J P MORGAN CHASE & CO
Form 10-K
March 02, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
Annual report pursuant to section 13 or 15(d) of
The Securities Exchange Act of 1934

For the fiscal year ended December 31, 2008	**Commission file number 1-5805**

JPMorgan Chase & Co.
(Exact name of registrant as specified in its charter)

Delaware	**13-2624428**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**
270 Park Avenue, New York, NY	**10017**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (212) 270-6000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock	The New York Stock Exchange The London Stock Exchange The Tokyo Stock Exchange
Depositary Shares each representing a one-fourth interest in a share of 6.15% Cumulative Preferred Stock, Series E	The New York Stock Exchange
Depositary Shares each representing a one-fourth interest in a share of 5.72% Cumulative Preferred Stock, Series F	The New York Stock Exchange
Depositary Shares each representing a one-fourth interest in a share of 5.49% Cumulative Preferred Stock, Series G	The New York Stock Exchange
Depositary Shares each representing a one-four hundredth interest in a share of 8.625% Non-Cumulative Preferred Stock, Series J	The New York Stock Exchange
Guarantee of 7.00% Capital Securities, Series J, of J.P. Morgan Chase Capital X	The New York Stock Exchange
Guarantee of 5 7/8% Capital Securities, Series K, of J.P. Morgan Chase Capital XI	The New York Stock Exchange
Guarantee of 6.25% Capital Securities, Series L, of J.P. Morgan Chase Capital XII	The New York Stock Exchange
Guarantee of 6.20% Capital Securities, Series N, of J.P. Morgan Chase Capital XIV	The New York Stock Exchange
Guarantee of 6.35% Capital Securities, Series P, of J.P. Morgan Chase Capital XVI	The New York Stock Exchange
Guarantee of 6.625% Capital Securities, Series S, of J.P. Morgan Chase Capital XIX	The New York Stock Exchange
Guarantee of 6.875% Capital Securities, Series X, of J.P. Morgan Chase Capital XXIV	The New York Stock Exchange

Guarantee of Fixed-to-Floating Rate Capital Securities, Series Z, of JPMorgan Chase Capital XXVI	**The New York Stock Exchange**
Guarantee of 7.20% Preferred Securities of BANK ONE Capital VI	**The New York Stock Exchange**
Guarantee of 7.8% Preferred Securities of Bear Stearns Capital Trust III	**The New York Stock Exchange**
JPMorgan Market Participation Notes Linked to S&P 500® Index due March 31, 2009	**The NYSE Alternext U.S. LLC**
Capped Quarterly Observation Notes Linked to S&P 500® Index due July 7, 2009	**The NYSE Alternext U.S. LLC**
Capped Quarterly Observation Notes Linked to S&P 500® Index due September 21, 2009	**The NYSE Alternext U.S. LLC**
Consumer Price Indexed Securities due January 15, 2010	**The NYSE Alternext U.S. LLC**
Principal Protected Notes Linked to S&P 500® Index due September 30, 2010	**The NYSE Alternext U.S. LLC**
KEYnotes Exchange Traded Notes Linked to the First Trust Enhanced 130/30 Large Cap Index	**NYSE Arca, Inc.**
BearLinx℠ Alerian MLP Select Index ETN	**NYSE Arca, Inc.**
Euro Floating Rate Global Notes due July 27, 2012	**The NYSE Alternext U.S. LLC**
Principal Protected Notes Linked to the Nasdaq-100 Index® Due December 22, 2009	**The NYSE Alternext U.S. LLC**
Principal Protected Notes Linked to the S&P 500® Index Due November 30, 2009	**The NYSE Alternext U.S. LLC**
Principal Protected Notes Linked to the Dow Jones Industrial Average℠ due March 23, 2011