equity – senior lien	$1,077	$609	$1,101	$628
Home equity – junior lien	1,279	609	1,304	632
Prime mortgage, including option ARMs	5,093	1,433	6,145	1,559
Subprime mortgage	1,951	752	2,878	931
Total modified residential real estate loans, excluding PCI loans	$9,400	$3,403	$11,428	$3,750
Modified PCI loans[c]				
Home equity	$2,524	NA	$2,580	NA
Prime mortgage	5,991	NA	6,309	NA
Subprime mortgage	3,432	NA	3,647	NA
Option ARMs	11,029	NA	11,711	NA
Total modified PCI loans	$22,976	NA	$24,247	NA

(a) Amounts represent the carrying value of modified residential real estate loans.
(b) At June 30, 2015, and December 31, 2014, $4.5 billion and $4.9 billion, respectively, of loans modified subsequent to repurchase from Ginnie Mae in accordance with the standards of the appropriate government agency (i.e., FHA, VA, RHS) are not included in the table above. When such loans perform subsequent to modification in accordance with Ginnie Mae guidelines, they are generally sold back into Ginnie Mae loan pools. Modified loans that do not re-perform become subject to foreclosure. For additional information about sales of loans in securitization transactions with Ginnie Mae, see Note 15.
(c) Amounts represent the unpaid principal balance of modified PCI loans.
(d) As of June 30, 2015, and December 31, 2014, nonaccrual loans included $2.6 billion and $2.9 billion, respectively, of troubled debt restructurings ("TDRs") for which the borrowers were less than 90 days past due. For additional

information about loans modified in a TDR that are on nonaccrual status, see Note 13.

Nonperforming assets

The following table presents information as of June 30, 2015, and December 31, 2014, about consumer, excluding credit card, nonperforming assets.

Nonperforming assets[(a)]

(in millions)	June 30, 2015	December 31, 2014
Nonaccrual loans[(b)]		
Residential real estate	$5,395	$5,845
Other consumer	589	664
Total nonaccrual loans	5,984	6,509
Assets acquired in loan satisfactions		
Real estate owned	342	437
Other	34	36
Total assets acquired in loan satisfactions	376	473
Total nonperforming assets	$6,360	$6,982

(a) At June 30, 2015, and December 31, 2014, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $7.0 billion and $7.8 billion, respectively, that are 90 or more days past due; (2) student loans insured by U.S. government agencies under the FFELP of $282 million and $367 million, respectively, that are 90 or more days past due; and (3) real estate owned insured by U.S. government agencies of $384 million and $462 million, respectively. These amounts have been excluded based upon the government guarantee.

(b) Excludes PCI loans that were acquired as part of the Washington Mutual transaction, which are accounted for on a pool basis. Since each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past-due status of the pools, or that of individual loans within the pools, is not meaningful. Because the Firm is recognizing interest income on each pool of loans, they are all considered to be performing.

Nonaccrual loans in the residential real estate portfolio totaled $5.4 billion at June 30, 2015, of which 31% were greater than 150 days past due, compared with nonaccrual residential real estate loans of $5.8 billion at December 31, 2014, of which 32% were greater than 150 days past due. In the aggregate, the unpaid principal balance of residential real estate loans greater than 150 days past due was charged down by approximately 46% and 50% to the estimated net realizable value of the collateral at June 30, 2015, and December 31, 2014, respectively.

Active and suspended foreclosure: For information on loans that were in the process of active or suspended foreclosure, see Note 13.

Nonaccrual loans: The following table presents changes in consumer, excluding credit card, nonaccrual loans for the six months ended June 30, 2015 and 2014.

Nonaccrual loans

Six months ended June 30,

(in millions)	2015	2014
Beginning balance	$6,509	$7,496
Additions	1,805	2,656
Reductions:		
Principal payments and other[(a)]	784	780
Charge-offs	395	752
Returned to performing status	872	1,227
Foreclosures and other liquidations	279	323
Total reductions	2,330	3,082
Net additions/(reductions)	(525)	(426)
Ending balance	$5,984	$7,070

(a) Other reductions includes loan sales.

Credit Card

Total credit card loans decreased from December 31, 2014 due to seasonality, sales of non-core loans and the transfer of commercial card loans to the CIB. The 30+ day delinquency rate decreased to 1.29% at June 30, 2015, from 1.44% at December 31, 2014, and remains near record lows. For the three months ended June 30, 2015 and 2014, the net charge-off rates were 2.61% and 2.88%, respectively. For the six months ended June 30, 2015 and 2014, the net charge-off rates were 2.61% and 2.90%, respectively. Charge-offs improved compared with a year ago, as a result of lower delinquent loans. The credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification. For information on the geographic composition of the Firm’s credit card loans, see Note 13.

Modifications of credit card loans

At June 30, 2015, and December 31, 2014, the Firm had $1.7 billion and $2.0 billion, respectively, of credit card loans outstanding that have been modified in TDRs. These balances included both credit card loans with modified payment terms and credit card loans that reverted back to their pre-modification payment terms because the cardholder did not comply with the modified payment terms. The decrease in modified credit card loans outstanding from December 31, 2014, was attributable to a reduction in new modifications as well as ongoing payments and charge-offs on previously modified credit card loans.

Consistent with the Firm's policy, all credit card loans typically remain on accrual status until charged-off. However, the Firm establishes an allowance, which is offset against loans and charged to interest income, for the estimated uncollectible portion of accrued interest and fee income.

For additional information about loan modification programs to borrowers, see Consumer Credit Portfolio on pages 46–51 and Note 13.

WHOLESALE CREDIT PORTFOLIO

The Firm's wholesale businesses are exposed to credit risk through underwriting, lending and trading activities with and for clients and counterparties, as well as through various operating services such as cash management and clearing activities. A portion of the loans originated or acquired by the Firm's wholesale businesses is generally retained on the balance sheet. The Firm distributes a significant percentage of the loans it originates into the market as part of its syndicated loan business and to manage portfolio concentrations and credit risk.

As of June 30, 2015, wholesale credit exposure (primarily CIB, CB and AM), excluding select downgrades within the Oil & Gas portfolio, continued to experience a generally favorable credit environment. This favorable environment includes stable credit quality trends with low levels of criticized exposure, nonaccrual loans and charge-offs.

Wholesale credit portfolio

	Credit exposure		Nonperforming[c]	
(in millions)	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Loans retained	$338,219	$324,502	$873	$599
Loans held-for-sale	6,286	3,801	5	4
Loans at fair value	2,431	2,611	21	21
Loans – reported	346,936	330,914	899	624
Derivative receivables	67,451	78,975	256	275
Receivables from customers and other[a]	22,478	28,972	—	—
Total wholesale credit-related assets	436,865	438,861	1,155	899
Lending-related commitments	352,048	366,881	133	103
Total wholesale credit exposure	$788,913	$805,742	$1,288	$1,002
Credit portfolio management derivatives notional, net[b]	$(23,548)	$(26,703)	$(12)	$—
Liquid securities and other cash collateral held against derivatives	(18,440)	(19,604)	NA	NA

(a) Receivables from customers and other include $22.1 billion and $28.8 billion of margin loans at June 30, 2015, and December 31, 2014, respectively, to prime and retail brokerage customers; these are classified in accrued interest and accounts receivable on the Consolidated balance sheets.

(b) Represents the net notional amount of protection purchased and sold through credit derivatives used to manage both performing and nonperforming wholesale credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on page 57, and Note 5.

(c) Excludes assets acquired in loan satisfactions.

The following tables present the maturity and ratings profiles of the wholesale credit portfolio as of June 30, 2015, and December 31, 2014. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's.

Wholesale credit exposure – maturity and ratings profile

June 30, 2015 (in millions, except ratios)	Maturity profile[e] Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Ratings profile Investment-grade AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans retained	$113,790	$142,542	$81,887	$338,219	$254,149	$ 84,070	$338,219	75 %
Derivative receivables				67,451			67,451	
Less: Liquid securities and other cash collateral held against derivatives				(18,440)			(18,440)	
Total derivative receivables, net of all collateral	13,343	14,471	21,197	49,011	41,012	7,999	49,011	84
Lending-related commitments	82,046	259,999	10,003	352,048	263,997	88,051	352,048	75
Subtotal	209,179	417,012	113,087	739,278	559,158	180,120	739,278	76
Loans held-for-sale and loans at fair value[a]				8,717			8,717	
Receivables from customers and other				22,478			22,478	
Total exposure – net of liquid securities and other cash collateral held against derivatives				$770,473			$770,473	
Credit portfolio management derivatives net notional by reference entity ratings profile[b][c][d]	$(2,292)	$(15,885)	$(5,371)	$(23,548)	$(20,556)	$ (2,992)	$(23,548)	87 %

December 31, 2014 (in millions, except ratios)	Maturity profile[e] Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Ratings profile Investment-grade AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans retained	$112,411	$134,277	$77,814	$324,502	$241,666	$ 82,836	$324,502	74 %
Derivative receivables				78,975			78,975	
Less: Liquid securities and other cash collateral held against derivatives				(19,604)			(19,604)	
Total derivative receivables, net of all collateral	20,032	16,130	23,209	59,371	52,150	7,221	59,371	88
Lending-related commitments	94,635	262,572	9,674	366,881	284,288	82,593	366,881	77
Subtotal	227,078	412,979	110,697	750,754	578,104	172,650	750,754	77
				6,412			6,412	

Loans held-for-sale and loans at fair value[a]								
Receivables from customers and other				28,972			28,972	
Total exposure – net of liquid securities and other cash collateral held against derivatives				$786,138			$786,138	
Credit portfolio management derivatives net notional by reference entity ratings profile[b][c][d]	$(2,050)	$(18,653)	$(6,000)	$(26,703)	$(23,571)	$ (3,132)	$(26,703)	88 %

(a) Represents loans held-for-sale, primarily related to syndicated loans and loans transferred from the retained portfolio, and loans at fair value.

(b) These derivatives do not qualify for hedge accounting under U.S. GAAP.

(c) The notional amounts are presented on a net basis by underlying reference entity and the ratings profile shown is based on the ratings of the reference entity on which protection has been purchased.

(d) Predominantly all of the credit derivatives entered into by the Firm where it has purchased protection, including Credit portfolio management derivatives, are executed with investment grade counterparties.

(e) The maturity profile of retained loans, lending-related commitments and derivative receivables is based on the remaining contractual maturity. Derivative contracts that are in a receivable position at June 30, 2015, may become payable prior to maturity based on their cash flow profile or changes in market conditions.

Wholesale credit exposure – selected industry exposures

The Firm focuses on the management and diversification of its industry exposures, paying particular attention to industries with actual or potential credit concerns. Exposures deemed criticized align with the U.S. banking regulators' definition of criticized exposures, which consist

of the special mention, substandard and doubtful categories. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, was $11.6 billion at June 30, 2015, compared with $10.1 billion at December 31, 2014, driven by select downgrades across the wholesale portfolio, including within the Oil & Gas portfolio.

Below are summaries of the top 25 industry exposures as of June 30, 2015, and December 31, 2014. For additional information on industry concentrations, see Note 5 of JPMorgan Chase's 2014 Annual Report.

As of or for the six months ended June 30, 2015 (in millions)	Credit exposure[d]	Investment-grade	Noninvestment-grade Noncriticized	Noninvestment-grade Criticized performing	Noninvestment-grade Criticized nonperforming	Selected metrics: 30 days or more past due and accruing loans	Selected metrics: Net charge-offs/(recoveries)	Selected metrics: Credit derivative hedges[e]	Selected metrics: Liquid securities and other cash collateral held against derivative receivables
Top 25 industries[a]									
Real Estate	$ 105,722	$ 78,473	$ 25,382	$ 1,617	$ 250	$ 134	$ (11)	$ (47)	$ (42)
Banks & Finance Cos	54,290	45,588	7,877	762	63	30	(2)	(1,216)	(7,749)
Healthcare	44,296	35,195	8,650	403	48	8	(3)	(319)	(226)
Oil & Gas	43,581	29,011	12,901	1,488	181	107	—	(462)	(162)
Consumer Products	34,172	22,612	10,976	583	1	5	(1)	(19)	(9)
State & Municipal Govt[b]	29,660	28,827	773	8	52	15	(6)	(147)	(91)
Utilities	26,999	22,666	4,188	129	16	—	—	(162)	(132)
Retail & Consumer Services	26,225	18,271	7,383	466	105	8	10	(143)	—
Asset Managers	22,686	19,574	3,090	22	—	4	—	(6)	(3,635)
Telecom Services	20,586	7,158	12,503	925	—	—	—	(670)	—
Technology	20,195	13,384	6,230	580	1	—	—	(159)	—
Machinery & Equipment Mfg	19,570	11,840	7,329	384	17	2	—	(144)	(32)
Chemicals/Plastics	15,711	11,162	4,469	80	—	—	—	(16)	—
Central Govt	15,550	15,475	73	2	—	—	—	(10,551)	(2,122)
Transportation	15,462	10,990	4,335	134	3	8	—	(54)	(245)
Business Services	14,559	8,258	5,833	437	31	8	(8)	(9)	—
Metals/Mining	14,466	8,251	5,493	669	53	—	—	(447)	(2)
Media	14,350	9,264	4,780	282	24	2	(1)	(71)	—
Automotive	13,886	9,444	4,383	58	1	6	(2)	(477)	—
Insurance	12,202	9,755	2,262	56	129	1	—	(74)	(1,691)
Building Materials/Construction	11,581	5,697	5,599	264	21	2	—	(94)	—
Securities Firms & Exchanges	9,878	6,609	3,257	12	—	—	—	(101)	(1,018)
Aerospace/Defense	7,441	6,547	855	39	—	—	—	(129)	—
Agriculture/Paper Mfg	6,947	4,633	2,193	120	1	19	—	(16)	(12)
Leisure	5,169	2,683	1,928	450	108	2	8	(25)	(21)
All other[c]	152,534	134,130	17,849	398	157	1,207	(4)	(7,990)	(1,251)
Subtotal	$ 757,718	$ 575,497	$ 170,591	$ 10,368	$ 1,262	$ 1,568	$ (20)	$ (23,548)	$ (18,440)
Loans held-for-sale and loans at fair value	8,717								
Receivables from customers and other	22,478								
Total	$ 788,913								

As of or for the year ended December 31, 2014 (in millions)	Credit exposure[d]	Investment-grade	Noninvestment-grade Noncriticized	Noninvestment-grade Criticized performing	Noninvestment-grade Criticized nonperforming	Selected metrics: 30 days or more past due and accruing loans	Selected metrics: Net charge-offs (recoveries)	Selected metrics: Credit derivative hedges[e]	Selected metrics: Liquid securities and other cash collateral held against derivative receivables
Top 25 industries[a]									
Real Estate	$ 105,981	$ 79,000	$ 25,372	$ 1,356	$ 253	$ 309	$ (9)	$ (36)	$ (27)
Banks & Finance Cos	64,248	54,639	9,032	508	69	46	(4)	(1,232)	(9,369)
Healthcare	56,604	48,475	7,599	488	42	193	17	(94)	(244)
Oil & Gas	43,184	29,284	13,843	56	1	15	2	(144)	(161)
Consumer Products	35,632	24,788	10,184	643	17	21	—	(20)	(2)
State & Municipal Govt[b]	31,145	30,220	823	102	—	69	24	(148)	(130)
Utilities	27,485	23,572	3,658	255	—	198	(3)	(155)	(193)
Retail & Consumer Services	27,463	17,562	8,900	970	31	56	4	(47)	(1)
Asset Managers	27,671	24,221	3,392	57	1	38	(12)	(9)	(4,545)
Telecom Services	12,954	8,105	4,293	546	10	—	(2)	(813)	(6)
Technology	19,634	12,835	6,145	634	20	24	(3)	(225)	—
Machinery & Equipment Mfg	19,374	11,360	7,766	248	—	5	(2)	(157)	(19)
Chemicals/Plastics	12,620	9,263	3,328	29	—	1	(2)	(14)	—
Central Govt	15,978	15,766	154	58	—	—	—	(11,297)	(1,071)
Transportation	15,853	11,061	4,708	84	—	5	(3)	(34)	(107)
Business Services	15,146	7,696	7,212	223	15	10	5	(9)	—
Metals/Mining	14,980	8,311	6,165	504	—	—	18	(377)	(19)
Media	14,109	8,880	4,933	266	30	1	(1)	(69)	(6)
Automotive	12,769	8,081	4,527	161	—	1	(1)	(140)	—
Insurance	13,417	10,602	2,573	80	162	—	—	(52)	(2,372)
Building Materials/Construction	12,444	6,047	5,723	668	6	12	2	(104)	—
Securities Firms & Exchanges	8,077	5,728	2,337	10	2	20	4	(102)	(216)
Aerospace/Defense	5,868	4,930	914	24	—	—	—	(71)	—
Agriculture/Paper Mfg	6,457	4,264	2,071	116	6	36	(1)	(4)	(4)
Leisure	5,459	2,845	2,012	478	124	6	—	(5)	(23)
All other[c]	145,806	128,260	16,780	578	188	1,235	(21)	(11,345)	(1,089)
Subtotal	$ 770,358	$ 595,795	$ 164,444	$ 9,142	$ 977	$ 2,301	$ 12	$ (26,703)	$ (19,604)
Loans held-for-sale and loans at fair value	6,412								
Receivables from customers and other	28,972								
Total	$ 805,742								

(a) The industry rankings presented in the table as of December 31, 2014, are based on the industry rankings of the corresponding exposures at June 30, 2015, not actual rankings of such exposures at December 31, 2014.

(b) In addition to the credit risk exposure to states and municipal governments (both U.S. and non-U.S.) at June 30, 2015, and December 31, 2014, noted above, the Firm held: $8.0 billion and $10.6 billion, respectively, of trading securities; $31.4 billion and $30.1 billion, respectively, of available-for-sale ("AFS") securities; and $12.4 billion and $10.2 billion, respectively, of HTM securities, issued by U.S. state and municipal governments. For further information, see Note 3 and Note 11.

(c) All other includes: individuals, private education and civic organizations; SPEs; and holding companies, representing approximately 57%, 30% and 5%, respectively, at June 30, 2015, and 56%, 30% and 5%, respectively, at December 31, 2014.

(d) Credit exposure is net of risk participations and excludes the benefit of "Credit portfolio management derivatives net notional" held against derivative receivables or loans and "Liquid securities and other cash collateral held against derivative receivables".

(e) Represents the net notional amounts of protection purchased and sold through credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. The all other category includes purchased credit protection on certain credit indices.

The Firm is actively monitoring significant exposures and/or industries that present actual or potential credit concerns. Exposure to the Oil & Gas industry was approximately 5.5% and 5.4% of the Firm's total wholesale exposure as of June 30, 2015 and December 31, 2014, respectively. Exposure to the Oil & Gas industry increased by $397 million during the six months ended June 30, 2015 to

$43.6 billion, of which $14.5 billion was drawn. The portfolio largely consisted of exposure in North America, and was concentrated in the Exploration and Production sub-sector. Approximately 67% and 68% of the exposure in the Oil & Gas portfolio was investment-grade as of June 30, 2015 and December 31, 2014, respectively.

Loans

In the normal course of its wholesale business, the Firm provides loans to a variety of customers, ranging from large corporate and institutional clients to high-net-worth individuals. The Firm actively manages its wholesale credit exposure. One way of managing credit risk is through secondary market sales of loans and lending-related commitments. For further discussion on loans, including information on credit quality indicators and sales of loans, see Note 13.

The following table presents the change in the nonaccrual loan portfolio for the six months ended June 30, 2015 and 2014.

Wholesale nonaccrual loan activity

Six months ended June 30, (in millions)	2015	2014
Beginning balance	$624	$1,044
Additions	792	450
Reductions:		
Paydowns and other	284	357
Gross charge-offs	31	77
Returned to performing status	199	92
Sales	3	57
Total reductions	517	583
Net additions/(reductions)	275	(133)
Ending balance	$899	$911

The following table presents net charge-offs/recoveries, which are defined as gross charge-offs less recoveries, for the six months ended June 30, 2015 and 2014. The amounts in the table below do not include gains or losses from sales of nonaccrual loans.

Wholesale net charge-offs/(recoveries)

(in millions, except ratios)	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Loans – reported				
Average loans retained	$331,924	$315,415	$329,921	$312,244
Gross charge-offs	4	9	33	77
Gross recoveries	(23)	(53)	(53)	(108)
Net recoveries	(19)	(44)	(20)	(31)
Net recovery rate	(0.02)%	(0.06)%	(0.01)%	(0.02)%

Lending-related commitments

The Firm uses lending-related financial instruments, such as commitments (including revolving credit facilities) and guarantees, to meet the financing needs of its customers. The contractual amounts of these financial instruments represent the maximum possible credit risk should the counterparties draw down on these commitments or the Firm fulfills its obligations under these guarantees, and the

counterparties subsequently fail to perform according to the terms of these contracts.

In the Firm's view, the total contractual amount of these wholesale lending-related commitments is not representative of the Firm's likely actual future credit exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these commitments, the Firm has established a "loan-equivalent" amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based on average portfolio historical experience, to become drawn upon in an event of a default by an obligor. The loan-equivalent amount of the Firm's wholesale lending-related commitments was $205.7 billion and $216.5 billion as of June 30, 2015, and December 31, 2014, respectively.

Derivative contracts

In the normal course of business, the Firm uses derivative instruments predominantly for market-making activities. Derivatives enable clients to manage exposures to fluctuations in interest rates, currencies and other markets. The Firm also uses derivative instruments to manage its own credit and other market risk exposure. For further discussion of derivative contracts, see Note 5.

The following table summarizes the net derivative receivables for the periods presented.

Derivative receivables

	Derivative receivables	
(in millions)	June 30, 2015	December 31, 2014
Interest rate	$31,323	$33,725
Credit derivatives	1,321	1,838
Foreign exchange	18,340	21,253
Equity	6,058	8,177
Commodity	10,409	13,982
Total, net of cash collateral	67,451	78,975
Liquid securities and other cash collateral held against derivative receivables	(18,440)	(19,604)
Total, net of collateral	$49,011	$59,371

Derivative receivables reported on the Consolidated Balance Sheets were $67.5 billion and $79.0 billion at June 30, 2015, and December 31, 2014, respectively. These amounts represent the fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by the Firm. However, in management’s view, the appropriate measure of current credit risk should also take into consideration additional liquid securities (primarily U.S. government and agency securities and other G7 government bonds) and other cash collateral held by the Firm aggregating $18.4 billion and $19.6 billion at June 30, 2015, and December 31, 2014, respectively, that may be used as security when the fair value of the client’s exposure is in the Firm’s favor.

In addition to the collateral described in the preceding paragraph, the Firm also holds additional collateral (primarily cash, G7 government securities, other liquid government-agency and guaranteed securities, and corporate debt and equity securities) delivered by clients at the initiation of transactions, as well as collateral related to contracts that have a non-daily call frequency and collateral that the Firm has agreed to return but has not yet settled as of the reporting date. Although this collateral does not reduce the balances and is not included in the table above,

it is available as security against potential exposure that could arise should the fair value of the client's derivative transactions move in the Firm's favor. As of June 30, 2015, and December 31, 2014, the Firm held $43.5 billion and $48.6 billion, respectively, of this additional collateral. The derivative receivables fair value, net of all collateral, also does not include other credit enhancements, such as letters of credit. For additional information on the Firm's use of collateral agreements, see Note 5.

The following table summarizes the ratings profile by derivative counterparty of the Firm's derivative receivables, including credit derivatives, net of other liquid securities collateral, for the dates indicated. The ratings scale is based on the Firm's internal ratings, which generally correspond to the ratings as defined by S&P and Moody's.

Ratings profile of derivative receivables

Rating equivalent	June 30, 2015			December 31, 2014		
(in millions, except ratios)	Exposure net of collateral	% of exposure net of collateral		Exposure net of collateral	% of exposure net of collateral	
AAA/Aaa to AA-/Aa3	$14,088	29	%	$19,202	32	%
A+/A1 to A-/A3	11,945	24		13,940	24	
BBB+/Baa1 to BBB-/Baa3	14,979	31		19,008	32	
BB+/Ba1 to B-/B3	7,442	15		6,384	11	
CCC+/Caa1 and below	557	1		837	1	
Total	$49,011	100	%	$59,371	100	%

As previously noted, the Firm uses collateral agreements to mitigate counterparty credit risk. The percentage of the Firm's derivatives transactions subject to collateral agreements — excluding foreign exchange spot trades, which are not typically covered by collateral agreements due to their short maturity — was 88% for both June 30, 2015, and December 31, 2014.

Credit derivatives

The Firm uses credit derivatives for two primary purposes: first, in its capacity as a market-maker, and second, as an end-user, to manage the Firm's own credit risk associated with various exposures. For a detailed description of credit derivatives, see Credit derivatives in Note 5 of this Form
10-Q, and Note 6 of JPMorgan Chase's 2014 Annual Report.

Credit portfolio management activities

Included in the Firm's end-user activities are credit derivatives used to mitigate the credit risk associated with traditional lending activities (loans and unfunded commitments) and derivatives counterparty exposure in the Firm's wholesale businesses (collectively, "credit portfolio management" activities). Information on credit portfolio management activities is provided in the table below. For further information on derivatives used in credit portfolio management activities, see Credit derivatives in Note 5 of this Form 10-Q, and Note 6 of JPMorgan Chase's 2014 Annual Report.

Credit derivatives used in credit portfolio management activities

	Notional amount of protection purchased and sold [(a)]	
(in millions)	June 30, 2015	December 31, 2014
Credit derivatives used to manage:		
Loans and lending-related commitments	$2,349	$2,047

Derivative receivables	21,199	24,656
Total net protection purchased	23,548	26,703
Total net protection sold	—	—
Credit portfolio management derivatives notional, net	$23,548	$26,703

(a) Amounts are presented net, considering the Firm’s net protection purchased or sold with respect to each underlying reference entity or index.

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ALLOWANCE FOR CREDIT LOSSES

JPMorgan Chase's allowance for loan losses covers both the consumer (primarily scored) portfolio and wholesale (risk-rated) portfolio. The allowance represents management's estimate of probable credit losses inherent in the Firm's loan portfolio. Management also determines an allowance for wholesale and certain consumer lending-related commitments.

For a further discussion of the components of the allowance for credit losses and related management judgments, see Critical Accounting Estimates Used by the Firm on pages 79–81 and Note 14 of this Form 10-Q, and Critical Accounting Estimates Used by the Firm on pages 161–165 and Note 15 of JPMorgan Chase's 2014 Annual Report.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm, and discussed with the Directors' Risk Policy Committee and Audit Committee of the Board of Directors of the Firm. As of June 30, 2015, JPMorgan Chase deemed the allowance for credit losses to be appropriate and sufficient to absorb probable credit losses inherent in the portfolio.

The consumer, excluding credit card, allowance for loan losses decreased from December 31, 2014, primarily due to a reduction in the non-PCI residential real estate portfolio allowance, reflecting continued improvement in home prices and delinquencies, and the runoff of the student loan portfolio. For additional information about delinquencies and nonaccrual loans in the consumer, excluding credit card, loan portfolio, see Consumer Credit Portfolio on pages 46–51 and Note 13.

The credit card allowance for loan losses was relatively unchanged from December 31, 2014, reflecting stable credit quality trends. For additional information about credit trends in the credit card loan portfolio, see Consumer Credit Portfolio on pages 46–51 and Note 13.

The wholesale allowance for credit losses reflected an increase from December 31, 2014, which included the impact of select downgrades, including within the Oil & Gas portfolio. Excluding the Oil & Gas portfolio, the credit environment continued to be generally favorable as evidenced by low charge-off rates and stable credit quality trends.

Summary of changes in the allowance for credit losses

	2015				2014			
Six months ended June 30, (in millions, except ratios)	Consumer, excluding credit card	Credit card	Wholesale	Total	Consumer, excluding credit card	Credit card	Wholesale	Total
Allowance for loan losses								
Beginning balance at January 1,	$7,050	$3,439	$3,696	$14,185	$8,456	$3,795	$4,013	$16,264
Gross charge-offs	827	1,776	33	2,636	1,084	1,982	77	3,143
Gross recoveries	(337)	(187)	(53)	(577)	(399)	(209)	(108)	(716)
Net charge-offs/(recoveries)	490	1,589	(20)	2,059	685	1,773	(31)	2,427
Write-offs of PCI loans(a)	110	—	—	110	109	—	—	109
Provision for loan losses	42	1,589	265	1,896	81	1,573	(55)	1,599
Other	—	(5)	8	3	—	(1)	—	(1)
Ending balance at June 30,	$6,492	$3,434	$3,989	$13,915	$7,743	$3,594	$3,989	$15,326
Impairment methodology								
Asset-specific(b)	$436	$518	$147	$1,101	$598	$583	$138	$1,319
Formula-based	2,841	2,916	3,842	9,599	3,396	3,011	3,851	10,258
PCI	3,215	—	—	3,215	3,749	—	—	3,749
Total allowance for loan losses	$6,492	$3,434	$3,989	$13,915	$7,743	$3,594	$3,989	$15,326
Allowance for lending-related commitments								
Beginning balance at January 1,	$13	$—	$609	$622	$8	$—	$697	$705
Provision for lending-related commitments	2	—	(4)	(2)	1	—	(58)	(57)
Ending balance at June 30,	$15	$—	$605	$620	$9	$—	$639	$648
Impairment methodology								
Asset-specific	$—	$—	$55	$55	$—	$—	$43	$43
Formula-based	15	—	550	565	9	—	596	605
Total allowance for lending-related commitments(c)	$15	$—	$605	$620	$9	$—	$639	$648
Total allowance for credit losses	$6,507	$3,434	$4,594	$14,535	$7,752	$3,594	$4,628	$15,974
Memo:								
Retained loans, end of period	$316,781	$124,705	$338,219	$779,705	$288,214	$125,621	$321,534	$735,369
Retained loans, average	305,463	122,542	329,921	757,926	288,443	123,111	312,244	723,798

PCI loans, end of period	43,806	—	4	43,810	50,118	—	5	50,123
Credit ratios								
Allowance for loan losses to retained loans	2.05 %	2.75 %	1.18 %	1.78 %	2.69 %	2.86 %	1.24 %	2.08 %
Allowance for loan losses to retained nonaccrual loans[d]	112	NM	457	209	112	NM	549	201
Allowance for loan losses to retained nonaccrual loans excluding credit card	112	NM	457	158	112	NM	549	154
Net charge-off/(recovery) rates	0.32	2.61	(0.01)	0.55	0.48	2.90	(0.02)	0.68
Credit ratios, excluding residential real estate PCI loans								
Allowance for loan losses to retained loans	1.20	2.75	1.18	1.45	1.68	2.86	1.24	1.69
Allowance for loan losses to retained nonaccrual loans[d]	57	NM	457	161	58	NM	549	152
Allowance for loan losses to retained nonaccrual loans excluding credit card	57	NM	457	109	58	NM	549	105
Net charge-off/(recovery) rates	0.38 %	2.61 %	(0.01)%	0.58 %	0.58 %	2.90 %	(0.02)%	0.73 %

Note: In the table above, the financial measures which exclude the impact of PCI loans are non-GAAP financial measures. For additional information, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 14–15.

(a) Write-offs of PCI loans are recorded against the allowance for loan losses when actual losses for a pool exceed estimated losses that were recorded as purchase accounting adjustments at the time of acquisition. A write-off of a PCI loan is recognized when the underlying loan is removed from a pool (e.g., upon liquidation).

(b) Includes risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a TDR. The asset-specific credit card allowance for loan losses modified in a TDR is calculated based on the loans' original contractual interest rates and does not consider any incremental penalty rates.

(c) The allowance for lending-related commitments is reported in other liabilities on the Consolidated balance sheets.

(d) The Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance.

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Provision for credit losses

For the three and six months ended June 30, 2015, the provision for credit losses was $935 million and $1.9 billion, respectively, compared with $692 million and $1.5 billion, respectively, in the prior year periods.

The total consumer provision for credit losses for the three months ended June 30, 2015 reflected lower net charge-offs in the current year period partially offset by a lower reduction in the allowance for loan losses. The total consumer provision for credit losses for the six months ended June 30, 2015 reflected lower net charge-offs in the current year period offset by a lower reduction in the allowance for loan losses. The lower reduction in the allowance for loan losses was due to stabilization of the credit environment compared with the prior year period.

The wholesale provision for credit losses for the three and six months ended June 30, 2015 reflected the impact of select downgrades, including within the Oil & Gas portfolio.

	Three months ended June 30,						Six months ended June 30,					
	Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses		Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses	
(in millions)	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Consumer, excluding credit card	$(99)	$(38)	$1	$1	$(98)	$(37)	$42	$81	$2	$1	$44	$82
Credit card	800	885	—	—	800	885	1,589	1,573	—	—	1,589	1,573
Total consumer	701	847	1	1	702	848	1,631	1,654	2	1	1,633	1,655
Wholesale	207	(165)	26	9	233	(156)	265	(55)	(4)	(58)	261	(113)
Total provision for credit losses	$908	$682	$27	$10	$935	$692	$1,896	$1,599	$(2)	$(57)	$1,894	$1,542

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MARKET RISK MANAGEMENT

Market risk is the potential for adverse changes in the value of the Firm's assets and liabilities resulting from changes in market variables such as interest rates, foreign exchange rates, equity prices, commodity prices, implied volatilities or credit spreads. For a discussion of the Firm's market risk management organization; risk identification and classification; tools used to measure risk; and risk monitoring and control, see Market Risk Management on pages 131–136 of JPMorgan Chase's 2014 Annual Report.

Value-at-risk

JPMorgan Chase utilizes VaR, a statistical risk measure, to estimate the potential loss from adverse market moves in a normal market environment. The Firm has a single overarching VaR model framework used for calculating Risk Management VaR and Regulatory VaR.

Since VaR is based on historical data, it is an imperfect measure of market risk exposure and potential losses, and it is not used to estimate the impact of stressed market conditions or to manage any impact from potential stress events. In addition, based on their reliance on available historical data, limited time horizons, and other factors, VaR measures are inherently limited in their ability to measure certain risks and to predict losses, particularly those associated with market illiquidity and sudden or severe shifts in market conditions. The Firm therefore considers other measures in addition to VaR, such as stress testing, to capture and manage its market risk positions.

In addition, for certain products, specific risk parameters are not captured in VaR due to the lack of inherent liquidity and availability of appropriate historical data. The Firm uses proxies to estimate the VaR for these and other products when daily time series are not available. It is likely that using an actual price-based time series for these products, if available, would affect the VaR results presented.

The Firm uses alternative methods to capture and measure those risk parameters that are not otherwise captured in VaR, including economic-value stress testing and nonstatistical measures. For further information, see Market Risk Management on pages 131–136 of the 2014 Annual Report.

The Firm's VaR model calculations are periodically evaluated and enhanced in response to changes in the composition of the Firm's portfolios, changes in market conditions, improvements in the Firm's modeling techniques and other factors. Such changes will also affect historical comparisons of VaR results. Model changes go through a review and approval process by the Model Review Group prior to implementation into the operating environment. For further information, see Model risk on page 139 of the 2014 Annual Report.

The Firm's Risk Management VaR is calculated assuming a one-day holding period and an expected tail-loss methodology which approximates a 95% confidence level. For risk management purposes, the Firm believes this methodology provides a stable measure of VaR that closely aligns to the day-to-day risk management decisions made by the lines of business and provides the necessary and appropriate information to respond to risk events on a daily basis. Separately, the Firm calculates a daily aggregated VaR in accordance with regulatory rules ("Regulatory VaR"), which is used to derive the Firm's regulatory VaR-based capital requirements under Basel III. For further information regarding the key differences between Risk Management VaR and Regulatory VaR, see page 133 of the 2014 Annual Report. For additional information on Regulatory VaR and the other components of market risk regulatory capital for the Firm (e.g. VaR-based measure, stressed VaR-based measure and the respective backtesting), see JPMorgan Chase's Pillar 3 Regulatory Capital Disclosures reports, which are available on the Firm's website: (http://investor.shareholder.com/jpmorganchase/basel.cfm).

The table below shows the results of the Firm’s Risk Management VaR measure using a 95% confidence level.

Total VaR	Three months ended June 30,								Six months ended June 30,	
	2015			2014			At June 30,		Average	
(in millions)	Avg.	Min	Max	Avg.	Min	Max	2015	2014	2015	2014
CIB trading VaR by risk type										
Fixed income	$41	$31	$52	$38	$31	$45	$45	$34	$38	$37
Foreign exchange	9	6	13	8	5	13	9	6	9	7
Equities	16	11	25	14	10	21	23	15	17	14
Commodities and other	9	8	13	9	7	14	9	9	9	10
Diversification benefit to CIB trading VaR	(37)[a]	NM[b]	NM[b]	(30)[a]	NM[b]	NM[b]	(35)[a]	(30)[a]	(37)[a]	(30)[a]
CIB trading VaR	38	28	51	39	28	49	51	34	36	38
Credit portfolio VaR	15	12	19	10	8	12	13	9	16	12
Diversification benefit to CIB VaR	(10)[a]	NM[b]	NM[b]	(6)[a]	NM[b]	NM[b]	(11)[a]	(5)[a]	(9)[a]	(7)[a]
CIB VaR	43	35	53	43	34	56	53	38	43	43
Mortgage Banking VaR	4	3	7	20	3	28	5	3	4	13
Treasury and CIO VaR	4	3	4	5	4	5	4	5	4	5
Asset Management VaR	3	2	3	3	3	4	3	4	3	3
Diversification benefit to other VaR	(4)[a]	NM[b]	NM[b]	(8)[a]	NM[b]	NM[b]	(3)[a]	(5)[a]	(4)[a]	(7)[a]
Other VaR	7	6	10	20	7	27	9	7	7	14
Diversification benefit to CIB and other VaR	(8)[a]	NM[b]	NM[b]	(8)[a]	NM[b]	NM[b]	(11)[a]	(5)[a]	(7)[a]	(8)[a]
Total VaR	$42	$35	$51	$55	$38	$70	$51	$40	$43	$49

(a) Average portfolio VaR and period-end portfolio VaR were less than the sum of the VaR of the components described above, due to portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated.

(b) Designated as not meaningful (“NM”), because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio-diversification effect.

As presented in the table above, average Total VaR decreased for the three months ended June 30, 2015, compared with the prior year period. The decrease was primarily due to Mortgage Banking VaR, which was elevated in the three months ended June 30, 2014 due to a change in the mortgage servicing rights (“MSR”) hedge position made in advance of an anticipated update to certain MSR model assumptions. When such updates were implemented late in the second quarter of 2014, the MSR VaR decreased to prior levels. CIB average VaR was unchanged in the current quarter compared with the prior year period, as increases in Credit portfolio VaR due to higher volatility on certain idiosyncratic positions and higher Fixed income VaR due to higher risk exposures were offset by increased diversification benefit.

The average total VaR for the six months ended June 30, 2015 decreased from the prior year. The decrease was primarily driven by Mortgage Banking VaR due to a change in the MSR hedge position, partially offset by an increase in Credit Portfolio VaR due to higher volatility on certain idiosyncratic positions.

As part of the Firm’s continuous evaluation and periodic enhancement of its VaR model calculations, during the second quarter of 2015 the Firm refined the historical proxy time series inputs to certain VaR models to more appropriately reflect the risk exposure from certain asset-backed products. Had these new time series been used as inputs into these VaR models in the first quarter of 2015, the Firm estimates they would have resulted in a reduction to average Fixed income VaR of $3 million, average CIB VaR of $2 million, and average total VaR of $3 million, as well as an insignificant reduction to Mortgage Banking VaR. The impact of this refinement on all other periods presented was not material. The Firm expects in subsequent quarters to continue to refine the VaR model calculations and times series inputs related to these products.

The Firm’s average total VaR diversification benefit was $8 million, or 19% of the sum, for the three months ended June 30, 2015, compared with $8 million, or 15% of the sum, for the comparable 2014 period. In general, over the course of the year, VaR exposure can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR back-testing

The Firm evaluates the effectiveness of its VaR methodology by back-testing, which compares the daily Risk Management VaR results with the daily gains and losses recognized on market-risk related revenue.

The Firm’s definition of market risk-related gains and losses is consistent with the definition used by the banking regulators under Basel III. Under this definition market risk-related gains and losses are defined as: profits and losses on the Firm’s Risk Management positions, excluding fees, commissions, certain valuation adjustments (e.g., liquidity and DVA), net interest income, and gains and losses arising from intraday trading.

The following chart presents the daily market risk-related gains and losses on the Firm’s Risk Management positions for the six months ended June 30, 2015. As the chart presents market risk-related gains and losses related to those positions included in the Firm’s Risk Management VaR, the results in the table below differ from the results of back-testing disclosed in the Market Risk section of the Firm’s Pillar 3 Regulatory Capital Disclosures reports, which are based on Regulatory VaR applied to covered positions. The chart shows that for the six months ended June 30, 2015, the Firm observed 2 VaR band breaks and posted gains on 67 of the 128 days. The Firm observed 2 VaR band breaks and posted gains on 26 of the 65 days for the three months ended June 30, 2015.

Earnings-at-risk

The VaR and stress-test measures described above illustrate the total economic sensitivity of the Firm's Consolidated balance sheets to changes in market variables. The effect of interest rate exposure on the Firm's reported net income is also important as interest rate risk represents one of the Firm's significant market risks. Interest rate risk arises not only from trading activities but also from the Firm's traditional banking activities, which include extension of loans and credit facilities, taking deposits and issuing debt.

The Firm conducts simulations of changes in structural interest rate-sensitive revenue under a variety of instantaneous interest rate shock scenarios for interest rate-sensitive assets and liabilities denominated in U.S. dollar and other currencies ("non-U.S. dollar" currencies). Earnings-at-risk scenarios estimate the potential change in this revenue, and the corresponding impact to the Firm's pretax net interest income excluding markets over the following 12 months utilizing multiple assumptions as described below. These scenarios may consider the impact on exposures as a result of changes in interest rates, as well as pricing sensitivities of deposits, optionality and changes in product mix. The scenarios include forecasted balance sheet changes, as well as modeled prepayment and reinvestment behavior, but do not include assumptions about actions which could be taken by the Firm in response to any such instantaneous rate changes. Mortgage prepayment assumptions are based on current interest rates compared with underlying contractual rates, the time since origination, and other factors which are updated periodically based on historical experience. The Firm's earnings-at-risk scenarios are periodically evaluated and enhanced in response to changes in the composition of the Firm's balance sheet, changes in market conditions, improvements in the Firm's simulation and other factors.

Effective January 1, 2015, the Firm conducts earnings-at-risk simulations for assets and liabilities denominated in U.S. dollars separately from assets and liabilities denominated in non-U.S. dollar currencies, and incorporates more granular assumptions used to estimate the pricing behavior associated with non-U.S. dollar assets and liabilities, in order to enhance the Firm's ability to monitor structural interest rate risk from non-U.S. dollar exposures.

The Firm's U.S. dollar sensitivity is presented in the table below. The result of the non-U.S. dollar sensitivity scenario was not material to the Firm's earnings-at-risk at June 30, 2015.

JPMorgan Chase's 12-month pretax net interest income excluding markets sensitivity profiles
(Excludes the impact of trading activities and MSRs)

(in billions)	Instantaneous change in rates			
June 30, 2015	+200bps	+100bps	-100bps	-200bps
U.S. dollar	$4.5	$2.7	NM [(a)]	NM [(a)]

(a) Downward 100- and 200-basis-points parallel shocks result in a federal funds target rate of zero and negative three- and six-month U.S. Treasury rates. The earnings-at-risk results of such a low probability scenario are not meaningful.

The Firm's benefit to rising rates on U.S. dollar assets and liabilities is largely a result of reinvesting at higher yields and assets re-pricing at a faster pace than deposits.

Additionally, another U.S. dollar interest rate scenario used by the Firm — involving a steeper yield curve with long-term rates rising by 100 basis points and short-term rates staying at current levels — results in a 12-month pretax benefit to net interest income excluding markets of approximately $600 million. The increase in net interest income excluding markets under this scenario reflects the Firm reinvesting at the higher long-term rates, with funding costs remaining unchanged. The result of the comparable non-U.S. dollar analysis is not material to the Firm.

COUNTRY RISK MANAGEMENT

Country risk is the risk that a sovereign event or action alters the value or terms of contractual obligations of obligors, counterparties and issuers or adversely affects markets related to a particular country. The Firm has a comprehensive country risk management framework for assessing country risks, determining risk tolerance, and measuring and monitoring direct country exposures in the Firm. The Country Risk Management group is responsible for developing guidelines and policies for managing country risk in both emerging and developed countries. The Country Risk Management group actively monitors the various portfolios giving rise to country risk to ensure the Firm's country risk exposures are diversified and that exposure levels are appropriate given the Firm's strategy and risk tolerance relative to a country.

For a discussion of the Firm's Country Risk Management organization, and country risk identification, measurement, monitoring and control, see pages 137–138 of JPMorgan Chase's 2014 Annual Report.

The following table presents the Firm's top 20 exposures by country (excluding the U.S.) as of June 30, 2015. The selection of countries is based solely on the Firm's largest total exposures by country, based on the Firm's internal country risk management approach, and does not represent the Firm's view of any actual or potentially adverse credit conditions. Country exposures may fluctuate from period-to-period due to normal client activity and market flows.

Top 20 country exposures

	June 30, 2015			
(in billions)	Lending[(a)]	Trading and investing[(b)(c)]	Other[(d)]	Total exposure
United Kingdom	$25.5	$25.9	$1.8	$53.2
Germany	15.3	25.1	0.3	40.7
France	14.7	15.5	0.2	30.4
Japan	15.4	7.1	0.4	22.9
China	9.4	7.6	0.7	17.7
Netherlands	4.9	11.1	1.3	17.3
Canada	11.8	4.2	0.5	16.5
Australia	6.1	8.6	—	14.7
Brazil	6.6	7.6	—	14.2
Switzerland	8.6	1.8	2.8	13.2
India	5.2	5.8	0.3	11.3
Korea	5.1	2.6	—	7.7
Hong Kong	2.4	3.2	1.8	7.4
Belgium	2.3	3.1	0.1	5.5
Singapore	2.9	1.8	0.7	5.4
Mexico	2.4	3.0	—	5.4
Italy	3.7	1.4	0.3	5.4
Spain	2.9	2.1	0.2	5.2
Luxembourg	3.9	0.4	—	4.3
Sweden	1.9	2.3	—	4.2

(a) Lending includes loans and accrued interest receivable, net of collateral and the allowance for loan losses, deposits with banks, acceptances, other monetary assets, issued letters of credit net of participations, and undrawn commitments to extend credit. Excludes intra-day and operating exposures, such as from settlement and clearing activities.

(b) Includes market-making inventory, AFS securities, counterparty exposure on derivative and securities financings net of collateral and hedging.

(c) Includes single-name and index and tranched credit derivatives for which one or more of the underlying reference entities is in a country listed in the above table.

(d) Includes capital invested in local entities and physical commodity inventory.

The Firm’s exposure to Greece was not material as of June 30, 2015. However, given ongoing pressure on the sovereign and banking sectors, with the potentially broader implications to the Eurozone, the Firm is actively monitoring events and assessing the impact of different possible outcomes.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed processes or systems or due to external events that are neither market nor credit-related. For a discussion of JPMorgan Chase's Operational Risk Management, see pages 141–143 of JPMorgan Chase's 2014 Annual report.

Cybersecurity

The Firm devotes significant resources to maintain and regularly update its systems and processes that are designed to protect the security of the Firm's computer systems, software, networks and other technology assets against attempts by unauthorized parties to obtain access to confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage. Third parties with which the Firm does business or that facilitate the Firm's business activities (e.g., vendors, exchanges, clearing houses, central depositories, and financial intermediaries) could also be sources of cybersecurity risk to the Firm, including with respect to breakdowns or failures of their systems, misconduct by the employees of such parties, or cyberattacks which could affect their ability to deliver a product or service to the Firm or result in lost or compromised information of the Firm or its clients. In addition, customers with which or whom the Firm does business can also be sources of cybersecurity risk to the Firm, particularly when their activities and systems are beyond the Firm's own security and control systems. Customers will generally be responsible for losses incurred due to their own failure to maintain the security of their own systems and processes.
The Firm and several other U.S. financial institutions have experienced significant distributed denial-of-service attacks from technically sophisticated and well-resourced unauthorized parties which are intended to disrupt online banking services. The Firm and its clients are also regularly

targeted by unauthorized parties using malicious code and viruses. On September 10, 2014, the Firm disclosed that a cyberattack against the Firm had occurred, as a result of which certain user contact information and internal JPMorgan Chase information relating to such users had been compromised. No account information for such affected customers — account numbers, passwords, user IDs, dates of birth or Social Security numbers — was compromised during the attack. The Firm is cooperating with government and law enforcement agencies in connection with their continuing investigation of the incident. The cyberattacks experienced to date have not resulted in any material disruption to the Firm's operations nor have they had a material adverse effect on the Firm's results of operations. The Firm's Board of Directors and the Audit Committee are regularly apprised regarding the cybersecurity policies and practices of the Firm as well as the Firm's efforts regarding significant cybersecurity events.

Cybersecurity attacks, like the one experienced by the Firm, highlight the need for continued and increased cooperation among businesses and the government, and the Firm continues to work to strengthen its partnerships with the appropriate government and law enforcement agencies and other businesses, including the Firm's third-party service providers, in order to understand the full spectrum of cybersecurity risks in the environment, enhance defenses and improve resiliency against cybersecurity threats.

The Firm has established, and continues to establish, defenses to mitigate other possible future attacks. In each of 2015 and 2016, the Firm expects its annual cybersecurity spending to be nearly double what it was in 2014 in order to enhance its defense capabilities. These enhancements will include more robust testing, advanced analytics and improved technology coverage.

CAPITAL MANAGEMENT

The following discussion of JPMorgan Chase's capital management highlights developments since December 31, 2014, and should be read in conjunction with the Capital Management section on pages 146–155 of JPMorgan Chase's 2014 Annual Report.

A strong capital position is essential to the Firm's business strategy and competitive position. The Firm's capital strategy focuses on long-term stability, which enables the

Firm to build and invest in market-leading businesses, even in a highly stressed environment.

In its capital management, the Firm uses three primary disciplines, which are further described below:

- Regulatory capital
- Economic risk capital
- Line of business equity

Regulatory capital

The following tables present the Firm's Transitional and Fully Phased-In risk-based and leverage-based capital metrics under both the Basel III Standardized and Advanced Approaches.

	Transitional				Fully Phased-In			
June 30, 2015 (in millions, except ratios)	Standardized	Advanced	Minimum capital ratios (c)	Well-capitalized ratios (d)	Standardized	Advanced	Minimum capital ratios (e)	Well-capitalized ratios(g)
Risk-based capital metrics:								
CET1 capital	$169,769	$169,769			$168,949	$168,949		
Tier 1 capital	194,725	194,725			193,828	193,828		
Total capital	228,390	218,811			224,589	215,010		
Risk-weighted assets	1,499,638 (b)	1,520,140			1,510,650	1,531,813		
CET1 capital ratio	11.3 %	11.2 %	4.5 %	6.5 %	11.2 %	11.0 %	11.5 %	6.5 %
Tier 1 capital ratio	13.0	12.8	6.0	8.0	12.8	12.7	13.0	8.0
Total capital ratio	15.2	14.4	8.0	10.0	14.9	14.0	15.0	10.0
Leverage-based capital metrics								
Tier 1 capital	$194,725	$194,725			$193,828	$193,828		
Adjusted average assets	2,448,357	2,448,357			2,447,634	2,447,634		
Tier 1 leverage ratio(a)	8.0 %	8.0 %	4.0	5.0	7.9 %	7.9 %	4.0	5.0
SLR leverage exposure	NA	$3,223,844			NA	$3,223,121		
SLR	NA	6.0 %	NA	NA	NA	6.0 %	5.0 (f)	NA

	Transitional				Fully Phased-In			
December 31, 2014 (in millions, except ratios)	Standardized	Advanced	Minimum capital ratios (c)	Well-capitalized ratios (d)	Standardized	Advanced	Minimum capital ratios (e)	Well-capitalized ratios(g)
Risk-based capital metrics:								
CET1 capital	$164,426	$164,426			$164,514	$164,514		

Tier 1 capital	186,294	186,294			184,572	184,572		
Total capital	221,225	210,684			216,796	206,256		
Risk-weighted assets	1,472,602 [b]	1,608,240			1,561,145	1,619,287		
CET1 capital ratio	11.2 %	10.2 %	4.5 %	6.5 %	10.5 %	10.2 %	9.5 %	6.5 %
Tier 1 capital ratio	12.7	11.6	6.0	8.0	11.8	11.4	11.0	8.0
Total capital ratio	15.0	13.1	8.0	10.0	13.9	12.7	13.0	10.0
Leverage-based capital metrics								
Tier 1 capital	$186,294	$186,294			$184,572	$184,572		
Adjusted average assets	2,465,414	2,465,414			2,464,401	2,464,401		
Tier 1 leverage ratio[a]	7.6 %	7.6 %	4.0	5.0	7.5 %	7.5 %	4.0	5.0
SLR leverage exposure	NA	NA			NA	$3,320,404		
SLR	NA	NA	NA	NA	NA	5.6 %	5.0 [f]	NA

Note: As of June 30, 2015, and December 31, 2014, the lower of the Standardized or Advanced capital ratios under the transitional rules represents the Firm's Collins Floor, as discussed further below. If the fully phased-in Basel III rules were in effect as of June 30, 2015, and December 31, 2014, the lower of the fully phased-in Standardized and Advanced capital ratios would be the Collins Floor. Also included in the tables are the transitional and fully phased-in regulatory minimums and well-capitalized minimum capital ratios, which as of June 30, 2015, include the impact of the U.S. G-SIB final rule issued on July 20, 2015, as described further below.

(a) As the Tier 1 leverage ratio is not a risk-based measure of capital, the ratios presented in the table reflect the same calculation.

(b) Effective January 1, 2015, the Basel III definition of the Standardized RWA became effective. Prior measures of Basel III Standardized RWA were calculated under Basel I rules.

(c) Represents the minimum capital ratios for 2015 currently applicable to the Firm under Basel III.

(d) Represents the minimum capital ratios for 2015 currently applicable to the Firm under the Prompt Corrective Action ("PCA") requirements of the FDIC Improvement Act ("FDICIA").

(e) Represents the minimum capital ratios applicable to the Firm on a fully phased-in Basel III basis, including the final U.S. G-SIB surcharge estimated by the Federal Reserve in its publication of the U.S. Final G-SIB Rule on July 20, 2015. These minimums will be fully phased-in effective January 1, 2019. For additional information on the G-SIB surcharge, see page 69.

(f) In the case of SLR, the fully phased-in minimum ratio is effective beginning January 1, 2018.

(g) Represents the minimum Basel III Fully Phased-In capital ratios applicable to the Firm under the PCA requirements of the FDICIA.

At June 30, 2015, and December 31, 2014, JPMorgan Chase maintained Basel III Standardized Transitional and Basel III Advanced Transitional capital ratios in excess of the well-capitalized standards established by the Federal Reserve. Additional information regarding the Firm's capital ratios, as well as the U.S. federal regulatory capital standards to which the Firm is subject, is presented in Note 20. For further information on the Firm's Basel III measures, see the Firm's Pillar 3 Regulatory Capital Disclosures reports, which are available on the Firm's website (http://investor.shareholder.com/jpmorganchase/basel.cfm).

The Federal Reserve establishes capital requirements, including well-capitalized standards, for the consolidated financial holding company. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Firm's national banks, including JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. The U.S. capital requirements generally follow the Capital Accord of the Basel Committee, as amended from time to time.

Basel III overview

Basel III capital rules, for large and internationally active U.S. bank holding companies and banks, including the Firm and its insured depository institution ("IDI") subsidiaries, revised, among other things, the definition of capital and introduced a new common equity Tier 1 capital ("CET1 capital") requirement. Basel III presents two comprehensive methodologies for calculating risk-weighted assets ("RWA")– a general (Standardized) approach, which replaced Basel I RWA effective January 1, 2015 ("Basel III Standardized"), and an advanced approach, which replaced Basel II RWA ("Basel III Advanced")– and sets out minimum capital ratios and overall capital adequacy standards. Certain of the requirements of Basel III are subject to phase-in periods that began on January 1, 2014 and continue through the end of 2018 ("transitional period") as described below.

Basel III also includes a requirement for Advanced Approach banking organizations, including the Firm, to calculate a supplementary leverage ratio ("SLR"). Certain U.S. bank holding companies, including the Firm, are required to have a minimum SLR of at least 5% and IDI subsidiaries, including JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., to have a minimum SLR of at least 6%, both beginning January 1, 2018. For additional information on the SLR, see page 71.

Basel III Transitional

Basel III Transitional capital requirements became effective on January 1, 2014, and will become fully phased-in on January 1, 2019. The following table presents a reconciliation of the Firm's Basel III Transitional CET1 capital to the Firm's estimated Basel III Fully Phased-In CET1 capital as of June 30, 2015.

(in millions)	June 30, 2015	
Transitional CET1 capital	$169,769	
AOCI phase-in[(a)]	945	
CET1 capital deduction phase-in[(b)]	(1,094	)
Intangibles deduction phase-in[(c)]	(585	)
Other adjustments to CET1 capital[(d)]	(86	)
Fully Phased-In CET1 capital	$168,949	

(a) Includes the remaining balance of AOCI related to AFS debt securities and defined benefit pension and other postretirement employee benefit ("OPEB") plans that will qualify as Basel III CET1 capital upon full phase-in.

(b) Predominantly includes regulatory adjustments related to changes in FVA/DVA, as well as CET1 deductions for defined benefit pension plan assets and deferred tax assets related to net operating loss carryforwards.

(c) Relates to intangible assets, other than goodwill and MSRs, that are required to be deducted from CET1 capital upon full phase-in.

(d) Includes minority interest and the Firm's investments in its own CET1 capital instruments.

Basel III Fully Phased-In

Basel III capital rules will become fully phased-in on January 1, 2019, at which point the Firm will continue to calculate its capital ratios under both the Basel III Standardized and Advanced Approaches. While the Firm has imposed Basel III Standardized Fully Phased-In RWA limits on its lines of business, the Firm continues to manage each of the businesses (including line of business equity allocations), as well as the corporate functions, primarily on a Basel III Advanced Fully Phased-In basis.

The Firm's capital, RWA and capital ratios that are presented under Basel III Standardized and Advanced Fully Phased-In rules and the Firm's and JPMorgan Chase Bank, N.A.'s and Chase Bank USA, N.A.'s SLRs calculated under the Basel III Advanced Fully Phased-In rules are non-GAAP financial measures. However, such measures are used by banking regulators, investors and analysts to assess the Firm's capital position and to compare the Firm's capital to that of other financial services companies.

The Firm's estimates of its Basel III Standardized and Advanced Fully Phased-In capital, RWA and capital ratios and of the Firm's, JPMorgan Chase Bank, N.A.'s, and Chase Bank USA, N.A.'s SLRs reflect management's current understanding of the U.S. Basel III rules based on the current published rules and on the application of such rules to the Firm's businesses as currently conducted. The actual impact on the Firm's capital ratios and SLR as of the effective date of the rules may differ from the Firm's current estimates depending on changes the Firm may make to its businesses in the future, further implementation guidance from the regulators, and regulatory approval of certain of the Firm's internal risk models (or, alternatively, regulatory disapproval of the Firm's internal risk models that have previously been conditionally approved).

Risk-based capital regulatory minimums
The Basel III rules include minimum capital ratio requirements that are also subject to phase-in periods through the end of 2018. In addition to the regulatory minimum capital requirements, certain banking organizations, including the Firm, will be required to hold additional amounts of capital to serve as a “capital conservation buffer”. The capital conservation buffer is intended to be used to absorb potential losses in times of financial or economic stress. If not maintained, the Firm could be limited in the amount of capital that may be distributed, including dividends and common equity repurchases.
The capital conservation buffer requires an additional 2.5% of CET1 capital, as well as additional levels of capital in the form of a G-SIB surcharge. On July 20, 2015, the Federal Reserve issued a final rule requiring G-SIBs to calculate their G-SIB surcharge, on an annual basis, under two separately prescribed methods, and to be subject to the higher of the two. The first method reflects the G-SIB surcharge as prescribed by Basel rules, and is calculated across five criteria: size, cross-jurisdictional activity, interconnectedness, complexity and substitutability. The second method modifies the requirements to include a measure of short-term wholesale funding in place of substitutability, and introduces a G-SIB score “multiplication factor.” In its July 20, 2015, rule release, the Federal Reserve estimated the Firm’s G-SIB surcharge to be 4.5% of capital based on its G-SIB score as of December 31, 2014. Based on the Federal Reserve’s estimates, the Firm’s fully phased-in capital conservation buffer is 7%. The capital conservation buffer will be phased-in beginning January 1, 2016. The Firm’s previous estimates of its G-SIB buffer reflected an additional 2.5% of capital required as prescribed by Basel rules, which are equivalent to the first method prescribed under the U.S. final rule.
Basel III also establishes a minimum 6.5% CET1 standard for the definition of “well capitalized” under the PCA requirements of the FDICIA. The CET1 standard was effective January 1, 2015.
The capital adequacy of the Firm and its national bank subsidiaries, both during the transitional period and upon full phase-in, is evaluated against the Basel III approach (Standardized or Advanced) which results in the lower ratio (the “Collins Floor”), as required by the Collins Amendment of the Dodd-Frank Act.

Capital
A reconciliation of total stockholders’ equity to Basel III Fully Phased-In CET1 capital, Tier 1 capital and Basel III Advanced and Standardized Fully Phased-In Total capital is presented in the table below. For additional information on the components of regulatory capital, see Note 20.
Risk-based capital components

(in millions)	June 30, 2015	
Total stockholders’ equity	$241,205	
Less: Preferred stock	24,918	
Common stockholders’ equity	216,287	
Less:		
Goodwill[(a)]	44,717	
Other intangible assets[(a)]	1,110	
Other CET1 capital adjustments	1,511	
CET1 capital	168,949	
Preferred stock	24,918	
Less:		
Other Tier 1 adjustments	39	
Tier 1 capital	$193,828	
Long-term debt and other instruments qualifying as Tier 2 capital	$16,311	
Qualifying allowance for credit losses	14,535	
Other	(85	)
Standardized Fully Phased-In Tier 2 capital	$30,761	
Standardized Fully Phased-in Total capital	$224,589	

Adjustment in qualifying allowance for credit losses for Advanced Tier 2 capital	(9,579)
Advanced Fully Phased-In Tier 2 capital	$21,182
Advanced Fully Phased-In Total capital	$215,010

(a) Goodwill and other intangible assets are net of any associated deferred tax liabilities.

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Capital rollforward

The following table presents the changes in Basel III Fully Phased-In CET1 capital, Tier 1 capital and Tier 2 capital for the six months ended June 30, 2015.

Six months ended June 30, (in millions)	2015
Standardized/Advanced CET1 capital at December 31, 2014	$164,514
Net income applicable to common equity	11,500
Dividends declared on common stock	(3,183)
Net purchase of treasury stock	(1,541)
Changes in additional paid-in capital	(1,066)
Changes related to AOCI	(1,244)
Adjustment related to FVA/DVA	(390)
Other	359
Increase in Standardized/Advanced CET1 capital	4,435
Standardized/Advanced CET1 capital at June 30, 2015	$168,949
Standardized/Advanced Tier 1 capital at December 31, 2014	$184,572
Change in CET1 capital	4,435
Net issuance of noncumulative perpetual preferred stock	4,855
Other	(34)
Increase in Standardized/Advanced Tier 1 capital	9,256
Standardized/Advanced Tier 1 capital at June 30, 2015	$193,828
Standardized Tier 2 capital at December 31, 2014	$32,224
Change in long-term debt and other instruments qualifying as Tier 2	(1,193)
Change in qualifying allowance for credit losses	(273)
Other	3
Increase in Standardized Tier 2 capital	(1,463)
Standardized Tier 2 capital at June 30, 2015	$30,761
Standardized Total capital at June 30, 2015	$224,589
Advanced Tier 2 capital at December 31, 2014	$21,684
Change in long-term debt and other instruments qualifying as Tier 2	(1,193)
Change in qualifying allowance for credit losses	690
Other	1
Increase in Advanced Tier 2 capital	(502)
Advanced Tier 2 capital at June 30, 2015	$21,182
Advanced Total capital at June 30, 2015	$215,010

RWA

Key differences in the calculation of credit risk RWA between the Standardized and Advanced approaches are that for Basel III Advanced, credit risk RWA is based on risk-sensitive approaches which largely rely on the use of internal credit models and parameters, whereas for Basel III Standardized, credit risk RWA is generally based on supervisory risk-weightings which vary primarily by counterparty type and asset class. Market risk RWA is calculated on a generally consistent basis between Basel III Standardized and Basel III Advanced. Basel III Advanced also includes a measure of operational risk RWA. In addition to the RWA calculated under these methodologies, the Firm may supplement such amounts to incorporate management judgment and feedback from its bank regulators.

RWA rollforward

The following table presents changes in the components of RWA under Basel III Standardized and Advanced Fully Phased-In for the six months ended June 30, 2015. The amounts in the rollforward categories are estimates, based on the predominant driver of the change.

	Standardized			Advanced			
Six months ended June 30, 2015 (in billions)	Credit risk RWA	Market risk RWA	Total RWA	Credit risk RWA	Market risk RWA	Operational risk RWA	Total RWA
At December 31, 2014	$1,381	$180	$1,561	$1,040	$179	$400	$1,619
Effect of rule changes	—	—	—	—	—	—	—
Model & data changes[(a)]	(7)	(16)	(23)	(24)	(16)	—	(40)
Portfolio runoff[(b)]	(5)	(6)	(11)	(8)	(6)	—	(14)
Movement in portfolio levels[(c)]	(5)	(11)	(16)	(22)	(11)	—	(33)
Changes in RWA	(17)	(33)	(50)	(54)	(33)	—	(87)
June 30, 2015	$1,364	$147	$1,511	$986	$146	$400	$1,532

(a) Model & data changes refer to movements in levels of RWA as a result of revised methodologies and/or treatment per regulatory guidance (exclusive of rule changes).

(b) Portfolio runoff for credit risk RWA reflects reduced risk from position rolloffs in legacy portfolios in Mortgage Banking, and for market risk RWA reflects reduced risk from position rolloffs in legacy portfolios in the wholesale businesses.

(c) Movement in portfolio levels for credit risk RWA refers to changes in book size, composition, credit quality, and market movements; and for market risk RWA refers to changes in position and market movements.

Supplementary leverage ratio

For additional information on the SLR, see Capital Management on pages 146–155 of JPMorgan Chase's 2014 Annual Report.

The following table presents the components of the Firm's Fully Phased-In SLR as of June 30, 2015.

(in millions, except ratio)	June 30, 2015
Tier 1 Capital	$193,828
Total average assets	2,494,326
Less: amounts deducted from Tier 1 capital	46,692
Total adjusted average assets[(a)]	2,447,634
Off-balance sheet exposures[(b)]	775,487
SLR leverage exposure	$3,223,121
SLR	6.0 %

(a) Adjusted average assets, for purposes of calculating the SLR, includes total quarterly average assets adjusted for on-balance sheet assets that are subject to deduction from Tier 1 capital predominantly comprising disallowed goodwill and other intangible assets.

(b) Off-balance sheet exposures are calculated using the average of each of the three month's period-end balances.

As of June 30, 2015, the Firm estimates that JPMorgan Chase Bank, N.A.'s and Chase Bank USA, N.A.'s Fully Phased-In SLRs are approximately 6.1% and 8.3%, respectively.

Regulatory capital outlook

The Firm expects to continue to accrete capital and believes its current capital levels enable it to retain market access, continue its strategy to invest in and grow its businesses and maintain flexibility to distribute excess capital. The Firm intends to balance return of capital to stockholders with achieving higher capital ratios over time. The Firm expects the capital ratio calculated under the Basel III Standardized Fully Phased-In Approach to become its binding constraint by the end of 2015, or slightly thereafter. The Firm expects its Basel III Advanced and Standardized Fully Phased-In CET1 ratios to be above 11% by the end of 2015 and is targeting reaching a Basel III CET1 ratio of approximately 12% no later than the end of 2018.

The Firm's capital targets take into consideration the current U.S. Basel III requirements including the U.S. G-SIB Final Rule and other business factors. These targets may be revised in the future, for example, if the Firm's G-SIB capital surcharge is determined to be lower than 4.5% or if changes are introduced by banking regulators to the required minimum capital ratios to which the Firm is subject. The Firm intends to manage its capital so that it achieves the required capital levels and composition in line with, or in advance of, the required timetables of current and proposed rules.

Minimum Total Loss Absorbing Capacity ("TLAC")

In November 2014, the Financial Stability Board issued a proposal requiring minimum TLAC of 16-20% of a financial institution's RWA and of at least twice its Basel III Tier 1 leverage ratio. The final TLAC proposal is expected to be submitted to the G-20 in advance of the G-20 Summit scheduled for fourth quarter of 2015. U.S. banking regulators are expected to issue an NPR that would outline TLAC requirements specific to U.S. banks. For additional information on TLAC, see Capital Management on pages 146–155 of JPMorgan Chase's 2014 Annual Report.

Economic risk capital

Economic risk capital is another of the disciplines the Firm uses to assess the capital required to support its businesses. Economic risk capital is a measure of the capital needed to cover JPMorgan Chase's business activities in the event of unexpected losses. The Firm measures economic risk capital using internal risk-assessment methodologies and models based primarily on four risk factors: credit, market, operational and private equity risk, and considers factors, assumptions and inputs that differ from those required to be used for regulatory capital requirements. Accordingly, economic risk capital provides a complementary measure to regulatory capital. As economic risk capital is a separate component of the capital framework for Advanced Approach banking organizations under Basel III, the Firm continues to enhance its economic risk capital framework.

Line of business equity

The Firm's framework for allocating capital to its business segments (line of business equity) is based on the following objectives:

- Integrate firmwide and line of business capital management activities;
- Measure performance consistently across all lines of business; and
- Provide comparability with peer firms for each of the lines of business

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, regulatory capital requirements (as estimated under Basel III Advanced Fully Phased-In) and economic risk measures. Capital is also allocated to each line of business for, among other things, goodwill and other intangibles associated with acquisitions effected by the line of business. ROE is measured and internal targets for expected returns are established as key measures of a business segment's performance.

Line of business equity

(in billions)	June 30, 2015	December 31, 2014
Consumer & Community Banking	$51.0	$51.0
Corporate & Investment Bank	62.0	61.0
Commercial Banking	14.0	14.0
Asset Management	9.0	9.0
Corporate	80.3	76.7
Total common stockholders' equity	$216.3	$211.7

Line of business equity	Quarterly average		
(in billions)	2Q15	4Q14	2Q14
Consumer & Community Banking	$51.0	$51.0	$51.0
Corporate & Investment Bank	62.0	61.0	61.0
Commercial Banking	14.0	14.0	14.0
Asset Management	9.0	9.0	9.0
Corporate	77.7	76.9	71.2
Total common stockholders' equity	$213.7	$211.9	$206.2

On at least an annual basis, the Firm assesses the level of capital required for each line of business as well as the assumptions and methodologies used to allocate capital to its lines of business and updates the equity allocations to its lines of business as refinements are implemented.

Capital actions

Dividends

The Firm's common stock dividend policy reflects JPMorgan Chase's earnings outlook, desired dividend payout ratio, capital objectives, and alternative investment opportunities.

The Firm's current expectation is to continue to target a dividend payout ratio of approximately 30% of normalized earnings over time. Following receipt on March 11, 2015, of the Federal Reserve's non-objection to the Firm's 2015 capital plan submitted under its Comprehensive Capital Analysis and Review ("CCAR"), the Firm announced that its Board of Directors increased the quarterly common stock dividend to $0.44 per share, effective with the dividend paid

on July 31, 2015. The Firm's dividends will be subject to the Board of Directors' approval at the customary times those dividends are declared.
For information regarding dividend restrictions, see Note 22 and Note 27 of JPMorgan Chase's 2014 Annual Report.
Redemption of outstanding trust preferred securities
On April 2, 2015, the Firm redeemed $1.5 billion, or 100% of the liquidation amount, of JPMorgan Chase Capital XXIX trust preferred securities. For additional information on the Firm's trust preferred securities, see Note 21 of the 2014 Annual Report.
Preferred stock
During the three and six months ended June 30, 2015, the Firm issued $3.4 billion and $4.9 billion, respectively, of noncumulative preferred stock. Preferred stock dividends declared were $380 million and $704 million for the three and six months ended June 30, 2015, respectively. Assuming all preferred stock issuances were outstanding for the entire quarter and quarterly dividends were declared on such issuances, preferred stock dividends would have been $394 million for the three months ended June 30, 2015.
Further, on July 29, 2015, the Firm issued $1.2 billion of noncumulative preferred stock.
For additional information on the Firm's preferred stock, see Note 22 of JPMorgan Chase's 2014 Annual Report.
Common equity
During the second quarter of 2015, warrant holders exercised their right to purchase 11.0 million shares of the Firm's common stock. Under the warrants' net settlement terms, the Firm issued 4.2 million shares of its common stock. As of June 30, 2015, 48.8 million warrants remained outstanding, compared with 59.8 million as of December 31, 2014.
Following receipt on March 11, 2015, of the Federal Reserve's non-objection to the Firm's 2015 capital plan submitted under CCAR, the Firm's Board of Directors authorized the Firm to repurchase up to $6.4 billion of

common equity (common stock and warrants) between April 1, 2015, and June 30, 2016. This authorization includes shares repurchased to offset issuances under the Firm's equity-based compensation plans.
The following table sets forth the Firm's repurchases of common equity for the three and six months ended June 30, 2015 and 2014. The Firm repurchased common equity as permitted by its CCAR capital plans and prior Board authorization. There were no warrants repurchased during the three and six months ended June 30, 2015 and 2014.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Total shares of common stock repurchased	19.2	24.8	51.7	31.5
Aggregate common stock repurchases	$1,249	$1,375	$3,149	$1,761

The Firm may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate repurchases in accordance with the common equity repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity during periods when it would not otherwise be repurchasing common equity — for example, during internal trading blackout periods. All purchases under a Rule 10b5-1 plan must be made according to a predefined plan established when the Firm is not aware of material nonpublic information.
The authorization to repurchase common equity will be utilized at management's discretion, and the timing of purchases and the exact amount of common equity that may be repurchased is subject to various factors, including market conditions; legal and regulatory considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation; and alternative investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases or privately negotiated transactions, or utilizing Rule 10b5-1 programs; and may be suspended at any time.
For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 5: Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities on pages 18–19 of JPMorgan Chase's 2014 Form 10-K.

Broker-dealer regulatory capital

JPMorgan Chase's principal U.S. broker-dealer subsidiaries are J.P. Morgan Securities LLC ("JPMorgan Securities") and J.P. Morgan Clearing Corp. ("JPMorgan Clearing"). JPMorgan Clearing is a subsidiary of JPMorgan Securities and provides clearing and settlement services. JPMorgan Securities and JPMorgan Clearing are each subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (the "Net Capital Rule"). JPMorgan Securities and JPMorgan Clearing are also each registered as futures commission merchants and subject to Rule 1.17 of the Commodity Futures Trading Commission ("CFTC").
JPMorgan Securities and JPMorgan Clearing have elected to compute their minimum net capital requirements in accordance with the "Alternative Net Capital Requirements" of the Net Capital Rule. At June 30, 2015, JPMorgan Securities' net capital, as defined by the Net Capital Rule, was $13.3 billion, exceeding the minimum requirement by $10.8 billion, and JPMorgan Clearing's net capital was $8.0 billion, exceeding the minimum requirement by $6.3 billion.
In addition to its minimum net capital requirement, JPMorgan Securities is required to hold tentative net capital in excess of $1.0 billion and is also required to notify the Securities and Exchange Commission ("SEC") in the event that tentative net capital is less than $5.0 billion, in accordance with the market and credit risk standards of Appendix E of the Net Capital Rule. As of June 30, 2015, JPMorgan Securities had tentative net capital in excess of the minimum and notification requirements.
J.P. Morgan Securities plc is a wholly owned subsidiary of JPMorgan Chase Bank, N.A. and is the Firm's principal operating subsidiary in the U.K. It has authority to engage in banking, investment banking and broker-dealer activities. J.P. Morgan Securities plc is jointly regulated by the U.K. Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA"). Commencing January 1, 2014, J.P. Morgan Securities plc became subject to the U.K. Basel III capital rules.

At June 30, 2015, J.P. Morgan Securities plc had estimated total capital of $31.3 billion; its estimated CET1 capital ratio was 10.7% and its estimated Total capital ratio was 13.9%. Both capital ratios exceeded the minimum standards of 4.5% and 8.0%, respectively, under the transitional requirements of the European Union's ("EU") Basel III Capital Requirements Directive and Regulation, as well as the additional capital requirements specified by the PRA.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that the Firm will be unable to meet its contractual and contingent obligations. Liquidity risk management is intended to ensure that the Firm has the appropriate amount, composition and tenor of funding and liquidity in support of its assets. The following discussion of JPMorgan Chase's Liquidity Risk Management should be read in conjunction with pages 156–160 of JPMorgan Chase's 2014 Annual Report.

LCR and NSFR

In December 2010, the Basel Committee introduced two new measures of liquidity risk: the liquidity coverage ratio ("LCR"), which is intended to measure the amount of "high-quality liquid assets" ("HQLA") held by the Firm in relation to estimated net cash outflows within a 30-day period during an acute stress event; and the net stable funding ratio ("NSFR") which is intended to measure the "available" amount of stable funding relative to the "required" amount of stable funding over a one-year horizon. The standards require that the LCR be no lower than 100% and the NSFR be greater than 100%.

On September 3, 2014, the U.S. banking regulators approved the final LCR rule ("U.S. LCR"), which became effective on January 1, 2015. Under the final rules, the LCR is required to be 80% at January 1, 2015, increasing by 10% each year until reaching 100% at January 1, 2017.

At June 30, 2015, the Firm was compliant with the fully phased-in U.S. LCR. The Firm's LCR may fluctuate from period-to-period due to normal flows from client activity.

On October 31, 2014, the Basel Committee issued the final standard for the NSFR which will become a minimum standard by January 1, 2018. The U.S. banking regulators are expected to issue a proposal on the NSFR that would outline requirements specific to U.S. banks.

HQLA

HQLA is the amount of assets that qualify for inclusion in the U.S. LCR. HQLA primarily consists of cash and certain unencumbered high quality liquid assets as defined in the final rule.

As of June 30, 2015, the Firm's HQLA was $532 billion, compared with $600 billion as of December 31, 2014. The decrease in HQLA was due to lower cash balances largely driven by lower non-operating deposit balances; however, the Firm remains LCR–compliant given the corresponding reduction in estimated net cash outflows that are associated with these deposits. HQLA may fluctuate from period-to-period primarily due to normal flows from client activity.

The following table presents HQLA included in the U.S. LCR, broken out by HQLA-eligible cash and HQLA-eligible securities as of June 30, 2015.

(in billions)	June 30, 2015
HQLA	
Eligible cash[(a)]	$365
Eligible securities[(b)]	167
Total HQLA	$532

(a) Predominantly cash on deposit at central banks.

(b) Predominantly includes U.S. agency mortgage-backed securities, U.S. Treasuries, and sovereign bonds net of applicable haircuts under U.S. LCR rules.

In addition to HQLA, as of June 30, 2015, the Firm has approximately $242 billion of unencumbered marketable securities, such as equity securities and fixed income debt securities, available to raise liquidity, if required. Furthermore, the Firm maintains borrowing capacity at various Federal Home Loan Banks ("FHLBs"), the Federal Reserve Bank discount window and various other central banks as a result of collateral pledged by the Firm to such banks. Although available, the Firm does not view the borrowing capacity at the Federal Reserve Bank discount window and the various other central banks as a primary source of liquidity. As of June 30, 2015, the Firm's remaining borrowing capacity at various FHLBs and the Federal Reserve Bank discount window was approximately $159 billion. This borrowing capacity excludes the benefit of securities included above in HQLA or other unencumbered securities held at the Federal Reserve Bank discount window for which the Firm has not drawn liquidity.

Funding

Sources of funds

Management believes that the Firm's unsecured and secured funding capacity is sufficient to meet its on- and off-balance sheet obligations.

The Firm funds its global balance sheet through diverse sources of funding including a stable deposit franchise as well as secured and unsecured funding in the capital markets. The Firm's loan portfolio (aggregating approximately $791.2 billion at June 30, 2015), is funded with a portion of the Firm's deposits (aggregating approximately $1,287.3 billion at June 30, 2015), and through securitizations and, with respect to a portion of the Firm's real estate-related loans, with secured borrowings from the FHLBs. Deposits in excess of the amount utilized to fund loans are primarily invested in the Firm's investment securities portfolio or deployed in cash or other short-term liquid investments based on their interest rate and liquidity risk characteristics. Securities borrowed or purchased under resale agreements and trading assets- debt and equity instruments are primarily funded by the Firm's securities loaned or sold under agreements to repurchase, trading liabilities–debt and equity instruments and a portion of the Firm's long-term debt and stockholders' equity. In addition to funding securities borrowed or purchased under resale agreements and trading assets-debt and equity instruments, proceeds from the Firm's debt and equity issuances are used to fund certain loans and other financial and non-financial assets, or may be invested in the Firm's investment securities portfolio. See the discussion below for additional information relating to Deposits, Short-term funding, and Long-term funding and issuance.

Deposits

A key strength of the Firm is its diversified deposit franchise, through each of its lines of business, which provides a stable source of funding and limits reliance on the wholesale funding markets. As of June 30, 2015, the Firm's loans-to-deposits ratio was 61%, compared with 56% at December 31, 2014.

As of June 30, 2015, total deposits for the Firm were $1,287.3 billion, compared with $1,363.4 billion at December 31, 2014 (58% of total liabilities at both June 30, 2015, and December 31, 2014). The decrease was attributable to lower wholesale deposits, partially offset by an increase in consumer deposits. For further information, see Balance Sheet Analysis on pages 10–11.

The Firm typically experiences higher customer deposit inflows at period-ends. Therefore, the Firm believes average deposit balances are more representative of deposit trends. The table below summarizes, by line of business, deposit balances as of June 30, 2015, and December 31, 2014, respectively, as well as average deposits for the three and six months ended June 30, 2015 and 2014, respectively.

Deposits (in millions)	June 30, 2015	December 31, 2014	Three months ended June 30, Average 2015	2014	Six months ended June 30, Average 2015	2014
Consumer & Community Banking	$530,767	$502,520	$529,448	$486,064	$520,850	$478,862
Corporate & Investment Bank	413,919	468,423	412,859	402,532	429,154	406,853
Commercial Banking	184,439	213,682	186,078	186,369	191,711	187,571
Asset Management	141,179	155,247	152,563	147,747	155,386	148,585
Corporate	17,028	23,555	18,197	21,287	20,625	22,268
Total Firm	$1,287,332	$1,363,427	$1,299,145	$1,243,999	$1,317,726	$1,244,139

A significant portion of the Firm's deposits are consumer deposits (41% and 37% at June 30, 2015, and December 31, 2014, respectively), which are considered a stable source of liquidity. Additionally, the majority of the Firm's institutional operating deposits are also considered to be stable sources of liquidity since they are generated from customers that maintain operating service relationships with the Firm. Wholesale non-operating deposits have decreased by over $100 billion from December 31, 2014 to June 30, 2015, predominantly driven by the Firm's commitment to reduce such deposits as announced in February 2015. The reduction has not had and is not expected to have a significant impact on the Firm's liquidity position. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance Sheet Analysis on pages 16–43 and pages 10–11, respectively.

The following table summarizes short-term and long-term funding, excluding deposits, as June 30, 2015, and December 31, 2014, and average balances for the three and six months ended June 30, 2015 and 2014, respectively. For additional information, see the Balance Sheet Analysis on pages 10–11 and Note 12.

Sources of funds (excluding deposits) (in millions)	June 30, 2015	December 31, 2014	Three months ended June 30, Average 2015	2014	Six months ended June 30, Average 2015	2014
Commercial paper:						
Wholesale funding	$19,353	$ 24,052	$18,144	$18,559	$19,923	$18,791
Client cash management	22,885	42,292	30,876	41,201	34,563	40,433
Total commercial paper	$42,238	$ 66,344	$49,020	$59,760	$54,486	$59,224
Obligations of Firm-administered multi-seller conduits[a]	$12,959	$ 12,047	$11,943	$10,499	$11,709	$12,129
Other borrowed funds	$30,061	$ 30,222	$31,673	$32,720	$31,559	$31,085
Securities loaned or sold under agreements to repurchase:						
Securities sold under agreements to repurchase	$165,624	$ 167,077	$178,393	$184,724	$177,745	$178,520
Securities loaned	14,221	21,798	20,616	23,631	21,601	23,189
Total securities loaned or sold under agreements to repurchase[b][c][d]	$179,845	$ 188,875	$199,009	$208,355	$199,346	$201,709
Total senior notes	$147,339	$ 142,480	$146,049	$139,722	$145,687	$138,716
Trust preferred securities	3,981	5,496	4,020	5,468	4,760	5,462
Subordinated debt	27,325	29,472	27,397	29,053	28,334	29,227
Structured notes	30,933	30,021	31,057	30,403	30,738	29,676
Total long-term unsecured funding	$209,578	$ 207,469	$208,523	$204,646	$209,519	$203,081
Credit card securitization[a]	$31,245	$ 31,239	$32,024	$29,377	$31,316	$28,472
Other securitizations[e]	1,880	2,008	1,941	3,151	1,974	3,196
FHLB advances	72,540	64,994	69,830	61,189	67,163	61,246
Other long-term secured funding[f]	4,575	4,373	4,354	5,359	4,339	5,976
Total long-term secured funding	$110,240	$ 102,614	$108,149	$99,076	$104,792	$98,890
Preferred stock[g]	$24,918	$ 20,063	$23,476	$15,763	$22,158	$14,666
Common stockholders' equity[g]	$216,287	$ 211,664	$213,738	$206,159	$213,049	$203,989

(a) Included in beneficial interests issued by consolidated variable interest entities on the Firm's Consolidated balance sheets.

(b) Excludes federal funds purchased.

(c) Excluded long-term structured repurchase agreements of $3.7 billion and $2.7 billion as of June 30, 2015, and December 31, 2014, respectively, and average balance of $3.7 billion and $3.7 billion for the three months ended June 30, 2015 and 2014, respectively, and 3.3 billion and $4.4 billion for the six months ended June 30, 2015 and 2014, respectively.

(d) Excluded average long-term securities loaned of $48 million for the six months ended June 30, 2014. There was no balance for the other periods presented.

(e) Other securitizations includes securitizations of residential mortgages and student loans. The Firm's wholesale businesses also securitize loans for client-driven transactions; those client-driven loan securitizations are not considered to be a source of funding for the Firm and are not included in the table.

(f) Includes long-term structured notes which are secured.

(g) For additional information on preferred stock and common stockholders' equity see Capital Management on pages 67–73 and the Consolidated statements of changes in stockholders' equity on page 87; and Note 22 and Note 23 of JPMorgan Chase's 2014 Annual Report.

Short-term funding

As of June 30, 2015, approximately 54% of the total commercial paper liabilities were not sourced from wholesale funding markets and instead were originated from customer sweeps, as compared with 64% at December 31, 2014. The Firm is in the process of discontinuing the customer sweep cash management program, and expects that the termination of this program will be completed by the end of the third quarter 2015. This change has not had and is not expected to have a significant impact on the Firm's liquidity as the majority of these customer funds are expected to remain as deposits at the Firm.

The Firm's sources of short-term secured funding primarily consist of securities loaned or sold under agreements to repurchase. Securities loaned or sold under agreements to repurchase are secured predominantly by high-quality securities collateral, including government-issued debt and agency MBS, and constitute a significant portion of the federal funds purchased and securities loaned or sold under repurchase agreements on the Consolidated Balance Sheets. The decrease in securities loaned or sold under agreements to repurchase at June 30, 2015, compared with the balance at December 31, 2014 (as well as the average balances for the three and six months ended June 30, 2015, compared with the prior year periods) was predominantly attributable to lower secured financing of trading assets-debt and equity instruments and the investment securities portfolio. The balances associated with securities loaned or sold under agreements to repurchase fluctuate over time due to customers' investment and financing activities; the Firm's demand for financing; the ongoing management of the mix of the Firm's liabilities, including its secured and unsecured financing (for both the investment securities and market-making portfolios); and other market and portfolio factors.

Long-term funding and issuance

Long-term funding provides additional sources of stable funding and liquidity for the Firm. The Firm's long-term funding plan is driven by expected client activity, liquidity considerations, and regulatory requirements. Long-term funding objectives include maintaining diversification, maximizing market access and optimizing funding costs, as well as maintaining a certain level of pre-funding at the parent holding company. The Firm evaluates various funding markets, tenors and currencies in creating its optimal long-term funding plan.

The significant majority of the Firm's long-term unsecured funding is issued by the parent holding company to provide maximum flexibility in support of both bank and nonbank subsidiary funding. The following table summarizes long-term unsecured issuance and maturities or redemptions for the three and six months ended June 30, 2015 and 2014. For additional information, see Note 21 of JPMorgan Chase's 2014 Annual Report.

Long-term unsecured funding	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Issuance				
Senior notes issued in the U.S. market	$3,745	$3,991	$13,630	$13,478
Senior notes issued in non-U.S. markets	3,064	1,618	7,306	5,466
Total senior notes	6,809	5,609	20,936	18,944
Subordinated debt	1,738	—	1,738	—
Structured notes	5,696	4,569	12,609	10,305
Total long-term unsecured funding – issuance	$14,243	$10,178	$35,283	$29,249
Maturities/redemptions				
Total senior notes	$3,524	$8,583	$12,719	$17,400
Trust preferred securities	1,500	—	1,500	—
Subordinated debt	2,226	—	3,032	600
Structured notes	4,504	4,034	10,324	8,850
Total long-term unsecured funding – maturities/redemptions	$11,754	$12,617	$27,575	$26,850

In addition, from July 1, 2015, through August 3, 2015, the Firm issued $2.6 billion of senior notes.

The Firm raises secured long-term funding through securitization of consumer credit card loans and advances from the FHLBs. It may also in the future raise long-term funding through securitization of residential mortgages, auto loans and student loans, which would increase funding and investor diversity.

The following table summarizes the securitization issuance and FHLB advances and their respective maturities or redemptions for the three and six months ended June 30, 2015 and 2014, respectively.

	Three months ended June 30,				Six months ended June 30,			
Long-term secured funding	Issuance		Maturities/Redemptions		Issuance		Maturities/Redemptions	
(in millions)	2015	2014	2015	2014	2015	2014	2015	2014
Credit card securitization	$3,650	$3,800	$ 3,785	$ 2,473	$6,126	$5,550	$ 6,130	$ 3,774
Other securitizations[(a)]	—	—	63	93	—	—	128	185
FHLB advances	7,850	—	2,002	1,481	12,550	1,000	5,003	2,490
Other long-term secured funding	$139	$293	$ 91	$ 2,899	$263	$333	$ 209	$ 2,996

Total long-term secured funding	$11,639	$4,093	$ 5,941	$ 6,946	$18,939	$6,883	$ 11,470	$ 9,445

(a) Other securitizations includes securitizations of residential mortgages and student loans.

From July 1, 2015, through August 3, 2015, the Firm securitized $700 million of consumer credit card loans.

The Firm's wholesale businesses also securitize loans for client-driven transactions; those client-driven loan securitizations are not considered to be a source of funding for the Firm and are not included in the table above. For further description of the client-driven loan securitizations, see Note 16 of JPMorgan Chase's 2014 Annual Report.

Credit ratings

The cost and availability of financing are influenced by credit ratings. Reductions in these ratings could have an adverse effect on the Firm's access to liquidity sources, increase the cost of funds, trigger additional collateral or funding requirements and decrease the number of investors and counterparties willing to lend to the Firm.

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Additionally, the Firm's funding requirements for VIEs and other third party commitments may be adversely affected by a decline in credit ratings. For additional information on the impact of a credit ratings downgrade on the funding

requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 12, and Credit risk, liquidity risk and credit-related contingent features in Note 5.

The credit ratings of the parent holding company and the Firm's principal bank and nonbank subsidiaries as of June 30, 2015, were as follows.

	JPMorgan Chase & Co.			JPMorgan Chase Bank, N.A. Chase Bank USA, N.A.			J.P. Morgan Securities LLC		
June 30, 2015	Long-term issuer	Short-term issuer	Outlook	Long-term issuer	Short-term issuer	Outlook	Long-term issuer	Short-term issuer	Outlook
Moody's Investor Services	A3	P-2	Stable	Aa3	P-1	Stable	Aa3	P-1	Stable
Standard & Poor's	A	A-1	Negative	A+	A-1	Stable	A+	A-1	Stable
Fitch Ratings	A+	F1	Stable	AA-	F1+	Stable	AA-	F1+	Stable

Downgrades of the Firm's long-term ratings by one or two notches could result in a downgrade of the Firm's short-term ratings. If this were to occur, the Firm believes its cost of funds could increase and access to certain funding markets could be reduced as noted above. The nature and magnitude of the impact of ratings downgrades depends on numerous contractual and behavioral factors (which the Firm believes are incorporated in its liquidity risk and stress testing metrics). The Firm believes that it maintains sufficient liquidity to withstand a potential decrease in funding capacity due to ratings downgrades.

JPMorgan Chase's unsecured debt does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, provide any limitations on future borrowings or require additional collateral, based on unfavorable changes in the Firm's credit ratings, financial ratios, earnings, or stock price.

Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources, and disciplined liquidity monitoring procedures. Rating agencies continue to evaluate economic

and geopolitical trends, regulatory developments, rating uplift assumptions surrounding government support, future profitability, risk management practices, and litigation matters, as well as their broader ratings methodologies. Changes in any of these factors could lead to changes in the Firm's credit ratings.

In May 2015, Moody's published its new bank rating methodology. As part of this action, the Firm's preferred stock, deposits and bank subordinated debt ratings were upgraded by one notch. Additionally in May 2015, Fitch changed its bank ratings methodology, implementing ratings differentiation between bank holding companies and their bank subsidiaries. This resulted in a one notch upgrade to the issuer ratings, senior debt ratings and long-term deposit ratings of JPMorgan Chase Bank, N.A., and certain other subsidiaries. In addition, S&P is considering a proposed change to its rating criteria related to additional loss absorbing capacity.

Although the Firm closely monitors and endeavors to manage, to the extent it is able, factors influencing its credit ratings, there is no assurance that its credit ratings will not be changed in the future.

SUPERVISION AND REGULATION

Beginning July 21, 2015, the Volcker Rule provisions regarding the prohibitions against proprietary trading and holding ownership interests or sponsoring "covered funds" became effective; a one-year extension has been granted by the Federal Reserve for the holding of ownership interests in funds sponsored or owned prior to December 31, 2013.

The Firm has completed training for all affected front office and control personnel, has in place conformance plans for those covered funds to which the extension applies, and believes that it is in compliance in all material respects with the Volcker Rule. The deductions from Tier 1 capital associated with permissible holdings of covered funds will be reflected in the Firm's risk-based capital ratios beginning with the third quarter of 2015.

For further information on Supervision and Regulation, see the Supervision and regulation section on pages 1–7 of JPMorgan Chase's 2014 Form 10-K.

Dividends

At June 30, 2015, JPMorgan Chase estimated that its banking subsidiaries could pay, in the aggregate, approximately $37 billion in dividends to their respective bank holding companies without the prior approval of their relevant banking regulators.

CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

JPMorgan Chase's accounting policies and use of estimates are integral to understanding its reported results. The Firm's most complex accounting estimates require management's judgment to ascertain the appropriate carrying value of assets and liabilities. The Firm has established policies and control procedures intended to ensure that estimation methods, including any judgments made as part of such methods, are well-controlled, independently reviewed and applied consistently from period to period. The methods used and judgments made reflect, among other factors, the nature of the assets or liabilities and the related business and risk management strategies, which may vary across the Firm's businesses and portfolios. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Firm believes its estimates for determining the carrying value of its assets and liabilities are appropriate. The following is a brief description of the Firm's critical accounting estimates involving significant judgments.

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the retained consumer and wholesale loan portfolios, as well as the Firm's consumer and wholesale lending-related commitments. The allowance for loan losses is intended to adjust the carrying value of the Firm's loan assets to reflect probable credit losses inherent in the loan portfolio as of the balance sheet date. Similarly, the allowance for lending-related commitments is established to cover probable credit losses inherent in the lending-related commitments portfolio as of the balance sheet date. For further discussion of the methodologies used in establishing the Firm's allowance for credit losses, see Allowance for credit losses on pages 128–130 and Note 15 of JPMorgan Chase's 2014 Annual Report; for amounts recorded as of June 30, 2015 and 2014, see Allowance for credit losses on pages 58–60 and Note 14 of this Form 10-Q.

As noted in the discussion on pages 161–163 of JPMorgan Chase's 2014 Annual Report, the Firm's allowance for credit losses is sensitive to numerous factors, which may differ depending on the portfolio. Changes in economic conditions or in the Firm's assumptions and estimates could affect its estimate of probable credit losses inherent in the portfolio at the balance sheet date. The Firm uses its best judgment to assess these economic conditions and loss data in estimating the allowance for loan losses and these estimates are subject to periodic refinement based on any changes to underlying external and Firm-specific historical data. In many cases, the use of alternate estimates (for example, the effect of home prices and unemployment rates on consumer delinquency, or the calibration between the Firm's wholesale loan risk ratings and external credit ratings) or data sources (for example, external probability of default ("PD") and loss given default ("LGD") factors that incorporate industry-wide information, versus Firm-specific history) would result in a different estimated allowance for loan loss. To illustrate the potential magnitude of certain alternate judgments, the Firm estimates that changes in the following inputs would have the following effects on the Firm's modeled loss estimates as of June 30, 2015, without consideration of any offsetting or correlated effects of other inputs in the Firm's allowance for loan losses:

- For PCI loans, a combined 5% decline in housing prices and a 1% increase in unemployment from current levels could imply an increase to modeled credit loss estimates of approximately $0.9 billion.
- For the residential real estate portfolio, excluding PCI loans, a combined 5% decline in housing prices and a 1% increase in unemployment from current levels could imply an increase to modeled annual loss estimates of approximately $75 million.
- A 50 basis point deterioration in forecasted credit card loss rates could imply an increase to modeled annualized credit card loan loss estimates of approximately $600 million.
- An increase in PD factors consistent with a one-notch downgrade in the Firm's internal risk ratings for its entire wholesale loan portfolio could imply an increase in the Firm's modeled loss estimates of approximately $1.9 billion.
- A 100 basis point increase in estimated LGD for the Firm's entire wholesale loan portfolio could imply an increase in the Firm's modeled loss estimates of approximately $150 million.

The purpose of these sensitivity analyses is to provide an indication of the isolated impacts of hypothetical alternative assumptions on modeled loss estimates. The changes in the inputs presented above are not intended to imply management's expectation of future deterioration of those risk factors. In addition, these analyses are not intended to estimate changes in the overall allowance for loan losses, which would also be influenced by the judgment management applies to the modeled loss estimates to reflect the uncertainty and imprecision of these modeled loss

estimates based on then current circumstances and conditions.
It is difficult to estimate how potential changes in specific factors might affect the overall allowance for credit losses because management considers a variety of factors and inputs in estimating the allowance for credit losses. Changes in these factors and inputs may not occur at the same rate and may not be consistent across all geographies or product types, and changes in factors may be directionally inconsistent, such that improvement in one factor may offset deterioration in other factors. In addition, it is difficult to predict how changes in specific economic conditions or assumptions could affect borrower behavior or other factors considered by management in estimating

the allowance for credit losses. Given the process the Firm follows and the judgments made in evaluating the risk factors related to its loans and credit card loss estimates, management believes that its current estimate of the allowance for credit loss is appropriate.

Fair value of financial instruments, MSRs and commodities inventory

Assets measured at fair value

The following table includes the Firm's assets measured at fair value and the portion of such assets that are classified within level 3 of the valuation hierarchy. For further information, see Note 3.

June 30, 2015 (in billions, except ratio data)	Total assets at fair value	Total level 3 assets	
Trading debt and equity instruments	$310.4	$15.9	
Derivative receivables	67.5	11.1	
Trading assets	377.9	27.0	
AFS securities	266.2	0.9	
Loans	2.4	2.3	
MSRs	7.6	7.6	
Private equity investments[(a)]	2.3	2.0	
Other	34.0	0.8	
Total assets measured at fair value on a recurring basis	690.4	40.6	
Total assets measured at fair value on a nonrecurring basis	2.0	1.9	
Total assets measured at fair value	$692.4	$42.5	
Total Firm assets	$2,449.6		
Level 3 assets as a percentage of total Firm assets		1.7	%
Level 3 assets as a percentage of total Firm assets at fair value		6.1	%

Note: Effective April 1, 2015, the Firm adopted new accounting guidance for certain investments where the Firm measures fair value using the net asset value per share (or its equivalent) as a practical expedient and excluded them from the fair value hierarchy. Accordingly, such investments are not included within this table. For further information, see Note 3.

(a) Private equity instruments represent investments within Corporate.

Valuation

Estimating fair value requires the application of judgment. The type and level of judgment required is largely dependent on the amount of observable market information available to the Firm. For instruments valued using internally developed models that use significant unobservable inputs and are therefore classified within level 3 of the valuation hierarchy, judgments used to estimate fair value are more significant than those required when estimating the fair value of instruments classified within levels 1 and 2.

In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, the lack of observability of certain significant inputs requires management to assess all relevant empirical data in deriving valuation inputs — including, for example, transaction details, yield curves, interest rates, prepayment rates, default rates, volatilities, correlations, equity or debt prices, valuations of comparable instruments, foreign exchange rates and

credit curves. For further discussion of the valuation of level 3 instruments, including unobservable inputs used, see Note 3.

For instruments classified in levels 2 and 3, management judgment must be applied to assess the appropriate level of valuation adjustments to reflect counterparty credit quality, the Firm's credit-worthiness, market funding rates, liquidity considerations, unobservable parameters, and for portfolios that meet specified criteria, the size of the net open risk position. The judgments made are typically affected by the type of product and its specific contractual terms, and the level of liquidity for the product or within the market as a whole. For further discussion of valuation adjustments applied by the Firm, see Note 3.

Imprecision in estimating unobservable market inputs or other factors can affect the amount of gain or loss recorded for a particular position. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with those of other market participants, the methods and assumptions used reflect management judgment and may vary across the Firm's businesses and portfolios.

The Firm uses various methodologies and assumptions in the determination of fair value. The use of methodologies or assumptions different than those used by the Firm could result in a different estimate of fair value at the reporting date. For a detailed discussion of the Firm's valuation process and hierarchy, and its determination of fair value for individual financial instruments, see Note 3.

Goodwill impairment

Management applies significant judgment when testing goodwill for impairment. For a description of the significant valuation judgments associated with goodwill impairment, see Goodwill impairment on page 164 of JPMorgan Chase's 2014 Annual Report.

The remaining goodwill of $101 million associated with the Private Equity business was disposed of as part of the Private Equity sale completed in January 2015. For further information on the Private Equity sale, see Note 2.

In addition, during the three months ended June 30, 2015, the Firm updated the discounted cash flow valuation of its Mortgage Banking business. As of June 30, 2015, the estimated fair value of the Firm's Mortgage Banking business exceeds its carrying value by less than 5%, and accordingly, the associated goodwill of approximately $2 billion remains at an elevated risk for goodwill impairment.

For its other businesses, the Firm reviewed current conditions (including the estimated effects of regulatory and legislative changes and current estimated market cost of equity) and prior projections of business performance.

Based on the updated valuation of its Mortgage Banking business and reviews of its other businesses, the Firm concluded that the goodwill allocated to its reporting units was not impaired at June 30, 2015.

Deterioration in economic or market conditions, increased estimates of the effects of recent regulatory or legislative changes, or additional regulatory or legislative changes may result in declines in projected business performance beyond management's current expectations. For example, in the Firm's Mortgage Banking business, such declines could result from increases in primary mortgage interest rates, lower mortgage origination volume, or from deterioration in economic conditions, including decreases in home prices, that result in increased credit losses.
Declines in business performance, increases in equity capital requirements, or increases in the estimated cost of equity could cause the estimated fair values of the Firm's reporting units or their associated goodwill to decline in the future, which could result in a material impairment charge to earnings in a future period related to some portion of the associated goodwill.
For additional information on goodwill, see Note 16.

Income taxes

For a description of the significant assumptions, judgments and interpretations associated with the accounting for income taxes, see Income taxes on pages 164–165 of JPMorgan Chase's 2014 Annual Report.

Litigation reserves

For a description of the significant estimates and judgments associated with establishing litigation reserves, see Note 23 of this Form 10-Q, and Note 31 of JPMorgan Chase's 2014 Annual Report.

ACCOUNTING AND REPORTING DEVELOPMENTS

Disclosures for investments in certain entities that calculate net asset value per share (or its equivalent)

In May 2015, the Financial Accounting Standards Board ("FASB") issued guidance to address diversity in practice related to how certain investments measured at net asset value ("NAV") are reported within the financial statement footnotes. The new guidance removes the requirement to categorize investments measured under the current NAV practical expedient within the fair value hierarchy for all investments. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The Firm adopted the new guidance effective April 1, 2015. The guidance was required to be applied retrospectively, and accordingly, certain prior period amounts have been revised to conform with the current period presentation. The application of this guidance only affected the disclosures related to these investments and had no impact on the Firm's Consolidated balance sheets or results of operations. For further information, see Note 3.

Simplifying presentation of debt issuance costs

In April 2015, the FASB issued guidance that simplifies the presentation of debt issuance costs. The new guidance requires that unamortized debt issuance costs be presented as a reduction of the debt liability rather than as an asset. The guidance does not impact the amortization method for these costs. Adoption of the new guidance will have no impact on the Firm's net income but will reduce other assets and long-term debt by an immaterial amount. The guidance will be effective in the first quarter of 2016 with early adoption permitted.

Amendments to the consolidation analysis

In February 2015, the FASB issued guidance regarding consolidation of legal entities such as limited partnerships, limited liability corporations, and securitization structures. The guidance eliminates the deferral issued by the FASB in February 2010 of the accounting guidance for VIEs for certain investment funds, including mutual funds, private equity funds and hedge funds. In addition, the guidance amends the evaluation of fees paid to a decision maker or a service provider, and exempts certain money market funds from consolidation. The guidance will be effective in the first quarter of 2016. The Firm is currently evaluating the potential impact on the Consolidated Financial Statements.

Measuring the financial assets and financial liabilities of
a consolidated collateralized financing entity

In August 2014, the FASB issued guidance to address diversity in the accounting for differences in the measurement of the fair values of financial assets and liabilities of consolidated financing VIEs. The new guidance provides an alternative for consolidated financing VIEs to elect: (1) to measure their financial assets and liabilities separately under existing U.S. GAAP for fair value measurement with any differences in such fair values reflected in earnings; or (2) to measure both their financial assets and liabilities using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The guidance will be effective in the first quarter of 2016, with early adoption permitted. The adoption

of this guidance is not expected to have a material impact on the Firm's Consolidated Financial Statements.

Repurchase agreements and similar transactions

In June 2014, the FASB issued guidance that amends the accounting for certain secured financing transactions, and requires enhanced disclosures with respect to transactions recognized as sales in which exposure to the derecognized asset is retained through a separate agreement with the counterparty. The Firm adopted the new accounting guidance effective January 1, 2015. The application of this guidance did not have a material impact on the Firm's Consolidated Financial Statements. For further information, see Note 5.

In addition, the guidance requires enhanced disclosures with respect to the types of financial assets pledged in secured financing transactions and the remaining contractual maturity of the secured financing transactions. The Firm adopted the new disclosure guidance effective April 1, 2015. For further information, see Note 12.

Revenue recognition – revenue from contracts with customers

In May 2014, the FASB issued revenue recognition guidance that is intended to create greater consistency with respect to how and when revenue from contracts with customers is shown in the statements of income. The guidance requires that revenue from contracts with customers be recognized upon delivery of a good or service based on the amount of consideration expected to be received, and requires additional disclosures about revenue. The guidance will be effective in the first quarter of 2018 with early adoption permitted as early as the first quarter of 2017. The Firm is currently evaluating the potential impact on the Consolidated Financial Statements.

Reporting discontinued operations and disclosures of disposals of components of an entity

In April 2014, the FASB issued guidance regarding the reporting of discontinued operations. The guidance changes the criteria for determining whether a disposition qualifies for discontinued operations presentation. It also requires enhanced disclosures about discontinued operations and significant dispositions that do not qualify to be presented as discontinued operations. The Firm adopted the new guidance effective January 1, 2015. The application of this guidance had no material impact on the Firm’s Consolidated Financial Statements.

Investments in qualified affordable housing projects

In January 2014, the FASB issued guidance regarding the accounting for investments in affordable housing projects that qualify for the low-income housing tax credit. The guidance replaces the effective yield method and allows companies to make an accounting policy election to amortize the initial cost of its investments in proportion to the tax credits and other benefits received if certain criteria are met, and to present the amortization as a component of income tax expense.

The Firm adopted the new accounting guidance effective January 1, 2015. The guidance was required to be applied retrospectively and accordingly, certain prior period amounts have been revised to conform with the current period presentation. For additional information about the impact of the adoption of the new accounting guidance on January 1, 2015, see Note 1.

FORWARD-LOOKING STATEMENTS

From time to time, the Firm has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as “anticipate,” “target,” “expect,” “estimate,” “intend,” “plan,” “goal,” “believe,” or other words of similar meaning. Forward-looking statements provide JPMorgan Chase’s current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase’s disclosures in this Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the Securities and Exchange Commission. In addition, the Firm’s senior management may make forward-looking statements orally to investors, analysts, representatives of the media and others.

All forward-looking statements are, by their nature, subject to risks and uncertainties, many of which are beyond the Firm’s control. JPMorgan Chase’s actual future results may differ materially from those set forth in its forward-looking statements. While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ from those in the forward-looking statements:

- Local, regional and international business, economic and political conditions and geopolitical events;
- Changes in laws and regulatory requirements, including capital requirements;
- Changes in trade, monetary and fiscal policies and laws;
- Securities and capital markets behavior, including changes in market liquidity and volatility;
- Changes in investor sentiment or consumer spending or savings behavior;
- Ability of the Firm to manage effectively its capital and liquidity, including approval of its capital plans by banking regulators;
- Changes in credit ratings assigned to the Firm or its subsidiaries;
- Damage to the Firm’s reputation;
- Ability of the Firm to deal effectively with an economic slowdown or other economic or market disruption;
- Technology changes instituted by the Firm, its counterparties or competitors;
- The success of the Firm’s business simplification initiatives and the effectiveness of its control agenda;
- Ability of the Firm to develop new products and services, and the extent to which products or services previously sold by the Firm (including but not limited to mortgages and asset-backed securities) require the Firm to incur liabilities or absorb losses not contemplated at their initiation or origination;
- Ability of the Firm to address enhanced regulatory requirements affecting its consumer businesses;
- Acceptance of the Firm’s new and existing products and services by the marketplace and the ability of the Firm to increase market share;
- Ability of the Firm to attract and retain qualified employees;
- Ability of the Firm to control expense;
- Competitive pressures;
- Changes in the credit quality of the Firm’s customers and counterparties;
- Adequacy of the Firm’s risk management framework, disclosure controls and procedures and internal control over financial reporting;
- Adverse judicial or regulatory proceedings;
- Changes in applicable accounting policies;
- Ability of the Firm to determine accurate values of certain assets and liabilities;
- Occurrence of natural or man-made disasters or calamities or conflicts;
- Ability of the Firm to maintain the security of its financial, accounting, technology, data processing and other operating systems and facilities;
- Ability of the Firm to effectively defend itself against cyberattacks and other attempts by unauthorized parties to access the Firm’s information or disrupt its systems; and
- The other risks and uncertainties detailed in Part I, Item 1A: Risk Factors in the Firm’s Annual Report on Form 10-K for the year ended December 31, 2014.

Any forward-looking statements made by or on behalf of the Firm speak only as of the date they are made, and JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements were made. The reader should, however, consult any further disclosures of a forward-looking nature the Firm may make in any subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K.

JPMorgan Chase & Co.
Consolidated statements of income (unaudited)

(in millions, except per share data)	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Revenue				
Investment banking fees	$1,833	$1,751	$3,627	$3,171
Principal transactions	2,834	2,908	6,489	6,230
Lending- and deposit-related fees	1,418	1,463	2,781	2,868
Asset management, administration and commissions	4,015	4,007	7,822	7,843
Securities gains(a)	44	12	96	42
Mortgage fees and related income	783	1,291	1,488	1,805
Card income	1,615	1,549	3,046	2,957
Other income	586	899	1,168	1,512
Noninterest revenue	13,128	13,880	26,517	26,428
Interest income	12,514	12,861	25,079	25,654
Interest expense	1,830	2,063	3,718	4,189
Net interest income	10,684	10,798	21,361	21,465
Total net revenue	23,812	24,678	47,878	47,893
Provision for credit losses	935	692	1,894	1,542
Noninterest expense				
Compensation expense	7,694	7,610	15,737	15,469
Occupancy expense	923	973	1,856	1,925
Technology, communications and equipment expense	1,499	1,433	2,990	2,844
Professional and outside services	1,768	1,932	3,402	3,718
Marketing	642	650	1,233	1,214
Other expense	1,974	2,833	4,165	4,897
Total noninterest expense	14,500	15,431	29,383	30,067
Income before income tax expense	8,377	8,555	16,601	16,284
Income tax expense	2,087	2,575	4,397	5,035
Net income	$6,290	$5,980	$12,204	$11,249
Net income applicable to common stockholders	$5,776	$5,568	$11,228	$10,460
Net income per common share data				
Basic earnings per share	$1.56	$1.47	$3.02	$2.76
Diluted earnings per share	1.54	1.46	2.99	2.74
Weighted-average basic shares	3,707.8	3,780.6	3,716.6	3,783.9
Weighted-average diluted shares	3,743.6	3,812.5	3,750.5	3,818.1
Cash dividends declared per common share	$0.44	$0.40	$0.84	$0.78

(a) The Firm recognized other-than-temporary impairment ("OTTI") losses of $1 million for the three months ended June 30, 2015, and $2 million for each of the six months ended June 30, 2015 and 2014. The Firm did not recognize OTTI losses for the three months ended June 30, 2014.

The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

JPMorgan Chase & Co.
Consolidated statements of comprehensive income (unaudited)

(in millions)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net income	$6,290	$5,980	$12,204	$11,249
Other comprehensive income, after–tax				
Unrealized gains/(losses) on investment securities	(1,419)	1,075	(1,330)	2,069
Translation adjustments, net of hedges	3	12	(7)	10
Cash flow hedges	80	68	157	127
Defined benefit pension and OPEB plans	8	7	93	33
Total other comprehensive income, after–tax	(1,328)	1,162	(1,087)	2,239
Comprehensive income	$4,962	$7,142	$11,117	$13,488

The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

JPMorgan Chase & Co.
Consolidated balance sheets (unaudited)

(in millions, except share data)	Jun 30, 2015	Dec 31, 2014
Assets		
Cash and due from banks	$24,095	$27,831
Deposits with banks	398,807	484,477
Federal funds sold and securities purchased under resale agreements (included $28,670 and $28,585 at fair value)	212,850	215,803
Securities borrowed (included $495 and $992 at fair value)	98,528	110,435
Trading assets (included assets pledged of $125,224 and $125,034)	377,870	398,988
Securities (included $266,201 and $298,752 at fair value and assets pledged of $22,616 and $24,912)	317,795	348,004
Loans (included $2,431 and $2,611 at fair value)	791,247	757,336
Allowance for loan losses	(13,915)	(14,185)
Loans, net of allowance for loan losses	777,332	743,151
Accrued interest and accounts receivable	69,642	70,079
Premises and equipment	15,073	15,133
Goodwill	47,476	47,647
Mortgage servicing rights	7,571	7,436
Other intangible assets	1,091	1,192
Other assets (included $8,603 and $11,909 at fair value and assets pledged of $1,219 and $1,399)	101,469	102,597
Total assets(a)	$2,449,599	$2,572,773
Liabilities		
Deposits (included $11,485 and $8,807 at fair value)	$1,287,332	$1,363,427
Federal funds purchased and securities loaned or sold under repurchase agreements (included $3,586 and $2,979 at fair value)	180,897	192,101
Commercial paper	42,238	66,344
Other borrowed funds (included $13,987 and $14,739 at fair value)	30,061	30,222
Trading liabilities	139,422	152,815
Accounts payable and other liabilities (included $23 and $26 at fair value)	191,749	206,939
Beneficial interests issued by consolidated variable interest entities (included $1,330 and $2,162 at fair value)	50,002	52,362
Long-term debt (included $31,316 and $30,226 at fair value)	286,693	276,836
Total liabilities(a)	2,208,394	2,341,046
Commitments and contingencies (see Notes 21 and 23)		
Stockholders' equity		
Preferred stock ($1 par value; authorized 200,000,000 shares; issued 2,491,750 and 2,006,250 shares)	24,918	20,063
Common stock ($1 par value; authorized 9,000,000,000 shares; issued 4,104,933,895 shares)	4,105	4,105
Additional paid-in capital	92,204	93,270
Retained earnings	138,294	129,977
Accumulated other comprehensive income	1,102	2,189
Shares held in RSU Trust, at cost (472,953 shares)	(21)	(21)
Treasury stock, at cost (406,866,534 and 390,144,630 shares)	(19,397)	(17,856)
Total stockholders' equity	241,205	231,727
Total liabilities and stockholders' equity	$2,449,599	$2,572,773

(a)

The following table presents information on assets and liabilities related to VIEs that are consolidated by the Firm at June 30, 2015, and December 31, 2014. The difference between total VIE assets and liabilities represents the Firm's interests in those entities, which were eliminated in consolidation.

(in millions)	Jun 30, 2015	Dec 31, 2014
Assets		
Trading assets	$5,168	$9,090
Loans	67,116	68,880
All other assets	2,274	1,815
Total assets	$74,558	$79,785
Liabilities		
Beneficial interests issued by consolidated variable interest entities	$50,002	$52,362
All other liabilities	868	949
Total liabilities	$50,870	$53,311

The assets of the consolidated VIEs are used to settle the liabilities of those entities. The holders of the beneficial interests do not have recourse to the general credit of JPMorgan Chase. At both June 30, 2015, and December 31, 2014, the Firm provided limited program-wide credit enhancement of $2.0 billion related to its Firm-administered multi-seller conduits, which are eliminated in consolidation. For further discussion, see Note 15.

The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

JPMorgan Chase & Co.
Consolidated statements of changes in stockholders' equity (unaudited)

	Six months ended June 30,	
(in millions, except per share data)	2015	2014
Preferred stock		
Balance at January 1	$20,063	$11,158
Issuance of preferred stock	4,855	7,305
Balance at June 30	24,918	18,463
Common stock		
Balance at January 1 and June 30	4,105	4,105
Additional paid-in capital		
Balance at January 1	93,270	93,828
Shares issued and commitments to issue common stock for employee stock-based compensation awards, and related tax effects	(788)	(901)
Other	(278)	(48)
Balance at June 30	92,204	92,879
Retained earnings		
Balance at January 1	129,977	115,756
Cumulative effect of change in accounting principle	—	(321)
Balance at beginning of year, adjusted	129,977	115,435
Net income	12,204	11,249
Dividends declared:		
Preferred stock	(704)	(495)
Common stock ($0.84 and $0.78 per share)	(3,183)	(3,023)
Balance at June 30	138,294	123,166
Accumulated other comprehensive income		
Balance at January 1	2,189	1,199
Other comprehensive income	(1,087)	2,239
Balance at June 30	1,102	3,438
Shares held in RSU Trust, at cost		
Balance at January 1 and June 30	(21)	(21)
Treasury stock, at cost		
Balance at January 1	(17,856)	(14,847)
Purchase of treasury stock	(3,149)	(1,761)
Reissuance from treasury stock	1,608	1,561
Balance at June 30	(19,397)	(15,047)
Total stockholders' equity	$241,205	$226,983

The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

JPMorgan Chase & Co.
Consolidated statements of cash flows (unaudited)

(in millions)	Six months ended June 30, 2015	2014
Operating activities		
Net income	$12,204	$11,249
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,894	1,542
Depreciation and amortization	2,419	2,426
Deferred tax expense	90	2,540
Investment securities gains	(96)	(42)
Stock-based compensation	1,075	1,142
Originations and purchases of loans held-for-sale	(30,665)	(34,940)
Proceeds from sales, securitizations and paydowns of loans held-for-sale	27,797	38,853
Net change in:		
Trading assets	34,114	(14,764)
Securities borrowed	11,903	(2,507)
Accrued interest and accounts receivable	154	(12,801)
Other assets	718	18,795
Trading liabilities	(16,660)	(7,140)
Accounts payable and other liabilities	(9,432)	1,733
Other operating adjustments	(3,340)	4,210
Net cash provided by operating activities	32,175	10,296
Investing activities		
Net change in:		
Deposits with banks	85,670	(77,858)
Federal funds sold and securities purchased under resale agreements	2,927	(1,427)
Held-to-maturity securities:		
Proceeds from paydowns and maturities	3,185	1,667
Purchases	(5,678)	(6,312)
Available-for-sale securities:		
Proceeds from paydowns and maturities	43,454	41,248
Proceeds from sales	22,569	14,976
Purchases	(41,391)	(54,227)
Proceeds from sales and securitizations of loans held-for-investment	10,217	9,170
Other changes in loans, net	(45,505)	(24,730)
Net cash provided by/(used in) business acquisitions or dispositions	1,263	(19)
All other investing activities, net	760	(426)
Net cash provided by/(used in) investing activities	77,471	(97,938)
Financing activities		
Net change in:		
Deposits	(88,838)	33,419
Federal funds purchased and securities loaned or sold under repurchase agreements	(11,195)	35,364
Commercial paper and other borrowed funds	(24,161)	11,119
Beneficial interests issued by consolidated variable interest entities	(1,454)	(5,665)
Proceeds from long-term borrowings	54,585	36,469
Payments of long-term borrowings	(40,190)	(36,628)
Excess tax benefits related to stock-based compensation	287	357
Proceeds from issuance of preferred stock	4,774	7,249
Treasury stock purchased	(3,149)	(1,761)

Dividends paid	(3,734)	(3,360)
All other financing activities, net	(354)	(1,127)
Net cash (used in)/provided by financing activities	(113,429)	75,436
Effect of exchange rate changes on cash and due from banks	47	(42)
Net decrease in cash and due from banks	(3,736)	(12,248)
Cash and due from banks at the beginning of the period	27,831	39,771
Cash and due from banks at the end of the period	$24,095	$27,523
Cash interest paid	$3,302	$4,007
Cash income taxes paid/(refunded), net	5,833	(739)

The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

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See Glossary of Terms for definitions of terms used throughout the Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1 – Basis of presentation

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and small businesses, commercial banking, financial transaction processing and asset management. For a discussion of the Firm's business segments, see Note 24.

The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to accounting principles generally accepted in the U.S. ("U.S. GAAP"). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by regulatory authorities.

The unaudited Consolidated Financial Statements prepared in conformity with U.S. GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense, and the disclosures of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal, recurring adjustments have been included for a fair statement of this interim financial information.

These unaudited Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements, and related notes thereto, included in JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission (the "2014 Annual Report").

Certain amounts reported in prior periods have been reclassified to conform with the current presentation.

Investments in qualified affordable housing projects

Effective January 1, 2015, the Firm adopted new accounting guidance for investments in affordable housing projects that qualify for the low-income housing tax credit, which impacted the Corporate & Investment Bank ("CIB"). As a result of the adoption of this new guidance, the Firm made an accounting policy election to amortize the initial cost of its qualifying investments in proportion to the tax credits and other benefits received, and to present the amortization as a component of income tax expense; previously such amounts were predominantly presented in other income. The guidance was required to be applied retrospectively and accordingly, certain prior period

amounts have been revised to conform with the current period presentation. The cumulative effect on retained earnings was a reduction of $321 million as of January 1, 2014. The adoption of this accounting guidance resulted in an increase of $224 million and $229 million in other income and income tax expense, respectively, for the three months ended June 30, 2014, and $446 million and $456 million, respectively, for the six months ended June 30, 2014, which led to an increase of approximately 2% in the effective tax rate for the three and six months ended June 30, 2014. The impact on net income and earnings per share in the periods affected was not material.

The Firm recognized $381 million and $384 million of tax credits and other tax benefits associated with these investments within Income tax expense for the three months ended June 30, 2015 and 2014, respectively, and $758 million and $763 million for the six months ended June 30, 2015 and 2014, respectively. The amount of amortization of such investments reported in income tax expense under the current period presentation was $281 million and $267 million, for the three months ended June 30, 2015 and 2014, respectively, and $555 million and $531 million for the six months ended June 30, 2015, respectively.

The carrying value of investments in affordable housing projects was $7.1 billion and $7.3 billion at June 30, 2015 and December 31, 2014, respectively. These investments are reported in other assets on the Firm's Consolidated balance sheets. The amount of commitments related to these investments was $1.7 billion and $1.8 billion at June 30, 2015, and December 31, 2014, respectively. These commitments are reported in accounts payable and other liabilities on the Firm's Consolidated balance sheets.

Offsetting assets and liabilities

U.S. GAAP permits entities to present derivative receivables and derivative payables with the same counterparty and the related cash collateral receivables and payables on a net basis on the balance sheet when a legally enforceable master netting agreement exists. U.S. GAAP also permits securities sold and purchased under repurchase agreements to be presented net when specified conditions are met, including the existence of a legally enforceable master netting agreement. The Firm has elected to net such balances when the specified conditions are met. For further information on offsetting assets and liabilities, see Note 1 of JPMorgan Chase's 2014 Annual Report.

Note 2 – Business changes and developments

Private Equity sale

As part of the Firm's business simplification, the sale of a portion of the Private Equity Business ("Private Equity sale") was completed on January 9, 2015.

Trust preferred securities redemption

On April 2, 2015 the Firm redeemed $1.5 billion of trust preferred capital securities. For further information on the Firm's trust preferred securities, see Note 21 of JPMorgan Chase's 2014 Annual Report.

Preferred stock issuances

During the three and six months ended June 30, 2015, the Firm issued $3.4 billion and $4.9 billion respectively, of noncumulative preferred stock. On July 29, 2015, the Firm issued $1.2 billion of noncumulative preferred stock. For further information on the Firm's preferred stock, see Note 22 of JPMorgan Chase's 2014 Annual Report.

Increase in common stock dividend

The Board of Directors increased the Firm's quarterly
common stock dividend from $0.40 per share to $0.44 per
share, effective with the dividend paid on July 31, 2015, to stockholders of record at the close of business on July 6, 2015.

Note 3 – Fair value measurement

For a discussion of the Firm's valuation methodologies for assets, liabilities and lending-related commitments measured at fair value and the fair value hierarchy, see Note 3 of JPMorgan Chase's 2014 Annual Report.

The following table presents the asset and liabilities reported at fair value as of June 30, 2015, and December 31, 2014, by major product category and fair value hierarchy.

Assets and liabilities measured at fair value on a recurring basis

June 30, 2015 (in millions)	Fair value hierarchy Level 1	Level 2	Level 3	Derivative netting adjustments	Total fair value
Federal funds sold and securities purchased under resale agreements	$—	$28,670	$—	$—	$28,670
Securities borrowed	—	495	—	—	495
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. government agencies[a]	5	27,893	901	—	28,799
Residential – nonagency	—	1,960	123	—	2,083
Commercial – nonagency	—	1,173	138	—	1,311
Total mortgage-backed securities	5	31,026	1,162	—	32,193
U.S. Treasury and government agencies[a]	19,151	6,664		—	25,815
Obligations of U.S. states and municipalities	—	6,764	1,247	—	8,011
Certificates of deposit, bankers' acceptances and commercial paper	—	947	—	—	947
Non-U.S. government debt securities	25,313	29,106	208	—	54,627
Corporate debt securities	—	24,855	943	—	25,798
Loans[b]	—	24,419	9,563	—	33,982
Asset-backed securities	—	2,699	1,539	—	4,238
Total debt instruments	44,469	126,480	14,662	—	185,611
Equity securities	107,828	448	310	—	108,586
Physical commodities[c]	3,714	1,185	—	—	4,899
Other	—	10,286	969	—	11,255
Total debt and equity instruments[d]	156,011	138,399	15,941	—	310,351
Derivative receivables:					
Interest rate	592	652,204	3,867	(625,340)	31,323
Credit	—	51,926	2,651	(53,256)	1,321
Foreign exchange	758	171,741	2,351	(156,510)	18,340
Equity	—	40,618	1,772	(36,332)	6,058
Commodity	191	29,254	487	(19,523)	10,409
Total derivative receivables[e]	1,541	945,743	11,128	(890,961)	67,451
Total trading assets	157,552	1,084,142	27,069	(890,961)	377,802
Available-for-sale securities:					
Mortgage-backed securities:					
U.S. government agencies[a]	—	57,315	—	—	57,315
Residential – nonagency	—	39,560	13	—	39,573
Commercial – nonagency	—	22,207	—	—	22,207
Total mortgage-backed securities	—	119,082	13	—	119,095
U.S. Treasury and government agencies[a]	11,544	46	—	—	11,590
Obligations of U.S. states and municipalities	—	31,424	—	—	31,424
Certificates of deposit	—	429	—	—	429
Non-U.S. government debt securities	23,548	19,244	—	—	42,792
Corporate debt securities	—	15,822	—	—	15,822
Asset-backed securities:					

Collateralized loan obligations	—	30,600	772	—	31,372
Other	—	10,866	90	—	10,956
Equity securities	2,721	—	—	—	2,721
Total available-for-sale securities	37,813	227,513	875	—	266,201
Loans	—	136	2,295	—	2,431
Mortgage servicing rights (“MSRs”)	—	—	7,571	—	7,571
Other assets:					
Private equity investments[f]	144	164	1,987	—	2,295
All other	3,948	26	839	—	4,813
Total other assets	4,092	190	2,826	—	7,108
Total assets measured at fair value on a recurring basis	$199,457	$1,341,146 [g]	$40,636 [g]	$(890,961)	$690,278
Deposits	$—	$7,957	$3,528	$—	$11,485
Federal funds purchased and securities loaned or sold under repurchase agreements	—	3,586	—	—	3,586
Other borrowed funds	—	12,726	1,261	—	13,987
Trading liabilities:					
Debt and equity instruments[d]	63,033	17,291	72	—	80,396
Derivative payables:					
Interest rate	509	618,340	3,008	(607,977)	13,880
Credit	—	51,611	2,219	(52,568)	1,262
Foreign exchange	759	186,948	1,946	(171,197)	18,456
Equity	—	44,358	3,620	(36,439)	11,539
Commodity	102	31,496	1,081	(18,790)	13,889
Total derivative payables[e]	1,370	932,753	11,874	(886,971)	59,026
Total trading liabilities	64,403	950,044	11,946	(886,971)	139,422
Accounts payable and other liabilities	—	—	23	—	23
Beneficial interests issued by consolidated VIEs	—	190	1,140	—	1,330
Long-term debt	—	18,727	12,589	—	31,316
Total liabilities measured at fair value on a recurring basis	$64,403	$993,230	$30,487	$(886,971)	$201,149

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December 31, 2014 (in millions)	Fair value hierarchy Level 1	Level 2	Level 3	Derivative netting adjustments	Total fair value
Federal funds sold and securities purchased under resale agreements	$—	$28,585	$—	$—	$28,585
Securities borrowed	—	992	—	—	992
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. government agencies[(a)]	14	31,904	922	—	32,840
Residential – nonagency	—	1,381	663	—	2,044
Commercial – nonagency	—	927	306	—	1,233
Total mortgage-backed securities	14	34,212	1,891	—	36,117
U.S. Treasury and government agencies[(a)]	17,816	8,460	—	—	26,276
Obligations of U.S. states and municipalities	—	9,298	1,273	—	10,571
Certificates of deposit, bankers' acceptances and commercial paper	—	1,429	—	—	1,429
Non-U.S. government debt securities	25,854	27,294	302	—	53,450
Corporate debt securities	—	28,099	2,989	—	31,088
Loans[(b)]	—	23,080	13,287	—	36,367
Asset-backed securities	—	3,088	1,264	—	4,352
Total debt instruments	43,684	134,960	21,006	—	199,650
Equity securities	104,890	624	431	—	105,945
Physical commodities[(c)]	2,739	1,741	2	—	4,482
Other	—	8,762	1,050	—	9,812
Total debt and equity instruments[(d)]	151,313	146,087	22,489	—	319,889
Derivative receivables:					
Interest rate	473	945,635	4,149	(916,532)	33,725
Credit	—	73,853	2,989	(75,004)	1,838
Foreign exchange	758	212,153	2,276	(193,934)	21,253
Equity	—	39,937	2,552	(34,312)	8,177
Commodity	247	42,807	599	(29,671)	13,982
Total derivative receivables[(e)]	1,478	1,314,385	12,565	(1,249,453)	78,975
Total trading assets	152,791	1,460,472	35,054	(1,249,453)	398,864
Available-for-sale securities:					
Mortgage-backed securities:					
U.S. government agencies[(a)]	—	65,319	—	—	65,319
Residential – nonagency	—	50,865	30	—	50,895
Commercial – nonagency	—	21,009	99	—	21,108
Total mortgage-backed securities	—	137,193	129	—	137,322
U.S. Treasury and government agencies[(a)]	13,591	54	—	—	13,645
Obligations of U.S. states and municipalities	—	30,068	—	—	30,068
Certificates of deposit	—	1,103	—	—	1,103
Non-U.S. government debt securities	24,074	28,669	—	—	52,743
Corporate debt securities	—	18,532	—	—	18,532
Asset-backed securities:					
Collateralized loan obligations	—	29,402	792	—	30,194
Other	—	12,499	116	—	12,615
Equity securities	2,530	—	—	—	2,530
Total available-for-sale securities	40,195	257,520	1,037	—	298,752

Loans	—	70	2,541	—	2,611
Mortgage servicing rights	—	—	7,436	—	7,436
Other assets:				—	
Private equity investments[f]	648	2,624	2,225	—	5,497
All other	4,018	17	959	—	4,994
Total other assets	4,666	2,641	3,184	—	10,491
Total assets measured at fair value on a recurring basis	$197,652	$1,750,280	$49,252	$(1,249,453)	$747,731
Deposits	$—	$5,948	$2,859	$—	$8,807
Federal funds purchased and securities loaned or sold under repurchase agreements	—	2,979	—	—	2,979
Other borrowed funds	—	13,286	1,453	—	14,739
Trading liabilities:					
Debt and equity instruments[d]	62,914	18,713	72	—	81,699
Derivative payables:				—	
Interest rate	499	914,357	3,523	(900,634)	17,745
Credit	—	73,095	2,800	(74,302)	1,593
Foreign exchange	746	221,066	2,802	(201,644)	22,970
Equity	—	41,925	4,337	(34,522)	11,740
Commodity	141	44,318	1,164	(28,555)	17,068
Total derivative payables[e]	1,386	1,294,761	14,626	(1,239,657)	71,116
Total trading liabilities	64,300	1,313,474	14,698	(1,239,657)	152,815
Accounts payable and other liabilities	—	—	26	—	26
Beneficial interests issued by consolidated VIEs	—	1,016	1,146	—	2,162
Long-term debt	—	18,349	11,877	—	30,226
Total liabilities measured at fair value on a recurring basis	$64,300	$1,355,052	$32,059	$(1,239,657)	$211,754

Note: Effective April 1, 2015, the Firm adopted new accounting guidance for investments in certain entities that calculate net asset value per share (or its equivalent). As a result of the adoption of this new guidance, certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not required to be classified in the fair value hierarchy. At June 30, 2015, and December 31, 2014, the fair values of these investments, which include certain hedge funds, private equity funds, real estate and other funds, were $1.6 billion and $1.5 billion, respectively, of which $337 million and $1.2 billion had been previously classified in level 2 and level 3, respectively, at December 31, 2014. Included in the balances at June 30, 2015, and December 31, 2014, were trading assets of $68 million and $124 million, respectively, and other assets of $1.5 billion and $1.4 billion, respectively. The guidance was required to be applied retrospectively, and accordingly, prior period amounts have been revised to conform with the current period presentation.

(a) At June 30, 2015, and December 31, 2014, included total U.S. government-sponsored enterprise obligations of $67.4 billion and $84.1 billion, respectively, which were predominantly mortgage-related.

(b) At June 30, 2015, and December 31, 2014, included within trading loans were $13.7 billion and $17.0 billion, respectively, of residential first-lien mortgages, and $4.6 billion and $5.8 billion, respectively, of commercial first-lien mortgages. Residential mortgage loans include conforming mortgage loans originated with the intent to sell to U.S. government agencies of $6.0 billion and $7.7 billion, respectively, and reverse mortgages of $2.8 billion and $3.4 billion, respectively.

(c) Physical commodities inventories are generally accounted for at the lower of cost or market. “Market” is a term defined in U.S. GAAP as not exceeding fair value less costs to sell (“transaction costs”). Transaction costs for the Firm’s physical commodities inventories are either not applicable or immaterial to the value of the inventory. Therefore, market approximates fair value for the Firm’s physical commodities inventories. When fair value hedging has been applied (or when market is below cost), the carrying value of physical commodities approximates fair value, because under fair value hedge accounting, the cost basis is adjusted for changes in fair value. For a further discussion of the Firm’s hedge accounting relationships, see Note 5. To provide consistent fair value disclosure information, all physical commodities inventories have been included in each period presented.

(d) Balances reflect the reduction of securities owned (long positions) by the amount of identical securities sold but not yet purchased (short positions).

(e) As permitted under U.S. GAAP, the Firm has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. For purposes of the tables above, the Firm does not reduce derivative receivables and derivative payables balances for this netting adjustment, either within or across the levels of the fair value hierarchy, as such netting is not relevant to a presentation based on the transparency of inputs to the valuation of an asset or liability. However, if the Firm were to net such balances within level 3, the reduction in the level 3 derivative receivables and payables balances would be $1.9 billion and $2.5 billion at June 30, 2015, and December 31, 2014, respectively; this is exclusive of the netting benefit associated with cash collateral, which would further reduce the level 3 balances.

(f) Private equity instruments represent investments within the Corporate line of business. The cost basis of the private equity investment portfolio totaled $4.0 billion and $6.0 billion at June 30, 2015, and December 31, 2014, respectively.

Transfers between levels for instruments carried at fair value on a recurring basis

For the three and six months ended June 30, 2015 and 2014, there were no individually significant transfers between levels 1 and 2, or from level 2 into level 3.

During the three and six months ended June 30, 2015, transfers from level 3 into level 2 included $1.9 billion and $2.0 billion, respectively, of corporate debt driven by a reduction of the significance in the unobservable inputs and an increase in observability for certain structured products and $1.3 billion and $1.9 billion of trading loans, respectively, driven by an increase in observability of certain collateralized financing transactions.

During the three and six months ended June 30, 2014, transfers from level 3 into level 2 included $3.0 billion and $3.2 billion of equity derivative receivables, respectively, and $2.7 billion and $2.9 billion of equity derivative payables, respectively, due to increased observability of certain equity options.

All transfers are assumed to occur at the beginning of the quarterly reporting period in which they occur.

Level 3 valuations

For further information on the Firm’s valuation process and a detailed discussion of the determination of fair value for individual financial instruments, see Note 3 of JPMorgan Chase’s 2014 Annual Report.

The following table presents the Firm’s primary level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, the range of values for those inputs and, for certain instruments, the weighted averages of such inputs. While the determination to classify an instrument within level 3 is based on the significance of the unobservable inputs to the overall fair value measurement, level 3 financial instruments typically include observable components (that is, components that are actively quoted and can be validated to external sources) in addition to the unobservable components. The level 1 and/or level 2 inputs are not included in the table. In addition, the Firm manages the risk of the observable components of level 3 financial instruments using securities and derivative

positions that are classified within levels 1 or 2 of the fair value hierarchy.

The range of values presented in the table is representative of the highest and lowest level input used to value the significant groups of instruments within a product/instrument classification. Where provided, the weighted averages of the input values presented in the table are calculated based on the fair value of the instruments that the input is being used to value.

In the Firm's view, the input range and the weighted average value do not reflect the degree of input uncertainty or an assessment of the reasonableness of the Firm's estimates and assumptions. Rather, they reflect the characteristics of the various instruments held by the Firm and the relative distribution of instruments within the range of characteristics. For example, two option contracts may have similar levels of market risk exposure and valuation uncertainty, but may have significantly different implied volatility levels because the option contracts have different underlyings, tenors, or strike prices. The input range and weighted average values will therefore vary from period to period and parameter-to-parameter based on the characteristics of the instruments held by the Firm at each balance sheet date.

For the Firm's derivatives and structured notes positions classified within level 3, interest rate correlation inputs used in estimating fair value were concentrated towards the upper end of the range presented, equities correlation inputs were concentrated at the low end of the range, while the credit correlation inputs were distributed across the range presented and the foreign exchange correlation inputs were concentrated at the top end of the range presented. In addition, the interest rate volatility inputs used in estimating fair value were concentrated at the upper end of the range presented and the foreign exchange correlation inputs were concentrated at the top end of the range presented. The equity volatilities are concentrated at the lower half end of the range. The forward commodity prices used in estimating the fair value of commodity derivatives were concentrated within the lower end of the range presented.

Level 3 inputs[a]
June 30, 2015 (in millions, except for ratios and basis points)

Product/Instrument	Fair value	Principal valuation technique	Unobservable inputs	Range of input values	Weighted average
Residential mortgage-backed securities and loans	$6,287	Discounted cash flows	Yield	3 % – 45%	6 %
			Prepayment speed	0 % – 16%	6 %
			Conditional default rate	0 % – 100%	13 %
			Loss severity	0 % – 100%	28 %
Commercial mortgage-backed securities and loans[b]	4,136	Discounted cash flows	Yield	1 % – 25%	4 %
			Conditional default rate	0 % – 94%	8 %
			Loss severity	40%	40 %
Corporate debt securities, obligations of U.S. states and municipalities, and other[c]	3,956	Discounted cash flows	Credit spread	60 bps – 270 bps	231 bps
			Yield	1 % – 18%	5 %
	4,652	Market comparables	Price	$— – $129	$92
Net interest rate derivatives	859	Option pricing	Interest rate correlation	(54)% – 99%	
			Interest rate spread volatility	4 % – 26%	
Net credit derivatives[b][c]	432	Discounted cash flows	Credit correlation	40 % – 90%	
Net foreign exchange derivatives	405	Option pricing	Foreign exchange correlation	0 % – 60%	
Net equity derivatives	(1,848)	Option pricing	Equity volatility	20 % – 65%	
Net commodity derivatives	(594)	Discounted cash flows	Forward commodity price	$50 – $90 per barrel	
Collateralized loan obligations	772	Discounted cash flows	Credit spread	289 bps – 399 bps	305 bps
			Prepayment speed	20 %	20 %
			Conditional default rate	2 %	2 %
			Loss severity	40 %	40 %
	146	Market comparables	Price	$— – $99	$70
Mortgage servicing rights ("MSRs")	7,571	Discounted cash flows	Refer to Note 16		
Private equity investments	1,987	Market comparables	EBITDA multiple	6.7x – 9.9x	8.3x
			Liquidity adjustment	0 % – 17%	8 %
Long-term debt, other borrowed funds, and deposits[d]	15,661	Option pricing	Interest rate correlation	(54)% – 99%	
			Interest rate spread volatility	4 % – 26%	
				0 % – 60%	

		Foreign exchange correlation		
		Equity correlation	(50	)% – 80%
1,717	Discounted cash flows	Credit correlation	40	% – 90%

(a) The categories presented in the table have been aggregated based upon the product type, which may differ from their classification on the Consolidated balance sheets.

(b) The unobservable inputs and associated input ranges for approximately $450 million of credit derivative receivables and $396 million of credit derivative payables with underlying commercial mortgage risk have been included in the inputs and ranges provided for commercial mortgage-backed securities ("MBS") and loans.

(c) The unobservable inputs and associated input ranges for approximately $617 million of credit derivative receivables and $569 million of credit derivative payables with underlying asset-backed securities ("ABS") risk have been included in the inputs and ranges provided for corporate debt securities, obligations of U.S. states and municipalities and other.

(d) Long-term debt, other borrowed funds and deposits include structured notes issued by the Firm that are predominantly financial instruments containing embedded derivatives. The estimation of the fair value of structured notes is predominantly based on the derivative features embedded within the instruments. The significant unobservable inputs are broadly consistent with those presented for derivative receivables.

Changes in and ranges of unobservable inputs

For a discussion of the impact on fair value of changes in unobservable inputs and the relationships between unobservable inputs as well as a description of attributes of the underlying instruments and external market factors that affect the range of inputs used in the valuation of the Firm's positions see Note 3 of JPMorgan Chase's 2014 Annual Report.

Changes in level 3 recurring fair value measurements

The following tables include a rollforward of the Consolidated balance sheets amounts (including changes in fair value) for financial instruments classified by the Firm within level 3 of the fair value hierarchy for the three and six months ended June 30, 2015 and 2014. When a determination is made to classify a financial instrument within level 3, the determination is based on the significance of the unobservable parameters to the overall

fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, the Firm risk-manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the fair value hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the following tables do not reflect the effect of the Firm's risk management activities related to such level 3 instruments.

Fair value measurements using significant unobservable inputs

Three months ended June 30, 2015 (in millions)	Fair value at April 1, 2015	Total realized/unrealized gains/(losses)	Purchases[g]	Sales	Settlements	Transfers into and/or out of level 3[h]	Fair value at June 30, 2015	Change in unrealized gains/(losses) related to financial instruments held at June 30, 2015
Assets:								
Trading assets:								
Debt instruments:								
Mortgage-backed securities:								
U.S. government agencies	$888	$ 91	$ 108	$(148)	$ (34)	$ (4)	$901	$84
Residential – nonagency	449	54	25	(116)	(4)	(285)	123	28
Commercial – nonagency	211	2	98	(49)	(6)	(118)	138	(2)
Total mortgage-backed securities	1,548	147	231	(313)	(44)	(407)	1,162	110
Obligations of U.S. states and municipalities	1,331	3	47	(39)	(2)	(93)	1,247	3
Non-U.S. government debt securities	180	8	54	(20)	(11)	(3)	208	16
Corporate debt securities	2,759	5	288	(313)	57	(1,853)	943	10
Loans	10,763	294	1,160	(1,152)	(350)	(1,152)	9,563	264
Asset-backed securities	1,233	21	737	(371)	(26)	(55)	1,539	15
Total debt instruments	17,814	478	2,517	(2,208)	(376)	(3,563)	14,662	418
Equity securities	317	8	21	(13)	(14)	(9)	310	9
Other	1,041	80	450	(451)	(137)	(14)	969	(3)
Total trading assets – debt and equity instruments	19,172	566 [c]	2,988	(2,672)	(527)	(3,586)	15,941	424 [c]
Net derivative receivables:[a]								
Interest rate	650	351	133	(84)	(98)	(93)	859	309
Credit	275	17	1	(1)	107	33	432	22
Foreign exchange	707	118	8	(8)	(187)	(233)	405	245
Equity	(2,745)	801	216	(383)	93	170	(1,848)	621
Commodity	(735)	129	—	—	47	(35)	(594)	180
Total net derivative receivables	(1,848)	1,416 [c]	358	(476)	(38)	(158)	(746)	1,377 [c]
Available-for-sale securities:								
Asset-backed securities	881	2	—	—	(21)	—	862	2
Other	122	—	—	—	(10)	(99)	13	—
Total available-for-sale securities	1,003	2 [d]	—	—	(31)	(99)	875	2 [d]

Loans	2,222	85 (c)	297	—		(309)	—	2,295	83 (c)
Mortgage servicing rights	6,641	794 (e)	583	(218)		(229)	—	7,571	794 (e)
Other assets:									
Private equity investments	2,314	11 (c)	7	(27)		(295)	(23)	1,987	(14) (c)
All other	894	12 (f)	11	(57)		(21)	—	839	3 (f)

Fair value measurements using significant unobservable inputs

Three months ended June 30, 2015 (in millions)	Fair value at April 1, 2015	Total realized/unrealized (gains)/losses	Purchases	Sales	Issuances	Settlements	Transfers into and/or out of level 3[(h)]	Fair value at June 30, 2015	Change in unrealized (gains)/losses related to financial instruments held at June 30, 2015
Liabilities:[(b)]									
Deposits	$3,340	$ (156) (c)	$ —	$—	$ 673	$ (30)	$ (299)	$3,528	$ (139) (c)
Other borrowed funds	1,116	(4) (c)	45	—	1,274	(1,161)	(9)	1,261	38 (c)
Trading liabilities – debt and equity instruments	82	2 (c)	(23)	21	—	(5)	(5)	72	2 (c)
Accounts payable and other liabilities	23	—	—	—	—	—	—	23	—
Beneficial interests issued by consolidated VIEs	1,023	36 (c)	(16)	—	284	(187)	—	1,140	26 (c)
Long-term debt	12,003	(92) (c)	—	—	2,546	(1,774)	(94)	12,589	19 (c)

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Fair value measurements using significant unobservable inputs

Three months ended June 30, 2014 (in millions)	Fair value at April 1, 2014	Total realized/unrealized gains/(losses)	Purchases[g]	Sales	Settlements	Transfers into and/or out of level 3[h]	Fair value at June 30, 2014	Change in unrealized gains/(losses) related to financial instruments held at June 30, 2014
Assets:								
Trading assets:								
Debt instruments:								
Mortgage-backed securities:								
U.S. government agencies	$1,150	$ 27	$ 12	$(12)	$(33)	$(19)	$1,125	$28
Residential – nonagency	715	67	181	(314)	(12)	(94)	543	21
Commercial – nonagency	465	8	260	(187)	(34)	(185)	327	—
Total mortgage-backed securities	2,330	102	453	(513)	(79)	(298)	1,995	49
Obligations of U.S. states and municipalities	1,219	(35)	—	(105)	—	—	1,079	(44)
Non-U.S. government debt securities	52	3	25	(3)	(1)	52	128	3
Corporate debt securities	4,873	130	1,163	(663)	(823)	113	4,793	74
Loans	12,521	372	3,129	(1,108)	(1,172)	(221)	13,521	376
Asset-backed securities	1,156	46	807	(776)	(151)	134	1,216	32
Total debt instruments	22,151	618	5,577	(3,168)	(2,226)	(220)	22,732	490
Equity securities	868	19	49	(56)	(22)	(167)	691	83
Physical commodities	3	—	—	—	—	—	3	—
Other	1,284	266	656	(127)	(67)	329	2,341	173
Total trading assets – debt and equity instruments	24,306	903 [c]	6,282	(3,351)	(2,315)	(58)	25,767	746 [c]
Net derivative receivables:[a]								
Interest rate	2,090	2	50	(63)	(427)	(119)	1,533	(49)
Credit	244	(124)	164	(21)	(79)	(50)	134	(91)
Foreign exchange	(1,282)	(143)	33	(3)	206	(5)	(1,194)	(141)
Equity	(1,060)	(143) [i]	57 [i]	(547) [i]	(74) [i]	(439) [i]	(2,206)	(204)
Commodity	(58)	(18)	—	—	29	(75)	(122)	16

Total net derivative receivables	(66)	(426) (c)(i)	304 (i)	(634) (i)		(345) (i)	(688) (i)	(1,855)	(469) (c)
Available-for-sale securities:									
Asset-backed securities	1,127	(9)	225	—		(21)	—	1,322	(9)
Other	1,190	1	122	—		(27)	(772)	514	2
Total available-for-sale securities	2,317	(8) (d)	347	—		(48)	(772)	1,836	(7) (d)
Loans	2,271	40 (c)	2,396	—		(480)	—	4,227	21 (c)
Mortgage servicing rights	8,552	(149) (e)	181	2		(239)	—	8,347	(149) (e)
Other assets:									
Private equity investments	4,946	144 (c)	22	(470)		(8)	(4)	4,630	128 (c)
All other	1,295	17 (f)	3	(102)		(14)	—	1,199	17 (f)

Fair value at April 1, 2014	Fair value measurements using significant unobservable inputs Fair value at April 1, 2014	Total realized/unrealized (gains)/losses	Purchases	Sales	Issuances	Settlements	Transfers into and/or out of level 3(h)	Fair value at June 30, 2014	Change in unrealized (gains)/losses related to financial instruments held at June 30, 2014
Liabilities:(b)									
Deposits	$2,386	$ 74 (c)	$ —	$—	$ 519	$ (24)	$ (117)	$2,838	$63 (c)
Other borrowed funds	1,535	(132) (c)	—	—	1,343	(1,380)	172	1,538	(30) (c)
Trading liabilities – debt and equity instruments	101	(4) (c)	(46)	71	—	(4)	(38)	80	1 (c)
Accounts payable and other liabilities	—	27 (f)	—	—	—	—	—	27	27 (f)
Beneficial interests issued by consolidated VIEs	1,160	54 (c)	—	—	4	(54)	(102)	1,062	58 (c)
Long-term debt	11,203	437 (c)	—	—	1,912	(1,369)	(437)	11,746	410 (c)

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Six months ended June 30, 2015 (in millions)	Fair value measurements using significant unobservable inputs							
	Fair value at January 1, 2015	Total realized/unrealized gains/(losses)	Purchases[g]	Sales	Settlements	Transfers into and/or out of level 3[h]	Fair value at June 30, 2015	Change in unrealized gains/(losses) related to financial instruments held at June 30, 2015
Assets:								
Trading assets:								
Debt instruments:								
Mortgage-backed securities:								
U.S. government agencies	$922	$ 38	$ 182	$(165)	$ (74)	$ (2)	$901	$40
Residential – nonagency	663	44	177	(463)	(10)	(288)	123	26
Commercial – nonagency	306	(9)	180	(200)	(14)	(125)	138	(6)
Total mortgage-backed securities	1,891	73	539	(828)	(98)	(415)	1,162	60
Obligations of U.S. states and municipalities	1,273	13	191	(110)	(27)	(93)	1,247	12
Non-U.S. government debt securities	302	9	155	(112)	(42)	(104)	208	19
Corporate debt securities	2,989	(50)	821	(809)	(35)	(1,973)	943	18
Loans	13,287	9	1,896	(3,149)	(819)	(1,661)	9,563	(67)
Asset-backed securities	1,264	(16)	1,296	(892)	6	(119)	1,539	(14)
Total debt instruments	21,006	38	4,898	(5,900)	(1,015)	(4,365)	14,662	28
Equity securities	431	46	50	(123)	(17)	(77)	310	51
Other	1,052	88	1,111	(1,035)	(216)	(31)	969	14
Total trading assets – debt and equity instruments	22,489	172 (c)	6,059	(7,058)	(1,248)	(4,473)	15,941	93 (c)
Net derivative receivables:[a]								
Interest rate	626	493	442	(158)	(353)	(191)	859	541
Credit	189	94	10	(4)	126	17	432	195
Foreign exchange	(526)	945	13	(11)	14	(30)	405	551
Equity	(1,785)	325	424	(672)	(262)	122	(1,848)	137
Commodity	(565)	89	—	—	(51)	(67)	(594)	(101)
Total net derivative receivables	(2,061)	1,946 (c)	889	(845)	(526)	(149)	(746)	1,323 (c)
Available-for-sale securities:								
Asset-backed securities	908	(7)	49	(43)	(45)	—	862	(2)
Other	129	—	—	—	(17)	(99)	13	—
Total available-for-sale securities	1,037	(7) (d)	49	(43)	(62)	(99)	875	(2) (d)

Loans	2,541	(120) [c]	417	(83)		(460)	—	2,295	(118) [c]
Mortgage servicing rights	7,436	215 [e]	739	(375)		(444)	—	7,571	215 [e]
Other assets:									
Private equity investments	2,475	47 [c]	7	(27)		(366)	(149)	1,987	(16) [c]
All other	965	10 [f]	65	(143)		(58)	—	839	(16) [f]

Six months ended June 30, 2015 (in millions)	Fair value measurements using significant unobservable inputs								
	Fair value at January 1, 2015	Total realized/unrealized (gains)/losses	Purchases	Sales	Issuances	Settlements	Transfers into and/or out of level 3[h]	Fair value at June 30, 2015	Change in unrealized (gains)/losses related to financial instruments held at June 30, 2015
Liabilities:[b]									
Deposits	$2,859	$ (64) [c]	$ —	$—	$ 1,448	$ (145)	$ (570)	$3,528	$7 [c]
Other borrowed funds	1,453	(123) [c]	45	—	2,322	(2,142)	(294)	1,261	(122) [c]
Trading liabilities – debt and equity instruments	72	5 [c]	(131)	147	—	(14)	(7)	72	8 [c]
Accounts payable and other liabilities	26	— [c]	—	—	—	(3)	—	23	— [c]
Beneficial interests issued by consolidated VIEs	1,146	(17) [c]	(16)	—	286	(259)	—	1,140	— [c]
Long-term debt	11,877	(197) [c]	—	(12)	5,383	(4,145)	(317)	12,589	(37) [c]

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Six months ended June 30, 2014 (in millions)	Fair value measurements using significant unobservable inputs							
	Fair value at January 1, 2014	Total realized/unrealized gains/(losses)	Purchases[g]	Sales	Settlements	Transfers into and/or out of level 3[h]	Fair value at June 30, 2014	Change in unrealized gains/(losses) related to financial instruments held at June 30, 2014
Assets:								
Trading assets:								
Debt instruments:								
Mortgage-backed securities:								
U.S. government agencies	$1,005	$ 30	$ 343	$(174)	$ (60)	$ (19)	$1,125	$32
Residential – nonagency	726	91	373	(514)	(24)	(109)	543	29
Commercial – nonagency	432	28	581	(481)	(48)	(185)	327	4
Total mortgage-backed securities	2,163	149	1,297	(1,169)	(132)	(313)	1,995	65
Obligations of U.S. states and municipalities	1,382	(13)	—	(290)	—	—	1,079	7
Non-U.S. government debt securities	143	19	435	(519)	(2)	52	128	24
Corporate debt securities	5,920	368	2,360	(2,015)	(1,664)	(176)	4,793	280
Loans	13,455	691	5,287	(2,902)	(2,718)	(292)	13,521	882
Asset-backed securities	1,272	70	1,357	(1,332)	(171)	20	1,216	43
Total debt instruments	24,335	1,284	10,736	(8,227)	(4,687)	(709)	22,732	1,301
Equity securities	867	100	85	(75)	(30)	(256)	691	147
Physical commodities	4	—	—	—	(1)	—	3	—
Other	2,000	169	710	(178)	(95)	(265)	2,341	146
Total trading assets – debt and equity instruments	27,206	1,553 [c]	11,531	(8,480)	(4,813)	(1,230)	25,767	1,594 [c]
Net derivative receivables:[a]								
Interest rate	2,379	26	98	(106)	(765)	(99)	1,533	(690)
Credit	95	(239)	222	(21)	127	(50)	134	(186)
Foreign exchange	(1,200)	(342)	94	(19)	255	18	(1,194)	(291)
Equity	(1,063)	(72) [i]	858 [i]	(1,580) [i]	51 [i]	(400) [i]	(2,206)	343

Commodity	115	(172)	1	—	(13)	(53)	(122)	(156)
Total net derivative receivables	326	(799) (c)(i)	1,273 (i)	(1,726) (i)	(345) (i)	(584) (i)	(1,855)	(980) (c)
Available-for-sale securities:								
Asset-backed securities	1,088	(11)	225	(2)	(41)	63	1,322	(11)
Other	1,234	(2)	122	—	(68)	(772)	514	(1)
Total available-for-sale securities	2,322	(13) (d)	347	(2)	(109)	(709)	1,836	(12) (d)
Loans	1,931	72 (c)	3,080	(142)	(714)	—	4,227	47 (c)
Mortgage servicing rights	9,614	(971) (e)	376	(186)	(486)	—	8,347	(971) (e)
Other assets:								
Private equity investments	5,817	240 (c)	103	(1,488)	(308)	266	4,630	109 (c)
All other	1,382	(3) (f)	6	(130)	(56)	—	1,199	(3) (f)

Six months ended June 30, 2014 (in millions)	Fair value measurements using significant unobservable inputs								
	Fair value at January 1, 2014	Total realized/unrealized (gains)/losses	Purchases	Sales	Issuances	Settlements	Transfers into and/or out of level 3(h)	Fair value at June 30, 2014	Change in unrealized (gains)/ losses related to financial instruments held at June 30, 2014
Liabilities:(b)									
Deposits	$2,255	$ 111 (c)	$ —	$—	$ 809	$ (66)	$ (271)	$2,838	$98 (c)
Other borrowed funds	2,074	(93) (c)	—	—	2,676	(3,487)	368	1,538	84 (c)
Trading liabilities – debt and equity instruments	113	(4) (c)	(262)	279	—	(8)	(38)	80	1 (c)
Accounts payable and other liabilities	—	27 (f)	—	—	—	—	—	27	27 (f)
Beneficial interests issued by consolidated VIEs	1,240	101 (c)	—	—	82	(259)	(102)	1,062	88 (c)
Long-term debt	10,008	539 (c)	—	—	3,744	(2,379)	(166)	11,746	585 (c)

Note: Effective April 1, 2015, the Firm adopted new accounting guidance for certain investments where the Firm measures fair value using the net asset value per share (or its equivalent) as a practical expedient and excluded them from the fair value hierarchy. Accordingly, such investments are not included within these tables. The guidance was required to be applied retrospectively, and accordingly, prior period amounts have been revised to conform with the current period presentation. For further information, see page 92.

(a) All level 3 derivatives are presented on a net basis, irrespective of the underlying counterparty.
(b) Level 3 liabilities as a percentage of total Firm liabilities accounted for at fair value (including liabilities measured at fair value on a nonrecurring basis) was 15% at both June 30, 2015, and December 31, 2014.
(c) Predominantly reported in principal transactions revenue, except for changes in fair value for Consumer & Community Banking mortgage loans, lending-related commitments originated with the intent to sell, and mortgage loan purchase commitments, which are reported in mortgage fees and related income.
(d) Realized gains/(losses) on available-for-sale ("AFS") securities, as well as other-than-temporary impairment losses that are recorded in earnings, are reported in securities gains. Unrealized gains/(losses) are reported in OCI. Realized gains/(losses) and foreign exchange remeasurement adjustments recorded in income on AFS securities were zero and $(11) million for the three months ended June 30, 2015 and 2014 and $(7) million and $(12) million for the six months ended June 30, 2015 and 2014, respectively. Unrealized gains/(losses) recorded on AFS securities in OCI were $2 million and $3 million for the three months ended June 30, 2015 and 2014 and $161 million and $(1) million for the six months ended June 30, 2015 and 2014 respectively.
(e) Changes in fair value for CCB mortgage servicing rights are reported in mortgage fees and related income.
(f) Predominantly reported in other income.
(g) Loan originations are included in purchases.
(h) All transfers into and/or out of level 3 are assumed to occur at the beginning of the quarterly reporting period in which they occur.
(i) The prior period amounts have been revised. The revision had no impact on the Firm's Consolidated balance sheets or its results of operations.

Level 3 analysis
Consolidated balance sheets changes
Level 3 assets (including assets measured at fair value on a nonrecurring basis) were 1.7% of total Firm assets at June 30, 2015. The following describes significant changes to level 3 assets since December 31, 2014, for those items measured at fair value on a recurring basis. For further information on changes impacting items measured at fair value on a nonrecurring basis, see Assets and liabilities measured at fair value on a nonrecurring basis on page 100.
Three months ended June 30, 2015
Level 3 assets were $40.6 billion at June 30, 2015, reflecting a decrease of $5.4 billion from March 31, 2015, largely due to the following:

- $3.2 billion decrease in trading assets, debt and equity instruments predominantly driven by a decrease in corporate debt and trading loans due to transfers from Level 3 to Level 2 as a result of a reduction of the significance in the unobservable inputs in corporate debt and an increase in observability of certain valuation inputs for both corporate debt and trading loans.

Six months ended June 30, 2015
Level 3 assets were $40.6 billion at June 30, 2015, reflecting a decrease of $8.6 billion from December 31, 2014, largely due to the following:

- $6.5 billion decrease in trading assets, debt and equity instruments predominantly driven by a decrease in trading loans due to sales and transfers of corporate debt and trading loans from level 3 to level 2 as a result of an increase in observability of certain valuation inputs.

Gains and losses
The following describes significant components of total realized/unrealized gains/(losses) for instruments measured at fair value on a recurring basis for the periods indicated. For further information on these instruments, see Changes in level 3 recurring fair value measurements rollforward tables on pages 95–99.
Three months ended June 30, 2015

- $1.4 billion of gains on derivatives, largely driven by equity derivatives due to market movements.

Three months ended June 30, 2014

-

$521 million of net gains and $456 million of net losses on assets and liabilities, respectively, measured at fair value on a recurring basis, none of which were individually significant.

Six months ended June 30, 2015

- $2.0 billion of gains on derivatives, largely driven by foreign exchange derivatives and interest rate derivatives due to market movements.

Six months ended June 30, 2014

- $1.6 billion of net gains in trading assets – debt and equity instruments, largely driven by client-driven activities in corporate debt and trading loans.

Credit & funding adjustments

The following table provides the credit and funding adjustments, excluding the effect of any associated hedging activities, reflected within the Consolidated balance sheets as of the dates indicated.

(in millions)	Jun 30, 2015	Dec 31, 2014
Derivative receivables balance[(a)]	$67,451	$78,975
Derivative payables balance[(a)]	59,026	71,116
Derivatives CVA[(b)]	(2,152)	(2,674)
Derivatives DVA and FVA[(b)(c)]	(317)	(380)
Structured notes balance[(a)(d)]	56,788	53,772
Structured notes DVA and FVA[(b)(e)]	1,803	1,152

(a) Balances are presented net of applicable credit valuation adjustments ("CVA") and debit valuation adjustments ("DVA")/funding valuation adjustments ("FVA").

(b) Positive CVA and DVA/FVA represent amounts that increased receivable balances or decreased payable balances; negative CVA and DVA/FVA represent amounts that decreased receivable balances or increased payable balances.

(c) At June 30, 2015, and December 31, 2014, included derivatives DVA of $771 million and $714 million, respectively.

(d) Structured notes are predominantly financial instruments containing embedded derivatives that are measured at fair value based on the Firm's election under the fair value option. At June 30, 2015, and December 31, 2014, included $1.7 billion and $943 million, respectively, of financial instruments with no embedded derivative for which the fair value option has also been elected. For further information on these elections, see Note 4.

(e) At June 30, 2015, and December 31, 2014, included structured notes DVA of $1.7 billion and $1.4 billion, respectively.

The following table provides the impact of credit and funding adjustments on principal transactions revenue in the respective periods, excluding the effect of any associated hedging activities.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Credit adjustments:				
Derivatives CVA	$341	$272	$522	$253
Derivatives DVA and FVA[(a)]	204	(36)	63	(161)
Structured notes DVA and FVA[(b)]	503	162	651	179

(a) Included derivatives DVA of $44 million and $(1) million for the three months ended June 30, 2015 and 2014, respectively, and $57 million and $(95) million for the six months ended June 30, 2015 and 2014, respectively.

(b) Included structured notes DVA of $215 million and $134 million for the three months ended June 30, 2015 and 2014, respectively, and $323 million and $19 million for the six months ended June 30, 2015 and 2014, respectively.

Assets and liabilities measured at fair value on a nonrecurring basis

At June 30, 2015 and 2014, assets measured at fair value on a nonrecurring basis were $2.0 billion and $3.4 billion, respectively, which predominantly consisted of loans that had fair value adjustments in the first six months of both 2015 and 2014. At June 30, 2015, $94 million and $1.9 billion of these assets were classified in levels 2 and 3 of the fair value hierarchy, respectively. At June 30, 2014, $597 million and $2.8 billion of these assets were classified in levels 2 and 3 of the fair value hierarchy, respectively. Liabilities measured at fair value on a nonrecurring basis were not significant at June 30, 2015 and 2014. For the three and six months ended June 30, 2015 and 2014, there were no significant transfers between levels 1, 2, and 3.

Of the $1.9 billion of level 3 assets measured at fair value on a nonrecurring basis as of June 30, 2015:

- $1.3 billion related to consumer credit card loans that were reclassified to held-for-sale during the fourth quarter of 2014 subject to a lower of cost or fair value adjustment. These loans were classified as level 3, as they are valued based on the Firm's internal valuation methodology;

- $312 million related to residential real estate loans measured at the net realizable value of the underlying collateral (i.e., collateral-dependent loans and other loans charged off in accordance with regulatory guidance). These amounts are classified as level 3 as they are valued using a broker's price opinion and discounted based upon the Firm's experience with actual liquidation values. These discounts to the broker price opinions ranged from 8% to 59%, with a weighted average of 23%.

The total change in the recorded value of assets and liabilities for which a fair value adjustment has been included in the Consolidated statements of income for the three months ended June 30, 2015 and 2014, related to financial instruments held at those dates, was a reduction of $114 million and $318 million, respectively, and for the six months ended June 30, 2015 and 2014, was a reduction of $183 million and $456 million, respectively.

For information about the measurement of impaired collateral-dependent loans, and other loans where the carrying value is based on the fair value of the underlying collateral (e.g., residential mortgage loans charged off in accordance with regulatory guidance), see Note 14 of JPMorgan Chase's 2014 Annual Report.

Additional disclosures about the fair value of financial instruments that are not carried on the Consolidated balance sheets at fair value

The following table presents the carrying values and estimated fair values at June 30, 2015, and December 31, 2014, of financial assets and liabilities, excluding financial instruments which are carried at fair value on a recurring basis, and information is provided on their classification within the fair value hierarchy. For additional information regarding the financial instruments within the scope of this disclosure, and the methods and significant assumptions used to estimate their fair value, see Note 3 of JPMorgan Chase's 2014 Annual Report.

	June 30, 2015					December 31, 2014				
		Estimated fair value hierarchy					Estimated fair value hierarchy			
(in billions)	Carrying value	Level 1	Level 2	Level 3	Total estimated fair value	Carrying value	Level 1	Level 2	Level 3	Total estimated fair value
Financial assets										
Cash and due from banks	$24.1	$24.1	$—	$—	$24.1	$27.8	$27.8	$—	$—	$27.8
Deposits with banks	398.8	395.2	3.6	—	398.8	484.5	480.4	4.1	—	484.5
Accrued interest and accounts receivable	69.6	—	69.4	0.2	69.6	70.1	—	70.0	0.1	70.1
Federal funds sold and securities purchased under resale agreements	184.2	—	184.2	—	184.2	187.2	—	187.2	—	187.2
Securities borrowed	98.0	—	98.0	—	98.0	109.4	—	109.4	—	109.4
Securities, held-to-maturity[(a)]	51.6	—	52.7	—	52.7	49.3	—	51.2	—	51.2
Loans, net of allowance for loan losses[(b)]	774.9	—	22.7	757.3	780.0	740.5	—	21.8	723.1	744.9
Other	65.2	—	56.6	13.1	69.7	64.7	—	55.7	13.3	69.0
Financial liabilities										
Deposits	$1,275.8	$—	$1,274.7	$1.2	$1,275.9	$1,354.6	$—	$1,353.6	$1.2	$1,354.8
Federal funds purchased and securities loaned or sold under repurchase agreements	177.4	—	177.3	—	177.3	189.1	—	189.1	—	189.1
Commercial paper	42.2	—	42.2	—	42.2	66.3	—	66.3	—	66.3
Other borrowed funds	16.1	—	16.1	—	16.1	15.5		15.5	—	15.5
Accounts payable and other liabilities	163.5	—	160.9	2.4	163.3	176.7	—	173.7	2.9	176.6
Beneficial interests issued by consolidated VIEs	48.7	—	46.8	1.9	48.7	50.2	—	48.2	2.0	50.2
Long-term debt and junior subordinated deferrable interest debentures[(c)]	255.4	—	257.3	4.0	261.3	246.6	—	251.6	3.8	255.4

(a) Carrying value includes unamortized discount or premium.

(b) Fair value is typically estimated using a discounted cash flow model that incorporates the characteristics of the underlying loans (including principal, contractual interest rate and contractual fees) and other key inputs, including expected lifetime credit losses, interest rates, prepayment rates, and primary origination or secondary market spreads. For certain loans, the fair value is measured based on the value of the underlying collateral. The difference between the estimated fair value and carrying value of a financial asset or liability is the result of the different methodologies used to determine fair value as compared with carrying value. For example, credit losses are estimated for a financial asset's remaining life in a fair value calculation but are estimated for a loss emergence period in the allowance for loan loss calculation; future loan income (interest and fees) is incorporated in a fair value calculation but is generally not considered in the allowance for loan losses. For a further discussion of the Firm's methodologies for estimating the fair value of loans and lending-related commitments, see Valuation hierarchy on pages 181–184 of JPMorgan Chase's 2014 Annual Report.

(c) Carrying value includes unamortized original issue discount and other valuation adjustments.

The majority of the Firm's lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The carrying value and estimated fair value of the Firm's wholesale lending-related commitments were as follows for the periods indicated.

	June 30, 2015					December 31, 2014				
		Estimated fair value hierarchy					Estimated fair value hierarchy			
(in billions)	Carrying value[(a)]	Level 1	Level 2	Level 3	Total estimated fair value	Carrying value[(a)]	Level 1	Level 2	Level 3	Total estimated fair value
Wholesale lending-related commitments	$0.6	$—	$—	$1.6	$1.6	$0.6	$—	$—	$1.6	$1.6

(a) Represents the allowance for wholesale lending-related commitments. Excludes the current carrying values of the guarantee liability and the offsetting asset, each of which are recognized at fair value at the inception of guarantees.

The Firm does not estimate the fair value of consumer lending-related commitments. In many cases, the Firm can reduce or cancel these commitments by providing the borrower notice or, in some cases as permitted by law, without notice. For a further discussion of the valuation of lending-related commitments, see page 182 of JPMorgan Chase's 2014 Annual Report.

Note 4 – Fair value option

For a discussion of the primary financial instruments for which the fair value option was previously elected, including the basis for those elections and the determination of instrument-specific credit risk, where relevant, see Note 4 of JPMorgan Chase's 2014 Annual Report.

Changes in fair value under the fair value option election

The following table presents the changes in fair value included in the Consolidated statements of income for the three and six months ended June 30, 2015 and 2014, for items for which the fair value option was elected. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

	Three months ended June 30,					
	2015			2014		
(in millions)	Principal transactions	All other income	Total changes in fair value recorded	Principal transactions	All other income	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	$(99)	$—	$(99)	$96	$—	$96
Securities borrowed	(2)	—	(2)	(2)	—	(2)
Trading assets:						
Debt and equity instruments, excluding loans	139	1 (c)	140	245	3 (c)	248
Loans reported as trading assets:						
Changes in instrument-specific credit risk	59	10 (c)	69	391	3 (c)	394
Other changes in fair value	(15)	100 (c)	85	38	400 (c)	438
Loans:						
Changes in instrument-specific credit risk	—	—	—	20	—	20
Other changes in fair value	—	—	—	24	—	24
Other assets	2	3 (d)	5	7	(1) (d)	6
Deposits[(a)]	162	—	162	(107)	—	(107)
Federal funds purchased and securities loaned or sold under repurchase agreements	18	—	18	(18)	—	(18)

Other borrowed funds[(a)]	115	—	115	(911)	—	(911)
Trading liabilities	(12)	—	(12)	(3)	—	(3)
Beneficial interests issued by consolidated VIEs	26	—	26	(48)	—	(48)
Other liabilities	—	—	—	(27)	—	(27)
Long-term debt:						
Changes in instrument-specific credit risk[(a)]	209	—	209	82	—	82
Other changes in fair value[(b)]	728	—	728	(773)	—	(773)

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(in millions)	Six months ended June 30, 2015 Principal transactions	All other income	Total changes in fair value recorded	2014 Principal transactions	All other income	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	$(26)	$—	$(26)	$56	$—	$56
Securities borrowed	(4)	—	(4)	(5)	—	(5)
Trading assets:						
Debt and equity instruments, excluding loans	519	1 (c)	520	475	1 (c)	476
Loans reported as trading assets:						
Changes in instrument-specific credit risk	211	13 (c)	224	754	12 (c)	766
Other changes in fair value	112	380 (c)	492	102	692 (c)	794
Loans:						
Changes in instrument-specific credit risk	1	—	1	28	—	28
Other changes in fair value	—	—	—	31	—	31
Other assets	62	9 (d)	71	12	(74) (d)	(62)
Deposits[(a)]	37	—	37	(211)	—	(211)
Federal funds purchased and securities loaned or sold under repurchase agreements	9	—	9	(34)	—	(34)
Other borrowed funds[(a)]	106	—	106	(1,171)	—	(1,171)
Trading liabilities	(14)	—	(14)	(9)	—	(9)
Beneficial interests issued by consolidated VIEs	44	—	44	(137)	—	(137)
Other liabilities	—	—	—	(27)	—	(27)
Long-term debt:						
Changes in instrument-specific credit risk[(a)]	325	—	325	5	—	5
Other changes in fair value[(b)]	350	—	350	(791)	—	(791)

(a) Total changes in instrument-specific credit risk (DVA) related to structured notes were $215 million and $134 million for the three months ended June 30, 2015 and 2014, respectively, and $323 million and $19 million for the six months ended June 30, 2015 and 2014, respectively. These totals include such changes for structured notes classified within deposits and other borrowed funds, as well as long-term debt.

(b) Structured notes are predominantly financial instruments containing embedded derivatives. Where present, the embedded derivative is the primary driver of risk. Although the risk associated with the structured notes is actively managed, the gains/(losses) reported in this table do not include the income statement impact of the risk management instruments used to manage such risk.

(c) Reported in mortgage fees and related income.

(d) Reported in other income.

Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of June 30, 2015, and December 31, 2014, for loans, long-term debt and long-term beneficial interests for which the fair value option has been elected.

(in millions)	June 30, 2015 Contractual principal outstanding	Fair value	Fair value over/(under) contractual principal outstanding	December 31, 2014 Contractual principal outstanding	Fair value	Fair value over/(under) contractual principal outstanding
Loans[a]						
Nonaccrual loans						
Loans reported as trading assets	$4,096	$1,097	$ (2,999)	$3,847	$905	$ (2,942)
Loans	7	7	—	7	7	—
Subtotal	4,103	1,104	(2,999)	3,854	912	(2,942)
All other performing loans						
Loans reported as trading assets	34,729	32,885	(1,844)	37,608	35,462	(2,146)
Loans	2,267	2,262	(5)	2,397	2,389	(8)
Total loans	$41,099	$36,251	$ (4,848)	$43,859	$38,763	$ (5,096)
Long-term debt						
Principal-protected debt	$14,747 [c]	$14,690	$ (57)	$14,660 [c]	$15,484	$ 824
Nonprincipal-protected debt[b]	NA	16,626	NA	NA	14,742	NA
Total long-term debt	NA	$31,316	NA	NA	$30,226	NA
Long-term beneficial interests						
Nonprincipal-protected debt[b]	NA	$1,330	NA	NA	$2,162	NA
Total long-term beneficial interests	NA	$1,330	NA	NA	$2,162	NA

(a) There were no performing loans that were ninety days or more past due as of June 30, 2015, and December 31, 2014, respectively.

(b) Remaining contractual principal is not applicable to nonprincipal-protected notes. Unlike principal-protected structured notes, for which the Firm is obligated to return a stated amount of principal at the maturity of the note, nonprincipal-protected structured notes do not obligate the Firm to return a stated amount of principal at maturity, but to return an amount based on the performance of an underlying variable or derivative feature embedded in the note. However, investors are exposed to the credit risk of the Firm as issuer for both nonprincipal-protected and principal protected notes.

(c) Where the Firm issues principal-protected zero-coupon or discount notes, the balance reflected as the remaining contractual principal is the final principal payment at maturity.

At June 30, 2015, and December 31, 2014, the contractual amount of letters of credit for which the fair value option was elected was $4.4 billion and $4.5 billion, respectively, with a corresponding fair value of $(130) million and $(147) million, respectively. For further information regarding off-balance sheet lending-related financial instruments, see Note 29 of JPMorgan Chase's 2014 Annual Report, and Note 21.

Structured note products by balance sheet classification and risk component

The table below presents the fair value of the structured notes issued by the Firm, by balance sheet classification and the primary risk to which the structured notes' embedded derivative relates.

(in millions)	June 30, 2015 Long-term debt	Other borrowed funds	Deposits	Total	December 31, 2014 Long-term debt	Other borrowed funds	Deposits	Total
Risk exposure								
Interest rate	$10,580	$99	$3,960	$14,639	$10,858	$460	$2,119	$13,437
Credit	4,353	418	—	4,771	4,023	450	—	4,473

Foreign exchange	1,454	196	12	1,662	2,150	211	17	2,378
Equity	13,416	12,300	4,745	30,461	12,348	12,412	4,415	29,175
Commodity	828	229	2,503	3,560	710	644	2,012	3,366
Total structured notes	$30,631	$13,242	$11,220	$55,093	$30,089	$14,177	$8,563	$52,829

Note 5 – Derivative instruments

JPMorgan Chase makes markets in derivatives for customers and also uses derivatives to hedge or manage its own risk exposures. For a further discussion of the Firm's use of and accounting policies regarding derivative instruments, see Note 6 of JPMorgan Chase's 2014 Annual Report.

The Firm's disclosures are based on the accounting treatment and purpose of these derivatives. A limited number of the Firm's derivatives are designated in hedge

accounting relationships and are disclosed according to the type of hedge (fair value hedge, cash flow hedge, or net investment hedge). Derivatives not designated in hedge accounting relationships include certain derivatives that are used to manage certain risks associated with specified assets or liabilities ("specified risk management" positions) as well as derivatives used in the Firm's market-making businesses or for other purposes.

The following table outlines the Firm's primary uses of derivatives and the related hedge accounting designation or disclosure category.

Type of Derivative	Use of Derivative	Designation and disclosure	Affected segment or unit	10-Q page reference
Manage specifically identified risk exposures in qualifying hedge accounting relationships:				
Interest rate	Hedge fixed rate assets and liabilities	Fair value hedge	Corporate	111–112
Interest rate	Hedge floating-rate assets and liabilities	Cash flow hedge	Corporate	112–113
Foreign exchange	Hedge foreign currency-denominated assets and liabilities	Fair value hedge	Corporate	111–112
Foreign exchange	Hedge forecasted revenue and expense	Cash flow hedge	Corporate	112–113
Foreign exchange	Hedge the value of the Firm's investments in non-U.S. subsidiaries	Net investment hedge	Corporate	114
Commodity	Hedge commodity inventory	Fair value hedge	CIB	111–112
Manage specifically identified risk exposures not designated in qualifying hedge accounting relationships:				
Interest rate	Manage the risk of the mortgage pipeline, warehouse loans and MSRs	Specified risk management	CCB	114
Credit	Manage the credit risk of wholesale lending exposures	Specified risk management	CIB	114
Commodity	Manage the risk of certain commodities-related contracts and investments	Specified risk management	CIB	114
Interest rate and foreign exchange	Manage the risk of certain other specified assets and liabilities	Specified risk management	Corporate	114
Market-making derivatives and other activities:				
Various	Market-making and related risk management	Market-making and other	CIB	114
Various	Other derivatives	Market-making and other	CIB, Corporate	114

Notional amount of derivative contracts

The following table summarizes the notional amount of derivative contracts outstanding as of June 30, 2015, and December 31, 2014.

	Notional amounts[b]	
(in billions)	June 30, 2015	December 31, 2014
Interest rate contracts		
Swaps	$23,790	$29,734
Futures and forwards	7,108	10,189
Written options	3,735	3,903
Purchased options	4,120	4,259
Total interest rate contracts	38,753	48,085
Credit derivatives[a]	3,681	4,249
Foreign exchange contracts		
Cross-currency swaps	3,262	3,346
Spot, futures and forwards	4,810	4,669
Written options	750	790
Purchased options	758	780
Total foreign exchange contracts	9,580	9,585
Equity contracts		
Swaps	237	206
Futures and forwards	59	50
Written options	414	432
Purchased options	357	375
Total equity contracts	1,067	1,063
Commodity contracts		
Swaps	114	126
Spot, futures and forwards	162	193
Written options	175	181
Purchased options	176	180
Total commodity contracts	627	680
Total derivative notional amounts	$53,708	$63,662

(a) For more information on volumes and types of credit derivative contracts, see the Credit derivatives discussion on pages 115–116 of this Note.

(b) Represents the sum of gross long and gross short third-party notional derivative contracts.

While the notional amounts disclosed above give an indication of the volume of the Firm’s derivatives activity, the notional amounts significantly exceed, in the Firm’s view, the possible losses that could arise from such transactions. For most derivative transactions, the notional amount is not exchanged; it is used simply as a reference to calculate payments.

Impact of derivatives on the Consolidated Balance Sheets

The following table summarizes information on derivative receivables and payables (before and after netting adjustments) that are reflected on the Firm's Consolidated balance sheets as of June 30, 2015, and December 31, 2014, by accounting designation (e.g., whether the derivatives were designated in qualifying hedge accounting relationships or not) and contract type.

Free-standing derivative receivables and payables[a]

	Gross derivative receivables				Gross derivative payables			
June 30, 2015 (in millions)	Not designated as hedges	Designated as hedges	Total derivative receivables	Net derivative receivables[b]	Not designated as hedges	Designated as hedges	Total derivative payables	Net derivative payables[b]
Trading assets and liabilities								
Interest rate	$652,504	$4,159	$656,663	$ 31,323	$619,496	$2,361	$621,857	$ 13,880
Credit	54,577	—	54,577	1,321	53,830	—	53,830	1,262
Foreign exchange	174,062	788	174,850	18,340	188,047	1,606	189,653	18,456
Equity	42,390	—	42,390	6,058	47,978	—	47,978	11,539
Commodity	29,065	867	29,932	10,409	32,667	12	32,679	13,889
Total fair value of trading assets and liabilities	$952,598	$5,814	$958,412	$ 67,451	$942,018	$3,979	$945,997	$ 59,026

	Gross derivative receivables				Gross derivative payables			
December 31, 2014 (in millions)	Not designated as hedges	Designated as hedges	Total derivative receivables	Net derivative receivables[b]	Not designated as hedges	Designated as hedges	Total derivative payables	Net derivative payables[b]
Trading assets and liabilities								
Interest rate	$944,885	$5,372	$950,257	$ 33,725	$915,368	$3,011	$918,379	$ 17,745
Credit	76,842	—	76,842	1,838	75,895	—	75,895	1,593
Foreign exchange	211,537	3,650	215,187	21,253	223,988	626	224,614	22,970
Equity	42,489	—	42,489	8,177	46,262	—	46,262	11,740
Commodity	43,151	502	43,653	13,982	45,455	168	45,623	17,068
Total fair value of trading assets and liabilities	$1,318,904	$9,524	$1,328,428	$ 78,975	$1,306,968	$3,805	$1,310,773	$ 71,116

(a) Balances exclude structured notes for which the fair value option has been elected. See Note 4 for further information.

(b) As permitted under U.S. GAAP, the Firm has elected to net derivative receivables and derivative payables and the related cash collateral receivables and payables when a legally enforceable master netting agreement exists.

The following table presents, as of June 30, 2015, and December 31, 2014, the gross and net derivative receivables by contract and settlement type. Derivative receivables have been netted on the Consolidated balance sheets against derivative payables and cash collateral payables to the same counterparty with respect to derivative contracts for which the Firm has obtained an appropriate legal opinion with respect to the master netting agreement. Where such a legal opinion has not been either sought or obtained, the receivables are not eligible under U.S. GAAP for netting on the Consolidated balance sheets, and are shown separately in the table below.

	June 30, 2015			December 31, 2014		
(in millions)	Gross derivative receivables	Amounts netted on the Consolidated balance sheets	Net derivative receivables	Gross derivative receivables	Amounts netted on the Consolidated balance sheets	Net derivative receivables
U.S. GAAP nettable derivative receivables						
Interest rate contracts:						
OTC	$431,691	$(406,111)	$ 25,580	$542,107	$(514,914)	$ 27,193
OTC–cleared	219,247	(219,229)	18	401,656	(401,618)	38
Exchange-traded[(a)]	—	—	—	—	—	—
Total interest rate contracts	650,938	(625,340)	25,598	943,763	(916,532)	27,231
Credit contracts:						
OTC	45,040	(44,287)	753	66,636	(65,720)	916
OTC–cleared	9,000	(8,969)	31	9,320	(9,284)	36
Total credit contracts	54,040	(53,256)	784	75,956	(75,004)	952
Foreign exchange contracts:						
OTC	170,584	(156,406)	14,178	208,803	(193,900)	14,903
OTC–cleared	107	(104)	3	36	(34)	2
Exchange-traded[(a)]	—	—	—	—	—	—
Total foreign exchange contracts	170,691	(156,510)	14,181	208,839	(193,934)	14,905
Equity contracts:						
OTC	24,520	(23,514)	1,006	23,258	(22,826)	432
OTC–cleared	—	—	—	—	—	—
Exchange-traded[(a)]	14,918	(12,818)	2,100	13,840	(11,486)	2,354
Total equity contracts	39,438	(36,332)	3,106	37,098	(34,312)	2,786
Commodity contracts:						
OTC	15,963	(7,265)	8,698	22,555	(14,327)	8,228
OTC–cleared	—	—	—	—	—	—
Exchange-traded[(a)]	13,137	(12,258)	879	19,500	(15,344)	4,156
Total commodity contracts	29,100	(19,523)	9,577	42,055	(29,671)	12,384
Derivative receivables with appropriate legal opinion	$944,207	$(890,961)[(b)]	$ 53,246	$1,307,711	$(1,249,453)[(b)]	$ 58,258
Derivative receivables where an appropriate legal opinion has not been either sought or obtained	14,205		14,205	20,717		20,717
Total derivative receivables recognized on the Consolidated balance sheets	$958,412		$ 67,451	$1,328,428		$ 78,975

(a) Exchange-traded derivative amounts that relate to futures contracts are settled daily.

(b) Included cash collateral netted of $67.2 billion and $74.0 billion at June 30, 2015, and December 31, 2014, respectively.

The following table presents, as of June 30, 2015, and December 31, 2014, the gross and net derivative payables by contract and settlement type. Derivative payables have been netted on the Consolidated balance sheets against derivative receivables and cash collateral receivables from the same counterparty with respect to derivative contracts for which the Firm has obtained an appropriate legal opinion with respect to the master netting agreement. Where such a legal opinion has not been either sought or obtained, the payables are not eligible under U.S. GAAP for netting on the Consolidated balance sheets, and are shown separately in the table below.

	June 30, 2015			December 31, 2014		
(in millions)	Gross derivative payables	Amounts netted on the Consolidated balance sheets	Net derivative payables	Gross derivative payables	Amounts netted on the Consolidated balance sheets	Net derivative payables
U.S. GAAP nettable derivative payables						
Interest rate contracts:						
OTC	$410,875	$(398,412)	$12,463	$515,904	$(503,384)	$12,520
OTC–cleared	209,740	(209,565)	175	398,518	(397,250)	1,268
Exchange-traded[(a)]	—	—	—	—	—	—
Total interest rate contracts	620,615	(607,977)	12,638	914,422	(900,634)	13,788
Credit contracts:						
OTC	44,305	(43,547)	758	65,432	(64,904)	528
OTC–cleared	9,024	(9,021)	3	9,398	(9,398)	—
Total credit contracts	53,329	(52,568)	761	74,830	(74,302)	528
Foreign exchange contracts:						
OTC	184,282	(171,105)	13,177	217,998	(201,578)	16,420
OTC–cleared	92	(92)	—	66	(66)	—
Exchange-traded[(a)]	—	—	—	—	—	—
Total foreign exchange contracts	184,374	(171,197)	13,177	218,064	(201,644)	16,420
Equity contracts:						
OTC	29,022	(23,621)	5,401	27,908	(23,036)	4,872
OTC–cleared	—	—	—	—	—	—
Exchange-traded[(a)]	14,292	(12,818)	1,474	12,864	(11,486)	1,378
Total equity contracts	43,314	(36,439)	6,875	40,772	(34,522)	6,250
Commodity contracts:						
OTC	18,424	(6,532)	11,892	25,129	(13,211)	11,918
OTC–cleared	—	—	—	—	—	—
Exchange-traded[(a)]	12,512	(12,258)	254	18,486	(15,344)	3,142
Total commodity contracts	30,936	(18,790)	12,146	43,615	(28,555)	15,060
Derivative payables with appropriate legal opinions	$932,568	$(886,971)[(b)]	$45,597	$1,291,703	$(1,239,657)[(b)]	$52,046
Derivative payables where an appropriate legal opinion has not been either sought or obtained	13,429		13,429	19,070		19,070
Total derivative payables recognized on the Consolidated balance sheets	$945,997		$59,026	$1,310,773		$71,116

(a) Exchange-traded derivative balances that relate to futures contracts are settled daily.

(b) Included cash collateral netted of $63.2 billion and $64.2 billion related to OTC and OTC-cleared derivatives at June 30, 2015, and December 31, 2014, respectively.

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In addition to the cash collateral received and transferred that is presented on a net basis with net derivative receivables and payables, the Firm receives and transfers additional collateral (financial instruments and cash). These amounts mitigate counterparty credit risk associated with the Firm's derivative instruments but are not eligible for net presentation, because (a) the collateral is comprised of

non-cash financial instruments (generally U.S. government and agency securities and other G7 government bonds), (b) the amount of collateral held or transferred exceeds the fair value exposure, at the individual counterparty level, as of the date presented, or (c) the collateral relates to derivative receivables or payables where an appropriate legal opinion has not been either sought or obtained.

The following tables present information regarding certain financial instrument collateral received and transferred as of June 30, 2015, and December 31, 2014, that is not eligible for net presentation under U.S. GAAP. The collateral included in these tables relates only to the derivative instruments for which appropriate legal opinions have been obtained; excluded are (i) additional collateral that exceeds the fair value exposure and (ii) all collateral related to derivative instruments where an appropriate legal opinion has not been either sought or obtained.

Derivative receivable collateral

	June 30, 2015			December 31, 2014		
(in millions)	Net derivative receivables	Collateral not nettable on the Consolidated balance sheets	Net exposure	Net derivative receivables	Collateral not nettable on the Consolidated balance sheets	Net exposure
Derivative receivables with appropriate legal opinions	$53,246	$(13,214)[a]	$40,032	$58,258	$(16,194)[a]	$42,064

Derivative payable collateral[b]

	June 30, 2015			December 31, 2014		
(in millions)	Net derivative payables	Collateral not nettable on the Consolidated balance sheets	Net amount[c]	Net derivative payables	Collateral not nettable on the Consolidated balance sheets	Net amount[c]
Derivative payables with appropriate legal opinions	$45,597	$(9,093)[a]	$ 36,504	$52,046	$(10,505)[a]	$ 41,541

(a) Represents liquid security collateral as well as cash collateral held at third party custodians. For some counterparties, the collateral amounts of financial instruments may exceed the derivative receivables and derivative payables balances. Where this is the case, the total amount reported is limited to the net derivative receivables and net derivative payables balances with that counterparty.

(b) Derivative payable collateral relates only to OTC and OTC-cleared derivative instruments. Amounts exclude collateral transferred related to exchange-traded derivative instruments.

(c) Net amount represents exposure of counterparties to the Firm.

Liquidity risk and credit-related contingent features

For a more detailed discussion of liquidity risk and credit-related contingent features related to the Firm's derivative contracts, see Note 6 of JPMorgan Chase's 2014 Annual Report.

The following table shows the aggregate fair value of net derivative payables related to OTC and OTC-cleared derivatives that contain contingent collateral or termination features that may be triggered upon a ratings downgrade, and the associated collateral the Firm has posted in the normal course of business, at June 30, 2015, and December 31, 2014.

OTC and OTC-cleared derivative payables containing downgrade triggers

(in millions)	June 30, 2015	December 31, 2014
Aggregate fair value of net derivative payables	$29,340	$32,303
Collateral posted	24,006	27,585

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The following table shows the impact of a single-notch and two-notch downgrade of the long-term issuer ratings of JPMorgan Chase & Co. and its subsidiaries, predominantly JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A."), at June 30, 2015 and December 31, 2014, related to OTC and OTC-cleared derivative contracts with contingent collateral or termination features that may be triggered upon a ratings downgrade. Derivatives contracts generally require additional collateral to be posted or terminations to be triggered when the predefined threshold rating is breached. A downgrade by a single rating agency that does not result in a rating lower than a preexisting corresponding rating provided by another major rating agency will generally not result in additional collateral, except in certain instances in which additional initial margin may be required upon a ratings downgrade, or in termination payments requirements. The liquidity impact in the table is calculated based upon a downgrade below the lowest current rating of the rating agencies referred to in the derivative contract.

Liquidity impact of downgrade triggers on OTC and OTC-cleared derivatives

	June 30, 2015		December 31, 2014	
(in millions)	Single-notch downgrade	Two-notch downgrade	Single-notch downgrade	Two-notch downgrade
Amount of additional collateral to be posted upon downgrade[(a)]	$891	$3,422	$1,046	$3,331
Amount required to settle contracts with termination triggers upon downgrade[(b)]	264	1,005	366	1,388

(a) Includes the additional collateral to be posted for initial margin.

(b) Amounts represent fair values of derivative payables, and do not reflect collateral posted.

Derivatives executed in contemplation of a sale of the underlying financial asset

In certain instances the Firm enters into transactions where it transfers financial assets but maintains the economic exposure to the transferred assets by entering into a derivative with the same counterparty in contemplation of the initial transfer. The Firm generally accounts for such transfers as collateralized financing transactions as described in Note 12, but in limited circumstances they may qualify to be accounted for as a sale and a derivative under U.S. GAAP. The amount of such transfers accounted for as a sale where the associated derivative was outstanding at June 30, 2015 was not material.

Impact of derivatives on the Consolidated statements of income

The following tables provide information related to gains and losses recorded on derivatives based on their hedge accounting designation or purpose.

Fair value hedge gains and losses

The following tables present derivative instruments, by contract type, used in fair value hedge accounting relationships, as well as pretax gains/(losses) recorded on such derivatives and the related hedged items for the three and six months ended June 30, 2015 and 2014, respectively.

	Gains/(losses) recorded in income			Income statement impact due to:	
Three months ended June 30, 2015 (in millions)	Derivatives	Hedged items	Total income statement impact	Hedge ineffectiveness[(d)]	Excluded components[(e)]
Contract type					
Interest rate[(a)]	$(1,541)	$1,709	$168	$(19)	$187
Foreign exchange[(b)]	(2,118)	2,097	(21)	—	(21)
Commodity[(c)]	242	(295)	(53)	(5)	(48)
Total	$(3,417)	$3,511	$94	$(24)	$118

	Gains/(losses) recorded in income	Income statement impact due to:
	Derivatives	

Three months ended June 30, 2014 (in millions)		Hedged items	Total income statement impact	Hedge ineffectiveness[d]	Excluded components[e]
Contract type					
Interest rate[a]	$578	$(261)	$317	$43	$274
Foreign exchange[b]	(388)	307	(81)	—	(81)
Commodity[c]	(561)	652	91	13	78
Total	$(371)	$698	$327	$56	$271

Six months ended June 30, 2015 (in millions)	Gains/(losses) recorded in income			Income statement impact due to:	
	Derivatives	Hedged items	Total income statement impact	Hedge ineffectiveness[d]	Excluded components[e]
Contract type					
Interest rate[a]	$(935)	$1,461	$526	$(2)	$528
Foreign exchange[b]	4,357	(4,362)	(5)	—	(5)
Commodity[c]	564	(603)	(39)	(11)	(28)
Total	$3,986	$(3,504)	$482	$(13)	$495

Six months ended June 30, 2014 (in millions)	Gains/(losses) recorded in income			Income statement impact due to:	
	Derivatives	Hedged items	Total income statement impact	Hedge ineffectiveness[d]	Excluded components[e]
Contract type					
Interest rate[a]	$1,321	$(668)	$653	$72	$581
Foreign exchange[b]	(786)	631	(155)	—	(155)
Commodity[c]	(381)	514	133	28	105
Total	$154	$477	$631	$100	$531

(a) Primarily consists of hedges of the benchmark (e.g., London Interbank Offered Rate ("LIBOR")) interest rate risk of fixed-rate long-term debt and AFS securities. Gains and losses were recorded in net interest income.

(b) Primarily consists of hedges of the foreign currency risk of long-term debt and AFS securities for changes in spot foreign currency rates. Gains and losses related to the derivatives and the hedged items, due to changes in foreign currency rates, were recorded in principal transactions revenue and net interest income.

(c) Consists of overall fair value hedges of physical commodities inventories that are generally carried at the lower of cost or market (market approximates fair value). Gains and losses were recorded in principal transactions revenue.

(d) Hedge ineffectiveness is the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk.

(e) The assessment of hedge effectiveness excludes certain components of the changes in fair values of the derivatives and hedged items such as forward points on foreign exchange forward contracts and time values.

Cash flow hedge gains and losses

The following tables present derivative instruments, by contract type, used in cash flow hedge accounting relationships, and the pretax gains/(losses) recorded on such derivatives, for the three and six months ended June 30, 2015 and 2014, respectively.

Three months ended June 30, 2015 (in millions)	Gains/(losses) recorded in income and other comprehensive income/(loss)				
	Derivatives – effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income[c]	Total income statement impact	Derivatives – effective portion recorded in OCI	Total change in OCI for period
Contract type					
Interest rate[a]	$22	$ —	$22	$(23)	$(45)

Foreign exchange[b]	(29)	—	(29)	143	172
Total	$(7)	$ —	$(7)	$120	$127

Three months ended June 30, 2014 (in millions)	Gains/(losses) recorded in income and other comprehensive income/(loss) Derivatives – effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income[c]	Total income statement impact	Derivatives – effective portion recorded in OCI	Total change in OCI for period
Contract type					
Interest rate[a]	$(10)	$ —	$(10)	$71	$81
Foreign exchange[b]	39	—	39	72	33
Total	$29	$ —	$29	$143	$114

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Six months ended June 30, 2015 (in millions)	Gains/(losses) recorded in income and other comprehensive income/(loss)				
	Derivatives – effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income[c]	Total income statement impact	Derivatives – effective portion recorded in OCI	Total change in OCI for period
Contract type					
Interest rate[a]	$(127)	$—	$(127)	$(20)	$107
Foreign exchange[b]	(55)	—	(55)	91	146
Total	$(182)	$—	$(182)	$71	$253

Six months ended June 30, 2014 (in millions)	Gains/(losses) recorded in income and other comprehensive income/(loss)				
	Derivatives – effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income[c]	Total income statement impact	Derivatives – effective portion recorded in OCI	Total change in OCI for period
Contract type					
Interest rate[a]	$(36)	$—	$(36)	$134	$170
Foreign exchange[b]	38	—	38	81	43
Total	$2	$—	$2	$215	$213

(a) Primarily consists of benchmark interest rate hedges of LIBOR-indexed floating-rate assets and floating-rate liabilities. Gains and losses were recorded in net interest income, and for forecasted transactions that the Firm determined during the six months ended June 30, 2015, were probable of not occurring, in other income.

(b) Primarily consists of hedges of the foreign currency risk of non-U.S. dollar-denominated revenue and expense. The income statement classification of gains and losses follows the hedged item – primarily noninterest revenue and compensation expense.

(c) Hedge ineffectiveness is the amount by which the cumulative gain or loss on the designated derivative instrument exceeds the present value of the cumulative expected change in cash flows on the hedged item attributable to the hedged risk.

In the first quarter of 2015, the Firm reclassified approximately $150 million of net losses from accumulated other comprehensive income ("AOCI") to other income because the Firm determined that it was probable that the forecasted interest payment cash flows would not occur as a result of the planned reduction in wholesale non-operating deposits. The Firm did not experience any forecasted transactions that failed to occur for the three months ended June 30, 2015 and 2014, and six months ended June 30, 2014.

Over the next 12 months, the Firm expects that $64 million (after-tax) of net gains recorded in AOCI at June 30, 2015, related to cash flow hedges will be recognized in income. For terminated cash flow hedges, the maximum length of time over which forecasted transactions are remaining is approximately 9 years. For open cash flow hedges, the maximum length of time over which forecasted transactions are hedged is approximately 3 years. The Firm's longer-dated forecasted transactions relate to core lending and borrowing activities.

Net investment hedge gains and losses

The following table presents hedging instruments, by contract type, that were used in net investment hedge accounting relationships, and the pretax gains/(losses) recorded on such instruments for the three and six months ended June 30, 2015 and 2014.

	Gains/(losses) recorded in income and other comprehensive income/(loss)			
	2015		2014	
Three months ended June 30, (in millions)	Excluded components recorded directly in income[(a)]	Effective portion recorded in OCI	Excluded components recorded directly in income[(a)]	Effective portion recorded in OCI
Foreign exchange derivatives	$(91)	$(250)	$(122)	$(208)

	Gains/(losses) recorded in income and other comprehensive income/(loss)			
	2015		2014	
Six months ended June 30, (in millions)	Excluded components recorded directly in income[(a)]	Effective portion recorded in OCI	Excluded components recorded directly in income[(a)]	Effective portion recorded in OCI
Foreign exchange derivatives	$(189)	$743	$(227)	$(362)

(a) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on foreign exchange forward contracts. Amounts related to excluded components are recorded in other income. The Firm measures the ineffectiveness of net investment hedge accounting relationships based on changes in spot foreign currency rates, and therefore there was no significant ineffectiveness for net investment hedge accounting relationships during the three and six months ended June 30, 2015 and 2014.

Gains and losses on derivatives used for specified risk management purposes

The following table presents pretax gains/(losses) recorded on a limited number of derivatives, not designated in hedge accounting relationships, that are used to manage risks associated with certain specified assets and liabilities, including certain risks arising from the mortgage pipeline, warehouse loans, MSRs, wholesale lending exposures, AFS securities, foreign currency-denominated liabilities, and commodities-related contracts and investments.

	Derivatives gains/(losses) recorded in income			
	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Contract type				
Interest rate[(a)]	$(563)	$589	$120	$1,107
Credit[(b)]	(10)	(24)	(24)	(41)
Foreign exchange[(c)]	7	(3)	(5)	(3)
Commodity[(d)]	23	(21)	(13)	162
Total	$(543)	$541	$78	$1,225

(a) Primarily represents interest rate derivatives used to hedge the interest rate risk inherent in the mortgage pipeline, warehouse loans and MSRs, as well as written commitments to originate warehouse loans. Gains and losses were recorded predominantly in mortgage fees and related income.

(b) Relates to credit derivatives used to mitigate credit risk associated with lending exposures in the Firm’s wholesale businesses. These derivatives do not include credit derivatives used to mitigate counterparty credit risk arising from derivative receivables, which is included in gains and losses on derivatives related to market-making activities and other derivatives. Gains and losses were recorded in principal transactions revenue.

(c)

Primarily relates to hedges of the foreign exchange risk of specified foreign currency-denominated assets and liabilities. Gains and losses were recorded in principal transactions revenue.

(d) Primarily relates to commodity derivatives used to mitigate energy price risk associated with energy-related contracts and investments. Gains and losses were recorded in principal transactions revenue.

Gains and losses on derivatives related to market-making activities and other derivatives

The Firm makes markets in derivatives in order to meet the needs of customers and uses derivatives to manage certain risks associated with net open risk positions from the Firm's market-making activities, including the counterparty credit risk arising from derivative receivables. All derivatives not included in the hedge accounting or specified risk management categories above are included in this category. Gains and losses on these derivatives are primarily recorded in principal transactions revenue. See Note 6 for information on principal transactions revenue.

Credit derivatives

For a more detailed discussion of credit derivatives, see Note 6 of JPMorgan Chase’s 2014 Annual Report. The Firm does not use notional amounts of credit derivatives as the primary measure of risk management for such derivatives, because the notional amount does not take into account the probability of the occurrence of a credit event, the recovery value of the reference obligation, or related cash instruments and economic hedges, each of which reduces, in the Firm’s view, the risks associated with such derivatives.

Total credit derivatives and credit-related notes

	Maximum payout/Notional amount			
June 30, 2015 (in millions)	Protection sold	Protection purchased with identical underlyings[b]	Net protection (sold)/purchased[c]	Other protection purchased[d]
Credit derivatives				
Credit default swaps	$(1,768,492)	$1,789,168	$ 20,676	$ 15,001
Other credit derivatives[a]	(47,465)	42,505	(4,960)	18,151
Total credit derivatives	(1,815,957)	1,831,673	15,716	33,152
Credit-related notes	(30)	—	(30)	4,408
Total	$(1,815,987)	$1,831,673	$ 15,686	$ 37,560

	Maximum payout/Notional amount			
December 31, 2014 (in millions)	Protection sold	Protection purchased with identical underlyings[b]	Net protection (sold)/purchased[c]	Other protection purchased[d]
Credit derivatives				
Credit default swaps	$(2,056,982)	$2,078,096	$ 21,114	$ 18,631
Other credit derivatives[a]	(43,281)	32,048	(11,233)	19,475
Total credit derivatives	(2,100,263)	2,110,144	9,881	38,106
Credit-related notes	(40)	—	(40)	3,704
Total	$(2,100,303)	$2,110,144	$ 9,841	$ 41,810

(a) Other credit derivatives predominantly consists of credit swap options.

(b) Represents the total notional amount of protection purchased where the underlying reference instrument is identical to the reference instrument on protection sold; the notional amount of protection purchased for each individual identical underlying reference instrument may be greater or lower than the notional amount of protection sold.

(c) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.

(d) Represents protection purchased by the Firm on referenced instruments (single-name, portfolio or index) where the Firm has not sold any protection on the identical reference instrument.

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The following tables summarize the notional amounts by the ratings and maturity profile, and the total fair value, of credit derivatives and credit-related notes as of June 30, 2015, and December 31, 2014, where JPMorgan Chase is the seller of protection. The maturity profile is based on the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of credit derivatives and credit-related notes where JPMorgan Chase is the purchaser of protection are comparable to the profile reflected below.

Protection sold – credit derivatives and credit-related notes ratings[a]/maturity profile

June 30, 2015 (in millions)	<1 year	1–5 years	>5 years	Total notional amount	Fair value of receivables[b]	Fair value of payables[b]	Net fair value
Risk rating of reference entity							
Investment-grade	$(291,246)	$(958,426)	$(65,049)	$(1,314,721)	$ 18,552	$(3,734)	$14,818
Noninvestment-grade	(126,428)	(345,805)	(29,033)	(501,266)	17,189	(13,739)	3,450
Total	$(417,674)	$(1,304,231)	$(94,082)	$(1,815,987)	$ 35,741	$(17,473)	$18,268

December 31, 2014 (in millions)	<1 year	1–5 years	>5 years	Total notional amount	Fair value of receivables[b]	Fair value of payables[b]	Net fair value
Risk rating of reference entity							
Investment-grade	$(323,398)	$(1,118,293)	$(79,486)	$(1,521,177)	$ 25,767	$(6,314)	$19,453
Noninvestment-grade	(157,281)	(396,798)	(25,047)	(579,126)	20,677	(22,455)	(1,778)
Total	$(480,679)	$(1,515,091)	$(104,533)	$(2,100,303)	$ 46,444	$(28,769)	$17,675

(a) The ratings scale is primarily based on external credit ratings defined by S&P and Moody's.

(b) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements and cash collateral received by the Firm.

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Note 6 – Noninterest revenue

For a discussion of the components of and accounting policies for the Firm's noninterest revenue, see Note 7 of JPMorgan Chase's 2014 Annual Report.

The following table presents the components of investment banking fees.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Underwriting				
Equity	$452	$477	$851	$830
Debt	913	876	1,766	1,559
Total underwriting	1,365	1,353	2,617	2,389
Advisory	468	398	1,010	782
Total investment banking fees	$1,833	$1,751	$3,627	$3,171

The following table presents all realized and unrealized gains and losses recorded in principal transactions revenue. This table excludes interest income and interest expense on trading assets and liabilities, which are an integral part of the overall performance of the Firm's client-driven market-making activities. See Note 7 for further information on interest income and interest expense. Trading revenue is presented primarily by instrument type. The Firm's client-driven market-making businesses generally utilize a variety of instrument types in connection with their market-making and related risk-management activities; accordingly, the trading revenue presented in the table below is not representative of the total revenue of any individual line of business.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Trading revenue by instrument type				
Interest rate	$420	$626	$1,306	$981
Credit	624	603	1,039	1,129
Foreign exchange	563	342	1,407	868
Equity	908	759	1,956	1,564
Commodity[(a)]	250	347	589	1,035
Total trading revenue	2,765	2,677	6,297	5,577
Private equity gains[(b)]	69	231	192	653
Principal transactions	$2,834	$2,908	$6,489	$6,230

(a) Commodity derivatives are frequently used to manage the Firm's risk exposure to its physical commodities inventories. For gains/(losses) related to commodity fair value hedges, see Note 5.

(b) Includes revenue on private equity investments held in the Private Equity business within Corporate, as well as those held in other business segments.

The following table presents the components of firmwide asset management, administration and commissions.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Asset management fees				
Investment management fees[(a)]	$2,416	$2,260	$4,690	$4,356
All other asset management fees[(b)]	99	131	198	254
Total asset management fees	2,515	2,391	4,888	4,610
Total administration fees[(c)]	527	564	1,034	1,091
Commission and other fees				
Brokerage commissions	592	567	1,186	1,199

All other commissions and fees	381	485	714	943
Total commissions and fees	973	1,052	1,900	2,142
Total asset management, administration and commissions	$4,015	$4,007	$7,822	$7,843

(a) Represents fees earned from managing assets on behalf of the Firm’s clients, including investors in Firm-sponsored funds and owners of separately managed investment accounts.

(b) Represents fees for services that are ancillary to investment management services, such as commissions earned on the sales or distribution of mutual funds to clients.

(c) Predominantly includes fees for custody, securities lending, funds services and securities clearance.

Other income

Other income on the Firm’s Consolidated statements of income included the following:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Operating lease income	$504	$422	$973	$820

Note 7 – Interest income and Interest expense

For a description of JPMorgan Chase's accounting policies regarding interest income and interest expense, see Note 8 of JPMorgan Chase's 2014 Annual Report.

Details of interest income and interest expense were as follows.

(in millions)	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
Interest income				
Loans	$8,079	$8,039	$16,026	$16,078
Taxable securities	1,608	1,940	3,332	3,840
Nontaxable securities[(a)]	423	337	821	654
Total securities	2,031	2,277	4,153	4,494
Trading assets	1,736	1,827	3,470	3,598
Federal funds sold and securities purchased under resale agreements	340	398	736	834
Securities borrowed[(b)]	(159)	(131)	(279)	(219)
Deposits with banks	312	279	653	535
Other assets[(c)]	175	172	320	334
Total interest income	12,514	12,861	25,079	25,654
Interest expense				
Interest-bearing deposits	308	417	672	843
Short-term and other liabilities[(d)]	344	455	676	883
Long-term debt	1,068	1,086	2,162	2,253
Beneficial interests issued by consolidated VIEs	110	105	208	210
Total interest expense	1,830	2,063	3,718	4,189
Net interest income	10,684	10,798	21,361	21,465
Provision for credit losses	935	692	1,894	1,542
Net interest income after provision for credit losses	$9,749	$10,106	$19,467	$19,923

(a) Represents securities which are tax-exempt for U.S. federal income tax purposes.

(b) Negative interest income for the three and six months ended June 30, 2015 and 2014, is a result of increased client-driven demand for certain securities combined with the impact of low interest rates. This is matched book activity and the negative interest expense on the corresponding securities loaned is recognized in interest expense and reported within short-term and other liabilities.

(c) Largely margin loans.

(d) Includes brokerage customer payables.

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Note 8 – Pension and other postretirement employee benefit plans

For a discussion of JPMorgan Chase's pension and other postretirement employee benefit ("OPEB") plans, see Note 9 of JPMorgan Chase's 2014 Annual Report.

The following table presents the components of net periodic benefit costs reported in the Consolidated Statements of Income for the Firm's U.S. and non-U.S. defined benefit pension, defined contribution and OPEB plans.

	Pension plans					
	U.S.		Non-U.S.		OPEB plans	
Three months ended June 30, (in millions)	2015	2014	2015	2014	2015	2014
Components of net periodic benefit cost						
Benefits earned during the period	$85	$70	$10	$8	$—	$—
Interest cost on benefit obligations	125	134	28	36	8	9
Expected return on plan assets	(233)	(246)	(37)	(45)	(27)	(25)
Amortization:						
Net (gain)/loss	61	7	9	12	—	—
Prior service cost/(credit)	(8)	(12)	(1)	—	—	—
Net periodic defined benefit cost	30	(47)	9	11	(19)	(16)
Other defined benefit pension plans(a)	4	4	—	1	NA	NA
Total defined benefit plans	34	(43)	9	12	(19)	(16)
Total defined contribution plans	115	110	86	87	NA	NA
Total pension and OPEB cost included in compensation expense	$149	$67	$95	$99	$(19)	$(16)

	Pension plans					
	U.S.		Non-U.S.		OPEB plans	
Six months ended June 30, (in millions)	2015	2014	2015	2014	2015	2014
Components of net periodic benefit cost						
Benefits earned during the period	$170	$140	$19	$17	$—	$—
Interest cost on benefit obligations	250	268	56	70	16	18
Expected return on plan assets	(465)	(492)	(75)	(89)	(53)	(50)
Amortization:						
Net (gain)/loss	123	13	18	24	—	—
Prior service cost/(credit)	(17)	(22)	(1)	—	—	—
Net periodic defined benefit cost	61	(93)	17	22	(37)	(32)
Other defined benefit pension plans(a)	7	7	5	3	NA	NA
Total defined benefit plans	68	(86)	22	25	(37)	(32)
Total defined contribution plans	204	218	169	167	NA	NA
Total pension and OPEB cost included in compensation expense	$272	$132	$191	$192	$(37)	$(32)

(a) Includes various defined benefit pension plans which are individually immaterial.

The fair values of plan assets for the U.S. defined benefit pension and OPEB plans and for the material non-U.S. defined benefit pension plans were $16.6 billion and $3.7 billion, as of June 30, 2015, and $16.5 billion and $3.7 billion respectively, as of December 31, 2014. See Note 19 for further information on unrecognized amounts (i.e., net loss and prior service costs/(credit)) reflected in AOCI for the three months periods ended June 30, 2015 and 2014.

The Firm does not anticipate any contribution to the U.S. defined benefit pension plan in 2015 at this time. For 2015, the cost associated with funding benefits under the Firm's U.S. non-qualified defined benefit pension plans is expected to total $33 million. The 2015 contributions to the non-U.S. defined benefit pension and OPEB plans are expected to be $47 million and $2 million, respectively.

Note 9 – Employee stock-based incentives

For a discussion of the accounting policies and other information relating to employee stock-based incentives, see Note 10 of JPMorgan Chase's 2014 Annual Report.

The Firm recognized the following noncash compensation expense related to its various employee stock-based incentive plans in its Consolidated Statements of Income.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Cost of prior grants of restricted stock units ("RSUs") and stock appreciation rights ("SARs") that are amortized over their applicable vesting periods	$295	$335	$587	$745
Accrual of estimated costs of stock awards to be granted in future periods including those to full-career eligible employees	215	189	488	397
Total noncash compensation expense related to employee stock-based incentive plans	$510	$524	$1,075	$1,142

In the first quarter of 2015, in connection with its annual incentive grant for the 2014 performance year, the Firm granted 34 million RSUs with a weighted-average grant date fair value of $55.91 per RSU.

Note 10 – Noninterest expense

Within noninterest expense on the Firm's Consolidated statements of income, other expense included the following:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Firmwide legal expense	$291	$669	$978	$707
Federal Deposit Insurance Corporation-related ("FDIC") expense	$300	$266	$618	$559

Note 11 – Securities
Securities are classified as trading, AFS or held-to-maturity ("HTM"). Securities classified as trading assets are discussed in Note 3. Predominantly all of the Firm's AFS and HTM investment securities (the "investment securities portfolio") are held by the Chief Investment Office ("CIO") in connection with its asset-liability management objectives. At June 30, 2015, the average credit rating of the debt

securities comprising the investment securities portfolio was AA+ (based upon external ratings where available, and where not available, based primarily upon internal ratings which correspond to ratings as defined by S&P and Moody's). For additional information regarding the investment securities portfolio, see Note 12 of JPMorgan Chase's 2014 Annual Report.

The amortized costs and estimated fair values of the investment securities portfolio were as follows for the dates indicated.

(in millions)	June 30, 2015 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	December 31, 2014 Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale debt securities								
Mortgage-backed securities:								
U.S. government agencies[(a)]	$55,634	$ 1,887	$206	$57,315	$63,089	$ 2,302	$72	$65,319
Residential:								
Prime and Alt-A	6,499	55	21	6,533	5,595	78	29	5,644
Subprime	494	11	—	505	677	14	—	691
Non-U.S.	31,777	763	5	32,535	43,550	1,010	—	44,560
Commercial	21,954	308	55	22,207	20,687	438	17	21,108
Total mortgage-backed securities	116,358	3,024	287	119,095	133,598	3,842	118	137,322
U.S. Treasury and government agencies[(a)]	11,600	16	26	11,590	13,603	56	14	13,645
Obligations of U.S. states and municipalities	29,986	1,609	171	31,424	27,841	2,243	16	30,068
Certificates of deposit	427	2	—	429	1,103	1	1	1,103
Non-U.S. government debt securities	41,837	999	44	42,792	51,492	1,272	21	52,743
Corporate debt securities	15,540	310	28	15,822	18,158	398	24	18,532
Asset-backed securities:								
Collateralized loan obligations	31,337	108	73	31,372	30,229	147	182	30,194
Other	10,831	136	11	10,956	12,442	184	11	12,615
Total available-for-sale debt securities	257,916	6,204	640	263,480	288,466	8,143	387	296,222
Available-for-sale equity securities	2,704	17	—	2,721	2,513	17	—	2,530
Total available-for-sale securities	$260,620	$ 6,221	$640	$266,201	$290,979	$ 8,160	$387	$298,752
Total held-to-maturity securities[(b)]	$51,594	$ 1,241	$138	$52,697	$49,252	$ 1,902	$—	$51,154

(a) Included total U.S. government-sponsored enterprise obligations with fair values of $45.5 billion and $59.3 billion at June 30, 2015, and December 31, 2014, respectively.

(b) As of June 30, 2015, consists of MBS issued by U. S. government-sponsored enterprises with an amortized cost of $33.3 billion, MBS issued by U.S. government agencies with an amortized cost of $5.9 billion and obligations of U.S. states and municipalities with an amortized cost of $12.4 billion. As of December 31, 2014, consists of MBS issued by U.S. government-sponsored enterprises with an amortized cost of $35.3 billion, MBS issued by U.S. government agencies with an amortized cost of $3.7 billion and obligations of U.S. states and municipalities with an amortized cost of $10.2 billion.

Securities impairment

The following tables present the fair value and gross unrealized losses for investment securities by aging category at June 30, 2015, and December 31, 2014.

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			
June 30, 2015 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total fair value	Total gross unrealized losses
Available-for-sale debt securities						
Mortgage-backed securities:						
U.S. government agencies	$6,755	$186	$913	$20	$7,668	$206
Residential:						
Prime and Alt-A	2,801	16	315	5	3,116	21
Subprime	—	—	—	—	—	—
Non-U.S.	1,287	5	—	—	1,287	5
Commercial	8,607	55	—	—	8,607	55
Total mortgage-backed securities	19,450	262	1,228	25	20,678	287
U.S. Treasury and government agencies	8,778	26	—	—	8,778	26
Obligations of U.S. states and municipalities	7,284	162	181	9	7,465	171
Certificates of deposit	—	—	—	—	—	—
Non-U.S. government debt securities	3,527	35	240	9	3,767	44
Corporate debt securities	1,963	23	549	5	2,512	28
Asset-backed securities:						
Collateralized loan obligations	8,933	13	8,132	60	17,065	73
Other	2,401	10	80	1	2,481	11
Total available-for-sale debt securities	52,336	531	10,410	109	62,746	640
Available-for-sale equity securities	—	—	—	—	—	—
Held-to-maturity securities	7,447	138	—	—	7,447	138
Total securities with gross unrealized losses	$59,783	$669	$10,410	$109	$70,193	$778

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			
December 31, 2014 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total fair value	Total gross unrealized losses
Available-for-sale debt securities						
Mortgage-backed securities:						
U.S. government agencies	$1,118	$5	$4,989	$67	$6,107	$72
Residential:						
Prime and Alt-A	1,840	10	405	19	2,245	29
Subprime	—	—	—	—	—	—
Non-U.S.	—	—	—	—	—	—
Commercial	4,803	15	92	2	4,895	17
Total mortgage-backed securities	7,761	30	5,486	88	13,247	118
	8,412	14	—	—	8,412	14

U.S. Treasury and government agencies						
Obligations of U.S. states and municipalities	1,405	15	130	1	1,535	16
Certificates of deposit	1,050	1	—	—	1,050	1
Non-U.S. government debt securities	4,433	4	906	17	5,339	21
Corporate debt securities	2,492	22	80	2	2,572	24
Asset-backed securities:						
Collateralized loan obligations	13,909	76	9,012	106	22,921	182
Other	2,258	11	—	—	2,258	11
Total available-for-sale debt securities	41,720	173	15,614	214	57,334	387
Available-for-sale equity securities	—	—	—	—	—	—
Held-to-maturity securities	—	—	—	—	—	—
Total securities with gross unrealized losses	$41,720	$173	$15,614	$214	$57,334	$387

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Gross unrealized losses

The Firm has recognized the unrealized losses on securities it intends to sell. As of June 30, 2015, the Firm does not intend to sell any securities with a loss position in AOCI, and it is not likely that the Firm will be required to sell these securities before recovery of their amortized cost basis. Except for the securities for which credit losses have been recognized in income, the Firm believes that the securities with an unrealized loss in AOCI are not other-than-temporarily impaired as of June 30, 2015.

Securities gains and losses

The following table presents realized gains and losses and other-than-temporary impairment losses ("OTTI") from AFS securities that were recognized in income.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Realized gains	$94	$76	$185	$224
Realized losses	(49)	(64)	(87)	(180)
OTTI losses	(1)	—	(2)	(2)
Net securities gains	$44	$12	96	42
OTTI losses				
Credit-related losses recognized in income	—	—	(1)	—
Securities the Firm intends to sell	(1)	—	(1)	(2)
Total OTTI losses recognized in income	$(1)	$—	(2)	(2)

Changes in the credit loss component of credit-impaired debt securities

The following table presents a rollforward for the three and six months ended June 30, 2015 and 2014, of the credit loss component of OTTI losses that have been recognized in income related to AFS debt securities that the Firm does not intend to sell.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Balance, beginning of period	$4	$1	$3	$1
Additions:				
Newly credit-impaired securities	—	—	1	—
Balance, end of period	$4	$1	$4	$1

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Contractual maturities and yields
The following table presents the amortized cost and estimated fair value at June 30, 2015, of JPMorgan Chase's investment securities portfolio by contractual maturity.

By remaining maturity June 30, 2015 (in millions)	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years[c]	Total
Available-for-sale debt securities					
Mortgage-backed securities[a]					
Amortized cost	$2,132	$11,625	$5,621	$96,980	$116,358
Fair value	2,144	11,864	5,821	99,266	119,095
Average yield[b]	1.47%	1.76%	3.21%	3.06%	2.91%
U.S. Treasury and government agencies					
Amortized cost	$600	$—	$9,937	$1,063	$11,600
Fair value	602	—	9,914	1,074	11,590
Average yield[b]	1.53%	—%	0.19%	0.41%	0.28%
Obligations of U.S. states and municipalities					
Amortized cost	$159	$743	$1,297	$27,787	$29,986
Fair value	164	761	1,360	29,139	31,424
Average yield[b]	6.33%	3.21%	5.62%	6.68%	6.54%
Certificates of deposit					
Amortized cost	$375	$52	$—	$—	$427
Fair value	376	53	—	—	429
Average yield[b]	5.64%	3.28%	—%	—%	5.36%
Non-U.S. government debt securities					
Amortized cost	$8,631	$13,015	$17,777	$2,414	$41,837
Fair value	8,651	13,305	18,297	2,539	42,792
Average yield[b]	3.28%	1.87%	0.99%	0.87%	1.73%
Corporate debt securities					
Amortized cost	$3,417	$8,386	$3,594	$143	$15,540
Fair value	3,443	8,560	3,678	141	15,822
Average yield[b]	2.29%	2.24%	2.63%	4.46%	2.36%
Asset-backed securities					
Amortized cost	$513	$609	$20,737	$20,309	$42,168
Fair value	515	614	20,798	20,401	42,328
Average yield[b]	0.99%	1.55%	1.75%	1.77%	1.75%
Total available-for-sale debt securities					
Amortized cost	$15,827	$34,430	$58,963	$148,696	$257,916
Fair value	15,895	35,157	59,868	152,560	263,480
Average yield[b]	2.77%	1.95%	1.54%	3.51%	2.80%
Available-for-sale equity securities					
Amortized cost	$—	$—	$—	$2,704	$2,704
Fair value	—	—	—	2,721	2,721
Average yield[b]	—%	—%	—%	0.20%	0.20%
Total available-for-sale securities					
Amortized cost	$15,827	$34,430	$58,963	$151,400	$260,620
Fair value	15,895	35,157	59,868	155,281	266,201
Average yield[b]	2.77%	1.95%	1.54%	3.45%	2.78%
Total held-to-maturity securities					
Amortized cost	$—	$53	$643	$50,898	$51,594

Fair value	—	52	666	51,979	52,697
Average yield[b]	—	4.35 %	4.86 %	3.96 %	3.97%

(a) U.S. government-sponsored enterprises were the only issuers whose securities exceeded 10% of JPMorgan Chase's total stockholders' equity at June 30, 2015.

(b) Average yield is computed using the effective yield of each security owned at the end of the period, weighted based on the amortized cost of each security. The effective yield considers the contractual coupon, amortization of premiums and accretion of discounts, and the effect of related hedging derivatives. Taxable-equivalent amounts are used where applicable. The effective yield excludes unscheduled principal prepayments, and accordingly, actual maturities of securities may differ from their contractual or expected maturities as certain securities may be prepaid.

(c) Includes securities with no stated maturity. Substantially all of the Firm's residential mortgage-backed securities and collateralized mortgage obligations are due in 10 years or more, based on contractual maturity. The estimated weighted-average life, which reflects anticipated future prepayments, is approximately six years for agency residential mortgage-backed securities, three years for agency residential collateralized mortgage obligations and five years for U.S. nonagency residential collateralized mortgage obligations.

Note 12 – Securities financing activities

JPMorgan Chase enters into resale agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions (collectively, “securities financing agreements”) primarily to finance the Firm’s inventory positions, acquire securities to cover short positions, accommodate customers’ financing needs, and settle other securities obligations.

Securities financing agreements are treated as collateralized financings on the Firm’s Consolidated balance sheets. Resale and repurchase agreements are generally carried at the amounts at which the securities will be subsequently sold or repurchased. Securities borrowed and securities loaned transactions are generally carried at the amount of cash collateral advanced or received. Where appropriate under applicable accounting guidance, resale and repurchase agreements with the same counterparty are reported on a net basis. For further discussion of the offsetting of assets and liabilities, see Note 1. Fees received and paid in connection with securities financing agreements are recorded in interest income and interest expense on the Consolidated statements of income.

The Firm has elected the fair value option for certain securities financing agreements. For further information regarding the fair value option, see Note 4. The securities financing agreements for which the fair value option has been elected are reported within securities purchased under resale agreements; securities loaned or sold under repurchase agreements; and securities borrowed on the Consolidated balance sheets. Generally, for agreements carried at fair value, current-period interest accruals are recorded within interest income and interest expense, with changes in fair value reported in principal transactions

revenue. However, for financial instruments containing embedded derivatives that would be separately accounted for in accordance with accounting guidance for hybrid instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue.

Secured financing transactions expose the Firm to credit and liquidity risk. To manage these risks, the Firm monitors the value of the underlying securities (predominantly high-quality securities collateral, including government-issued debt and agency MBS) that it has received from or provided to its counterparties compared to the value of cash proceeds and exchanged collateral and either requests additional collateral or returns securities or collateral when appropriate. Margin levels are initially established based upon the counterparty, the type of underlying securities, and the permissible collateral, and are monitored on an ongoing basis.

In resale agreements and securities borrowed transactions, the Firm is exposed to credit risk to the extent the value of the securities received is less than initial cash proceeds and any collateral amounts exchanged. In repurchase agreements and securities loaned transactions, credit risk exposure arises to the extent that the value of underlying securities exceeds the value of the initial cash proceeds and, any collateral amounts exchanged.

Additionally, the Firm typically enters into master netting agreements and other similar arrangements with its counterparties, which provide for the right to liquidate the underlying securities and any collateral amounts exchanged in the event of a counterparty default. It is also the Firm’s policy to take possession, where possible, of the securities underlying resale agreements and securities borrowed transactions.

The following table presents as of June 30, 2015, and December 31, 2014, the gross and net securities purchased under resale agreements and securities borrowed. Securities purchased under resale agreements have been presented on the Consolidated balance sheets net of securities sold under repurchase agreements where the Firm has obtained an appropriate legal opinion with respect to the master netting agreement, and where the other relevant criteria have been met. Where such a legal opinion has not been either sought or obtained, the securities purchased under resale agreements are not eligible for netting and are shown separately in the table below. Securities borrowed are presented on a gross basis on the Consolidated balance sheets.

	June 30, 2015			December 31, 2014		
(in millions)	Gross asset balance	Amounts netted on the Consolidated balance sheets	Net asset balance	Gross asset balance	Amounts netted on the Consolidated balance sheets	Net asset balance

Securities purchased under resale agreements						
Securities purchased under resale agreements with an appropriate legal opinion	$375,619	$(166,295)	$209,324	$347,142	$(142,719)	$204,423
Securities purchased under resale agreements where an appropriate legal opinion has not been either sought or obtained	2,745		2,745	10,598		10,598
Total securities purchased under resale agreements	$378,364	$(166,295)	$212,069 (a)	$357,740	$(142,719)	$215,021 (a)
Securities borrowed	$98,528	NA	$98,528 (b)(c)	$110,435	NA	$110,435 (b)(c)

(a) At June 30, 2015, and December 31, 2014, included securities purchased under resale agreements of $28.7 billion and $28.6 billion, respectively, accounted for at fair value.

(b) At June 30, 2015, and December 31, 2014, included securities borrowed of $495 million and $992 million, respectively, accounted for at fair value.

(c) Included $19.2 billion and $27.7 billion at June 30, 2015, and December 31, 2014, respectively, of securities borrowed where an appropriate legal opinion has not been either sought or obtained with respect to the master netting agreement.

The following table presents information as of June 30, 2015, and December 31, 2014, regarding the securities purchased under resale agreements and securities borrowed for which an appropriate legal opinion has been obtained with respect to the master netting agreement. The table below excludes information related to resale agreements and securities borrowed where such a legal opinion has not been either sought or obtained.

	June 30, 2015				December 31, 2014			
		Amounts not nettable on the Consolidated balance sheets[a]				Amounts not nettable on the Consolidated balance sheets[a]		
(in millions)	Net asset balance	Financial instruments[b]	Cash collateral	Net exposure	Net asset balance	Financial instruments[b]	Cash collateral	Net exposure
Securities purchased under resale agreements with an appropriate legal opinion	$209,324	$(204,772)	$(142)	$4,410	$204,423	$(201,375)	$(246)	$2,802
Securities borrowed	$79,375	$(76,735)	$—	$2,640	$82,748	$(80,338)	$—	$2,410

(a) For some counterparties, the sum of the financial instruments and cash collateral not nettable on the Consolidated balance sheets may exceed the net asset balance. Where this is the case the total amounts reported in these two columns are limited to the balance of the net reverse repurchase agreement or securities borrowed asset with that counterparty. As a result a net exposure amount is reported even though the Firm, on an aggregate basis for its securities purchased under resale agreements and securities borrowed, has received securities collateral with a total fair value that is greater than the funds provided to counterparties.

(b) Includes financial instrument collateral received, repurchase liabilities and securities loaned liabilities with an appropriate legal opinion with respect to the master netting agreement; these amounts are not presented net on the Consolidated balance sheets because other U.S. GAAP netting criteria are not met.

The following table presents as of June 30, 2015, and December 31, 2014, the gross and net securities sold under repurchase agreements and securities loaned. Securities sold under repurchase agreements have been presented on the Consolidated balance sheets net of securities purchased under resale agreements where the Firm has obtained an appropriate legal opinion with respect to the master netting agreement, and where the other relevant criteria have been met. Where such a legal opinion has not been either sought or obtained, the securities sold under repurchase agreements are not eligible for netting and are shown separately in the table below. Securities loaned are presented on a gross basis on the Consolidated balance sheets.

	June 30, 2015			December 31, 2014		
(in millions)	Gross liability balance	Amounts netted on the Consolidated balance sheets	Net liability balance	Gross liability balance	Amounts netted on the Consolidated balance sheets	Net liability balance
Securities sold under repurchase agreements						
Securities sold under repurchase agreements with an appropriate legal opinion	$316,227	$ (166,295)	$149,932	$290,529	$ (142,719)	$147,810
Securities sold under repurchase agreements where an appropriate legal opinion has not been either sought or obtained[a]	15,692		15,692	21,996		21,996
	$331,919	$ (166,295)	$165,624 [c]	$312,525	$ (142,719)	$169,806 [c]

Total securities sold under repurchase agreements						
Securities loaned[b]	$19,368	NA	$19,368 [d][e]	$25,927	NA	$25,927 [d][e]

(a) Includes repurchase agreements that are not subject to a master netting agreement but do provide rights to collateral.

(b) Included securities-for-securities lending transactions of $5.1 billion and $4.1 billion at June 30, 2015, and December 31, 2014, respectively, where the Firm is acting as lender. These amounts are presented within other liabilities in the Consolidated balance sheets.

(c) At June 30, 2015, and December 31, 2014, included securities sold under repurchase agreements of $3.6 billion and $3.0 billion, respectively, accounted for at fair value.

(d) There were no securities loaned accounted for at fair value as of June 30, 2015, and December 31, 2014.

(e) Included $189 million and $271 million at June 30, 2015, and December 31, 2014, respectively, of securities loaned where an appropriate legal opinion has not been either sought or obtained with respect to the master netting agreement.

The following table presents information as of June 30, 2015, and December 31, 2014, regarding the securities sold under repurchase agreements and securities loaned for which an appropriate legal opinion has been obtained with respect to the master netting agreement. The table below excludes information related to repurchase agreements and securities loaned where such a legal opinion has not been either sought or obtained.

	June 30, 2015				December 31, 2014			
		Amounts not nettable on the Consolidated balance sheets[(a)]				Amounts not nettable on the Consolidated balance sheets[(a)]		
(in millions)	Net liability balance	Financial instruments[(b)]	Cash collateral	Net amount[(c)]	Net liability balance	Financial instruments[(b)]	Cash collateral	Net amount[(c)]
Securities sold under repurchase agreements with an appropriate legal opinion	$149,932	$(146,975)	$(443)	$2,514	$147,810	$(145,732)	$(497)	$1,581
Securities loaned	$19,179	$(19,054)	$—	$125	$25,656	$(25,287)	$—	$369

(a) For some counterparties the sum of the financial instruments and cash collateral not nettable on the Consolidated balance sheets may exceed the net liability balance. Where this is the case the total amounts reported in these two columns are limited to the balance of the net repurchase agreement or securities loaned liability with that counterparty.

(b) Includes financial instrument collateral transferred, reverse repurchase assets and securities borrowed assets with an appropriate legal opinion with respect to the master netting agreement; these amounts are not presented net on the Consolidated balance sheets because other U.S. GAAP netting criteria are not met.

(c) Net amount represents exposure of counterparties to the Firm.

Effective April 1, 2015, the Firm adopted new accounting guidance, which requires enhanced disclosures with respect to the types of financial assets pledged in secured financing transactions and the remaining contractual maturity of the secured financing transactions; the following tables present this information as of June 30, 2015.

	Gross liability balance	
June 30, 2015 (in millions)	Securities sold under repurchase agreements	Securities loaned
Mortgage-backed securities	$21,387	$—
U.S. Treasury and government agencies	166,724	23
Obligations of U.S. states and municipalities	2,031	—
Non-U.S. government debt	90,644	1,027
Corporate debt securities	26,878	92
Asset-backed securities	5,262	—
Equity securities	18,993	18,226
Total	$331,919	$19,368

	Remaining contractual maturity of the agreements				
June 30, 2015 (in millions)	Overnight and Continuous	Up to 30 days	30 – 90 days	Greater than 90 days	Total
Total securities sold under repurchase agreements	$118,368	$127,483	$28,003	$58,065	$331,919
Total securities loaned	7,055	838	—	11,475	19,368

Transfers not qualifying for sale accounting

At June 30, 2015, and December 31, 2014, the Firm held $11.5 billion and $13.8 billion, respectively, of financial assets for which the rights have been transferred to third parties; however, the transfers did not qualify as a sale in accordance with U.S. GAAP. These transfers have been recognized as collateralized financing transactions. The transferred assets are recorded in trading assets and loans, and the corresponding liabilities are recorded predominantly in other borrowed funds on the
Consolidated balance sheets.

Note 13 – Loans

Loan accounting framework

The accounting for a loan depends on management's strategy for the loan, and on whether the loan was credit-impaired at the date of acquisition. The Firm accounts for loans based on the following categories:

- Originated or purchased loans held-for-investment (i.e., "retained"), other than purchased credit-impaired ("PCI") loans
- Loans held-for-sale
- Loans at fair value
- PCI loans held-for-investment

For a detailed discussion of loans, including accounting policies, see Note 14 of JPMorgan Chase's 2014 Annual Report. See Note 4 of this Form 10-Q for further information on the Firm's elections of fair value accounting under the fair value option. See Note 3 of this Form 10-Q for further information on loans carried at fair value and classified as trading assets.

Loan portfolio

The Firm's loan portfolio is divided into three portfolio segments, which are the same segments used by the Firm to determine the allowance for loan losses: Consumer, excluding credit card; Credit card; and Wholesale. Within each portfolio segment, the Firm monitors and assesses the credit risk in the following classes of loans, based on the risk characteristics of each loan class:

Consumer, excluding credit card[(a)]	Credit card	Wholesale[(c)]
Residential real estate – excluding PCI		
• Home equity – senior lien		
• Home equity – junior lien		
• Prime mortgage, including option ARMs		
• Subprime mortgage		• Commercial and industrial
Other consumer loans		• Real estate
• Auto[(b)]	• Credit card loans	• Financial institutions
• Business banking[(b)]		• Government agencies
• Student and other		• Other[(d)]
Residential real estate – PCI		
• Home equity		
• Prime mortgage		
• Subprime mortgage		
• Option ARMs		

(a) Includes loans held in CCB, prime mortgage and home equity loans held in AM and prime mortgage loans held in Corporate.

(b) Includes certain business banking and auto dealer risk-rated loans that apply the wholesale methodology for determining the allowance for loan losses; these loans are managed by CCB, and therefore, for consistency in presentation, are included with the other consumer loan classes.

(c) Includes loans held in CIB, CB, AM and Corporate. Excludes prime mortgage and home equity loans held in AM and prime mortgage loans held in Corporate. Classes are internally defined and may not align with regulatory definitions.

(d) Other primarily includes loans to SPEs and loans to private banking clients. See Note 1 of JPMorgan Chase's 2014 Annual Report for additional information on special-purpose entities ("SPEs").

The following tables summarize the Firm's loan balances by portfolio segment.

June 30, 2015 (in millions)	Consumer, excluding credit card	Credit card[(a)]	Wholesale	Total	
Retained	$316,781	$124,705	$338,219	$779,705	(b)
Held-for-sale	1,505	1,320	6,286	9,111	
At fair value	—	—	2,431	2,431	
Total	$318,286	$126,025	$346,936	$791,247	

December 31, 2014 (in millions)	Consumer, excluding credit card	Credit card[(a)]	Wholesale	Total	
Retained	$294,979	$128,027	$324,502	$747,508	(b)
Held-for-sale	395	3,021	3,801	7,217	
At fair value	—	—	2,611	2,611	
Total	$295,374	$131,048	$330,914	$757,336	

(a) Includes billed finance charges and fees net of an allowance for uncollectible amounts.

(b) Loans (other than PCI loans and those for which the fair value option has been elected) are presented net of unearned income, unamortized discounts and premiums, and net deferred loan costs of $919 million and $1.3 billion at June 30, 2015, and December 31, 2014, respectively.

The following tables provide information about the carrying value of retained loans purchased, sold and reclassified to held-for-sale during the periods indicated. These tables exclude loans recorded at fair value. The Firm manages its exposure to credit risk on an ongoing basis. Selling loans is one way that the Firm reduces its credit exposures.

	2015					2014				
Three months ended June 30, (in millions)	Consumer, excluding credit card		Credit card	Wholesale	Total	Consumer, excluding credit card		Credit card	Wholesale	Total
Purchases	$1,114	(a)(b)	$—	$487	$1,601	$2,167	(a)(b)	$—	$156	$2,323
Sales	1,207		1,092	3,076	5,375	1,352		—	2,323	3,675
Retained loans reclassified to held-for-sale	1,254		—	115	1,369	802		215	212	1,229

	2015					2014				
Six months ended June 30, (in millions)	Consumer, excluding credit card		Credit card	Wholesale	Total	Consumer, excluding credit card		Credit card	Wholesale	Total
Purchases	$2,722	(a)(b)	$—	$695	$3,417	$3,749	(a)(b)	$—	$277	$4,026
Sales	2,943		1,269	5,525	9,737	2,243		—	4,679	6,922
Retained loans reclassified to held-for-sale	1,272		—	435	1,707	802		215	509	1,526

(a) Purchases predominantly represent the Firm's voluntary repurchase of certain delinquent loans from loan pools as permitted by Ginnie Mae guidelines. The Firm typically elects to repurchase these delinquent loans as it continues to service them and/or manage the foreclosure process in accordance with applicable requirements of Ginnie Mae, the Federal Housing Administration ("FHA"), Rural Housing Services ("RHS") and/or the U.S. Department of Veterans Affairs ("VA").

(b) Excluded retained loans purchased from correspondents that were originated in accordance with the Firm's underwriting standards. Such purchases were $14.2 billion and $2.4 billion for the three months ended June 30, 2015 and 2014, respectively, and $25.4 billion and $4.1 billion for the six months ended June 30, 2015 and 2014, respectively.

The following table provides information about gains and losses, including lower of cost or fair value adjustments, on loan sales by portfolio segment.

(in millions)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)[(a)]				
Consumer, excluding credit card	$86	$84	$177	$126
Credit card	(7)	—	9	—
Wholesale	5	3	(1)	27
Total net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)	$84	$87	$185	$153

(a) Excludes sales related to loans accounted for at fair value.

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Consumer, excluding credit card loan portfolio

Consumer loans, excluding credit card loans, consist primarily of residential mortgages, home equity loans and lines of credit, auto loans, business banking loans, and student and other loans, with a focus on serving the prime consumer credit market. The portfolio also includes home equity loans secured by junior liens, prime mortgage loans with an interest-only payment period, and certain payment-option loans originated by Washington Mutual that may result in negative amortization.

The table below provides information about retained consumer loans, excluding credit card, by class.

(in millions)	June 30, 2015	December 31, 2014
Residential real estate – excluding PCI		
Home equity:		
Senior lien	$15,541	$16,367
Junior lien	33,434	36,375
Mortgages:		
Prime, including option ARMs	132,556	104,921
Subprime	3,976	5,056
Other consumer loans		
Auto	56,330	54,536
Business banking	20,564	20,058
Student and other	10,574	10,970
Residential real estate – PCI		
Home equity	16,088	17,095
Prime mortgage	9,553	10,220
Subprime mortgage	3,449	3,673
Option ARMs	14,716	15,708
Total retained loans	$316,781	$294,979

For further information on consumer credit quality indicators, see Note 14 of JPMorgan Chase’s 2014 Annual Report.

Residential real estate – excluding PCI loans

The following table provides information by class for residential real estate – excluding retained PCI loans in the consumer, excluding credit card, portfolio segment.

Residential real estate – excluding PCI loans

	Home equity				Mortgages				Total reside estate – excl
(in millions, except ratios)	Senior lien		Junior lien		Prime, including option ARMs		Subprime		
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015
Loan delinquency[(a)]									
Current	$14,950	$15,730	$32,746	$35,575	$122,597	$93,951	$3,346	$4,296	$173,639
30–149 days past due	243	275	442	533	3,417	4,091	405	489	4,507
150 or more days past due	348	362	246	267	6,542	6,879	225	271	7,361
Total retained loans	$15,541	$16,367	$33,434	$36,375	$132,556	$104,921	$3,976	$5,056	$185,507
% of 30+ days past due to total retained loans[(b)]	3.80 %	3.89 %	2.06 %	2.20 %	0.98 %	1.42 %	15.85 %	15.03 %	1.73 %
90 or more days past due and government guaranteed[(c)]	$—	$—	$—	$—	$6,805	$7,544	$—	$—	$6,805
Nonaccrual loans	907	938	1,461	1,590	1,960	2,190	855	1,036	5,183
Current estimated LTV ratios[(d)(e)(f)]									
Greater than 125% and refreshed FICO scores:									
Equal to or greater than 660	$16	$21	$310	$467	$98	$120	$4	$10	$428
Less than 660	7	10	81	138	67	103	25	51	180
101% to 125% and refreshed FICO scores:									
Equal to or greater than 660	100	134	2,421	3,149	455	648	43	118	3,019
Less than 660	54	69	683	923	265	340	163	298	1,165
80% to 100% and refreshed FICO scores:									
Equal to or greater than 660	506	633	5,551	6,481	3,188	3,863	199	432	9,444
Less than 660	188	226	1,557	1,780	802	1,026	516	770	3,063
Less than 80% and refreshed FICO scores:									
Equal to or greater than 660	12,571	13,048	19,555	20,030	111,229	81,805	1,418	1,586	144,773
Less than 660	2,099	2,226	3,276	3,407	5,028	4,906	1,608	1,791	12,011
U.S. government-guaranteed	—	—	—	—	11,424	12,110	—	—	11,424
Total retained loans	$15,541	$16,367	$33,434	$36,375	$132,556	$104,921	$3,976	$5,056	$185,507

Geographic region									
California	$2,135	$2,232	$7,455	$8,144	$37,253	$28,133	$558	$718	$47,401
New York	2,699	2,805	7,125	7,685	18,428	16,550	555	677	28,807
Illinois	1,244	1,306	2,411	2,605	9,086	6,654	157	207	12,898
Texas	1,703	1,845	1,007	1,087	6,844	4,935	154	177	9,708
Florida	829	861	1,759	1,923	5,737	5,106	445	632	8,770
New Jersey	641	654	2,083	2,233	4,290	3,361	185	227	7,199
Arizona	868	927	1,462	1,595	2,445	1,805	79	112	4,854
Washington	474	506	1,111	1,216	3,164	2,410	88	109	4,837
Michigan	694	736	771	848	1,489	1,203	86	121	3,040
Ohio	1,084	1,150	704	778	864	615	89	112	2,741
All other[(g)]	3,170	3,345	7,546	8,261	42,956	34,149	1,580	1,964	55,252
Total retained loans	$15,541	$16,367	$33,434	$36,375	$132,556	$104,921	$3,976	$5,056	$185,507

(a) Individual delinquency classifications include mortgage loans insured by U.S. government agencies as follows: current included $2.8 billion and $2.6 billion; 30–149 days past due included $2.9 billion and $3.5 billion; and 150 or more days past due included $5.7 billion and $6.0 billion at June 30, 2015, and December 31, 2014, respectively.

(b) At June 30, 2015, and December 31, 2014, Prime, including option ARMs loans excluded mortgage loans insured by U.S. government agencies of $8.7 billion and $9.5 billion, respectively. These amounts have been excluded from nonaccrual loans based upon the government guarantee.

(c) These balances, which are 90 days or more past due, were excluded from nonaccrual loans as the loans are guaranteed by U.S government agencies. Typically, the principal balance of the loans is insured and interest is guaranteed at a specified reimbursement rate subject to meeting agreed-upon servicing guidelines. At June 30, 2015, and December 31, 2014, these balances included $4.0 billion and $4.2 billion, respectively, of loans that are no longer accruing interest based on the agreed-upon servicing guidelines. For the remaining balance, interest is being accrued at the guaranteed reimbursement rate. There were no loans not guaranteed by U.S. government agencies that are 90 or more days past due and still accruing at June 30, 2015, and December 31, 2014.

(d) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated, at a minimum, quarterly, based on home valuation models using nationally recognized home price index valuation estimates incorporating actual data to the extent available and forecasted data where actual data is not available. These property values do not represent actual appraised loan level collateral values; as such, the resulting ratios are necessarily imprecise and should be viewed as estimates.

(e) Junior lien represents combined loan-to-value ("LTV"), which considers all available lien positions, as well as unused lines, related to the property. All other products are presented without consideration of subordinate liens on the property.

(f) Refreshed FICO scores represent each borrower's most recent credit score, which is obtained by the Firm on at least a quarterly basis.

(g) At June 30, 2015, and December 31, 2014, included mortgage loans insured by U.S. government agencies of $11.4 billion and $12.1 billion, respectively.

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The following table represents the Firm's delinquency statistics for junior lien home equity loans and lines as of June 30, 2015, and December 31, 2014.

(in millions, except ratios)	Total loans Jun 30, 2015	Total loans Dec 31, 2014	Total 30+ day delinquency rate Jun 30, 2015	Total 30+ day delinquency rate Dec 31, 2014
HELOCs:[a]				
Within the revolving period[b]	$21,023	$25,252	1.61 %	1.75 %
Beyond the revolving period	9,637	7,979	2.84	3.16
HELOANs	2,774	3,144	2.70	3.34
Total	$33,434	$36,375	2.06 %	2.20 %

(a) These HELOCs are predominantly revolving loans for a 10-year period, after which time the HELOC converts to a loan with a 20-year amortization period, but also include HELOCs originated by Washington Mutual that require interest-only payments beyond the revolving period.

(b) The Firm manages the risk of HELOCs during their revolving period by closing or reducing the undrawn line to the extent permitted by law when borrowers are experiencing financial difficulty or when the collateral does not support the loan amount.

Home equity lines of credit ("HELOCs") beyond the revolving period and home equity loans ("HELOANs") have higher delinquency rates than do HELOCs within the revolving period. That is primarily because the fully-amortizing payment that is generally required for those products is higher than the minimum payment options available for HELOCs within the revolving period. The higher delinquency rates associated with amortizing HELOCs and HELOANs are factored into the loss estimates produced by the Firm's delinquency roll-rate methodology, which estimates defaults based on the current delinquency status of a portfolio.

Impaired loans

The table below sets forth information about the Firm's residential real estate impaired loans, excluding PCI loans. These loans are considered to be impaired as they have been modified in a troubled debt restructuring ("TDR"). All impaired loans are evaluated for an asset-specific allowance as described in Note 15 of JPMorgan Chase's 2014 Annual Report.

	Home equity				Mortgages				Total residential real estate – excluding PCI	
	Senior lien		Junior lien		Prime, including option ARMs		Subprime			
(in millions)	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Impaired loans										
With an allowance	$556	$552	$728	$722	$4,034	$4,949	$1,445	$2,239	$6,763	$8,462
Without an allowance[a]	521	549	551	582	1,059	1,196	506	639	2,637	2,966
Total impaired loans[b][c]	$1,077	$1,101	$1,279	$1,304	$5,093	$6,145	$1,951	$2,878	$9,400	$11,428
Allowance for loan losses related to impaired loans	$79	$84	$132	$147	$96	$127	$15	$64	$322	$422
Unpaid principal balance of impaired loans[d]	1,410	1,451	2,516	2,603	6,579	7,813	3,013	4,200	13,518	16,067
Impaired loans on nonaccrual	609	628	609	632	1,433	1,559	752	931	3,403	3,750

status(e)

(a) Represents collateral-dependent residential mortgage loans that are charged off to the fair value of the underlying collateral less cost to sell. The Firm reports, in accordance with regulatory guidance, residential real estate loans that have been discharged under Chapter 7 bankruptcy and not reaffirmed by the borrower ("Chapter 7 loans") as collateral-dependent nonaccrual TDRs, regardless of their delinquency status. At June 30, 2015, Chapter 7 residential real estate loans included approximately 18% of senior lien home equity, 10% of junior lien home equity, 22% of prime mortgages, including option ARMs, and 14% of subprime mortgages that were 30 days or more past due.

(b) At June 30, 2015, and December 31, 2014, $4.5 billion and $4.9 billion, respectively, of loans modified subsequent to repurchase from Government National Mortgage Association ("Ginnie Mae") in accordance with the standards of the appropriate government agency (i.e., FHA, VA, RHS) are not included in the table above. When such loans perform subsequent to modification in accordance with Ginnie Mae guidelines, they are generally sold back into Ginnie Mae loan pools. Modified loans that do not re-perform become subject to foreclosure.

(c) Predominantly all residential real estate impaired loans, excluding PCI loans, are in the U.S.

(d) Represents the contractual amount of principal owed at June 30, 2015, and December 31, 2014. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs, net deferred loan fees or costs; and unamortized discounts or premiums on purchased loans.

(e) As of June 30, 2015, and December 31, 2014, nonaccrual loans included $2.6 billion and $2.9 billion, respectively, of TDRs for which the borrowers were less than 90 days past due. For additional information about loans modified in a TDR that are on nonaccrual status refer to the Loan accounting framework in Note 14 of JPMorgan Chase's 2014 Annual Report.

The following tables present average impaired loans and the related interest income reported by the Firm.

Three months ended June 30,	Average impaired loans		Interest income on impaired loans[(a)]		Interest income on impaired loans on a cash basis[(a)]	
(in millions)	2015	2014	2015	2014	2015	2014
Home equity						
Senior lien	$1,085	$1,128	$13	$14	$9	$10
Junior lien	1,286	1,316	20	20	13	13
Mortgages						
Prime, including option ARMs	5,605	6,823	55	66	12	14
Subprime	2,548	3,578	35	47	11	13
Total residential real estate – excluding PCI	$10,524	$12,845	$123	$147	$45	$50

Six months ended June 30,	Average impaired loans		Interest income on impaired loans[(a)]		Interest income on impaired loans on a cash basis[(a)]	
(in millions)	2015	2014	2015	2014	2015	2014
Home equity						
Senior lien	$1,090	$1,135	$26	$28	$18	$19
Junior lien	1,292	1,318	40	41	26	27
Mortgages						
Prime, including option ARMs	5,828	6,889	114	134	24	27
Subprime	2,684	3,623	72	96	22	26
Total residential real estate – excluding PCI	$10,894	$12,965	$252	$299	$90	$99

(a) Generally, interest income on loans modified in TDRs is recognized on a cash basis until such time as the borrower has made a minimum of six payments under the new terms.

Loan modifications

The Firm is required to provide borrower relief under the terms of certain Consent Orders and settlements entered into by the Firm related to its mortgage servicing, originations and residential mortgage-backed securities activities. This borrower relief includes reductions of principal and forbearance.

Modifications of residential real estate loans, excluding PCI loans, are generally accounted for and reported as TDRs. There were no additional commitments to lend to borrowers whose residential real estate loans, excluding PCI loans, have been modified in TDRs.

The following table presents new TDRs reported by the Firm.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Home equity:				
Senior lien	$32	$20	$58	$47
Junior lien	43	46	89	104
Mortgages:				
Prime, including option ARMs	58	52	121	119

Subprime	15	25	34	53
Total residential real estate – excluding PCI	$148	$143	$302	$323

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Nature and extent of modifications

Making Home Affordable ("MHA"), as well as the Firm's proprietary modification programs, generally provide various concessions to financially troubled borrowers including, but not limited to, interest rate reductions, term or payment extensions and deferral of principal and/or interest payments that would otherwise have been required under the terms of the original agreement.

The following tables provide information about how residential real estate loans, excluding PCI loans, were modified under the Firm's loss mitigation programs during the periods presented. These tables exclude Chapter 7 loans where the sole concession granted is the discharge of debt.

Three months ended June 30,	Home equity				Mortgages				Total residential real estate - excluding PCI	
	Senior lien		Junior lien		Prime, including option ARMs		Subprime			
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Number of loans approved for a trial modification	294	218	93	157	294	261	367	529	1,048	1,165
Number of loans permanently modified	314	226	642	699	347	386	395	493	1,698	1,804
Concession granted:[a]										
Interest rate reduction	75 %	64 %	75 %	88 %	76 %	65 %	71 %	68 %	74 %	75 %
Term or payment extension	85	86	88	83	84	79	78	71	84	79
Principal and/or interest deferred	32	12	23	22	36	30	18	15	26	20
Principal forgiveness	4	30	4	29	23	22	30	35	14	29
Other[b]	—	—	1	—	8	18	10	9	4	6

Six months ended June 30,	Home equity				Mortgages				Total residential real estate - excluding PCI	
	Senior lien		Junior lien		Prime, including option ARMs		Subprime			
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Number of loans approved for a trial modification	650	419	247	341	539	516	789	1,028	2,225	2,304
Number of loans permanently modified	576	521	1,150	1,657	708	917	884	1,260	3,318	4,355
Concession granted:[a]										
Interest rate reduction	75 %	65 %	76 %	86 %	69 %	62 %	71 %	63 %	73 %	72 %
Term or payment extension	83	83	87	83	84	84	80	72	84	80
Principal and/or interest deferred	32	14	25	22	36	32	22	18	28	22
Principal forgiveness	6	30	4	28	26	27	31	38	16	31
Other[b]	—	—	—	—	8	17	11	12	5	7

(a) Represents concessions granted in permanent modifications as a percentage of the number of loans permanently modified. The sum of the percentages exceeds 100% because predominantly all of the modifications include more than one type of concession. A significant portion of trial modifications include interest rate reductions and/or term or payment extensions.

(b) Represents variable interest rate to fixed interest rate modifications.

Financial effects of modifications and redefaults

The following tables provide information about the financial effects of the various concessions granted in modifications of residential real estate loans, excluding PCI, under the Firm's loss mitigation programs and about redefaults of certain loans modified in TDRs for the periods presented. Because the specific types and amounts of concessions offered to borrowers frequently change between the trial modification and the permanent modification, the following tables present only the financial effects of permanent modifications. These tables also exclude Chapter 7 loans where the sole concession granted is the discharge of debt.

Three months ended June 30, (in millions, except weighted-average data and number of loans)	Home equity				Mortgages				Total residential real estate – excluding PCI	
	Senior lien		Junior lien		Prime, including option ARMs		Subprime			
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Weighted-average interest rate of loans with interest rate reductions – before TDR	5.88 %	6.58 %	4.65 %	4.94 %	5.15 %	5.17 %	6.55 %	7.28 %	5.48 %	5.82 %
Weighted-average interest rate of loans with interest rate reductions – after TDR	2.89	2.93	2.23	2.04	2.50	2.54	3.16	3.47	2.65	2.72
Weighted-average remaining contractual term (in years) of loans with term or payment extensions – before TDR	17	17	19	19	25	25	24	24	22	23
Weighted-average remaining contractual term (in years) of loans with term or payment extensions – after TDR	31	29	33	34	38	37	36	35	35	35
Charge-offs recognized upon permanent modification	$—	$—	$1	$8	$2	$2	$1	$—	$4	$10
Principal deferred	4	1	3	3	11	10	3	4	21	18
Principal forgiven	1	3	—	6	7	8	7	11	15	28
Balance of loans that redefaulted within one year of permanent modification[(a)]	$4	$4	$1	$3	$21	$44	$16	$28	$42	$79

Six months ended June 30, (in millions, except weighted-average data and number of loans)	Home equity				Mortgages				Total residential real estate – excluding PCI	
	Senior lien		Junior lien		Prime, including option ARMs		Subprime			
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Weighted-average interest rate of loans with interest rate reductions – before TDR	5.98 %	6.63 %	4.79 %	4.83 %	5.09 %	5.20 %	6.69 %	7.44 %	5.58 %	5.88 %
Weighted-average interest rate of loans with interest rate reductions – after TDR	2.81	2.98	2.22	1.91	2.44	2.67	3.19	3.43	2.65	2.75
Weighted-average remaining contractual term (in years) of loans with term or payment extensions – before TDR	17	18	19	19	25	24	24	24	23	23
	31	30	34	35	38	37	36	36	36	36

Weighted-average remaining contractual term (in years) of loans with term or payment extensions – after TDR										
Charge-offs recognized upon permanent modification	$—	$1	$2	$22	$3	$4	$2	$1	$7	$28
Principal deferred	7	2	6	6	22	23	10	11	45	42
Principal forgiven	2	6	—	17	16	25	17	32	35	80
Balance of loans that redefaulted within one year of permanent modification[(a)]	$6	$10	$3	$6	$37	$70	$31	$43	$77	$129

(a) Represents loans permanently modified in TDRs that experienced a payment default in the periods presented, and for which the payment default occurred within one year of the modification. The dollar amounts presented represent the balance of such loans at the end of the reporting period in which such loans defaulted. For residential real estate loans modified in TDRs, payment default is deemed to occur when the loan becomes two contractual payments past due. In the event that a modified loan redefaults, it is probable that the loan will ultimately be liquidated through foreclosure or another similar type of liquidation transaction. Redefaults of loans modified within the last 12 months may not be representative of ultimate redefault levels.

At June 30, 2015, the weighted-average estimated remaining lives of residential real estate loans, excluding PCI loans, permanently modified in TDRs were 6 years for senior lien home equity, 8 years for junior lien home equity, 9 years for prime mortgages, including option ARMs, and 8 years for subprime mortgages. The estimated remaining lives of these loans reflect estimated prepayments, both voluntary and involuntary (i.e., foreclosures and other forced liquidations).

Active and suspended foreclosure

At June 30, 2015, and December 31, 2014, the Firm had non-PCI residential real estate loans, excluding those insured by U.S. government agencies, with a carrying value of $1.3 billion and $1.5 billion, respectively, that were not included in REO, but were in the process of active or suspended foreclosure.

Other consumer loans

The table below provides information for other consumer retained loan classes, including auto, business banking and student loans.

(in millions, except ratios)	Auto		Business banking		Student and other		Total other consumer	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Loan delinquency[(a)]								
Current	$55,793	$53,866	$20,258	$19,710	$9,825	$10,080	$85,876	$83,656
30–119 days past due	530	663	191	208	485	576	1,206	1,447
120 or more days past due	7	7	115	140	264	314	386	461
Total retained loans	$56,330	$54,536	$20,564	$20,058	$10,574	$10,970	$87,468	$85,564
% of 30+ days past due to total retained loans	0.95 %	1.23 %	1.49 %	1.73 %	1.92 %[(d)]	2.15 %[(d)]	1.20 %[(d)]	1.47 %[(d)]
90 or more days past due and still accruing [(b)]	$—	$—	$—	$—	$282	$367	$282	$367
Nonaccrual loans	97	115	239	279	253	270	589	664
Geographic region								
California	$6,671	$6,294	$3,206	$3,008	$1,102	$1,143	$10,979	$10,445
New York	3,682	3,662	3,180	3,187	1,236	1,259	8,098	8,108
Illinois	3,366	3,175	1,388	1,373	706	729	5,460	5,277
Texas	5,893	5,608	2,592	2,626	852	868	9,337	9,102
Florida	2,517	2,301	899	827	528	521	3,944	3,649
New Jersey	1,972	1,945	504	451	392	378	2,868	2,774
Arizona	1,947	2,003	1,174	1,083	239	239	3,360	3,325
Washington	1,066	1,019	267	258	222	235	1,555	1,512
Michigan	1,586	1,633	1,376	1,375	442	466	3,404	3,474
Ohio	2,284	2,157	1,357	1,354	594	629	4,235	4,140
All other	25,346	24,739	4,621	4,516	4,261	4,503	34,228	33,758
Total retained loans	$56,330	$54,536	$20,564	$20,058	$10,574	$10,970	$87,468	$85,564
Loans by risk ratings[(c)]								
Noncriticized	$10,173	$9,822	$15,012	$14,619	NA	NA	$25,185	$24,441
Criticized performing	83	35	744	708	NA	NA	827	743
Criticized nonaccrual	—	—	191	213	NA	NA	191	213

(a) Individual delinquency classifications included loans insured by U.S. government agencies under the Federal Family Education Loan Program (“FFELP”) as follows: current included $4.1 billion and $4.3 billion; 30-119 days past due included $303 million and $364 million; and 120 or more days past due included $243 million and $290 million at June 30, 2015, and December 31, 2014, respectively.

(b)

These amounts represent student loans, which are insured by U.S. government agencies under the FFELP. These amounts were accruing as reimbursement of insured amounts is proceeding normally.

(c) For risk-rated business banking and auto loans, the primary credit quality indicator is the risk rating of the loan, including whether the loans are considered to be criticized and/or nonaccrual.

(d) June 30, 2015, and December 31, 2014, excluded loans 30 days or more past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $546 million and $654 million, respectively. These amounts were excluded as reimbursement of insured amounts is proceeding normally.

Other consumer impaired loans and loan modifications

The table below sets forth information about the Firm's other consumer impaired loans, including risk-rated business banking and auto loans that have been placed on nonaccrual status, and loans that have been modified in TDRs.

(in millions)	June 30, 2015	December 31, 2014
Impaired loans		
With an allowance	$529	$557
Without an allowance[(a)]	31	35
Total impaired loans[(b)(c)]	$560	$592
Allowance for loan losses related to impaired loans	$114	$117
Unpaid principal balance of impaired loans[(d)]	682	719
Impaired loans on nonaccrual status	440	456

(a) When discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged off and/or there have been interest payments received and applied to the loan balance.

(b) Predominantly all other consumer impaired loans are in the U.S.

(c) Other consumer average impaired loans were $566 million and $600 million for the three months ended June 30, 2015 and 2014, respectively, and $576 million and $599 million for the six months ended June 30, 2015 and 2014, respectively. The related interest income on impaired loans, including those on a cash basis, was not material for the three and six months ended June 30, 2015 and 2014.

(d) Represents the contractual amount of principal owed at June 30, 2015, and December 31, 2014. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the principal balance; net deferred loan fees or costs; and unamortized discounts or premiums on purchased loans.

Loan modifications

Certain other consumer loan modifications are considered to be TDRs as they provide various concessions to borrowers who are experiencing financial difficulty. All of these TDRs are reported as impaired loans in the table above. See Note 14 of JPMorgan Chase's 2014 Annual Report for further information on other consumer loans modified in TDRs.

The following table provides information about the Firm's other consumer loans modified in TDRs. New TDRs were not material for the three and six months ended June 30, 2015 and 2014.

(in millions)	June 30, 2015	December 31, 2014
Loans modified in TDRs[(a)(b)]	$407	$442
TDRs on nonaccrual status	287	306

(a) The impact of these modifications was not material to the Firm for the three and six months ended June 30, 2015 and 2014.

(b) Additional commitments to lend to borrowers whose loans have been modified in TDRs as of June 30, 2015, and December 31, 2014, were immaterial.

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Purchased credit-impaired loans
For a detailed discussion of PCI loans, including the related accounting policies, see Note 14 of JPMorgan Chase's 2014 Annual Report.
Residential real estate – PCI loans
The table below sets forth information about the Firm's consumer, excluding credit card, PCI loans.

	Home equity		Prime mortgage		Subprime mortgage		Option ARMs		Total PCI	
(in millions, except ratios)	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Carrying value[(a)]	$16,088	$17,095	$9,553	$10,220	$3,449	$3,673	$14,716	$15,708	$43,806	$46,696
Related allowance for loan losses[(b)]	1,758	1,758	1,083	1,193	180	180	194	194	3,215	3,325
Loan delinquency (based on unpaid principal balance)										
Current	$15,411	$16,295	$8,473	$8,912	$3,416	$3,565	$13,116	$13,814	$40,416	$42,586
30–149 days past due	326	445	395	500	451	536	707	858	1,879	2,339
150 or more days past due	759	1,000	712	837	464	551	1,515	1,824	3,450	4,212
Total loans	$16,496	$17,740	$9,580	$10,249	$4,331	$4,652	$15,338	$16,496	$45,745	$49,137
% of 30+ days past due to total loans	6.58 %	8.15 %	11.56 %	13.05 %	21.13 %	23.37 %	14.49 %	16.26 %	11.65 %	13.33 %
Current estimated LTV ratios (based on unpaid principal balance)[(c)(d)]										
Greater than 125% and refreshed FICO scores:										
Equal to or greater than 660	$350	$513	$24	$45	$21	$34	$54	$89	$449	$681
Less than 660	180	273	58	97	103	160	86	150	427	680
101% to 125% and refreshed FICO scores:										
	1,788	2,245	308	456	143	215	392	575	2,631	3,491

Equal to or greater than 660										
Less than 660	835	1,073	282	402	367	509	528	771	2,012	2,755
80% to 100% and refreshed FICO scores:										
Equal to or greater than 660	3,868	4,171	1,674	2,154	456	519	1,937	2,418	7,935	9,262
Less than 660	1,490	1,647	1,100	1,316	879	1,006	1,640	1,996	5,109	5,965
Lower than 80% and refreshed FICO scores:										
Equal to or greater than 660	5,979	5,824	3,894	3,663	785	719	6,762	6,593	17,420	16,799
Less than 660	2,006	1,994	2,240	2,116	1,577	1,490	3,939	3,904	9,762	9,504
Total unpaid principal balance	$16,496	$17,740	$9,580	$10,249	$4,331	$4,652	$15,338	$16,496	$45,745	$49,137
Geographic region (based on unpaid principal balance)										
California	$9,908	$10,671	$5,591	$5,965	$1,077	$1,138	$8,634	$9,190	$25,210	$26,964
New York	833	876	647	672	422	463	856	933	2,758	2,944
Illinois	382	405	282	301	211	229	357	397	1,232	1,332
Texas	248	273	85	92	259	281	81	85	673	731
Florida	1,581	1,696	625	689	399	432	1,298	1,440	3,903	4,257
New Jersey	329	348	263	279	150	165	505	553	1,247	1,345
Arizona	299	323	155	167	82	85	215	227	751	802
Washington	889	959	208	225	87	95	360	395	1,544	1,674
Michigan	49	53	154	166	121	130	168	182	492	531
Ohio	18	20	45	48	68	72	65	69	196	209
All other	1,960	2,116	1,525	1,645	1,455	1,562	2,799	3,025	7,739	8,348
Total unpaid principal balance	$16,496	$17,740	$9,580	$10,249	$4,331	$4,652	$15,338	$16,496	$45,745	$49,137

(a) Carrying value includes the effect of fair value adjustments that were applied to the consumer PCI portfolio at the date of acquisition.

(b) Management concluded as part of the Firm's regular assessment of the PCI loan pools that it was probable that higher expected credit losses would result in a decrease in expected cash flows. As a result, an allowance for loan losses for impairment of these pools has been recognized.

(c) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated, at a minimum, quarterly, based on home valuation models using nationally recognized home price index valuation estimates incorporating actual data to the extent available and forecasted data where actual data is not available. These property values do not represent actual appraised loan level collateral values; as such, the resulting ratios are necessarily imprecise and should be viewed as estimates. Current estimated combined LTV for junior lien home equity loans considers all available lien positions, as well as unused lines, related to the property.

(d) Refreshed FICO scores represent each borrower’s most recent credit score, which is obtained by the Firm on at least a quarterly basis.

Approximately 20% of the PCI home equity portfolio are senior lien loans; the remaining balance are junior lien HELOANs or HELOCs. The following tables set forth delinquency statistics for PCI junior lien home equity loans and lines of credit based on unpaid principal balance as of June 30, 2015, and December 31, 2014.

(in millions, except ratios)	Total loans Jun 30, 2015	Total loans Dec 31, 2014	Total 30+ day delinquency rate Jun 30, 2015	Total 30+ day delinquency rate Dec 31, 2014
HELOCs:[a]				
Within the revolving period[b]	$7,004	$8,972	4.35%	6.42%
Beyond the revolving period[c]	5,141	4,143	5.10	6.42
HELOANs	651	736	5.68	8.83
Total	$12,796	$13,851	4.72%	6.55%

(a) In general, these HELOCs are revolving loans for a 10-year period, after which time the HELOC converts to an interest-only loan with a balloon payment at the end of the loan's term.
(b) Substantially all undrawn HELOCs within the revolving period have been closed.
(c) Includes loans modified into fixed rate amortizing loans.

The table below sets forth the accretable yield activity for the Firm's PCI consumer loans for the three and six months ended June 30, 2015 and 2014, and represents the Firm's estimate of gross interest income expected to be earned over the remaining life of the PCI loan portfolios. The table excludes the cost to fund the PCI portfolios, and therefore the accretable yield does not represent net interest income expected to be earned on these portfolios.

(in millions, except ratios)	Total PCI Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Beginning balance	$14,034	$15,782	$14,592	$16,167
Accretion into interest income	(430)	(495)	(866)	(1,009)
Changes in interest rates on variable-rate loans	12	(45)	18	(66)
Other changes in expected cash flows[a]	125	33	(3)	183
Balance at June 30	$13,741	$15,275	$13,741	$15,275
Accretable yield percentage	4.18%	4.24%	4.16%	4.28%

(a) Other changes in expected cash flows may vary from period to period as the Firm continues to refine its cash flow model and periodically updates model assumptions. For the three and six months ended June 30, 2015 and 2014, other changes in expected cash flows were driven by changes in prepayment assumptions.

The factors that most significantly affect estimates of gross cash flows expected to be collected, and accordingly the accretable yield balance, include: (i) changes in the benchmark interest rate indices for variable-rate products such as option adjustable-rate mortgage ("ARM") and home equity loans; and (ii) changes in prepayment assumptions.

Active and suspended foreclosure

At June 30, 2015, and December 31, 2014, the Firm had PCI residential real estate loans with an unpaid principal balance of $2.7 billion and $3.2 billion, respectively, that were not included in REO, but were in the process of active or suspended foreclosure.

Credit card loan portfolio

The table below sets forth information about the Firm's credit card loans.

(in millions, except ratios)	June 30, 2015	December 31, 2014
Loan delinquency		
Current and less than 30 days past due and still accruing	$123,102	$126,189
30–89 days past due and still accruing	812	943
90 or more days past due and still accruing	791	895
Nonaccrual loans	—	—
Total retained credit card loans	$124,705	$128,027
Loan delinquency ratios		
% of 30+ days past due to total retained loans	1.29 %	1.44 %
% of 90+ days past due to total retained loans	0.63	0.70
Credit card loans by geographic region		
California	$17,661	$17,940
Texas	11,065	11,088
New York	10,763	10,940
Illinois	7,314	7,497
Florida	7,265	7,398
New Jersey	5,632	5,750
Ohio	4,520	4,707
Pennsylvania	4,317	4,489
Michigan	3,418	3,552
Virginia	3,075	3,263
All other	49,675	51,403
Total retained credit card loans	$124,705	$128,027
Percentage of portfolio based on carrying value with estimated refreshed FICO scores		
Equal to or greater than 660	85.7 %	85.7 %
Less than 660	14.3	14.3

Credit card impaired loans and loan modifications

For a detailed discussion of impaired credit card loans, including credit card loan modifications, see Note 14 of JPMorgan Chase's 2014 Annual Report.

The table below sets forth information about the Firm's impaired credit card loans. All of these loans are considered to be impaired as they have been modified in TDRs.

(in millions)	June 30, 2015	December 31, 2014
Impaired credit card loans with an allowance[(a)(b)]		
Credit card loans with modified payment terms[(c)]	$1,480	$1,775
Modified credit card loans that have reverted to pre-modification payment terms[(d)]	205	254
Total impaired credit card loans[(e)]	$1,685	$2,029
Allowance for loan losses related to impaired credit card loans	$518	$500

(a) The carrying value and the unpaid principal balance are the same for credit card impaired loans.

(b) There were no impaired loans without an allowance.

(c) Represents credit card loans outstanding to borrowers enrolled in a credit card modification program as of the date presented.

(d) Represents credit card loans that were modified in TDRs but that have subsequently reverted back to the loans' pre-modification payment terms.

At June 30, 2015, and December 31, 2014, $127 million and $159 million, respectively, of loans have reverted back to the pre-modification payment terms of the loans due to noncompliance with the terms of the modified loans. The remaining $78 million and $95 million at June 30, 2015, and December 31, 2014, respectively, of these loans are to borrowers who have successfully completed a short-term modification program. The Firm continues to report these loans as TDRs since the borrowers' credit lines remain closed.

(e) Predominantly all impaired credit card loans are in the U.S.

The following table presents average balances of impaired credit card loans and interest income recognized on those loans.

(in millions)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Average impaired credit card loans	$1,769	$2,617	$1,854	$2,776
Interest income on impaired credit card loans	21	32	44	68

Loan modifications

The Firm may modify loans to credit card borrowers who are experiencing financial difficulty. Most of these loans have been modified under programs that involve placing the customer on a fixed payment plan with a reduced interest rate, generally for 60 months. All of these credit card loan modifications are considered to be TDRs. New enrollments in these loan modification programs were $151 million and $193 million, for the three months ended June 30, 2015 and 2014, respectively, and $329 million and $426 million for the six months ended June 30, 2015 and 2014, respectively. For additional information about credit card loan modifications, see Note 14 of JPMorgan Chase's 2014 Annual Report.

Financial effects of modifications and redefaults

The following table provides information about the financial effects of the concessions granted on credit card loans modified in TDRs and redefaults for the periods presented.

(in millions, except weighted-average data)	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Weighted-average interest rate of loans – before TDR	15.15%	15.05%	15.16%	15.04%
Weighted-average interest rate of loans – after TDR	4.27	4.33	4.28	4.36
Loans that redefaulted within one year of modification[(a)]	$20	$29	$42	$63

(a) Represents loans modified in TDRs that experienced a payment default in the periods presented, and for which the payment default occurred within one year of the modification. The amounts presented represent the balance of such loans as of the end of the quarter in which they defaulted.

For credit card loans modified in TDRs, payment default is deemed to have occurred when the loans become two payments past due. A substantial portion of these loans is expected to be charged-off in accordance with the Firm's standard charge-off policy. Based on historical experience, the estimated weighted-average default rate for credit card loans modified was expected to be 26.45%and 27.91% as of June 30, 2015, and December 31, 2014, respectively.

Wholesale loan portfolio

Wholesale loans include loans made to a variety of customers, ranging from large corporate and institutional clients to high-net-worth individuals. The primary credit quality indicator for wholesale loans is the risk rating

assigned each loan. For further information on these risk ratings, see Note 14 and Note 15 of JPMorgan Chase's 2014 Annual Report.

The table below provides information by class of receivable for the retained loans in the Wholesale portfolio segment.

	Commercial and industrial		Real estate		Financial institutions		Government agencies		Other[d]	
(in millions, except ratios)	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	D 20
Loans by risk ratings										
Investment-grade	$64,034	$63,069	$67,658	$61,006	$23,811	$27,111	$10,836	$8,393	$87,810	$8
Noninvestment-grade:										
Noncriticized	44,962	44,117	15,863	16,541	6,071	7,085	298	300	10,985	10
Criticized performing	3,017	2,251	1,444	1,313	375	316	8	3	174	23
Criticized nonaccrual	492	188	248	253	11	18	5	—	117	14
Total noninvestment-grade	48,471	46,556	17,555	18,107	6,457	7,419	311	303	11,276	10
Total retained loans	$112,505	$109,625	$85,213	$79,113	$30,268	$34,530	$11,147	$8,696	$99,086	$9
% of total criticized to total retained loans	3.12 %	2.22 %	1.99 %	1.98 %	1.28 %	0.97 %	0.12 %	0.03 %	0.29 %	0.
% of nonaccrual loans to total retained loans	0.44	0.17	0.29	0.32	0.04	0.05	0.04	—	0.12	0.
Loans by geographic distribution[a]										
Total non-U.S.	$32,201	$33,739	$1,853	$2,099	$17,408	$20,944	$1,641	$1,122	$44,730	$4
Total U.S.	80,304	75,886	83,360	77,014	12,860	13,586	9,506	7,574	54,356	49
Total retained loans	$112,505	$109,625	$85,213	$79,113	$30,268	$34,530	$11,147	$8,696	$99,086	$9
Loan delinquency[b]										
Current and less than 30 days past due and still accruing	$111,835	$108,857	$84,830	$78,552	$30,222	$34,408	$11,127	$8,627	$97,763	$9
30–89 days past due and still accruing	174	566	120	275	29	104	15	69	1,109	1,
90 or more days past due and still accruing[c]	4	14	15	33	6	—	—	—	97	29
Criticized nonaccrual	492	188	248	253	11	18	5	—	117	14
Total retained loans	$112,505	$109,625	$85,213	$79,113	$30,268	$34,530	$11,147	$8,696	$99,086	$9

(a) The U.S. and non-U.S. distribution is determined based predominantly on the domicile of the borrower.

(b) The credit quality of wholesale loans is assessed primarily through ongoing review and monitoring of an obligor's ability to meet contractual obligations rather than relying on the past due status, which is generally a lagging indicator of credit quality. For a discussion of more significant risk factors, see Note 14 of JPMorgan Chase's 2014 Annual Report.

(c) Represents loans that are considered well-collateralized and therefore still accruing interest.

(d) Other primarily includes loans to SPEs and loans to private banking clients. See Note 1 of JPMorgan Chase's 2014 Annual Report for additional information on SPEs.

The following table presents additional information on the real estate class of loans within the Wholesale portfolio segment for the periods indicated. For further information on real estate loans, see Note 14 of JPMorgan Chase's 2014 Annual Report.

(in millions, except ratios)	Multifamily		Commercial lessors		Commercial construction and development		Other		Total real estate loans	
	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Real estate retained loans	$55,501	$51,049	$17,235	$17,438	$4,723	$4,264	$7,754	$6,362	$85,213	$79,113
Criticized exposure	617	652	992	841	17	42	66	31	1,692	1,566
% of criticized exposure to total real estate retained loans	1.11 %	1.28 %	5.76 %	4.82 %	0.36 %	0.98 %	0.85 %	0.49 %	1.99 %	1.98 %
Criticized nonaccrual	$111	$126	$95	$110	$—	$—	$42	$17	$248	$253
% of criticized nonaccrual to total real estate retained loans	0.20 %	0.25 %	0.55 %	0.63 %	— %	— %	0.54 %	0.27 %	0.29 %	0.32 %

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Wholesale impaired loans and loan modifications

Wholesale impaired loans are comprised of loans that have been placed on nonaccrual status and/or that have been modified in a TDR. All impaired loans are evaluated for an asset-specific allowance as described in Note 15 of JPMorgan Chase's 2014 Annual Report.

The table below sets forth information about the Firm's wholesale impaired loans.

	Commercial and industrial		Real estate		Financial institutions		Government agencies		Other		Total retained loans	
(in millions)	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Impaired loans												
With an allowance	$401	$174	$154	$193	$10	$15	$5	$—	$59	$89	$629	$471
Without an allowance[(a)]	102	24	116	87	2	3	—	—	59	52	279	166
Total impaired loans	$503	$198	$270	$280	$12	$18	$5	$—	$118	$141	$908 [(c)]	$637 [(c)]
Allowance for loan losses related to impaired loans	$85	$34	$17	$36	$2	$4	$2	$—	$41	$13	$147	$87
Unpaid principal balance of impaired loans[(b)]	541	266	354	345	14	22	5	—	122	202	1,036	835

(a) When the discounted cash flows, collateral value or market price equals or exceeds the recorded investment in the loan, the loan does not require an allowance. This typically occurs when the impaired loans have been partially charged-off and/or there have been interest payments received and applied to the loan balance.

(b) Represents the contractual amount of principal owed at June 30, 2015, and December 31, 2014. The unpaid principal balance differs from the impaired loan balances due to various factors, including charge-offs; interest payments received and applied to the carrying value; net deferred loan fees or costs; and unamortized discount or premiums on purchased loans.

(c) Based upon the domicile of the borrower, predominantly all wholesale impaired loans are in the U.S.

The following table presents the Firm's average impaired loans for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Commercial and industrial	$355	$249	$303	$270
Real estate	242	306	255	330
Financial institutions	15	19	15	21
Government agencies	1	—	1	—
Other	114	159	111	164
Total[(a)]	$727	$733	$685	$785

(a) The related interest income on accruing impaired loans and interest income recognized on a cash basis were not material for the three and six months ended June 30, 2015 and 2014.

Certain loan modifications are considered to be TDRs as they provide various concessions to borrowers who are experiencing financial difficulty. All TDRs are reported as impaired loans in the tables above. TDRs were not material as of June 30, 2015 and 2014.

Note 14 – Allowance for credit losses
For detailed discussion of the allowance for credit losses and the related accounting policies, see Note 15 of JPMorgan Chase's 2014 Annual Report.
Allowance for credit losses and loans and lending-related commitments by impairment methodology
The table below summarizes information about the allowance for loan losses, loans by impairment methodology, the allowance for lending-related commitments and lending-related commitments by impairment methodology.

	2015				2014			
Six months ended June 30 (in millions)	Consumer, excluding credit card	Credit card	Wholesale	Total	Consumer, excluding credit card	Credit card	Wholesale	Total
Allowance for loan losses								
Beginning balance at January 1,	$7,050	$3,439	$3,696	$14,185	8,456	$3,795	$4,013	$16,264
Gross charge-offs	827	1,776	33	2,636	1,084	1,982	77	3,143
Gross recoveries	(337)	(187)	(53)	(577)	(399)	(209)	(108)	(716)
Net charge-offs/(recoveries)	490	1,589	(20)	2,059	685	1,773	(31)	2,427
Write-offs of PCI loans[(a)]	110	—	—	110	109	—	—	109
Provision for loan losses	42	1,589	265	1,896	81	1,573	(55)	1,599
Other	—	(5)	8	3	—	(1)	—	(1)
Ending balance at June 30,	$6,492	$3,434	$3,989	$13,915	$7,743	$3,594	$3,989	$15,326
Allowance for loan losses by impairment methodology								
Asset-specific[(b)]	$436	$518 [(c)]	$147	$1,101	$598	$583 [(c)]	$138	$1,319
Formula-based	2,841	2,916	3,842	9,599	3,396	3,011	3,851	10,258
PCI	3,215	—	—	3,215	3,749	—	—	3,749
Total allowance for loan losses	$6,492	$3,434	$3,989	$13,915	$7,743	$3,594	$3,989	$15,326
Loans by impairment methodology								
Asset-specific	$9,960	$1,685	$908	$12,553	$13,191	$2,467	$732	$16,390
Formula-based	263,015	123,020	337,307	723,342	224,905	123,154	320,797	668,856
PCI	43,806	—	4	43,810	50,118	—	5	50,123
Total retained loans	$316,781	$124,705	$338,219	$779,705	$288,214	$125,621	$321,534	$735,369
Impaired collateral-dependent loans								
Net charge-offs	$33	$—	$2	$35	$81	$—	$(5)	$76
Loans measured at fair value of collateral less cost to sell	2,695	—	307	3,002	3,250	—	321	3,571

Allowance for lending-related commitments								
Beginning balance at January 1,	$13	$—	$609	$622	$8	$—	$697	$705
Provision for lending-related commitments	2	—	(4)	(2)	1	—	(58)	(57)
Other	—	—	—	—	—	—	—	—
Ending balance at June 30,	$15	$—	$605	$620	$9	$—	$639	$648
Allowance for lending-related commitments by impairment methodology								
Asset-specific	$—	$—	$55	$55	$—	$—	$43	$43
Formula-based	15	—	550	565	9	—	596	605
Total allowance for lending-related commitments	$15	$—	$605	$620	$9	$—	$639	$648
Lending-related commitments by impairment methodology								
Asset-specific	$—	$—	$133	$133	$—	$—	$122	$122
Formula-based	59,817	523,717	351,915	935,449	56,410	533,688	451,153	1,041,251
Total lending-related commitments	$59,817	$523,717	$352,048	$935,582	$56,410	$533,688	$451,275	$1,041,373

(a) Write-offs of PCI loans are recorded against the allowance for loan losses when actual losses for a pool exceed estimated losses that were recorded as purchase accounting adjustments at the time of acquisition. A write-off of a PCI loan is recognized when the underlying loan is removed from a pool (e.g., upon liquidation).

(b) Includes risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a TDR.

(c) The asset-specific credit card allowance for loan losses is related to loans that have been modified in a TDR; such allowance is calculated based on the loans' original contractual interest rates and does not consider any incremental penalty rates.

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Note 15 – Variable interest entities
For a further description of JPMorgan Chase's accounting policies regarding consolidation of variable interest entities ("VIEs"), see Note 1 of JPMorgan Chase's 2014 Annual Report.
The following table summarizes the most significant types of Firm-sponsored VIEs by business segment.

Line-of-Business	Transaction Type	Activity	Form 10-Q page reference
CCB	Credit card securitization trusts	Securitization of both originated and purchased credit card receivables	144
	Mortgage securitization trusts	Servicing and securitization of both originated and purchased residential mortgages	144–146
CIB	Mortgage and other securitization trusts	Securitization of both originated and purchased residential and commercial mortgages, and student loans	144–146
	Multi-seller conduits Investor intermediation activities:	Assist clients in accessing the financial markets in a cost-efficient manner and structures transactions to meet investor needs	146
	Municipal bond vehicles		146–147
	Credit-related note and asset swap vehicles		147

The Firm also invests in and provides financing and other services to VIEs sponsored by third parties, as described on page 147
of this Note.
Significant Firm-sponsored variable interest entities
Credit card securitizations
For a more detailed discussion of JPMorgan Chase's involvement with credit card securitizations, see Note 16 of JPMorgan Chase's 2014 Annual Report.
As a result of the Firm's continuing involvement, the Firm is considered to be the primary beneficiary of its Firm-sponsored credit card securitization trusts. This includes the Firm's primary card securitization trust, Chase Issuance Trust. See the table on page 148 of this Note for further information on consolidated VIE assets and liabilities.

Firm-sponsored mortgage and other securitization trusts
The Firm securitizes (or has securitized) originated and purchased residential mortgages, commercial mortgages and other consumer loans (including student loans) primarily in its CCB and CIB businesses. Depending on the particular transaction, as well as the respective business involved, the Firm may act as the servicer of the loans and/or retain certain beneficial interest in the securitization trusts.
For a detailed discussion of the Firm's involvement with Firm-sponsored mortgage and other securitization trusts, as well as the accounting treatment relating to such trusts, see Note 16 of JPMorgan Chase's 2014 Annual Report.

The following table presents the total unpaid principal amount of assets held in Firm-sponsored private-label securitization entities, including those in which the Firm has continuing involvement, and those that are consolidated by the Firm. Continuing involvement includes servicing the loans; holding senior interests or subordinated interests; recourse or guarantee arrangements; and derivative transactions. In certain instances, the Firm's only continuing involvement is servicing the loans. See Securitization activity on page 149 of this Note for further information regarding the Firm's cash flows with and interests retained in nonconsolidated VIEs, and page 149 of this Note for information on the Firm's loan sales to U.S. government agencies.

	Principal amount outstanding			JPMorgan Chase interest in securitized assets in nonconsolidated VIEs[c][d][e]		
June 30, 2015[a] (in billions)	Total assets held by securitization VIEs	Assets held in consolidated securitization VIEs	Assets held in nonconsolidated securitization VIEs with continuing involvement	Trading assets	AFS securities	Total interests held by JPMorgan Chase
Securitization-related						
Residential mortgage:						
Prime/Alt-A and Option ARMs	$91.8	$ 1.6	$ 75.5	$0.7	$1.6	$2.3
Subprime	26.1	0.1	24.2	—	—	—
Commercial and other[b]	127.3	0.2	94.0	0.4	3.6	4.0
Total	$245.2	$ 1.9	$ 193.7	$1.1	$5.2	$6.3

	Principal amount outstanding			JPMorgan Chase interest in securitized assets in nonconsolidated VIEs[c][d][e]		
December 31, 2014[a] (in billions)	Total assets held by securitization VIEs	Assets held in consolidated securitization VIEs	Assets held in nonconsolidated securitization VIEs with continuing involvement	Trading assets	AFS securities	Total interests held by JPMorgan Chase
Securitization-related						
Residential mortgage:						
Prime/Alt-A and Option ARMs	$96.3	$ 2.7	$ 78.3	$0.5	$0.7	$1.2
Subprime	28.4	0.8	25.7	0.1	—	0.1
Commercial and other[b]	129.6	0.2	94.4	0.4	3.5	3.9
Total	$254.3	$ 3.7	$ 198.4	$1.0	$4.2	$5.2

(a) Excludes U.S. government agency securitizations. See page 149 of this Note for information on the Firm's loan sales to U.S. government agencies.

(b) Consists of securities backed by commercial loans (predominantly real estate) and non-mortgage-related consumer receivables purchased from third parties. The Firm generally does not retain a residual interest in its sponsored commercial mortgage securitization transactions.

(c) The table above excludes the following: retained servicing (see Note 16 for a discussion of MSRs); securities retained from loan sales to U.S. government agencies; interest rate and foreign exchange derivatives primarily used to manage interest rate and foreign exchange risks of securitization entities (See Note 5 for further information on derivatives); senior and subordinated securities of $97 million and $161 million, respectively, at June 30, 2015, and $136 million and $34 million, respectively, at December 31, 2014, which the Firm purchased in connection with CIB's secondary market-making activities.

(d) Includes interests held in re-securitization transactions.

(e)

As of June 30, 2015, and December 31, 2014, 74% and 77%, respectively, of the Firm's retained securitization interests, which are carried at fair value, were risk-rated "A" or better, on an S&P-equivalent basis. The retained interests in prime residential mortgages consisted of $2.1 billion and $1.1 billion of investment-grade and $175 million and $185 million of noninvestment-grade retained interests at June 30, 2015, and December 31, 2014, respectively. The retained interests in commercial and other securitizations trusts consisted of $3.8 billion and $3.7 billion of investment-grade and $229 million and $194 million of noninvestment-grade retained interests at June 30, 2015, and December 31, 2014, respectively.

Residential mortgages

For a more detailed description of the Firm's involvement with residential mortgage securitizations, see Note 16 of JPMorgan Chase's 2014 Annual Report.

At June 30, 2015, and December 31, 2014, the Firm did not consolidate the assets of certain Firm-sponsored residential mortgage securitization VIEs, in which the Firm had continuing involvement, primarily due to the fact that the Firm did not hold an interest in these trusts that could potentially be significant to the trusts. See the table on page 148 of this Note for more information on the consolidated residential mortgage securitizations, and the table on the previous page of this Note for further information on interests held in nonconsolidated residential mortgage securitizations.

Commercial mortgages and other consumer securitizations

CIB originates and securitizes commercial mortgage loans, and engages in underwriting and trading activities involving the securities issued by securitization trusts. For a more detailed description of the Firm's involvement with commercial mortgage and other consumer securitizations, see Note 16 of JPMorgan Chase's 2014 Annual Report. See the table on page 148 of this Note for more information on the consolidated commercial mortgage securitizations, and the table on the previous page of this Note for more information on interests held in nonconsolidated securitizations.

Re-securitizations

For a more detailed description of JPMorgan Chase's
participation in re-securitization transactions, see Note 16 of JPMorgan Chase's 2014 Annual Report.

During the three months ended June 30, 2015 and 2014, the Firm transferred $6.3 billion and $8.0 billion respectively of securities to agency VIEs, and $255 million and $264 million, respectively, of securities to private-label VIEs.

During the six months ended June 30, 2015 and 2014, the Firm transferred $10.2 billion and $13.3 billion respectively of securities to agency VIEs, and $727 million and $433 million, respectively, of securities to private-label VIEs.

As of June 30, 2015, and December 31, 2014, the Firm did not consolidate any agency re-securitizations. As of June 30, 2015, and December 31, 2014, the Firm consolidated $50 million and $77 million, respectively, of assets, and $3 million and $21 million, respectively, of liabilities of private-label re-securitizations. See the table on page 148 of this Note for more information on consolidated re-securitization transactions.

As of June 30, 2015, and December 31, 2014, total assets (including the notional amount of interest-only securities) of nonconsolidated Firm-sponsored private-label re-securitization entities in which the Firm has continuing involvement were $2.5 billion and $2.9 billion, respectively. At June 30, 2015, and December 31, 2014, the Firm held approximately $3.3 billion and $2.4 billion, respectively, of interests in nonconsolidated agency re-securitization entities, and $31 million and $36 million, respectively, of senior and subordinated interests in nonconsolidated private-label re-securitization entities. See the table on page 149 of this Note for further information on interests held in nonconsolidated securitizations.

Multi-seller conduits

For a more detailed description of JPMorgan Chase's principal involvement with Firm-administered multi-seller conduits, see Note 16 of JPMorgan Chase's 2014 Annual Report.

In the normal course of business, JPMorgan Chase makes markets in and invests in commercial paper, including commercial paper issued by the Firm-administered multi-seller conduits. The Firm held $3.6 billion and $5.7 billion of the commercial paper issued by the Firm-administered multi-seller conduits at June 30, 2015, and December 31, 2014, respectively, which was eliminated in consolidation. The Firm's investments reflect the Firm's funding needs and capacity and were not driven by market illiquidity. The Firm is not obligated under any agreement to purchase the commercial paper issued by the Firm-administered multi-seller conduits.

Deal-specific liquidity facilities, program-wide liquidity and credit enhancement provided by the Firm to the multi-seller conduits have been eliminated in consolidation. Unfunded lending-related commitments made to clients of the Firm-administered multi-seller conduits were $9.9 billion at both June 30, 2015, and December 31, 2014, and are reported as off-balance sheet lending-related commitments. For more information on off-balance sheet lending-related commitments, see Note 21.

VIEs associated with investor intermediation activities

Municipal bond vehicles

For a more detailed description of JPMorgan Chase's principal involvement with municipal bond vehicles, see Note 16 of JPMorgan Chase's 2014 Annual Report.

The Firm’s exposure to nonconsolidated municipal bond VIEs at June 30, 2015, and December 31, 2014, including the ratings profile of the VIEs’ assets, was as follows.

(in billions)	Fair value of assets held by VIEs	Liquidity facilities	Excess/(deficit)[a]	Maximum exposure
Nonconsolidated municipal bond vehicles				
June 30, 2015	$11.7	$6.6	$ 5.1	$6.6
December 31, 2014	11.5	6.3	5.2	6.3

	Ratings profile of VIE assets[b]						
	Investment-grade				Noninvestment-grade	Fair value of assets held by VIEs	Wt. avg. expected life of assets (years)
(in billions, except where otherwise noted)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB+ to BBB-	BB+ and below		
June 30, 2015	$2.7	$8.6	$0.4	$—	$ —	$11.7	4.9
December 31, 2014	2.7	8.4	0.4	—	—	11.5	4.9

(a) Represents the excess/(deficit) of the fair values of municipal bond assets available to repay the liquidity facilities, if drawn.

(b) The ratings scale is presented on an S&P-equivalent basis.

Credit-related note and asset swap vehicles

For a more detailed description of JPMorgan Chase’s principal involvement with credit-related note and asset swap vehicles, see Note 16 of JPMorgan Chase’s 2014 Annual Report.

VIEs sponsored by third parties

The Firm enters into transactions with VIEs sponsored by other parties. These include, for example, acting as a derivative counterparty, liquidity provider, investor, underwriter, placement agent, trustee or custodian. These transactions are conducted at arm’s-length, and individual credit decisions are based on the analysis of the specific VIE, taking into consideration the quality of the underlying assets. Where the Firm does not have the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance, or a variable interest that could potentially be significant, the Firm records and reports these positions on its Consolidated balance sheets similarly to the way it would record and report positions in respect of any other third-party transaction.

Consolidated VIE assets and liabilities

The following table presents information on assets and liabilities related to VIEs consolidated by the Firm as of June 30, 2015, and December 31, 2014.

	Assets				Liabilities		
June 30, 2015 (in billions)[(a)]	Trading assets	Loans	Other[(c)]	Total assets[(d)]	Beneficial interests in VIE assets[(e)]	Other[(f)]	Total liabilities
VIE program type							
Firm-sponsored credit card trusts	$—	$47.9	$0.7	$48.6	$31.2	$—	$31.2
Firm-administered multi-seller conduits	—	16.5	—	16.5	13.0	—	13.0
Municipal bond vehicles	2.6	—	—	2.6	2.5	—	2.5
Mortgage securitization entities[(b)]	2.2	0.7	—	2.9	1.2	0.7	1.9
Student loan securitization entities	0.1	2.0	0.1	2.2	2.0	—	2.0
Other	0.3	—	1.5	1.8	0.1	0.2	0.3
Total	$5.2	$67.1	$2.3	$74.6	$50.0	$0.9	$50.9

	Assets				Liabilities		
December 31, 2014 (in billions)[(a)]	Trading assets	Loans	Other[(c)]	Total assets[(d)]	Beneficial interests in VIE assets[(e)]	Other[(f)]	Total liabilities
VIE program type							
Firm-sponsored credit card trusts	$—	$48.3	$0.7	$49.0	$31.2	$—	$31.2
Firm-administered multi-seller conduits	—	17.7	0.1	17.8	12.0	—	12.0
Municipal bond vehicles	5.3	—	—	5.3	4.9	—	4.9
Mortgage securitization entities[(b)]	3.3	0.7	—	4.0	2.1	0.8	2.9
Student loan securitization entities	0.2	2.2	—	2.4	2.1	—	2.1
Other	0.3	—	1.0	1.3	0.1	0.1	0.2
Total	$9.1	$68.9	$1.8	$79.8	$52.4	$0.9	$53.3

(a) Excludes intercompany transactions which were eliminated in consolidation.

(b) Includes residential and commercial mortgage securitizations as well as re-securitizations.

(c) Includes assets classified as cash, AFS securities, and other assets within the Consolidated balance sheets.

(d) The assets of the consolidated VIEs included in the program types above are used to settle the liabilities of those entities. The difference between total assets and total liabilities recognized for consolidated VIEs represents the Firm's interest in the consolidated VIEs for each program type.

(e) The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item on the Consolidated balance sheets titled, "Beneficial interests issued by consolidated variable interest entities." The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. Included in beneficial interests in VIE assets are long-term beneficial interests of $34.5 billion and $35.4 billion at June 30, 2015, and December 31, 2014, respectively. The maturities of the long-term beneficial interests as of June 30, 2015, were as follows: $6.8 billion under one year, $23.1 billion between one and five years, and $4.6 billion over five years.

(f) Includes liabilities classified as accounts payable and other liabilities in the Consolidated balance sheets.

Loan securitizations

The Firm securitizes (or has securitized) a variety of loans, including residential mortgage, credit card, student and commercial (primarily related to real estate) loans. For a

further description of the Firm's accounting policies regarding securitizations, see Note 16 of JPMorgan Chase's 2014 Annual Report.

Securitization activity

The following table provides information related to the Firm's securitization activities for the three months ended June 30, 2015 and 2014, related to assets held in JPMorgan Chase-sponsored securitization entities that were not consolidated by the Firm, and where sale accounting was achieved based on the accounting rules in effect at the time of the securitization.

	Three months ended June 30,				Six months ended June 30,			
	2015		2014		2015		2014	
(in millions)[a]	Residential mortgage[d]	Commercial and other[e]	Residential mortgage[d]	Commercial and other[e]	Residential mortgage[d]	Commercial and other[e]	Residential mortgage[d]	Commercial and other[e]
Principal securitized	$380	$ 2,676	$304	$ 2,612	$1,692	$ 6,051	$660	$4,639
All cash flows during the period:								
Proceeds from new securitizations[b]	$385	$ 2,689	$312	$ 2,664	$1,702	$ 6,058	$663	$4,708
Servicing fees collected	134	1	137	1	280	2	276	2
Purchases of previously transferred financial assets (or the underlying collateral)[c]	1	—	64	—	1	—	67	—
Cash flows received on interests	116	128	41	397	186	207	85	459

(a) Excludes re-securitization transactions.

(b) For the three and six months ended June 30, 2015, $385 million and $1.7 billion, respectively, of proceeds from residential mortgage securitizations were received as securities classified in level 2 of the fair value hierarchy. For the three and six months ended June 30, 2015, $2.7 billion and $6.0 billion, respectively, of proceeds from commercial mortgage securitizations were received as securities classified in level 2 and $38 million of proceeds classified as level 3 of the fair value hierarchy. For the three and six months ended June 30, 2014, $312 million and $642 million of proceeds from residential mortgage securitizations were received as securities classified in level 2 and zero and $21 million of proceeds classified as level 3 of the fair value hierarchy, respectively. For the three and six months ended June 30, 2014, $2.3 billion and $4.3 billion, respectively, of proceeds from commercial mortgage securitizations were received as securities classified in level 2 and $130 million of proceeds classified as level 3 of the fair value hierarchy, and $280 million of proceeds from commercial mortgage securitization were received as cash. All loans transferred into securitization vehicles during the three and six months ended June 30, 2015 and 2014, were classified as trading assets; changes in fair value were recorded in principal transactions revenue, and there were no significant gains or losses associated with the securitization activity.

(c) Includes cash paid by the Firm to reacquire assets from off–balance sheet, nonconsolidated entities – for example, loan repurchases due to representation and warranties and servicer clean-up calls.

(d) Includes prime, Alt-A, subprime, and option ARMs. Excludes certain loan securitization transactions entered into with Ginnie Mae, Fannie Mae and
Freddie Mac.

(e) Includes commercial and student loan securitizations.

Loans and excess MSRs sold to the GSEs, loans in securitization transactions pursuant to Ginnie Mae guidelines, and other third-party-sponsored securitization entities

In addition to the amounts reported in the securitization activity tables above, the Firm, in the normal course of business, sells originated and purchased mortgage loans and certain originated excess MSRs on a nonrecourse basis, predominantly to Fannie Mae and Freddie Mac (the “GSEs”). These loans and excess MSRs are sold primarily for the purpose of securitization by the GSEs, who provide certain guarantee provisions (e.g., credit enhancement of the loans). The Firm also sells loans into securitization transactions pursuant to Ginnie Mae guidelines; these loans are typically insured or guaranteed by another U.S. government agency. The Firm does not consolidate the securitization vehicles underlying any of the transactions described above as it is not the primary beneficiary. For a limited number of loan sales, the Firm is obligated to share a portion of the credit risk associated with the sold loans with the purchaser. See Note 29 of JPMorgan Chase’s 2014 Annual Report for additional information about the Firm’s loan sales- and securitization-related indemnifications. See Note 16 for additional information about the impact of the Firm’s sale of certain excess MSRs. The following table

summarizes the activities related to loans sold to the GSEs, loans in securitization transactions pursuant to Ginnie Mae guidelines, and other third-party-sponsored securitization entities.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Carrying value of loans sold[(a)]	$10,660	$12,603	$22,799	$26,253
Proceeds received from loan sales as cash	48	50	99	89
Proceeds from loans sales as securities[(b)]	10,559	12,461	22,588	26,196
Total proceeds received from loan sales[(c)]	$10,607	$12,511	$22,687	$26,285
Gains on loan sales[(d)]	$86	$82	$177	$119

(a) Predominantly to the GSEs and in securitization transactions pursuant to Ginnie Mae guidelines.
(b) Predominantly includes securities from the GSEs and Ginnie Mae that are generally sold shortly after receipt.
(c) Excludes the value of MSRs retained upon the sale of loans. Gains on loan sales include the value of MSRs.
(d) The carrying value of the loans accounted for at fair value approximated the total proceeds received upon loan sale.

Options to repurchase delinquent loans
In addition to the Firm's obligation to repurchase certain loans due to material breaches of representations and warranties as discussed in Note 21, the Firm also has the option to repurchase delinquent loans that it services for Ginnie Mae loan pools, as well as for other U.S. government agencies under certain arrangements. The Firm typically elects to repurchase delinquent loans from Ginnie Mae loan pools as it continues to service them and/or manage the foreclosure process in accordance with the applicable requirements, and such loans continue to be insured or guaranteed. When the Firm's repurchase option becomes exercisable, such loans must be reported on the Consolidated balance sheets as a loan with a corresponding

liability. As of June 30, 2015, and December 31, 2014, the Firm had recorded on its Consolidated balance sheets $11.7 billion and $12.4 billion, respectively, of loans that either had been repurchased or for which the Firm had an option to repurchase. Predominantly all of these amounts relate to loans that have been repurchased from Ginnie Mae loan pools. Additionally, real estate owned resulting from voluntary repurchases of loans was $385 million and $464 million as of June 30, 2015, and December 31, 2014, respectively. Substantially all of these loans and real estate owned are insured or guaranteed by U.S. government agencies. For additional information, refer to Note 13 of this Form 10-Q and Note 14 of JPMorgan Chase's 2014 Annual Report.

Loan delinquencies and liquidation losses
The table below includes information about components of nonconsolidated securitized financial assets, in which the Firm has continuing involvement, and delinquencies as of June 30, 2015, and December 31, 2014, respectively; and liquidation losses for the three and six months ended June 30, 2015 and 2014, respectively.

	Securitized assets		90 days past due		Liquidation losses Three months ended June 30,		Six months ended June 30,	
(in millions)	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014	2015	2014	2015	2014
Securitized loans[(a)]								
Residential mortgage:								
Prime / Alt-A & Option ARMs	$75,466	$78,294	$10,036	$11,363	$454	$598	$916	$1,257
Subprime	24,237	25,659	6,045	6,473	371	464	725	1,203
Commercial and other	93,973	94,438	1,469	1,522	40	408	139	642
Total loans securitized[(b)]	$193,676	$198,391	$17,550	$19,358	$865	$1,470	$1,780	$3,102

(a) Total assets held in securitization-related SPEs were $245.2 billion and $254.3 billion, respectively, at June 30, 2015, and December 31, 2014. The $193.7 billion and $198.4 billion, respectively, of loans securitized at June 30, 2015, and December 31, 2014, excluded: $49.6 billion and $52.2 billion, respectively, of securitized loans in which the Firm has no continuing involvement, and $1.9 billion and $3.7 billion, respectively, of loan securitizations consolidated on the Firm's Consolidated balance sheets at June 30, 2015, and December 31, 2014.
(b) Includes securitized loans that were previously recorded at fair value and classified as trading assets.

Note 16 – Goodwill and other intangible assets

For a discussion of the accounting policies related to goodwill and other intangible assets, see Note 17 of JPMorgan Chase's 2014 Annual Report.

The following table presents goodwill attributed to the business segments.

(in millions)	June 30, 2015	December 31, 2014
Consumer & Community Banking	$30,893	$30,941
Corporate & Investment Bank	6,776	6,780
Commercial Banking	2,861	2,861
Asset Management	6,946	6,964
Corporate	—	101
Total goodwill	$47,476	$47,647

The following table presents changes in the carrying amount of goodwill.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Balance at beginning of period	$47,453	$48,065	$47,647	$48,081
Changes during the period from:				
Business combinations	9	9	17	18
Dispositions	—	—	(101) [b]	—
Other[a]	14	36	(87)	11
Balance at June 30,	$47,476	$48,110	$47,476	$48,110

(a) Includes foreign currency translation adjustments and other tax-related adjustments.

(b) Represents Private Equity goodwill which was disposed of as part of the Private Equity sale completed in January 2015.

Impairment testing

For further description of the Firm's goodwill impairment testing process, including the primary method used to estimate the fair value of the reporting units, and the assumptions used in the goodwill impairment test, see Impairment testing on pages 271–272 of JPMorgan Chase's 2014 Annual Report.

Goodwill was not impaired at June 30, 2015, or December 31, 2014, nor was goodwill written off due to impairment during the six months ended June 30, 2015.

However, the Firm's Mortgage Banking business in CCB remains at an elevated risk of goodwill impairment due to its exposure to U.S. economic conditions, such as increases in primary mortgage interest rates, lower mortgage origination volume, or from deterioration in economic conditions, including decreases in home prices that result in increased credit losses.

Declines in business performance, increases in equity capital requirements, or increases in the estimated cost of equity, could cause the estimated fair values of the Firm's reporting units or their associated goodwill to decline in the future, which could result in a material impairment charge to earnings in a future period related to some portion of the associated goodwill.

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Mortgage servicing rights

MSRs represent the fair value of expected future cash flows for performing servicing activities for others. The fair value considers estimated future servicing fees and ancillary revenue, offset by estimated costs to service the loans, and generally declines over time as net servicing cash flows are received, effectively amortizing the MSR asset against contractual servicing and ancillary fee income. MSRs are either purchased from third parties or recognized upon sale or securitization of mortgage loans if servicing is retained. For a further description of the MSR asset, interest rate risk management, and the valuation of MSRs, see Note 17 of JPMorgan Chase's 2014 Annual Report and Note 3 of this Form 10-Q.

The following table summarizes MSR activity for the three and six months ended June 30, 2015 and 2014.

	As of or for the three months ended June 30,		As of or for the six months ended June 30,	
(in millions, except where otherwise noted)	2015	2014	2015	2014
Fair value at beginning of period	$6,641	$8,552	$7,436	$9,614
MSR activity:				
Originations of MSRs	145	178	300	370
Purchase of MSRs	438	3	439	6
Disposition of MSRs[(a)]	(218)	2	(375)	(186)
Net additions	365	183	364	190
Changes due to collection/realization of expected cash flows[(b)]	(229)	(239)	(444)	(486)
Changes in valuation due to inputs and assumptions:				
Changes due to market interest rates and other[(c)]	816	(369)	339	(731)
Changes in valuation due to other inputs and assumptions:				
Projected cash flows (e.g., cost to service)	(17)	—	(27)	(11)
Discount rates	—	(10)	(10)	(459)[(g)]
Prepayment model changes and other[(d)]	(5)	230	(87)	230
Total changes in valuation due to other inputs and assumptions	(22)	220	(124)	(240)
Total changes in valuation due to inputs and assumptions[(b)]	794	(149)	215	(971)
Fair value at June 30,[(e)]	$7,571	$8,347	$7,571	$8,347
Change in unrealized gains/(losses) included in income related to MSRs held at June 30,	$794	$(149)	$215	$(971)
Contractual service fees, late fees and other ancillary fees included in income	$644	$731	$1,311	$1,488
Third-party mortgage loans serviced at June 30, (in billions)	$727	$791	$727	$791
Net servicer advances at June 30, (in billions)[(f)]	$7.1	$8.8	$7.1	$8.8

(a) For the six months ended June 30, 2014, predominantly represents excess MSRs transferred to agency-sponsored trusts in exchange for stripped mortgage-backed securities ("SMBS"). In each transaction, a portion of the SMBS was acquired by third parties at the transaction date; the Firm acquired and has retained the remaining balance of those SMBS as trading securities. Also includes sales of MSRs for the three months ended June 30, 2015 and 2014 and six months ended June 30, 2015 and 2014.

(b) Included changes related to commercial real estate of zero and $(2) million for the three months ended June 30, 2015 and 2014, respectively, and $(2) million and $(4) million for the six months ended June 30, 2015 and 2014, respectively.

(c) Represents both the impact of changes in estimated future prepayments due to changes in market interest rates, and the difference between actual and expected prepayments.

(d) Represents changes in prepayments other than those attributable to changes in market interest rates.

(e) Included $9 million and $14 million related to commercial real estate at June 30, 2015 and 2014, respectively.

(f) Represents amounts the Firm pays as the servicer (e.g., scheduled principal and interest, taxes and insurance), which will generally be reimbursed within a short period of time after the advance from future cash flows from the trust or the underlying loans. The Firm's credit risk associated with these servicer advances is minimal because reimbursement of the advances is typically senior to all cash payments to investors. In addition, the Firm maintains the right to stop payment to investors if the collateral is insufficient to cover the advance. However, certain of these servicer advances may not be recoverable if they were not made in accordance with applicable rules and agreements.

(g) For the six months ended June 30, 2014, the decrease was primarily related to higher capital allocated to the Mortgage Servicing business, which, in turn, resulted in an increase in the option adjusted spread ("OAS"). The resulting OAS assumption continues to be consistent with capital and return requirements that the Firm believes a market participant would consider, taking into account factors such as the current operating risk environment and regulatory and economic capital requirements.

The following table presents the components of mortgage fees and related income (including the impact of MSR risk management activities) for the three and six months ended June 30, 2015 and 2014.

(in millions)	Three months ended June 30, 2015	2014	Six months ended June 30, 2015	2014
CCB mortgage fees and related income				
Net production revenue	$233	$323	$470	$612
Net mortgage servicing revenue				
Operating revenue:				
Loan servicing revenue	707	867	1,456	1,737
Changes in MSR asset fair value due to collection/realization of expected cash flows	(228)	(237)	(442)	(482)
Total operating revenue	479	630	1,014	1,255
Risk management:				
Changes in MSR asset fair value due to market interest rates and other[(a)]	815	(368)	339	(730)
Other changes in MSR asset fair value due to other inputs and assumptions in model[(b)]	(22)	220	(124)	(240)
Change in derivative fair value and other	(723)	485	(213)	907
Total risk management	70	337	2	(63)
Total CCB net mortgage servicing revenue	549	967	1,016	1,192
All other	1	1	2	1
Mortgage fees and related income	$783	$1,291	$1,488	$1,805

(a) Represents both the impact of changes in estimated future prepayments due to changes in market interest rates, and the difference between actual and expected prepayments.

(b) Represents the aggregate impact of changes in model inputs and assumptions such as projected cash flows (e.g., cost to service), discount rates and changes in prepayments other than those attributable to changes in market interest rates (e.g., changes in prepayments due to changes in home prices).

The table below outlines the key economic assumptions used to determine the fair value of the Firm's MSRs at June 30, 2015, and December 31, 2014, and outlines the sensitivities of those fair values to immediate adverse changes in those assumptions, as defined below.

(in millions, except rates)	Jun 30, 2015	Dec 31, 2014
Weighted-average prepayment speed assumption ("CPR")	9.01 %	9.80 %
Impact on fair value of 10% adverse change	$(327)	$(337)
Impact on fair value of 20% adverse change	(633)	(652)
Weighted-average option adjusted spread	9.38 %	9.43 %
Impact on fair value of 100 basis points adverse change	$(304)	$(300)
Impact on fair value of 200 basis points adverse change	(586)	(578)

CPR: Constant prepayment rate.

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. Changes in fair value based on variation in assumptions generally cannot be easily extrapolated, because the relationship of the change in the assumptions to the change in fair value are often highly interrelated and may not be linear. In this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which would either magnify or counteract the impact of the initial change.

Other intangible assets

For information regarding other intangible assets, see Note 17 of JPMorgan Chase's 2014 Annual Report.

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Note 17 – Deposits

For further discussion on deposits, see Note 19 of JPMorgan Chase's 2014 Annual Report.

At June 30, 2015, and December 31, 2014, noninterest-bearing and interest-bearing deposits were as follows.

(in millions)	June 30, 2015	December 31, 2014
U.S. offices		
Noninterest-bearing	$432,052	$437,558
Interest-bearing:		
Demand[(a)]	69,477	90,319
Savings[(b)]	462,554	466,730
Time (included $9,364 and $7,501 at fair value)[(c)]	79,407	86,301
Total interest-bearing deposits	611,438	643,350
Total deposits in U.S. offices	1,043,490	1,080,908
Non-U.S. offices		
Noninterest-bearing	21,777	19,078
Interest-bearing:		
Demand	177,923	217,011
Savings	1,873	2,673
Time (included $2,121 and $1,306 at fair value)[(c)]	42,269	43,757
Total interest-bearing deposits	222,065	263,441
Total deposits in non-U.S. offices	243,842	282,519
Total deposits	$1,287,332	$1,363,427

(a) Includes Negotiable Order of Withdrawal ("NOW") accounts, and certain trust accounts.

(b) Includes Money Market Deposit Accounts ("MMDAs").

(c) Includes structured notes classified as deposits for which the fair value option has been elected. For further discussion, see Note 4 of JPMorgan Chase's 2014 Annual Report.

Note 18 – Earnings per share

For a discussion of the computation of basic and diluted earnings per share ("EPS"), see Note 24 of JPMorgan Chase's 2014 Annual Report. The following table presents the calculation of basic and diluted EPS for the three and six months ended June 30, 2015 and 2014.

(in millions, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Basic earnings per share				
Net income	$6,290	$5,980	$12,204	$11,249
Less: Preferred stock dividends	380	268	704	495
Net income applicable to common equity	5,910	5,712	11,500	10,754
Less: Dividends and undistributed earnings allocated to participating securities	134	144	272	294
Net income applicable to common stockholders	$5,776	$5,568	$11,228	$10,460
Total weighted-average basic shares outstanding	3,707.8	3,780.6	3,716.6	3,783.9
Net income per share	$1.56	$1.47	$3.02	$2.76

Diluted earnings per share				
Net income applicable to common stockholders	$5,776	$5,568	$11,228	$10,460
Total weighted-average basic shares outstanding	3,707.8	3,780.6	3,716.6	3,783.9
Add: Employee stock options, SARs and warrants[(a)]	35.8	31.9	33.9	34.2
Total weighted-average diluted shares outstanding[(b)]	3,743.6	3,812.5	3,750.5	3,818.1
Net income per share	$1.54	$1.46	$2.99	$2.74

(a) Excluded from the computation of diluted EPS (due to the antidilutive effect) were options issued under employee benefit plans. The aggregate number of shares issuable upon the exercise of such options was not material for the three and six months ended June 30, 2015; and 1 million for each of the three and six months ended June 30, 2014.

(b) Participating securities were included in the calculation of diluted EPS using the two-class method, as this computation was more dilutive than the calculation using the treasury stock method.

Note 19 – Accumulated other comprehensive income/(loss)

AOCI includes the after-tax change in unrealized gains and losses on investment securities, foreign currency translation adjustments (including the impact of related derivatives), cash flow hedging activities, and net loss and prior service costs/(credit) related to the Firm's defined benefit pension and OPEB plans.

As of or for the three months ended June 30, 2015 (in millions)	Unrealized gains/(losses) on investment securities[(a)]	Translation adjustments, net of hedges	Cash flow hedges	Defined benefit pension and OPEB plans	Accumulated other comprehensive income/(loss)
Balance at April 1, 2015	$4,862	$(157)	$(18)	$(2,257)	$ 2,430
Net change	(1,419)	3	80	8	(1,328)
Balance at June 30, 2015	$3,443	$(154)	$62	$(2,249)	$ 1,102

As of or for the three months ended June 30, 2014 (in millions)	Unrealized gains/(losses) on investment securities[(a)]	Translation adjustments, net of hedges	Cash flow hedges	Defined benefit pension and OPEB plans	Accumulated other comprehensive income/(loss)
Balance at April 1, 2014	$3,792	$(138)	$(80)	$(1,298)	$ 2,276
Net change	1,075	12	68	7	1,162
Balance at June 30, 2014	$4,867	$(126)	$(12)	$(1,291)	$ 3,438

As of or for the six months ended June 30, 2015 (in millions)	Unrealized gains/(losses) on investment securities[(a)]	Translation adjustments, net of hedges	Cash flow hedges	Defined benefit pension and OPEB plans	Accumulated other comprehensive income/(loss)
Balance at January 1, 2015	$4,773	$(147)	$(95)	$(2,342)	$ 2,189
Net change	(1,330)	(7)	157	93	(1,087)
Balance at June 30, 2015	$3,443	$(154)	$62	$(2,249)	$ 1,102

As of or for the six months ended June 30, 2014 (in millions)	Unrealized gains/(losses) on investment securities[(a)]	Translation adjustments, net of hedges	Cash flow hedges	Defined benefit pension and OPEB plans	Accumulated other comprehensive income/(loss)
Balance at January 1, 2014	$2,798	$(136)	$(139)	$(1,324)	$ 1,199
Net change	2,069	10	127	33	2,239
Balance at June 30, 2014	$4,867	$(126)	$(12)	$(1,291)	$ 3,438

(a) Represents the after-tax difference between the fair value and amortized cost of securities accounted for as AFS; including, as of the date of transfer during the first quarter of 2014, $9 million of net unrealized losses related to AFS securities that were transferred to HTM. Subsequent to transfer, includes any net unamortized unrealized gains and losses related to the transferred securities.

The following table presents the pretax and after-tax changes in the components of other comprehensive income/(loss).

	2015			2014		
Three months ended June 30, (in millions)	Pretax	Tax effect	After-tax	Pretax	Tax effect	After-tax
Unrealized gains/(losses) on investment securities:						
Net unrealized gains/(losses) arising during the period	$(2,343)	$952	$(1,391)	$1,778	$(695)	$1,083
Reclassification adjustment for realized (gains)/losses included in net income(a)	(44)	16	(28)	(12)	4	(8)
Net change	(2,387)	968	(1,419)	1,766	(691)	1,075
Translation adjustments:						
Translation(b)	267	(117)	150	218	(79)	139
Hedges(b)	(250)	103	(147)	(208)	81	(127)
Net change	17	(14)	3	10	2	12
Cash flow hedges:						
Net unrealized gains/(losses) arising during the period	120	(46)	74	143	(57)	86
Reclassification adjustment for realized (gains)/losses included in net income(c)	7	(1)	6	(29)	11	(18)
Net change	127	(47)	80	114	(46)	68
Defined benefit pension and OPEB plans:						
Net gains/(losses) arising during the period	41	(15)	26	19	(8)	11
Reclassification adjustments included in net income(d):						
Amortization of net loss	70	(26)	44	19	(7)	12
Prior service costs/(credits)	(9)	4	(5)	(12)	5	(7)
Foreign exchange and other	(33)	(24)	(57)	(15)	6	(9)
Net change	69	(61)	8	11	(4)	7
Total other comprehensive income/(loss)	$(2,174)	$846	$(1,328)	$1,901	$(739)	$1,162

	2015			2014		
Six months ended June 30, (in millions)	Pretax	Tax effect	After-tax	Pretax	Tax effect	After-tax
Unrealized gains/(losses) on investment securities:						
Net unrealized gains/(losses) arising during the period	$(2,118)	$848	$(1,270)	$3,399	$(1,304)	$2,095
Reclassification adjustment for realized (gains)/losses included in net income(a)	(96)	36	(60)	(42)	16	(26)
Net change	(2,214)	884	(1,330)	3,357	(1,288)	2,069
Translation adjustments:						
Translation(b)	(733)	261	(472)	372	(142)	230
Hedges(b)	743	(278)	465	(362)	142	(220)
Net change	10	(17)	(7)	10	—	10
Cash flow hedges:						
Net unrealized gains/(losses) arising during the period	71	(28)	43	215	(87)	128

Reclassification adjustment for realized (gains)/losses included in net income[(c)(e)]	182	(68)	114	(2)	1	(1)
Net change	253	(96)	157	213	(86)	127
Defined benefit pension and OPEB plans:						
Net gains/(losses) arising during the period	101	(39)	62	88	(34)	54
Reclassification adjustments included in net income[(d)]:						
Amortization of net loss	141	(53)	88	37	(15)	22
Prior service costs/(credits)	(18)	7	(11)	(22)	9	(13)
Foreign exchange and other	—	(46)	(46)	(19)	(11)	(30)
Net change	224	(131)	93	84	(51)	33
Total other comprehensive income/(loss)	$(1,727)	$640	$(1,087)	$3,664	$(1,425)	$2,239

(a) The pretax amount is reported in securities gains in the Consolidated statements of income.

(b) Reclassifications of pretax realized gains/(losses) on translation adjustments and related hedges are reported in other income/expense in the Consolidated statements of income. The amounts were not material for the periods presented.

(c) The pretax amounts are predominantly recorded in net interest income in the Consolidated statements of income.

(d) The pretax amount is reported in compensation expense in the Consolidated statements of income.

(e) In the first quarter of 2015, the Firm reclassified approximately $150 million of net losses from AOCI to other income because the Firm determined that it is probable that the forecasted interest payment cash flows will not occur. For additional information, see Note 5.

Note 20 – Regulatory capital

The Federal Reserve establishes capital requirements, including well-capitalized standards, for the consolidated financial holding company. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Firm's national banks, including JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A.

Basel III, for large and internationally active U.S. bank holding companies and banks, including the Firm and its insured depository institution ("IDI") subsidiaries, revised, among other things, the definition of capital and introduced a new common equity Tier 1 capital ("CET1 capital") requirement; presents two comprehensive methodologies for calculating risk-weighted assets ("RWA"), a general (Standardized) approach, which replaced Basel I RWA effective January 1, 2015, ("Basel III Standardized") and an advanced approach, which replaced Basel II RWA ("Basel III Advanced"); and sets out minimum capital ratios and overall capital adequacy standards. Certain of the requirements of Basel III are subject to phase-in periods that began on January 1, 2014 and continue through the end of 2018 ("Basel III Transitional").

There are three categories of risk-based capital under the Basel III Transitional rules: common equity Tier 1 capital ("CET1 capital"), as well as Tier 1 capital and Tier 2 capital. CET1 capital predominantly includes common stockholders' equity (including capital for AOCI related to debt and equity securities classified as AFS as well as for defined benefit pension and OPEB plans), less certain deductions for goodwill, MSRs and deferred tax assets that arise from net operating loss ("NOL") and tax credit carryforwards. Tier 1 capital is predominantly comprised of CET1 capital as well as perpetual preferred stock. Tier 2 capital includes long-term debt qualifying as Tier 2 and qualifying allowance for credit losses. Total capital is Tier 1 capital plus Tier 2 capital.

The following tables present the regulatory capital, assets and risk-based capital ratios for JPMorgan Chase and its significant national bank subsidiaries under both Basel III Standardized Transitional and Basel III Advanced Transitional.

	JPMorgan Chase & Co.[e]			
	Basel III Standardized Transitional		Basel III Advanced Transitional	
(in millions, except ratios)	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Regulatory capital				
CET1 capital	$169,769	$164,426	$169,769	$164,426
Tier 1 capital[a]	194,725	186,294	194,725	186,294
Total capital	228,390	221,225	218,811	210,684
Assets				
Risk-weighted	1,499,638 [f]	1,472,602	1,520,140	1,608,240
Adjusted average[b]	2,448,357	2,465,414	2,448,357	2,465,414
Capital ratios[c]				
CET1	11.3 %	11.2 %	11.2 %	10.2 %
Tier 1[a]	13.0	12.7	12.8	11.6
Total	15.2	15.0	14.4	13.1
Tier 1 leverage[d]	8.0	7.6	8.0	7.6

	JPMorgan Chase Bank, N.A.[e]			
	Basel III Standardized Transitional		Basel III Advanced Transitional	
(in millions, except ratios)	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Regulatory capital				
CET1 capital	$161,814	$156,567	$161,814	$156,567
Tier 1 capital[a]	161,966	156,891	161,966	156,891

Total capital	177,249		173,328		170,346		166,331	
Assets								
Risk-weighted	1,274,043	(f)	1,230,358		1,275,783		1,330,175	
Adjusted average[(b)]	1,982,100		1,968,131		1,982,100		1,968,131	
Capital ratios[(c)]								
CET1	12.7	%	12.7	%	12.7	%	11.8	%
Tier 1[(a)]	12.7		12.8		12.7		11.8	
Total	13.9		14.1		13.4		12.5	
Tier 1 leverage[(d)]	8.2		8.0		8.2		8.0	

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	Chase Bank USA, N.A.[e]			
	Basel III Standardized Transitional		Basel III Advanced Transitional	
(in millions, except ratios)	Jun 30, 2015	Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
Regulatory capital				
CET1 capital	$15,002	$14,556	$15,002	$14,556
Tier 1 capital[a]	15,002	14,556	15,002	14,556
Total capital	20,952	20,517	19,652	19,206
Assets				
Risk-weighted	101,754 [f]	103,468	156,286	157,565
Adjusted average[b]	129,421	128,111	129,421	128,111
Capital ratios[c]				
CET1	14.7 %	14.1 %	9.6 %	9.2 %
Tier 1[a]	14.7	14.1	9.6	9.2
Total	20.6	19.8	12.6	12.2
Tier 1 leverage[d]	11.6	11.4	11.6	11.4

(a) At June 30, 2015, trust preferred securities included in Basel III Tier 1 capital were $960 million and $150 million for JPMorgan Chase and JPMorgan Chase Bank, N.A., respectively. At June 30, 2015, Chase Bank USA, N.A. had no trust preferred securities.

(b) Adjusted average assets, for purposes of calculating the Tier 1 leverage ratio, includes total quarterly average assets adjusted for on-balance sheet assets that are subject to deduction from Tier 1 Capital predominantly comprising disallowed goodwill and other intangible assets.

(c) For each risk-based capital ratio, the capital adequacy of the Firm and its national bank subsidiaries are evaluated against the Basel III approach, Standardized or Advanced, resulting in the lower ratio.

(d) As the Tier 1 leverage ratio is not a risk-based measure of capital, the ratios presented in the table reflect the same calculation.

(e) Asset and capital amounts for JPMorgan Chase's national banking subsidiaries reflect intercompany transactions; whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.

(f) Effective January 1, 2015, the Basel III definition of the Standardized RWA became effective. Prior measures of Basel III Standardized RWA were calculated under Basel I rules.

Note: Rating agencies allow measures of capital to be adjusted upward for deferred tax liabilities, which have resulted from both nontaxable business combinations and from tax-deductible goodwill. The Firm had deferred tax liabilities resulting from nontaxable business combinations totaling $117 million and $130 million at June 30, 2015, and December 31, 2014, respectively; and deferred tax liabilities resulting from tax-deductible goodwill of $2.8 billion and $2.7 billion at June 30, 2015, and December 31, 2014, respectively.

Under the risk-based capital guidelines of the Federal Reserve, JPMorgan Chase is required to maintain minimum ratios of CET1 (beginning January 1, 2015), Tier 1 and total capital to risk-weighted assets, as well as a minimum leverage ratio (which is defined as Tier 1 capital divided by adjusted quarterly average assets). Failure to meet these minimum requirements could cause the Federal Reserve to take action. National bank subsidiaries also are subject to these capital requirements by their respective primary regulators. The following table presents the minimum ratios to which the Firm and its national bank subsidiaries are subject as of June 30, 2015.

	Minimum capital ratios[a]	Well-capitalized ratios[a]
Capital ratios		
CET1	4.5 %	6.5 %
Tier 1	6.0	8.0

Total	8.0	10.0	
Tier 1 leverage	4.0	5.0	(b)

(a) As defined by the regulations issued by the Federal Reserve, OCC and FDIC.

(b) Represents requirements for bank subsidiaries pursuant to regulations issued under the FDIC Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.

As of June 30, 2015, and December 31, 2014, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and met all capital requirements to which each was subject.

Note 21 – Off–balance sheet lending-related financial instruments, guarantees, and other commitments
JPMorgan Chase provides lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk to the Firm should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and should the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without being drawn or a default occurring. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. For further discussion of lending-related commitments and guarantees, and the Firm's related accounting policies, see Note 29 of JPMorgan Chase's 2014 Annual Report.

To provide for probable credit losses inherent in consumer (excluding credit card) and wholesale lending commitments, an allowance for credit losses on lending-related commitments is maintained. See Note 14 for further information regarding the allowance for credit losses on lending-related commitments. The following table summarizes the contractual amounts and carrying values of off-balance sheet lending-related financial instruments, guarantees and other commitments at June 30, 2015, and December 31, 2014. The amounts in the table below for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. The Firm can reduce or cancel credit card lines of credit by providing the borrower notice or, in some cases as permitted by law, without notice. In addition, the Firm typically closes credit card lines when the borrower is 60 days or more past due. The Firm may reduce or close home equity lines of credit when there are significant decreases in the value of the underlying property, or when there has been a demonstrable decline in the creditworthiness of the borrower.

Off–balance sheet lending-related financial instruments, guarantees and other commitments

	Contractual amount						Carrying value[j]	
	June 30, 2015					Dec 31, 2014	Jun 30, 2015	Dec 31, 2014
By remaining maturity (in millions)	Expires in 1 year or less	Expires after 1 year through 3 years	Expires after 3 years through 5 years	Expires after 5 years	Total	Total		
Lending-related								
Consumer, excluding credit card:								
Home equity – senior lien	$1,826	$4,364	$996	$3,899	$11,085	$11,807	$—	$—
Home equity – junior lien	2,927	5,291	1,039	3,901	13,158	14,859	—	—
Prime mortgage[a]	13,526	—	—	—	13,526	8,579	—	—
Auto[b]	7,647	1,365	211	32	9,255	10,462	3	2
Business banking[b]	10,923	834	89	470	12,316	11,894	12	11
Student and other	27	5	—	445	477	552	—	—
Total consumer, excluding credit card	36,876	11,859	2,335	8,747	59,817	58,153	15	13
Credit card	523,717	—	—	—	523,717	525,963	—	—
Total consumer[c]	560,593	11,859	2,335	8,747	583,534	584,116	15	13
Wholesale:								
Other unfunded commitments to extend credit[b][d]	58,701	85,922	110,091	7,722	262,436	272,676	327	374
Standby letters of credit and other financial guarantees[b][d][e]	20,104	30,071	32,968	2,281	85,424	89,874	751	788
Other letters of credit[b]	3,241	867	80	—	4,188	4,331	1	1
Total wholesale[f][g]	82,046	116,860	143,139	10,003	352,048	366,881	1,079	1,163
Total lending-related	$642,639	$128,719	$145,474	$18,750	$935,582	$950,997	$1,094	$1,176
Other guarantees and commitments								
Securities lending indemnification agreements and guarantees[h]	$190,441	$—	$—	$—	$190,441	$171,059	$—	$—
Derivatives qualifying as guarantees	930	293	11,459	38,794	51,476	53,589	103	80
Unsettled reverse repurchase and securities borrowing agreements	49,684	—	—	—	49,684	40,993	—	—
Loan sale and securitization-related indemnifications:								
Mortgage repurchase liability	NA	NA	NA	NA	NA	NA	231	275
Loans sold with recourse	NA	NA	NA	NA	5,173	6,063	92	102
Other guarantees and commitments[i]	797	1,635	2,259	1,293	5,984	5,720	(107)	(121)

(a) Includes certain commitments to purchase loans from correspondents.

(b) At June 30, 2015, and December 31, 2014, reflects the contractual amount net of risk participations totaling $239 million and $243 million, respectively, for other unfunded commitments to extend credit; $12.5 billion and $13.0 billion, respectively, for standby letters of credit and other financial guarantees; and $376 million and $469 million, respectively, for other letters of credit. In regulatory filings with the Federal Reserve these commitments are shown gross of risk participations.

(c) Predominantly all consumer lending-related commitments are in the U.S.

(d) At June 30, 2015, and December 31, 2014, included credit enhancements and bond and commercial paper liquidity commitments to U.S. states and municipalities, hospitals and other non-profit entities of $14.0 billion and $14.8 billion, respectively, within other unfunded commitments to extend credit; and $10.8 billion and $13.3 billion, respectively, within standby letters of credit and other financial guarantees. Other unfunded commitments to extend credit also include liquidity facilities to nonconsolidated municipal bond VIEs; for further information, see Note 15.

(e) At June 30, 2015, and December 31, 2014, included unissued standby letters of credit commitments of $44.9 billion and $45.6 billion, respectively.

(f) At June 30, 2015, and December 31, 2014, the U.S. portion of the contractual amount of total wholesale lending-related commitments was 76% and 73%, respectively.

(g) Effective January 1, 2015, the Firm no longer includes within its disclosure of wholesale lending-related commitments the unused amount of advised uncommitted lines of credit as it is within the Firm's discretion whether or not to make a loan under these lines, and the Firm's approval is generally required prior to funding. Prior period amounts have been revised to conform with the current period presentation.

(h) At June 30, 2015, and December 31, 2014, collateral held by the Firm in support of securities lending indemnification agreements was $197.6 billion and $177.1 billion, respectively. Securities lending collateral comprises primarily cash and securities issued by governments that are members of the Organisation for Economic Co-operation and Development ("OECD") and U.S. government agencies.

(i) At June 30, 2015, and December 31, 2014, included unfunded commitments of $140 million and $147 million, respectively, to third-party private equity funds; and $1.1 billion and $961 million, at June 30, 2015, and December 31, 2014, respectively, to other equity investments. These commitments included $155 million and $150 million, respectively, related to investments that are generally fair valued at net asset value as discussed in Note 3. In addition, at June 30, 2015, and December 31, 2014, included letters of credit hedged by derivative transactions and managed on a market risk basis of $4.4 billion and $4.5 billion, respectively.

(j) For lending-related products, the carrying value represents the allowance for lending-related commitments and the guarantee liability; for derivative-related products, the carrying value represents the fair value.

Other unfunded commitments to extend credit

Other unfunded commitments to extend credit generally comprise commitments for working capital and general corporate purposes, extensions of credit to support commercial paper facilities and bond financings in the event that those obligations cannot be remarketed to new investors, as well as committed liquidity facilities to clearing organizations.

Also included in other unfunded commitments to extend credit are commitments to noninvestment-grade counterparties in connection with leveraged finance activities, which were $29.3 billion and $23.4 billion at June 30, 2015, and December 31, 2014, respectively. For further information, see Note 3 and Note 4.

The Firm acts as a settlement and custody bank in the U.S. tri-party repurchase transaction market. In its role as settlement and custody bank, the Firm is exposed to the intra-day credit risk of its cash borrower clients, usually broker-dealers. This exposure arises under secured clearance advance facilities that the Firm extends to its clients (i.e. cash borrowers); these facilities contractually limit the Firm's intra-day credit risk to the facility amount and must be repaid by the end of the day. As of June 30, 2015, and December 31, 2014, the secured clearance advance facility maximum outstanding commitment amount was $11.3 billion and $12.6 billion, respectively.

Guarantees

The Firm considers the following off–balance sheet lending-related arrangements to be guarantees under U.S. GAAP: standby letters of credit and financial guarantees, securities lending indemnifications, certain indemnification agreements included within third-party contractual arrangements and certain derivative contracts. For a further discussion of the off–balance sheet lending-related arrangements the Firm considers to be guarantees, and the related accounting policies, see Note 29 of JPMorgan Chase's 2014 Annual Report. The recorded amounts of the liabilities related to guarantees and indemnifications at June 30, 2015, and December 31, 2014, excluding the allowance for credit losses on lending-related commitments, are discussed below.

Standby letters of credit and other financial guarantees

Standby letters of credit ("SBLC") and other financial guarantees are conditional lending commitments issued by the Firm to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. The carrying values of standby and other letters of credit were $752 million and $789 million at June 30, 2015, and December 31, 2014, respectively, which were classified in accounts payable and other liabilities on the Consolidated balance sheets; these carrying values included $278 million and $235 million, respectively, for the allowance for lending-related commitments, and $474 million and $554 million, respectively, for the guarantee liability and corresponding asset.

The following table summarizes the types of facilities under which standby letters of credit and other letters of credit arrangements are outstanding by the ratings profiles of the Firm's customers, as of June 30, 2015, and December 31, 2014.

Standby letters of credit, other financial guarantees and other letters of credit

	June 30, 2015		December 31, 2014	
(in millions)	Standby letters of credit and other financial guarantees	Other letters of credit	Standby letters of credit and other financial guarantees	Other letters of credit
Investment-grade[(a)]	$61,972	$3,534	$66,856	$3,476
Noninvestment-grade[(a)]	23,452	654	23,018	855
Total contractual amount	$85,424	$4,188	$89,874	$4,331
Allowance for lending-related commitments	$277	$1	$234	$1
Commitments with collateral	37,595	1,275	39,726	1,509

(a) The ratings scale is based on the Firm's internal ratings which generally correspond to ratings as defined by S&P and Moody's.

Derivatives qualifying as guarantees

In addition to the contracts described above, the Firm transacts certain derivative contracts that have the characteristics of a guarantee under U.S. GAAP. For further information on these derivatives, see Note 29 of JPMorgan Chase's 2014 Annual Report. The total notional value of the derivatives that the Firm deems to be guarantees was $51.5 billion and $53.6 billion at June 30, 2015, and December 31, 2014, respectively. The notional amount generally represents the Firm's maximum exposure to derivatives qualifying as guarantees. However, exposure to

certain stable value contracts is contractually limited to a substantially lower percentage of the notional amount; the notional amount on these stable value contracts was $28.1 billion and $27.5 billion at June 30, 2015, and December 31, 2014, respectively, and the maximum exposure to loss was $3.0 billion and $2.9 billion at June 30, 2015, and December 31, 2014. The fair values of the contracts reflect the probability of whether the Firm will be required to perform under the contract. The fair value related to derivatives that the Firm deems to be guarantees were derivative payables of $129 million and $102 million and derivative receivables of $26 million and $22 million at June 30, 2015, and December 31, 2014, respectively. The Firm reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

In addition to derivative contracts that meet the characteristics of a guarantee, the Firm is both a purchaser and seller of credit protection in the credit derivatives market. For a further discussion of credit derivatives, see Note 5.

Loan sales- and securitization-related indemnifications

Mortgage repurchase liability

In connection with the Firm's mortgage loan sale and securitization activities with the GSEs, as described in Note 15 of this Form 10-Q, and Note 16 of JPMorgan Chase's 2014 Annual Report, the Firm has made representations and warranties that the loans sold meet certain requirements. The Firm has been, and may be, required to repurchase loans and/or indemnify the GSEs (e.g., with "make-whole" payments to reimburse the GSEs for their realized losses on liquidated loans). To the extent that repurchase demands that are received relate to loans that the Firm purchased from third parties that remain viable, the Firm typically will have the right to seek a recovery of related repurchase losses from the third party. Generally, the maximum amount of future payments the Firm would be required to make for breaches of these representations and warranties would be equal to the unpaid principal balance of such loans that are deemed to have defects that were sold to purchasers (including securitization-related SPEs) plus, in certain circumstances, accrued interest on such loans and certain expense.

For additional information, see Note 29 of JPMorgan Chase's 2014 Annual Report.

The following table summarizes the change in the mortgage repurchase liability for each of the periods presented.

Summary of changes in mortgage repurchase liability

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Repurchase liability at beginning of period	$252	$564	$275	$681
Net realized gains/(losses)[(a)]	7	8	17	19
(Benefit)/provision for repurchase[(b)]	(28)	(136)	(61)	(264)
Repurchase liability at end of period	$231	$436	$231	$436

(a) Presented net of third-party recoveries and include principal losses and accrued interest on repurchased loans, "make-whole" settlements, settlements with claimants, and certain related expense. Make-whole settlements were $2 million and $1 million for the three months ended June 30, 2015 and 2014, respectively, and $4 million and $3 million for the six months ended June 30, 2015 and 2014, respectively.

(b) Included a provision related to new loan sales of $1 million for each of the three months ended June 30, 2015 and 2014, and $2 million for each of the six months ended June 30, 2015 and 2014.

Private label securitizations

The liability related to repurchase demands associated with private label securitizations is separately evaluated by the Firm in establishing its litigation reserves.

For additional information regarding litigation, see Note 23 of this Form 10-Q and Note 31 of JPMorgan Chase's 2014 Annual Report.

Loans sold with recourse

The Firm provides servicing for mortgages and certain commercial lending products on both a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to the Firm is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans, such as Fannie Mae or Freddie Mac or a private investor, insurer or guarantor. Losses on recourse servicing predominantly occur when foreclosure sales proceeds of the property underlying a defaulted loan are less than the sum of the outstanding principal balance, plus accrued interest on the loan and the cost of holding and disposing of the underlying property. The Firm's securitizations are predominantly nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. At June 30, 2015, and December 31, 2014, the unpaid principal balance of loans sold with recourse totaled $5.2 billion and $6.1 billion, respectively. The carrying value of the related liability that the Firm has recorded, which is representative of the Firm's view of the likelihood it will have to perform under its recourse obligations, was $92 million and $102 million at June 30, 2015, and December 31, 2014, respectively.

Note 22 – Pledged assets and collateral
For a discussion of the Firm's pledged assets and collateral, see Note 30 of JPMorgan Chase's 2014 Annual Report.
Pledged assets
The Firm may pledge financial assets that it owns to maintain potential borrowing capacity with central banks and for other purposes, including to secure borrowings and public deposits, and to collateralize repurchase and other securities financing agreements. Certain of these pledged assets may be sold or repledged by the secured parties and are identified as financial assets owned (pledged to various parties) on the Consolidated balance sheets. At June 30, 2015, and December 31, 2014, the Firm had pledged assets of $383.4 billion and $324.5 billion, respectively, at Federal Reserve Banks and Federal Home Loan Banks ("FHLBs"). In addition, as of June 30, 2015, and December 31, 2014, the Firm had pledged $56.8 billion and $60.1 billion, respectively, of financial assets that may not be sold or repledged by the secured parties. Total assets pledged do not include assets of consolidated VIEs; these assets are used to settle the liabilities of those entities. See Note 15 for additional information on assets and liabilities of consolidated VIEs. For additional information on the Firm's securities financing activities, see Note 12. For additional information on the Firm's long-term debt, see Note 21 of JPMorgan Chase's 2014 Annual Report.
Collateral
At June 30, 2015, and December 31, 2014, the Firm had accepted financial assets as collateral that it could sell or repledge, deliver or otherwise use with a fair value of $775.0 billion and $761.7 billion, respectively. This collateral was generally obtained under resale agreements, securities borrowing agreements, customer margin loans and derivative agreements. Of the collateral received, $617.7 billion and $596.8 billion, respectively, were sold or repledged, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales and to collateralize deposits and derivative agreements.

Note 23 – Litigation
Contingencies
As of June 30, 2015, the Firm and its subsidiaries are defendants or putative defendants in numerous legal proceedings, including private, civil litigations and regulatory/government investigations. The litigations range from individual actions involving a single plaintiff to class action lawsuits with potentially millions of class members. Investigations involve both formal and informal proceedings, by both governmental agencies and self-regulatory organizations. These legal proceedings are at varying stages of adjudication, arbitration or investigation, and involve each of the Firm's lines of business and geographies and a wide variety of claims (including common law tort and contract claims and statutory antitrust, securities and consumer protection claims), some of which present novel legal theories.
The Firm believes the estimate of the aggregate range of reasonably possible losses, in excess of reserves established, for its legal proceedings is from $0 to approximately $5.5 billion at June 30, 2015. This estimated aggregate range of reasonably possible losses is based upon currently available information for those proceedings in which the Firm believes that an estimate of reasonably possible loss can be made. For certain cases, the Firm does not believe that such an estimate can be made. Moreover, the Firm's estimate of the aggregate range of reasonably possible losses involves significant judgment, given the number, variety and varying stages of the proceedings (including the fact that many are in preliminary stages), the existence in many such proceedings of multiple defendants (including the Firm) whose share of liability has yet to be determined, the numerous yet-unresolved issues in many of the proceedings (including issues regarding class certification and the scope of many of the claims) and the attendant uncertainty of the various potential outcomes of such proceedings, particularly proceedings that could result from government investigations. Accordingly, the Firm's estimate will change from time to time, and actual losses may vary.
Set forth below are descriptions of the Firm's material legal proceedings.
Auto Dealer Regulatory Matter. The Firm is engaged in discussions with the U.S. Department of Justice ("DOJ") about potential statistical disparities in markups charged to different races and ethnicities by automobile dealers on loans originated by those dealers and purchased by the Firm.

CIO Litigation. The Firm has been sued in a consolidated shareholder putative class action, a consolidated putative class action brought under the Employee Retirement Income Security Act ("ERISA") and seven shareholder derivative actions brought in Delaware state court and in New York federal and state courts relating to 2012 losses in the synthetic credit portfolio managed by the Firm's Chief Investment Office ("CIO"). Six of the shareholder derivative

actions have been dismissed. One of those dismissals has been affirmed on appeal and the plaintiff has filed a petition for en banc review. Plaintiffs in three other dismissed shareholder derivative actions have appealed those dismissals.
Credit Default Swaps Investigations and Litigation. In July 2013, the European Commission (the "EC") filed a Statement of Objections against the Firm (including various subsidiaries) and other industry members in connection with its ongoing investigation into the credit default swaps ("CDS") marketplace. The EC asserts that between 2006 and 2009, a number of investment banks acted collectively through the International Swaps and Derivatives Association ("ISDA") and Markit Group Limited ("Markit") to foreclose exchanges from the potential market for exchange-traded credit derivatives. The Firm submitted a response to the Statement of Objections in January 2014, and the EC held a hearing in May 2014. DOJ also has an ongoing investigation into the CDS marketplace, which was initiated in July 2009.
Separately, the Firm and other industry members are defendants in a consolidated putative class action filed in the United States District Court for the Southern District of New York on behalf of purchasers and sellers of CDS. The complaint refers to the ongoing investigations by the EC and DOJ into the CDS market, and alleges that the defendant investment banks and dealers, including the Firm, as well as Markit and/or ISDA, collectively prevented new entrants into the market for exchange-traded CDS products. Defendants moved to dismiss this action, and in September 2014, the Court granted defendants' motion in part, dismissing claims for damages based on transactions effected before the Autumn of 2008, as well as certain other claims.
Custody Assets Investigation. The U.K. Financial Conduct Authority ("FCA") is conducting an investigation concerning compliance by JPMorgan Chase Bank, N.A., London branch and J.P. Morgan Europe Limited with the FCA's rules regarding the provision of custody services relating to the administration of client assets. JPMorgan Chase Bank, N.A., London branch and J.P. Morgan Europe Limited are responding to and cooperating with the investigation.
Foreign Exchange Investigations and Litigation. The Firm previously reported settlements with certain government authorities relating to its foreign exchange ("FX") sales and trading activities and controls related to those activities, including settlements in May 2015 with DOJ and the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Under the DOJ settlement, the Firm agreed to plead guilty to a single violation of federal antitrust law and to pay a fine of $550 million. Under the Federal Reserve settlement, the Firm agreed to the entry of a Consent Order, to pay a fine of $342 million, and to take various remedial actions. FX-related investigations and inquiries by other non-U.S. government authorities, including competition authorities, remain ongoing, and the Firm is cooperating with those matters.

Since November 2013, class actions have been filed in the United States District Court for the Southern District of New York against foreign exchange dealers, including the Firm, principally for alleged violations of federal antitrust laws based on an alleged conspiracy to manipulate foreign exchange rates reported on the WM/Reuters service. In March 2014, plaintiffs filed a consolidated amended U.S. class action complaint; two other class actions were brought by non-U.S.-based plaintiffs. The Court denied defendants' motion to dismiss the U.S. class action and granted the motion to dismiss the two non-U.S. class actions. In January 2015, the Firm settled the U.S. class action, and this settlement is subject to court approval. Since this settlement, a number of additional class actions have been filed seeking damages for persons who transacted FX futures and options on futures, consumers who purchased foreign currencies at allegedly inflated rates, and participants or beneficiaries of qualified ERISA plans.
General Motors Litigation. JPMorgan Chase Bank, N.A. participated in, and was the Administrative Agent on behalf of a syndicate of lenders on, a $1.5 billion syndicated Term Loan facility ("Term Loan") for General Motors Corporation ("GM"). In July 2009, in connection with the GM bankruptcy proceedings, the Official Committee of Unsecured Creditors of Motors Liquidation Company ("Creditors Committee") filed a lawsuit against JPMorgan Chase Bank, N.A., in its individual capacity and as Administrative Agent for other lenders on the Term Loan, seeking to hold the underlying lien invalid based on the filing of a UCC-3 termination statement relating to the Term Loan. In March 2013, the Bankruptcy Court granted JPMorgan Chase Bank, N.A.'s motion for summary judgment and dismissed the Creditors Committee's complaint on the grounds that JPMorgan Chase Bank, N.A. did not authorize the filing of the UCC-3 termination statement at issue. The Creditors Committee appealed the Bankruptcy Court's dismissal of its claim to the United States Court of Appeals for the Second Circuit. In January 2015, the Court of Appeals reversed the Bankruptcy Court's dismissal of the Creditors Committee's claim and remanded the case to the

Bankruptcy Court with instructions to enter partial summary judgment for the Creditors Committee as to the termination statement. JPMorgan Chase Bank, N.A. then filed a petition requesting that the full Court of Appeals rehear the case en banc. In April 2015, the Court of Appeals issued an order denying the petition for rehearing en banc. Continued proceedings in the Bankruptcy Court are anticipated with respect to, among other things, additional defenses asserted by JPMorgan Chase Bank, N.A. and the value of additional collateral on the Term Loan, which was not the subject of the termination statement. In addition, two purported class actions have been filed by certain Term Loan lenders in federal court in New York against JPMorgan Chase Bank, N.A. and Simpson Thacher & Bartlett LLP, seeking indemnification and asserting claims for breach of contract, gross negligence and fraudulent concealment against JPMorgan Chase Bank, N.A. and claims for malpractice,

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professional negligence and negligent misrepresentation against Simpson Thacher & Bartlett LLP.
Interchange Litigation. A group of merchants and retail associations filed a series of class action complaints alleging that Visa and MasterCard, as well as certain banks, conspired to set the price of credit and debit card interchange fees, enacted respective rules in violation of antitrust laws, and engaged in tying/bundling and exclusive dealing. The parties have entered into an agreement to settle the cases for a cash payment of $6.1 billion to the class plaintiffs (of which the Firm's share is approximately 20%) and an amount equal to ten basis points of credit card interchange for a period of eight months to be measured from a date within 60 days of the end of the opt-out period. The agreement also provides for modifications to each credit card network's rules, including those that prohibit surcharging credit card transactions. In December 2013, the Court issued a decision granting final approval of the settlement. A number of merchants have appealed, and oral argument has been scheduled for September 2015. Certain merchants that opted out of the class settlement have filed actions against Visa and MasterCard, as well as against the Firm and other banks. Defendants' motion to dismiss the actions was denied in July 2014.
Investment Management Litigation. The Firm is defending two pending cases that allege that investment portfolios managed by J.P. Morgan Investment Management ("JPMIM") were inappropriately invested in securities backed by residential real estate collateral. Plaintiffs Assured Guaranty (U.K.) and Ambac Assurance UK Limited claim that JPMIM is liable for losses of more than $1 billion in market value of these securities. Discovery is proceeding.
Lehman Brothers Bankruptcy Proceedings. In May 2010, Lehman Brothers Holdings Inc. ("LBHI") and its Official Committee of Unsecured Creditors (the "Committee") filed a complaint (and later an amended complaint) against JPMorgan Chase Bank, N.A. in the United States Bankruptcy Court for the Southern District of New York that asserts both federal bankruptcy law and state common law claims, and seeks, among other relief, to recover $7.9 billion in collateral that was transferred to JPMorgan Chase Bank, N.A. in the weeks preceding LBHI's bankruptcy. The amended complaint also seeks unspecified damages on the grounds that JPMorgan Chase Bank, N.A.'s collateral requests hastened LBHI's bankruptcy. The Court dismissed certain of the claims in the amended complaint that sought to void the allegedly constructively fraudulent and preferential transfers made to the Firm during September 2008, but did not dismiss the other claims, including claims for duress and fraud. The Firm has filed counterclaims against LBHI alleging that LBHI fraudulently induced the Firm to make large extensions of credit against inappropriate collateral in connection with the Firm's role as the clearing bank for Lehman Brothers Inc. ("LBI"), LBHI's broker-dealer subsidiary. These extensions of credit left the Firm with more than $25 billion in claims against the estate of LBI. The case has been transferred from the

Bankruptcy Court to the District Court, and the Firm has moved for summary judgment seeking the dismissal of all of LBHI's claims. LBHI has also moved for summary judgment on certain of its claims and seeking the dismissal of the Firm's counterclaims.
In the Bankruptcy Court proceedings, LBHI and several of its subsidiaries that had been Chapter 11 debtors have filed a separate complaint and objection to derivatives claims asserted by the Firm alleging that the amount of the derivatives claims had been overstated and challenging certain set-offs taken by JPMorgan Chase entities to recover on the claims. The Firm responded to this separate complaint and objection in February 2013. LBHI and the Committee have also filed an objection to the claims asserted by JPMorgan Chase Bank, N.A. against LBHI with respect to clearing advances made to LBI, principally on the grounds that the Firm had not conducted the sale of the securities collateral held for its claims in a commercially reasonable manner. Discovery regarding both objections is ongoing. In January 2015, LBHI filed additional objections relating to a variety of claims that the Firm had filed in the Bankruptcy Court proceedings. The bankruptcy claims and other claims of the Firm against Lehman entities have been paid in full, subject to potential adjustment depending on the outcome of the objections filed by LBHI and the Committee.
LIBOR and Other Benchmark Rate Investigations and Litigation. JPMorgan Chase has received subpoenas and requests for documents and, in some cases, interviews, from federal and state agencies and entities, including DOJ, the U.S. Commodity Futures Trading Commission ("CFTC"), the U.S. Securities and Exchange Commission ("SEC") and various state attorneys general, as well as the EC, the FCA, the Canadian Competition Bureau, the Swiss Competition Commission and other regulatory authorities and banking associations around the world relating primarily to the process by which interest rates were submitted to the British Bankers Association ("BBA") in connection with the

setting of the BBA's London Interbank Offered Rate ("LIBOR") for various currencies, principally in 2007 and 2008. Some of the inquiries also relate to similar processes by which information on rates is submitted to the European Banking Federation ("EBF") in connection with the setting of the EBF's Euro Interbank Offered Rates ("EURIBOR") and to the Japanese Bankers' Association for the setting of Tokyo Interbank Offered Rates ("TIBOR"), as well as processes for the setting of U.S. dollar ISDAFIX rates and other reference rates in various parts of the world during similar time periods. The Firm is responding to and continuing to cooperate with these inquiries. As previously reported, the Firm has resolved EC inquiries relating to Yen LIBOR and Swiss Franc LIBOR. In May 2014, the EC issued a Statement of Objections outlining its case against the Firm (and others) as to EURIBOR, to which the Firm has filed a response and made oral representations. Other inquiries have been discontinued without any action against

JPMorgan Chase, including by the FCA and the Canadian Competition Bureau.

In addition, the Firm has been named as a defendant along with other banks in a series of individual and class actions filed in various United States District Courts, in which plaintiffs make varying allegations that in various periods, starting in 2000 or later, defendants either individually or collectively manipulated the U.S. dollar LIBOR, Yen LIBOR, Swiss franc LIBOR, Euroyen TIBOR and/or EURIBOR rates by submitting rates that were artificially low or high. Plaintiffs allege that they transacted in loans, derivatives or other financial instruments whose values are affected by changes in U.S. dollar LIBOR, Yen LIBOR, Swiss franc LIBOR, Euroyen TIBOR or EURIBOR and assert a variety of claims including antitrust claims seeking treble damages.

The U.S. dollar LIBOR-related putative class actions and most U.S. dollar LIBOR-related individual actions were consolidated for pre-trial purposes in the United States District Court for the Southern District of New York ("Multi-District Litigation"). In March 2013, the Court granted in part and denied in part the defendants' motions to dismiss the claims in the three lead putative class actions, dismissing with prejudice the antitrust claims, and permitting certain claims under the Commodity Exchange Act and common law. In September 2013, class plaintiffs in two of the three lead putative class actions filed amended complaints, which defendants moved to dismiss. In June 2014, the Court granted in part and denied in part defendants' motions to dismiss, further limiting the subset of Commodity Exchange Act and common law claims that may proceed. Plaintiffs in the third putative class action appealed the dismissal of the antitrust claims, and the United States Court of Appeals for the Second Circuit dismissed the appeal for lack of jurisdiction. In January 2015, the United States Supreme Court reversed the decision of the Court of Appeals, holding that plaintiffs have the jurisdictional right to appeal, and remanded the case to the Court of Appeals for further proceedings. Motions to dismiss are pending in numerous individual actions and three additional putative class actions. Several other individual and class actions remain stayed.

The Firm is one of the defendants in a putative class action alleging manipulation of Euroyen TIBOR and Yen LIBOR which was filed in the United States District Court for the Southern District of New York on behalf of plaintiffs who purchased or sold exchange-traded Euroyen futures and options contracts. In March 2014, the Court granted in part and denied in part the defendants' motions to dismiss, including dismissal of plaintiff's antitrust and unjust enrichment claims. In June 2014, the plaintiff moved to amend the complaint to include new claims, plaintiffs and defendants. In March 2015, the Court denied the request to add new claims and plaintiffs, but granted the addition of new defendants. The plaintiff has moved for interlocutory appeal of the Court's denial of the motion to amend, while discovery proceeds.

The Firm is one of the defendants in a putative class action filed in the United States District Court for the Southern District of New York relating to the interest rate benchmark EURIBOR. The case is currently stayed. The Firm is also a defendant in a putative class action filed in the United States District Court for the Southern District of New York relating to the interest rate benchmark Swiss franc LIBOR.

The Firm is one of the defendants in a number of putative class actions alleging that defendant banks and ICAP conspired to manipulate the U.S. dollar ISDAFIX rates. Plaintiffs primarily assert claims under the federal antitrust laws and Commodities Exchange Act. In February 2015, plaintiffs filed a consolidated amended class action complaint, which defendants have moved to dismiss.

Madoff Litigation. Various subsidiaries of the Firm, including J.P. Morgan Securities plc, have been named as defendants in lawsuits filed in Bankruptcy Court in New York arising out of the liquidation proceedings of Fairfield Sentry Limited and Fairfield Sigma Limited, so-called Madoff feeder funds. These actions seek to recover payments made by the funds to defendants totaling approximately $155 million. All but two of these actions have been dismissed.

In addition, a putative class action was brought by investors in certain feeder funds against JPMorgan Chase in the United States District Court for the Southern District of New York, as was a motion by separate potential class plaintiffs to add claims against the Firm and certain subsidiaries to an already pending putative class action in the same court. The allegations in these complaints largely track those previously raised by the court-appointed trustee for Bernard L. Madoff Investment Securities LLC. The District Court dismissed these complaints and the United States Court of Appeals for the Second Circuit affirmed the District Court's decision. The United States Supreme Court denied plaintiffs' petition for a writ of certiorari in March 2015.

The Firm is a defendant in five other Madoff-related individual investor actions pending in New York state court. The allegations in all of these actions are essentially identical, and involve claims against the Firm for, among other things, aiding and abetting breach of fiduciary duty, conversion and unjust enrichment. In August 2014, the Court dismissed all claims against the Firm. Plaintiffs have filed a notice of appeal.

A putative class action has been filed in the United States District Court for the District of New Jersey by investors who were net winners (i.e., Madoff customers who had taken more money out of their accounts than had been invested) in Madoff's Ponzi scheme and were not included in the previous class action settlement. These plaintiffs allege violations of the federal securities law, federal and state racketeering statutes and multiple common law and statutory claims including breach of trust, aiding and abetting embezzlement, unjust enrichment, conversion and commercial bad faith. A similar action has been filed in the United States District Court for the Middle District of Florida, although it is not styled as a class action, and includes a claim pursuant to a Florida statute. The Firm has moved to transfer both the Florida and New Jersey actions to the United States District Court for the Southern District of New York. The Florida court denied the transfer motion in January 2015. In March 2015, the New Jersey court granted the transfer motion, and plaintiffs' appeal of that decision is pending. The Firm has also moved to dismiss the Florida action, and that motion is pending.

Three shareholder derivative actions have also been filed in New York federal and state court against the Firm, as nominal defendant, and certain of its current and former Board members, alleging breach of fiduciary duty in connection with the Firm's relationship with Bernard Madoff and the alleged failure to maintain effective internal controls to detect fraudulent transactions. The actions seek declaratory relief and damages. In July 2014, the federal court granted defendants' motions to dismiss two of the actions. One plaintiff chose not to appeal and the other filed a motion for reconsideration which was denied in November 2014. The latter plaintiff has filed an appeal. In the remaining state court action, a hearing on defendants' motion to dismiss was held in October 2014, and the court reserved decision.

MF Global. J.P. Morgan Securities LLC has been named as one of several defendants in a number of putative class actions filed by purchasers of MF Global's publicly traded securities asserting violations of federal securities laws and alleging that the offering documents contained materially false and misleading statements and omissions regarding MF Global. The settlement of these actions has received final approval from the court. The Firm also has responded to inquiries from the CFTC relating to the Firm's banking and other business relationships with MF Global, including as a depository for MF Global's customer segregated accounts.

Mortgage-Backed Securities and Repurchase Litigation and Related Regulatory Investigations. JPMorgan Chase and affiliates (together, "JPMC"), Bear Stearns and affiliates (together, "Bear Stearns") and certain Washington Mutual affiliates (together, "Washington Mutual") have been named as defendants in a number of cases in their various roles in offerings of mortgage-backed securities ("MBS"). These cases include class action suits on behalf of MBS purchasers, actions by individual MBS purchasers and actions by monoline insurance companies that guaranteed payments of principal and interest for particular tranches of MBS offerings. Following the settlements referred to under "Repurchase Litigation" and "Government Enforcement Investigations and Litigation" below, there are currently pending and tolled investor and monoline insurer claims involving MBS with an original principal balance of approximately $22.8 billion, of which $20.7 billion involves JPMC, Bear Stearns or Washington Mutual as issuer and $2.1 billion involves JPMC, Bear Stearns or Washington Mutual solely as underwriter. The Firm and certain of its current and former officers and Board members have also been sued in shareholder derivative actions relating to the Firm's MBS activities, and trustees have asserted or have

threatened to assert claims that loans in securitization trusts should be repurchased.

Issuer Litigation – Class Actions. JPMC is defending a class action in which plaintiffs' motion for class certification has been granted with respect to liability but denied without prejudice as to damages. In this action, the parties have reached a settlement that is subject to court approval. In April 2015, the Firm finalized a settlement to resolve a putative class action brought against Bear Stearns in the United States District Court for the District of Massachusetts. In May 2015, the United States District Court for the Southern District of New York granted final approval to the settlement in a separate class action concerning Bear Stearns.

Issuer Litigation – Individual Purchaser Actions. In addition to class actions, the Firm is defending individual actions brought against JPMC, Bear Stearns and Washington Mutual as MBS issuers (and, in some cases, also as underwriters of their own MBS offerings). The Firm has settled a number of these actions. Several actions remain pending in federal and state courts across the U.S. and are in various stages of litigation.

Monoline Insurer Litigation. The Firm is defending two pending actions relating to the same monoline insurer's guarantees of principal and interest on certain classes of 11 different Bear Stearns MBS offerings. These actions are pending in state court in New York and are in various stages of litigation.

Underwriter Actions. In actions against the Firm involving offerings where the Firm was solely an underwriter of other issuers' MBS offerings, the Firm has contractual rights to indemnification from the issuers. However, those indemnity rights may prove effectively unenforceable in various situations, such as where the issuers are now defunct. Currently there is one such action pending against the Firm relating to a single offering of another issuer, and in a previously settled action certain class members have filed a notice of appeal challenging the lower court's approval of the settlement.

Repurchase Litigation. The Firm is defending a number of actions brought by trustees, securities administrators or master servicers of various MBS trusts and others on behalf of purchasers of securities issued by those trusts. These cases generally allege breaches of various representations and warranties regarding securitized loans and seek repurchase of those loans or equivalent monetary relief, as well as indemnification of attorneys' fees and costs and other remedies. Deutsche Bank National Trust Company, acting as trustee for various MBS trusts, has filed such a suit against JPMorgan Chase Bank, N.A. and the Federal Deposit Insurance Corporation (the "FDIC") in connection with a significant number of MBS issued by Washington Mutual; that case is described in the Washington Mutual Litigations section below. Other repurchase actions, each specific to one or more MBS transactions issued by JPMC and/or Bear Stearns, are in various stages of litigation.

In addition, the Firm and a group of 21 institutional MBS investors made a binding offer to the trustees of MBS issued by JPMC and Bear Stearns providing for the payment of $4.5 billion and the implementation of certain servicing changes by JPMC, to resolve all repurchase and servicing claims that have been asserted or could have been asserted with respect to 330 MBS trusts issued between 2005 and 2008. The offer does not resolve claims relating to Washington Mutual MBS. The seven trustees (or separate and successor trustees) for this group of 330 trusts have accepted the settlement for 319 trusts in whole or in part and excluded from the settlement 16 trusts in whole or in part. The trustees' acceptance is subject to a judicial approval proceeding initiated by the trustees and pending in New York state court. Certain investors in some of the trusts for which the settlement has been accepted have intervened in the judicial approval proceeding, challenging the trustees' acceptance of the settlement. A final hearing date has been scheduled for January 2016.

Additional actions have been filed against third-party trustees that relate to loan repurchase and servicing claims involving trusts that the Firm sponsored.

Derivative Actions. Shareholder derivative actions relating to the Firm's MBS activities have been filed against the Firm, as nominal defendant, and certain of its current and former officers and members of its Board of Directors, in New York state court and California federal court. Two of the New York actions have been dismissed and one is on appeal. A consolidated action in California federal court has been dismissed without prejudice for lack of personal jurisdiction and plaintiffs are pursuing discovery.

Government Enforcement Investigations and Litigation. The Firm is responding to an ongoing investigation being conducted by the Criminal Division of the United States Attorney's Office for the Eastern District of California relating to MBS offerings securitized and sold by the Firm and its subsidiaries. The Firm has also received subpoenas and informal requests for information from state authorities concerning the issuance and underwriting of MBS-related matters. The Firm continues to respond to these MBS-related regulatory inquiries.

In addition, the Firm continues to cooperate with investigations by DOJ, including the U.S. Attorney's Office for the District of Connecticut, the SEC Division of Enforcement and the Office of the Special Inspector General for the Troubled Asset Relief Program, all of which relate to, among other matters, communications with counterparties in connection with certain secondary market trading in residential and commercial MBS.

The Firm has entered into agreements with a number of entities that purchased MBS that toll applicable limitations periods with respect to their claims, and has settled, and in the future may settle, tolled claims. There is no assurance that the Firm will not be named as a defendant in additional MBS-related litigation.

Mortgage-Related Investigations and Litigation. The Attorney General of Massachusetts filed an action against the Firm, other servicers and a mortgage recording company, asserting claims for various alleged wrongdoings relating to mortgage assignments and use of the industry's electronic mortgage registry. In January 2015, the Firm entered into a settlement resolving this action.

The Firm entered into a settlement resolving a putative class action lawsuit relating to its filing of affidavits or other documents in connection with mortgage foreclosure proceedings, and the court granted final approval of the settlement in January 2015.

One shareholder derivative action has been filed in New York Supreme Court against the Firm's Board of Directors alleging that the Board failed to exercise adequate oversight as to wrongful conduct by the Firm regarding mortgage servicing. In December 2014, the court granted defendants' motion to dismiss the complaint, and plaintiff has filed a notice of appeal.

The Civil Division of the United States Attorney's Office for the Southern District of New York is conducting an investigation concerning the Firm's compliance with the Fair Housing Act ("FHA") and Equal Credit Opportunity Act ("ECOA") in connection with its mortgage lending practices. In addition, three municipalities and a school district have commenced litigation against the Firm alleging violations of an unfair competition law and of the FHA and ECOA and seeking statutory damages for the unfair competition claim, and, for the FHA and ECOA claims, damages in the form of lost tax revenue and increased municipal costs associated with foreclosed properties. The court denied a motion to dismiss in one of the municipal actions, the school district action was dismissed with prejudice, another municipal action has been served, and motions to dismiss are pending in the remaining actions.

The Firm has received inquiries from federal government authorities seeking information regarding documents filed by the Firm in bankruptcy proceedings, including proofs of claim, mortgage payment change notices, affidavits, declarations and other sworn statements. The Firm is responding to these inquiries. In March 2015, JPMorgan Chase Bank, N.A entered into a settlement agreement with the Executive Office for United States Bankruptcy Trustees and the United States Trustee Program to resolve issues relating to mortgage payment change notices and escrow statements in bankruptcy proceedings.

Municipal Derivatives Litigation. Several civil actions were commenced in New York and Alabama courts against the Firm relating to certain Jefferson County, Alabama (the “County”) warrant underwritings and swap transactions. The claims in the civil actions generally alleged that the Firm made payments to certain third parties in exchange for being chosen to underwrite more than $3 billion in warrants issued by the County and to act as the counterparty for certain swaps executed by the County. The County filed for bankruptcy in November 2011. In June

2013, the County filed a Chapter 9 Plan of Adjustment, as amended (the "Plan of Adjustment"), which provided that all the above-described actions against the Firm would be released and dismissed with prejudice. In November 2013, the Bankruptcy Court confirmed the Plan of Adjustment, and in December 2013, certain sewer rate payers filed an appeal challenging the confirmation of the Plan of Adjustment. All conditions to the Plan of Adjustment's effectiveness, including the dismissal of the actions against the Firm, were satisfied or waived and the transactions contemplated by the Plan of Adjustment occurred in December 2013. Accordingly, all the above-described actions against the Firm have been dismissed pursuant to the terms of the Plan of Adjustment. The appeal of the Bankruptcy Court's order confirming the Plan of Adjustment remains pending.

Parmalat. In 2003, following the bankruptcy of the Parmalat group of companies ("Parmalat"), criminal prosecutors in Italy investigated the activities of Parmalat, its directors and the financial institutions that had dealings with them following the collapse of the company. In March 2012, the criminal prosecutor served a notice indicating an intention to pursue criminal proceedings against four former employees of the Firm (but not against the Firm) on charges of conspiracy to cause Parmalat's insolvency by underwriting bonds and continuing derivatives trading when Parmalat's balance sheet was false. A preliminary hearing, in which the judge will determine whether to recommend that the matter go to a full trial, is ongoing.

In addition, the administrator of Parmalat commenced five civil actions against JPMorgan Chase entities including: two claw-back actions; a claim relating to bonds issued by Parmalat in which it is alleged that JPMorgan Chase kept Parmalat "artificially" afloat and delayed the declaration of insolvency; and similar allegations in two claims relating to derivatives transactions.

Petters Bankruptcy and Related Matters. JPMorgan Chase and certain of its affiliates, including One Equity Partners ("OEP"), have been named as defendants in several actions filed in connection with the receivership and bankruptcy proceedings pertaining to Thomas J. Petters and certain affiliated entities (collectively, "Petters") and the Polaroid Corporation. The principal actions against JPMorgan Chase and its affiliates have been brought by a court-appointed receiver for Petters and the trustees in bankruptcy proceedings for three Petters entities. These actions generally seek to avoid certain putative transfers in connection with (i) the 2005 acquisition by Petters of Polaroid, which at the time was majority-owned by OEP; (ii) two credit facilities that JPMorgan Chase and other financial institutions entered into with Polaroid; and (iii) a credit line and investment accounts held by Petters. The actions collectively seek recovery of approximately $450 million. Defendants have moved to dismiss the complaints in the actions filed by the Petters bankruptcy trustees.

Power Matters. The United States Attorney's Office for the Southern District of New York is investigating matters relating to the bidding activities that were the subject of the July 2013 settlement between J.P. Morgan Ventures Energy Corp. and the Federal Energy Regulatory Commission. The Firm is responding to and cooperating with the investigation.

Proprietary Products Investigations and Litigation. The Firm has received information requests, subpoenas and related inquiries from the SEC and other government authorities regarding client disclosure concerning conflicts associated with the Firm's sale and use of proprietary products, such as J.P. Morgan mutual funds, in the Firm's wealth management businesses and the U.S. Private Bank's disclosures concerning the use of hedge funds that pay placement agent fees to JPMorgan Chase broker-dealer affiliates. The Firm is responding to and cooperating with the relevant authorities. A putative class action was filed in the United States District Court for the Northern District of Illinois on behalf of financial advisory clients from 2007 to present whose funds were invested in proprietary funds and who were charged investment management fees. The Court granted the Firm's motion to dismiss. Plaintiffs' appeal of the dismissal is pending.

Referral Hiring Practices Investigations. Various regulators are investigating, among other things, the Firm's compliance with the Foreign Corrupt Practices Act and other laws with respect to the Firm's hiring practices related to candidates referred by clients, potential clients and government officials, and its engagement of consultants in the Asia Pacific region. The Firm is responding to and cooperating with these investigations.

Sworn Documents, Debt Sales and Collection Litigation Practices. In July 2015, the Firm announced a series of settlements with the Consumer Financial Protection Bureau ("CFPB") and 47 state Attorneys General (and the District of Columbia) regarding practices involving credit card collections litigation (including with respect to sworn documents) and the sale of consumer credit card debt. Under the settlements, the Firm agreed to pay $96 million to the state Attorneys General (as well as $11 million for investigative costs) and $30 million to the CFPB. The Office of the Comptroller of the Currency also imposed a $30 million civil money penalty on the Firm arising out of its 2013 Consent Order covering the same matters. Under the settlements, the Firm will also complete remediation of affected consumers. The California and Mississippi Attorneys General have filed separate civil actions against the Firm alleging violations of law relating to debt collection practices; those cases remain pending.

Washington Mutual Litigations. Proceedings related to Washington Mutual's failure are pending before the United States District Court for the District of Columbia and include a lawsuit brought by Deutsche Bank National Trust Company, initially against the FDIC and amended to include JPMorgan Chase Bank, N.A. as a defendant, asserting an estimated $6 billion to $10 billion in damages based upon alleged breaches of certain representations and warranties given by certain Washington Mutual affiliates in connection with mortgage securitization agreements. The case includes assertions that JPMorgan Chase Bank, N.A. may have assumed liabilities for the alleged breaches of representations and warranties in the mortgage securitization agreements. In June 2015, the court ruled in favor of JPMorgan Chase Bank, N.A. on the question of whether the Firm or the FDIC bears responsibility for Washington Mutual Bank's repurchase obligations, holding that JPMorgan Chase Bank, N.A. assumed only those liabilities that were reflected on Washington Mutual Bank's financial accounting records as of September 25, 2008, and only up to the amount of the book value reflected therein.

Certain holders of Washington Mutual Bank debt filed an action against JPMorgan Chase which alleged that by acquiring substantially all of the assets of Washington Mutual Bank from the FDIC, JPMorgan Chase Bank, N.A. caused Washington Mutual Bank to default on its bond obligations. JPMorgan Chase and the FDIC moved to dismiss this action and the District Court dismissed the case except as to the plaintiffs' claim that JPMorgan Chase tortiously interfered with the plaintiffs' bond contracts with Washington Mutual Bank prior to its closure. Discovery in this action has been stayed pending a decision on JPMorgan Chase's motion to dismiss the plaintiffs' remaining claim.

JPMorgan Chase has also filed complaints in the United States District Court for the District of Columbia against the FDIC, both in its capacity as receiver for Washington Mutual Bank and in its corporate capacity asserting multiple claims for indemnification under the terms of the Purchase & Assumption Agreement between JPMorgan Chase and the FDIC relating to JPMorgan Chase's purchase of most of the assets and certain liabilities of Washington Mutual Bank.

Wendel. Since 2012, the French criminal authorities have been investigating a series of transactions entered into by senior managers of Wendel Investissement ("Wendel") during the period from 2004 through 2007 to restructure their shareholdings in Wendel. JPMorgan Chase Bank, N.A., Paris branch provided financing for the transactions to a number of managers of Wendel in 2007. In April 2015, JPMorgan Chase Bank, N.A. was notified that the authorities were formally investigating its role in the transactions. JPMorgan Chase is responding to and cooperating with the investigation. In addition, civil proceedings have been commenced against JPMorgan Chase Bank, N.A. by a number of the managers. The claims are separate, involve different allegations and are at various stages of proceedings.

* * *

In addition to the various legal proceedings discussed above, JPMorgan Chase and its subsidiaries are named as defendants or are otherwise involved in a substantial number of other legal proceedings. The Firm believes it has meritorious defenses to the claims asserted against it in its currently outstanding legal proceedings and it intends to defend itself vigorously in all such matters. Additional legal proceedings may be initiated from time to time in the future.

The Firm has established reserves for several hundred of its currently outstanding legal proceedings. In accordance with the provisions of U.S. GAAP for contingencies, the Firm accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. The Firm evaluates its outstanding legal proceedings each quarter to assess its litigation reserves, and makes adjustments in such reserves, upwards or downward, as appropriate, based on management's best judgment after consultation with counsel. The Firm incurred legal expense of $291 million and $669 million during the three months ended June 30, 2015 and 2014, respectively, and $978 million and $707 million during the six months ended June 30, 2015 and 2014, respectively. There is no assurance that the Firm's litigation reserves will not need to be adjusted in the future.

In view of the inherent difficulty of predicting the outcome of legal proceedings, particularly where the claimants seek very large or indeterminate damages, or where the matters present novel legal theories, involve a large number of parties or are in early stages of discovery, the Firm cannot state with confidence what will be the eventual outcomes of the currently pending matters, the timing of their ultimate resolution or the eventual losses, fines, penalties or impact related to those matters. JPMorgan Chase believes, based upon its current knowledge, after consultation with counsel and after taking into account its current litigation reserves, that the legal proceedings currently pending against it should not have a material adverse effect on the Firm's consolidated financial condition. The Firm notes, however, that in light of the uncertainties involved in such proceedings, there is no assurance the ultimate resolution of these matters will not significantly exceed the reserves it has currently accrued; as a result, the outcome of a particular matter may be material to JPMorgan Chase's operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of JPMorgan Chase's income for that period.

Note 24 – Business segments

The Firm is managed on a line of business basis. There are four major reportable business segments – Consumer & Community Banking, Corporate & Investment Bank, Commercial Banking and Asset Management. In addition, there is a Corporate segment. The business segments are determined based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For a further discussion concerning JPMorgan Chase's business segments, see Business Segment Results on page 16, and pages 79–80, and Note 33 of JPMorgan Chase's 2014 Annual Report.

Segment results

The accompanying tables provide a summary of the Firm's segment results for the three and six months ended June 30, 2015 and 2014, on a managed basis. Total net revenue (noninterest revenue and net interest income) for each of the segments is presented on a fully taxable-equivalent ("FTE") basis. Accordingly, revenue from investments that receive tax credits and tax-exempt securities is presented in the managed results on a basis comparable to taxable investments and securities. This non-GAAP financial measure allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources. The corresponding income tax impact related to tax-exempt items is recorded within income tax expense/(benefit).

On at least an annual basis, the Firm assesses the level of capital required for each line of business as well as the assumptions and methodologies used to allocate capital to its lines of business and updates equity allocations to its lines of business as refinements are implemented.

Segment results and reconciliation[a]

As of or for the three months ended June 30,	Consumer & Community Banking		Corporate & Investment Bank		Commercial Banking		Asset Management	
(in millions, except ratios)	2015	2014	2015	2014	2015	2014	2015	2014
Noninterest revenue	$4,089	$4,468	$6,233	$6,519	$609	$577	$2,544	$2,380
Net interest income	6,926	7,050	2,490	2,746	1,130	1,154	631	602
Total net revenue	11,015	11,518	8,723	9,265	1,739	1,731	3,175	2,982
Provision for credit losses	702	852	50	(84)	182	(67)	—	1
Noninterest expense	6,210	6,456	5,137	6,058	703	675	2,406	2,062
Income/(loss) before income tax expense/(benefit)	4,103	4,210	3,536	3,291	854	1,123	769	919
Income tax expense/(benefit)	1,570	1,714	1,195	1,160	329	446	318	350
Net income	$2,533	$2,496	$2,341	$2,131	$525	$677	$451	$569
Average common equity	$51,000	$51,000	$62,000	$61,000	$14,000	$14,000	$9,000	$9,000
Total assets	472,181	447,277	819,745	872,947	201,377	192,523	134,059	128,362
Return on common equity	19%	19%	14%	13%	14%	19%	19%	25%
Overhead ratio	56	56	59	65	40	39	76	69

Corporate Reconciling Items[b] Total

As of or for the three months ended June 30, (in millions, except ratios)	2015	2014	2015	2014	2015	2014
Noninterest revenue	$100	$351	$(447)	$(415)	$13,128	$13,880
Net interest income	(221)	(510)	(272)	$(244)	10,684	10,798
Total net revenue	(121)	(159)	(719)	$(659)	23,812	24,678
Provision for credit losses	1	(10)	—	—	935	692
Noninterest expense	44	180	—	—	14,500	15,431
Income/(loss) before income tax expense/(benefit)	(166)	(329)	(719)	(659)	8,377	8,555
Income tax expense/(benefit)	(606)	(436)	(719)	(659)	2,087	2,575
Net income	$440	$107	$—	$—	$6,290	$5,980
Average common equity	$77,738	$71,159	$—	$—	$213,738	$206,159
Total assets	822,237	878,886	NA	NA	2,449,599	2,519,995
Return on common equity	NM	NM	NM	NM	11%	11%
Overhead ratio	NM	NM	NM	NM	61	63

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Segment results and reconciliation[(a)]

As of or for the six months ended June 30,	Consumer & Community Banking		Corporate & Investment Bank		Commercial Banking		Asset Management	
(in millions, except ratios)	2015	2014	2015	2014	2015	2014	2015	2014
Noninterest revenue	$7,825	$7,902	$13,307	$12,745	$1,245	$1,135	$4,928	$4,598
Net interest income	13,894	14,150	4,998	5,362	2,236	2,274	1,252	1,184
Total net revenue	21,719	22,052	18,305	18,107	3,481	3,409	6,180	5,782
Provision for credit losses	1,632	1,668	19	(35)	243	(62)	4	(8)
Noninterest expense	12,400	12,893	10,794	11,662	1,412	1,361	4,581	4,137
Income/(loss) before income tax expense/(benefit)	7,687	7,491	7,492	6,480	1,826	2,110	1,595	1,653
Income tax expense/(benefit)	2,935	3,014	2,614	2,224	703	839	642	630
Net income	$4,752	$4,477	$4,878	$4,256	$1,123	$1,271	$953	$1,023
Average common equity	$51,000	$51,000	$62,000	$61,000	$14,000	$14,000	$9,000	$9,000
Total assets	472,181	447,277	819,745	872,947	201,377	192,523	134,059	128,362
Return on common equity	18%	17%	15%	13%	15%	18%	21%	22%
Overhead ratio	57	58	59	64	41	40	74	72

As of or for the six months ended June 30,	Corporate		Reconciling Items[(b)]		Total	
(in millions, except ratios)	2015	2014	2015	2014	2015	2014
Noninterest revenue	$140	$875	$(928)	$(827)	$26,517	$26,428
Net interest income	(474)	(1,035)	(545)	(470)	21,361	21,465
Total net revenue	(334)	(160)	(1,473)	(1,297)	47,878	47,893
Provision for credit losses	(4)	(21)	—	—	1,894	1,542
Noninterest expense	196	14	—	—	29,383	30,067
Income/(loss) before income tax expense/(benefit)	(526)	(153)	(1,473)	(1,297)	16,601	16,284
Income tax expense/(benefit)	(1,024)	(375)	(1,473)	(1,297)	4,397	5,035
Net income	$498	$222	$—	$—	$12,204	$11,249
Average common equity	$77,049	$68,989	$—	$—	$213,049	$203,989
Total assets	822,237	878,886	NA	NA	2,449,599	2,519,995
Return on common equity	NM	NM	NM	NM	11%	11%
Overhead ratio	NM	NM	NM	NM	61	63

(a) Managed basis starts with the reported U.S. GAAP results and includes certain reclassifications that do not have any impact on net income as reported by the lines of business or by the Firm as a whole.

(b) Segment managed results reflect revenue on an FTE basis with the corresponding income tax impact recorded within income tax expense/(benefit). These FTE adjustments are eliminated in reconciling items to arrive at the Firm's reported U.S. GAAP results.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of JPMorgan Chase & Co.:
We have reviewed the accompanying consolidated balance sheet of JPMorgan Chase & Co. and its subsidiaries (the “Firm”) as of June 30, 2015, and the related consolidated statements of income and comprehensive income for each of the three-month and six-month periods ended June 30, 2015 and 2014 and changes in stockholders’ equity and cash flows for each of the six-month periods ended June 30, 2015 and 2014. These interim financial statements are the responsibility of the Firm’s management.
We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.
Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for the year then ended (not presented herein), and in our report dated February 24, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2014, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.
August 3, 2015

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017

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JPMorgan Chase & Co.
Consolidated average balance sheets, interest and rates
(Taxable-equivalent interest and rates; in millions, except rates)

	Three months ended June 30, 2015			Three months ended June 30, 2014		
	Average balance	Interest[d]	Rate (annualized)	Average balance	Interest[d]	Rate (annualized)
Assets						
Deposits with banks	$437,776	$312	0.29 %	$334,953	$279	0.33 %
Federal funds sold and securities purchased under resale agreements	205,352	340	0.66	237,440	398	0.67
Securities borrowed	107,178	(159)[e]	(0.59)	114,905	(131)[e]	(0.46)
Trading assets – debt instruments	208,823	1,755	3.37	204,242	1,846	3.62
Taxable securities	282,398	1,609	2.28	319,807	1,942	2.44
Nontaxable securities[a]	41,543	628	6.06	33,471	515	6.17
Total securities	323,941	2,237	2.77 [f]	353,278	2,457	2.79 [f]
Loans	774,205	8,126	4.21	737,613	8,084	4.40
Other assets[b]	40,362	175	1.74	41,514	172	1.66
Total interest-earning assets	2,097,637	12,786	2.44	2,023,945	13,105	2.60
Allowance for loan losses	(14,076)			(15,729)		
Cash and due from banks	23,211			26,294		
Trading assets – equity instruments	117,638			121,184		
Trading assets – derivative receivables	73,805			60,830		
Goodwill	47,485			48,084		
Mortgage servicing rights	6,924			8,298		
Other intangible assets	1,113			1,417		
Other assets	140,589			146,313		
Total assets	$2,494,326			$2,420,636		
Liabilities						
Interest-bearing deposits	$869,523	$308	0.14 %	$863,163	$417	0.19 %
Federal funds purchased and securities loaned or sold under repurchase agreements	200,054	143	0.29	212,555	160	0.30
Commercial paper	49,020	30	0.25	59,760	34	0.23
Trading liabilities – debt, short-term and other liabilities[c][g]	213,246	171	0.32	221,001	261	0.48
Beneficial interests issued by consolidated VIEs	51,648	110	0.85	47,407	105	0.89
Long-term debt	282,707	1,068	1.52	271,194	1,086	1.61
Total interest-bearing liabilities	1,666,198	1,830	0.44	1,675,080	2,063	0.49
Noninterest-bearing deposits	429,622			380,836		
Trading liabilities – equity instruments[g]	16,528			15,505		
Trading liabilities – derivative payables	64,249			49,487		
All other liabilities, including the allowance for lending-related commitments	80,515			77,806		
Total liabilities	2,257,112			2,198,714		
Stockholders' equity						
Preferred stock	23,476			15,763		

Common stockholders’ equity	213,738				206,159			
Total stockholders’ equity	237,214				221,922			
Total liabilities and stockholders’ equity	$2,494,326				$2,420,636			
Interest rate spread			2.00	%			2.11	%
Net interest income and net yield on interest-earning assets		$10,956	2.09			$11,042	2.19	

(a) Represents securities which are tax exempt for U.S. federal income tax purposes.
(b) Includes margin loans.
(c) Includes brokerage customer payables.
(d) Interest includes the effect of related hedging derivatives. Taxable-equivalent amounts are used where applicable.
(e) Negative interest income and yield is a result of increased client-driven demand for certain securities combined with the impact of low interest rates; this is matched book activity and the negative interest expense on the corresponding securities loaned is recognized in interest expense and reported within trading liabilities - debt, short-term and other liabilities.
(f) For the three months ended June 30, 2015 and 2014, the annualized rates for securities, based on amortized cost, were 2.83% and 2.85% respectively; this does not give effect to changes in fair value that are reflected in accumulated other comprehensive income/(loss).
(g) Included trading liabilities - debt and equity instruments of $83,180 million and $85,123 million for the three months ended June 30, 2015 and 2014, respectively.

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JPMorgan Chase & Co.
Consolidated average balance sheets, interest and rates
(Taxable-equivalent interest and rates; in millions, except rates)

	Six months ended June 30, 2015			Six months ended June 30, 2014		
	Average balance	Interest[d]	Rate (annualized)	Average balance	Interest[d]	Rate (annualized)
Assets						
Deposits with banks	$458,862	$653	0.29 %	$327,085	$535	0.33 %
Federal funds sold and securities purchased under resale agreements	211,415	736	0.70	241,395	834	0.70
Securities borrowed	109,177	(279)[e]	(0.52)	116,556	(219)[e]	(0.38)
Trading assets – debt instruments	209,443	3,510	3.38	203,319	3,637	3.61
Taxable securities	288,688	3,333	2.33	318,886	3,843	2.43
Nontaxable securities[a]	40,735	1,231	6.09	32,151	996	6.25
Total securities	329,423	4,564	2.79 [f]	351,037	4,839	2.78 [f]
Loans	765,967	16,120	4.24	733,982	16,164	4.44
Other assets[b]	38,791	320	1.66	41,472	334	1.62
Total interest-earning assets	2,123,078	25,624	2.43	2,014,846	26,124	2.61
Allowance for loan losses	(14,067)			(15,948)		
Cash and due from banks	23,963			27,014		
Trading assets – equity instruments	114,893			116,878		
Trading assets – derivative receivables	78,825			62,814		
Goodwill	47,488			48,069		
Mortgage servicing rights	6,876			8,760		
Other intangible assets	1,138			1,483		
Other assets	143,301			147,804		
Total assets	$2,525,495			$2,411,720		
Liabilities						
Interest-bearing deposits	$886,828	$672	0.15 %	$864,952	$843	0.20 %
Federal funds purchased and securities loaned or sold under repurchase agreements	200,145	285	0.29	206,769	322	0.31
Commercial paper	54,486	64	0.24	59,224	67	0.23
Trading liabilities – debt, short-term and other liabilities[c][g]	218,275	327	0.30	217,922	494	0.46
Beneficial interests issued by consolidated VIEs	51,186	208	0.82	48,228	210	0.88
Long-term debt	281,021	2,162	1.55	270,303	2,253	1.68
Total interest-bearing liabilities	1,691,941	3,718	0.44	1,667,398	4,189	0.51
Noninterest-bearing deposits	430,898			379,187		
Trading liabilities – equity instruments[g]	17,365			15,966		
Trading liabilities – derivative payables	70,116			51,305		
All other liabilities, including the allowance for lending-related commitments	79,968			79,209		
Total liabilities	2,290,288			2,193,065		
Stockholders' equity						
Preferred stock	22,158			14,666		

Common stockholders’ equity	213,049				203,989			
Total stockholders’ equity	235,207				218,655			
Total liabilities and stockholders’ equity	$2,525,495				$2,411,720			
Interest rate spread			1.99	%			2.10	%
Net interest income and net yield on interest-earning assets		$21,906	2.08			$21,935	2.20	

(a) Represents securities which are tax exempt for U.S. federal income tax purposes.

(b) Includes margin loans.

(c) Includes brokerage customer payables.

(d) Interest includes the effect of related hedging derivatives. Taxable-equivalent amounts are used where applicable.

(e) Negative interest income and yield is a result of increased client-driven demand for certain securities combined with the impact of low interest rates; this is matched book activity and the negative interest expense on the corresponding securities loaned is recognized in interest expense and reported within trading liabilities - debt, short-term and other liabilities.

(f) For the three months ended June 30, 2015 and 2014, the annualized rates for securities, based on amortized cost, were 2.86% and 2.83% and respectively; this does not give effect to changes in fair value that are reflected in accumulated other comprehensive income/(loss).

(g) Included trading liabilities - debt and equity instruments of $83,680 million and $85,230 million for the six months ended June 30, 2015 and 2014, respectively.

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GLOSSARY OF TERMS

Active foreclosures: Loans referred to foreclosure where formal foreclosure proceedings are ongoing. Includes both judicial and non-judicial states.

Allowance for loan losses to total loans: Represents period-end allowance for loan losses divided by retained loans.

Beneficial interests issued by consolidated VIEs: Represents the interest of third-party holders of debt, equity securities, or other obligations, issued by VIEs that JPMorgan Chase consolidates.

Benefit obligation: Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

Client deposits and other third party liabilities: Deposits, as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements) as part of client cash management programs.

Central counterparty ("CCP"): A CCP is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the future performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open offer system, or another legally binding arrangement.

Commercial Card provides a wide range of payment services to corporate and public sector clients worldwide through the commercial card products. Services include procurement, corporate travel and entertainment, expense management services, and business-to-business payment solutions.

Core loans: Loans considered central to the Firm's ongoing businesses; core loans exclude loans classified as trading assets, runoff portfolios, discontinued portfolios and portfolios the Firm has an intent to exit.

Credit derivatives: Financial instruments whose value is derived from the credit risk associated with the debt of a third party issuer (the reference entity) which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Upon the occurrence of a credit event by the reference entity, which may include, among other events, the bankruptcy or failure to pay its obligations, or certain restructurings of the debt of the reference entity, neither party has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value at the time of settling the credit derivative contract. The determination as to whether a credit event has occurred is generally made by the relevant International Swaps and Derivatives Association ("ISDA") Determinations Committee.

Distributed denial-of-service attack: The use of a large number of remote computer systems to electronically send a high volume of traffic to a target website to create a service outage at the target. This is a form of cyberattack.

Exchange traded derivatives: Derivative contracts that are executed on an exchange and settled via a central clearing house.

Fee share: Proportion of fee revenue based on estimates of investment banking fees generated across the industry from investment banking transactions in M&A, equity and debt underwriting, and loan syndications. Source: Dealogic, a third party provider of investment banking fee competitive analysis and volume-based league tables for the above noted industry products.

FICO score: A measure of consumer credit risk provided by credit bureaus, typically produced from statistical models by Fair Isaac Corporation utilizing data collected by the credit bureaus.

Forward points: Represents the interest rate differential between two currencies, which is either added to or subtracted from the current exchange rate (i.e., "spot rate") to determine the forward exchange rate.

Group of Seven ("G7") nations: Countries in the G7 are Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

G7 government bonds: Bonds issued by the government of one of the G7 nations.

Headcount-related expense: Includes salary and benefits (excluding performance-based incentives), and other noncompensation costs related to employees.

Home equity – senior lien: Represents loans and commitments where JPMorgan Chase holds the first security interest on the property.

Home equity – junior lien: Represents loans and commitments where JPMorgan Chase holds a security interest that is subordinate in rank to other liens.

Impaired loan: Impaired loans are loans measured at amortized cost, for which it is probable that the Firm will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Impaired loans include the following:

- All wholesale nonaccrual loans
- All TDRs (both wholesale and consumer), including ones that have returned to accrual status

Interchange income: A fee paid to a credit card issuer in the clearing and settlement of a sales or cash advance transaction.

Investment-grade: An indication of credit quality based on JPMorgan Chase's internal risk assessment system. "Investment grade" generally represents a risk profile similar to a rating of a "BBB-"/"Baa3" or better, as defined by independent rating agencies.
LLC: Limited Liability Company.
Loan-to-value ("LTV") ratio: For residential real estate loans, the relationship, expressed as a percentage, between the principal amount of a loan and the appraised value of the collateral (i.e., residential real estate) securing the loan.
Current estimated LTV ratio
An estimate of the LTV as of a certain date. The current estimated LTV ratios are calculated using estimated collateral values derived from a nationally recognized home price index measured at the metropolitan statistical area ("MSA") level. These MSA-level home price indices comprise actual data to the extent available and forecasted data where actual data is not available. As a result, the estimated collateral values used to calculate these ratios do not represent actual appraised loan-level collateral values; as such, the resulting LTV ratios are necessarily imprecise and should therefore be viewed as estimates.
Combined LTV ratio
The LTV ratio considering all available lien positions, as well as unused lines, related to the property. Combined LTV ratios are used for junior lien home equity products.
Managed basis: A non-GAAP presentation of financial results that includes reclassifications to present revenue on a fully taxable-equivalent basis. Management uses this non- GAAP financial measure at the segment level, because it believes this provides information to enable investors to understand the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.
Master netting agreement: An agreement between two counterparties who have multiple contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract.
Mortgage product types:
Alt-A
Alt-A loans are generally higher in credit quality than subprime loans but have characteristics that would disqualify the borrower from a traditional prime loan. Alt-A lending characteristics may include one or more of the following: (i) limited documentation; (ii) a high combined loan-to-value ("CLTV") ratio; (iii) loans secured by non-owner occupied properties; or (iv) a debt-to-income ratio above normal limits. A substantial proportion of the Firm's Alt-A loans are those where a borrower does not provide complete documentation of his or her assets or the amount or source of his or her income.

Option ARMs
The option ARM real estate loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only or minimum payment. The minimum payment on an option ARM loan is based on the interest rate charged during the introductory period. This introductory rate is usually significantly below the fully indexed rate. The fully indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully indexed rate and adjusts monthly to reflect movements in the index. The minimum payment is typically insufficient to cover interest accrued in the prior month, and any unpaid interest is deferred and added to the principal balance of the loan. Option ARM loans are subject to payment recast, which converts the loan to a variable-rate fully amortizing loan upon meeting specified loan balance and anniversary date triggers.
Prime
Prime mortgage loans are made to borrowers with good credit records and a monthly income at least three to four times greater than their monthly housing expense (mortgage payments plus taxes and other debt payments). These borrowers provide full documentation and generally have reliable payment histories.
Subprime
Subprime loans are loans to customers with one or more high risk characteristics, including but not limited to: (i) unreliable or poor payment histories; (ii) a high LTV ratio of greater than 80% (without borrower-paid mortgage

insurance); (iii) a high debt-to-income ratio; (iv) an occupancy type for the loan is other than the borrower's primary residence; or (v) a history of delinquencies or late payments on the loan.

NA: Data is not applicable or available for the period presented.

Net charge-off/(recovery) rate: Represents net charge-offs/(recoveries) (annualized) divided by average retained loans for the reporting period.

Net yield on interest-earning assets: The average rate for interest-earning assets less the average rate paid for all sources of funds.

NM: Not meaningful.

Nonaccrual loans: Loans for which interest income is not recognized on an accrual basis. Loans (other than credit card loans and certain consumer loans insured by U.S. government agencies) are placed on nonaccrual status when full payment of principal and interest is not expected or when principal and interest has been in default for a period of 90 days or more unless the loan is both well-secured and in the process of collection. Collateral-dependent loans are typically maintained on nonaccrual status.

Nonperforming assets: Nonperforming assets include nonaccrual loans, nonperforming derivatives and certain assets acquired in loan satisfaction, predominantly real estate owned and other commercial and personal property.
Over-the-counter ("OTC") derivatives: Derivative contracts that are negotiated, executed and settled bilaterally between two derivative counterparties, where one or both counterparties is a derivatives dealer.
Over-the-counter cleared ("OTC cleared") derivatives: Derivative contracts that are negotiated and executed bilaterally, but subsequently settled via a central clearing house, such that each derivative counterparty is only exposed to the default of that clearing house.
Overhead ratio: Noninterest expense as a percentage of total net revenue.
Participating securities: Represents unvested stock-based compensation awards containing nonforfeitable rights to dividends or dividend equivalents (collectively, "dividends"), which are included in the earnings per share calculation using the two-class method. JPMorgan Chase grants restricted stock and RSUs to certain employees under its stock-based compensation programs, which entitle the recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock. These unvested awards meet the definition of participating securities. Under the two-class method, all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities, based on their respective rights to receive dividends.
Pre-provision profit/(loss): Represents total net revenue less noninterest expense. The Firm believes that this financial measure is useful in assessing the ability of a lending institution to generate income in excess of its provision for credit losses.
Principal transactions revenue: Principal transactions revenue includes realized and unrealized gains and losses recorded on derivatives, other financial instruments, private equity investments, and physical commodities used in market-making and client-driven activities. In addition, Principal transactions revenue also includes certain realized and unrealized gains and losses related to hedge accounting and specified risk management activities including: (a) certain derivatives designated in qualifying hedge accounting relationships (primarily fair value hedges of commodity and foreign exchange risk), (b) certain derivatives used for specified risk management purposes, primarily to mitigate credit risk, foreign exchange risk and commodity risk, and (c) other derivatives.
Purchased credit-impaired ("PCI") loans: Represents loans that were acquired in the Washington Mutual transaction and deemed to be credit-impaired on the acquisition date in accordance with the guidance of the Financial Accounting Standards Board ("FASB"). The guidance allows purchasers to aggregate credit-impaired loans acquired in the same

fiscal quarter into one or more pools, provided that the loans have common risk characteristics (e.g., product type, LTV ratios, FICO scores, past due status, geographic location). A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.
Receivables from customers: Primarily represents margin loans to prime and retail brokerage customers which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.
Reported basis: Financial statements prepared under U.S. GAAP, which excludes the impact of taxable-equivalent adjustments.
Retained loans: Loans that are held-for-investment (i.e. excludes loans held-for-sale and loans at fair value).
Risk-weighted assets ("RWA"): Basel III establishes two comprehensive methodologies for calculating RWA (a Standardized approach and an Advanced approach) which include capital requirements for credit risk, market risk, and in the case of Basel III Advanced, also operational risk. Key differences in the calculation of credit risk RWA between the Standardized and Advanced approaches are that for Basel III Advanced, credit risk RWA is based on risk-sensitive approaches which largely rely on the use of internal credit models and parameters, whereas for Basel III Standardized, credit risk RWA is generally based on supervisory risk-weightings which vary primarily by counterparty type and asset class. Market risk RWA is calculated on a generally consistent basis between Basel III Standardized and Basel III Advanced, both of which incorporate the requirements set forth in Basel 2.5.
Seed capital: Initial JPMorgan capital invested in products, such as mutual funds, with the intention of ensuring the fund is of sufficient size to represent a viable offering to clients, enabling pricing of its shares, and allowing the manager to develop a track record. After these goals are achieved, the intent is to remove the Firm's capital from the investment.

Short sale: A short sale is a sale of real estate in which proceeds from selling the underlying property are less than the amount owed the Firm under the terms of the related mortgage and the related lien is released upon receipt of such proceeds.
Structural interest rate risk: Represents interest rate risk of the non-trading assets and liabilities of the Firm.
Structured notes: Structured notes are predominantly financial instruments containing embedded derivatives. Where present, the embedded derivative is the primary driver of risk.
Suspended foreclosures: Loans referred to foreclosure where formal foreclosure proceedings have started but are currently on hold, which could be due to bankruptcy or loss mitigation. Includes both judicial and non-judicial states.

Taxable-equivalent basis: In presenting managed results, the total net revenue for each of the business segments and the Firm is presented on a tax-equivalent basis. Accordingly, revenue from investments that receive tax credits and tax-exempt securities is presented in the managed results on a basis comparable to taxable investments and securities; the corresponding income tax impact related to tax-exempt items is recorded within income tax expense.
Troubled debt restructuring ("TDR"): A TDR is deemed to occur when the Firm modifies the original terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.
Unaudited: Financial statements and information that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.
U.S. GAAP: Accounting principles generally accepted in the United States of America.

U.S. government-sponsored enterprise obligations: Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.
U.S. Treasury: U.S. Department of the Treasury.
Value-at-risk ("VaR"): A measure of the dollar amount of potential loss from adverse market moves in an ordinary market environment.
Warehouse loans: Consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets.
Washington Mutual transaction: On September 25, 2008, JPMorgan Chase acquired certain of the assets of the banking operations of Washington Mutual Bank ("Washington Mutual") from the FDIC.

LINE OF BUSINESS METRICS
CONSUMER & COMMUNITY BANKING ("CCB")
Active online customers – Users of all internet browsers and mobile platforms who have logged in within the past 90 days.
Active mobile customers – Users of all mobile platforms, which include: SMS, mobile smartphone and tablet, who have logged in within the past 90 days.
Households – A household is a collection of individuals or entities aggregated together by name, address, tax identifier and phone. Reported on a one-month lag.
Consumer & Business Banking ("CBB")
Description of selected business metrics within CBB:
Client investment managed accounts – Assets actively managed by Chase Wealth Management on behalf of clients. The percentage of managed accounts is calculated by dividing managed account assets by total client investment assets.
Client advisors – Investment product specialists, including private client advisors, financial advisors, financial advisor associates, senior financial advisors, independent financial advisors and financial advisor associate trainees, who advise clients on investment options, including annuities, mutual funds, stock trading services, etc., sold by the Firm or by third-party vendors through retail branches, Chase Private Client locations and other channels.
Personal bankers – Retail branch office personnel who acquire, retain and expand new and existing customer relationships by assessing customer needs and recommending and selling appropriate banking products and services.
Sales specialists – Retail branch office and field personnel, including relationship managers and loan officers, who specialize in marketing and sales of various business banking products (i.e., business loans, letters of credit, deposit accounts, Chase Paymentech, etc.) and mortgage products to existing and new clients.
Deposit margin/deposit spread - Represents net interest income expressed as a percentage of average deposits.
Chase Liquid® cards – Refers to a prepaid, reloadable card product.
Mortgage Banking ("MB")
Mortgage Production and Mortgage Servicing revenue comprises the following:
Net production revenue includes net gains or losses on originations and sales of mortgage loans, other production-related fees and losses related to the repurchase of previously-sold loans.

Net mortgage servicing revenue includes the following components:
a) Operating revenue predominantly represents the return on Mortgage Servicing's MSR asset and includes:

- Actual gross income earned from servicing third-party mortgage loans, such as contractually specified servicing fees and ancillary income; and
- The change in the fair value of the MSR asset due to the collection or realization of expected cash flows.

b) Risk management represents the components of Mortgage Servicing's MSR asset that are subject to ongoing risk management activities, together with derivatives and other instruments used in those risk management activities.
Mortgage origination channels comprise the following:
Retail – Borrowers who buy or refinance a home through direct contact with a mortgage banker employed by the Firm using a branch office, the Internet or by phone. Borrowers are frequently referred to a mortgage banker by a banker in a Chase branch, real estate brokers, home builders or other third parties.
Correspondent – Banks, thrifts, other mortgage banks and other financial institutions that sell closed loans to the Firm.
Card, Commerce Solutions & Auto ("Card")
Description of selected business metrics within Card, Commerce Solutions & Auto:
Card Services includes the Credit Card and Commerce Solutions businesses.
Commerce Solutions is a business that primarily processes transactions for merchants.
Sales volume – Dollar amount of cardmember purchases, net of returns.
Open accounts – Cardmember accounts with charging privileges
Total transactions – Number of transactions and authorizations processed for merchants.
Auto loan and lease origination volume – Dollar amount of auto loans and leases originated.
CORPORATE & INVESTMENT BANK ("CIB")

Definition of selected CIB revenue:
Investment banking revenue incorporates all revenue associated with investment banking activities, and is reported net of investment banking revenue shared with other lines of business.

Treasury Services offers a broad range of products and services that enable clients to manage payments and receipts, as well as invest and manage funds. Products include U.S. dollar and multi-currency clearing, ACH, lockbox, disbursement and reconciliation services, check deposits, and currency-related services.
Lending includes net interest income, fees, gains or losses on loan sale activity, gains or losses on securities received as part of a loan restructuring, and the risk management results related to the credit portfolio. Lending also includes Trade Finance, which includes loans tied directly to goods crossing borders, export/import loans, commercial letters of credit, standby letters of credit, and supply chain finance.
Fixed Income Markets primarily include revenue related to market-making across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets.
Equity Markets primarily include revenue related to market-making across global equity products, including cash instruments, derivatives, convertibles and Prime Services.
Securities Services includes primarily custody, fund accounting and administration, and securities lending products sold principally to asset managers, insurance companies and public and private investment funds. Also includes clearance, collateral management and depositary receipts business which provides broker-dealer clearing and custody services, including tri-party repo transactions, collateral management products, and depositary bank services for American and global depositary receipt programs.
Description of certain business metrics:
Assets under custody ("AUC") represents activities associated with the safekeeping and servicing of assets on which Securities Services earns fees.

Investment banking fees include advisory, equity underwriting, bond underwriting and loan syndication fees.

COMMERCIAL BANKING ("CB")
CB is divided into four primary client segments: Middle Market Banking, Corporate Client Banking, Commercial Term Lending, and Real Estate Banking.
Middle Market Banking covers corporate, municipal and nonprofit clients, with annual revenue generally ranging between $20 million and $500 million.
Corporate Client Banking covers clients with annual revenue generally ranging between $500 million and $2 billion and focuses on clients that have broader investment banking needs.

Commercial Term Lending primarily provides term financing to real estate investors/owners for multifamily properties as well as office, retail and industrial properties.
Real Estate Banking provides full-service banking to investors and developers of institutional-grade real estate investment properties.
Other primarily includes lending and investment activity within the Community Development Banking and Chase Capital businesses.
CB product revenue comprises the following:
Lending includes a variety of financing alternatives, which are primarily provided on a basis secured by receivables, inventory, equipment, real estate or other assets. Products include term loans, revolving lines of credit, bridge financing, asset-based structures, leases, and standby letters of credit.
Treasury services includes revenue from a broad range of products and services (as defined by Treasury Services revenue in the CIB description of revenue) that enable CB clients to manage payments and receipts, as well as invest and manage funds.
Investment banking includes revenue from a range of products providing CB clients with sophisticated capital-raising alternatives, as well as balance sheet and risk management tools through advisory, equity underwriting, and loan syndications. Revenue from Fixed income and Equity market products (as defined by Fixed Income Markets and Equity Markets revenue in the CIB description of revenue) used by CB clients is also included. Investment banking revenue, gross, represents total revenue related to investment banking products sold to CB clients.
Other product revenue primarily includes tax-equivalent adjustments generated from Community Development Banking activity and certain income derived from principal transactions.

ASSET MANAGEMENT (“AM”)
Assets under management – Represent assets actively managed by AM on behalf of its Private Banking, Institutional and Retail clients. Includes “Committed capital not Called,” on which AM earns fees.
Client assets – Represent assets under management, as well as custody, brokerage, administration and deposit accounts.
Multi-asset – Any fund or account that allocates assets under management to more than one asset class.

Alternative assets – The following types of assets constitute alternative investments – hedge funds, currency, real estate, private equity and other investment funds designed to focus on nontraditional strategies.
AM’s lines of business comprise the following:
Global Investment Management provides comprehensive global investment services - including asset management, pension analytics, asset-liability management and active risk-budgeting strategies.
Global Wealth Management offers investment advice and wealth management, including investment management, capital markets and risk management, tax and estate planning, banking, lending and specialty-wealth advisory services.
AM’s client segments comprise the following:
Private Banking clients include high- and ultra-high-net-worth individuals, families, money managers, business owners and small corporations worldwide.
Institutional clients include both corporate and public institutions, endowments, foundations, nonprofit organizations and governments worldwide.
Retail clients include financial intermediaries and individual investors.
J.P. Morgan Asset Management has two high-level measures of its overall fund performance:
Percentage of mutual fund assets under management in funds rated 4- or 5-star: Mutual fund rating services rank funds based on their risk-adjusted performance over various periods. A 5-star rating is the best rating and represents the top 10% of industry-wide ranked funds.
A 4-star rating represents the next 22.5% of industry-wide ranked funds. A 3-star rating represents the next 35% of industry-wide ranked funds. A 2-star rating represents the next 22.5% of industry-wide ranked funds. A 1-star rating is the worst rating and represents the bottom 10% of industry-wide ranked funds. The “overall Morningstar rating” is derived from a weighted average of the performance figures associated with a fund’s three-, five- and ten-year (if applicable) Morningstar Rating metrics. For U.S. domiciled funds, separate star ratings are given at the individual share class level. The Nomura “star rating” is based on three-year risk-adjusted performance only. Funds with fewer than three years of history are not rated and hence excluded from this analysis. All ratings, the assigned peer categories and the asset values used to derive this analysis are sourced from these fund rating providers. The data providers re-denominate the asset values into USD. This % of AUM is based on star ratings at the share class level for U.S. domiciled funds, and at a “primary share class” level to represent the star rating of all other funds except for Japan where Nomura provides ratings at the fund level. The “primary share class”, as defined by Morningstar,

denotes the share class recommended as being the best proxy for the portfolio and in most cases will be the most retail version (based upon annual management charge, minimum investment, currency and other factors). The performance data could have been different if all funds/accounts would have been included. Past performance is not indicative of future results.
Percentage of mutual fund assets under management in funds ranked in the 1st or 2nd quartile (one, three and five years): All quartile rankings, the assigned peer categories and the asset values used to derive this analysis are sourced from the fund ranking providers. Quartile rankings are done on the net-of-fee absolute return of each fund. The data providers re-denominate the asset values into USD. This % of AUM is based on fund performance and associated peer rankings at the share class level for U.S. domiciled funds, at a “primary share class” level to represent the quartile ranking of Luxembourg, U.K. and Hong Kong funds and at the fund level for all other funds. The “primary share class”, as defined by Morningstar, denotes the share class recommended as being the best proxy for the portfolio and in most cases will be the most retail version (based upon annual management charge, minimum investment, currency and other factors). Where peer group rankings given for a fund are in more than one “primary share class” territory both rankings are included to reflect local market competitiveness (applies to “Offshore Territories” and “HK SFC Authorized” funds only). The performance data could have been different if all funds/accounts would have been included. Past performance is not indicative of future results.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see the Market Risk Management section of Management's discussion and analysis on pages 61–64 of this Form 10-Q and pages 131–136 of JPMorgan Chase's 2014 Annual Report.

Item 4 Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Firm's management, including its Chairman and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective. See Exhibits 31.1 and 31.2 for the Certification statements issued by the Chairman and Chief Executive Officer and Chief Financial Officer.

The Firm is committed to maintaining high standards of internal control over financial reporting. Nevertheless, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, in a firm as large and complex as JPMorgan Chase, lapses or deficiencies in internal controls may occur from time to time, and there can be no assurance that any such deficiencies will not result in significant deficiencies or material weaknesses in internal controls in the future. For further information, see "Management's report on internal control over financial reporting" on page 170 of JPMorgan Chase's 2014 Annual Report. There was no change in the Firm's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the three months ended June 30, 2015, that has materially affected, or is reasonably likely to materially affect, the Firm's internal control over financial reporting.

Part II Other Information

Item 1 Legal Proceedings

For information that updates the disclosures set forth under Part I, Item 3: Legal Proceedings, in the Firm's 2014 Annual Report on Form 10-K, see the discussion of the Firm's material legal proceedings in Note 23 of this Form 10-Q.

Item 1A Risk Factors

For a discussion of certain risk factors affecting the Firm,
see Part I, Item 1A: Risk Factors on pages 8–17 of JPMorgan Chase's 2014 Annual Report on Form 10-K and Forward-Looking Statements on page 83 of this Form 10-Q.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2015, there were no shares of common stock of JPMorgan Chase & Co. issued in transactions exempt from registration under the Securities Act of 1933, pursuant to Section 4(2) thereof.

Repurchases under the common equity repurchase program

Following receipt of the Federal Reserve's non-objection to the Firm's 2015 capital plans submitted under CCAR, the Firm's Board of Directors authorized the Firm to repurchase up to $6.4 billion of common equity (common stock and warrants) between April 1, 2015, and June 30, 2016. This authorization includes shares repurchased to offset issuances under the Firm's equity-based compensation plans.

The following table sets forth the Firm's repurchases of common equity for the six months ended June 30, 2015 and 2014. The Firm repurchased common equity as permitted by its CCAR capital plans and prior Board authorization. There were no warrants repurchased during the three and six months ended June 30, 2015 and 2014.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2015	2014	2015	2014
Total shares of common stock repurchased	19.2	24.8	51.7	31.5
Aggregate common stock repurchases	$1,249	$1,375	$3,149	$1,761

The Firm may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate repurchases in accordance with the common equity repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity during periods when it would not otherwise be repurchasing common equity — for example, during internal trading blackout periods. All purchases under a Rule 10b5-1 plan must be made according to a predefined plan established when the Firm is not aware of material nonpublic information.

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The authorization to repurchase common equity will be utilized at management's discretion, and the timing of purchases and the exact amount of common equity that may be repurchased is subject to various factors, including market conditions; legal and regulatory considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and

intangibles); internal capital generation; and alternative investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases or privately negotiated transactions, or utilizing Rule 10b5-1 programs; and may be suspended at any time.

Shares repurchased pursuant to the common equity repurchase program during the six months ended June 30, 2015, were as follows.

Six months ended June 30, 2015	Total shares of common stock repurchased	Average price paid per share of common stock[b]	Aggregate repurchases of common equity (in millions)[b]	Dollar value of remaining authorized repurchase (in millions)[b]	
First quarter	32,531,294	$58.40	$1,900	$1,984	[a]
April[a]	5,098,410	62.32	318	6,111	
May	6,756,043	65.05	439	5,672	
June	7,275,261	67.66	492	5,180	
Second quarter	19,129,714	65.32	1,249	5,180	
Year-to-date	51,661,008	$60.96	$3,149	$5,180	[c]

(a) The unused portion under the prior Board authorization was canceled when the $6.4 billion program was authorized. Repurchases in April 2015 included$29 million under the prior program.
(b) Excludes commissions cost.
(c) Dollar value remaining under the new $6.4 billion program.

Item 3 Defaults Upon Senior Securities
None.
Item 4 Mine Safety Disclosure
Not applicable.
Item 5 Other Information
None.

Item 6 Exhibits

15	Letter re: Unaudited Interim Financial Information[a]
31.1	Certification[a]
31.2	Certification[a]
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002[b]
101.INS XBRL	Instance Document[a][c]
101.SCH XBRL	Taxonomy Extension Schema Document[a]
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document[a]
101.LAB XBRL	Taxonomy Extension Label Linkbase Document[a]
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document[a]
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document[a]

(a) Filed herewith.

(b) Furnished herewith. This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

(c) Pursuant to Rule 405 of Regulation S-T, includes the following financial information included in the Firm’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language) interactive data files: (i) the Consolidated statements of income (unaudited) for the three and six months ended June 30, 2015 and 2014, (ii) the Consolidated statements of comprehensive income (unaudited) for the three and six months ended June 30, 2015 and 2014, (iii) the Consolidated balance sheets (unaudited) as of June 30, 2015, and December 31, 2014, (iv) the Consolidated statements of changes in stockholders’ equity (unaudited) for the six months ended June 30, 2015 and 2014, (v) the Consolidated statements of cash flows (unaudited) for the six months ended June 30, 2015 and 2014, and (vi) the Notes to Consolidated Financial Statements (unaudited).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.
JPMorgan Chase & Co.
(Registrant)

By: /s/ Mark W. O’Donovan
Mark W. O’Donovan
Managing Director and Corporate Controller
(Principal Accounting Officer)

Date: August 3, 2015

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
15	Letter re: Unaudited Interim Financial Information
31.1	Certification
31.2	Certification
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
†	This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. Such exhibit shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.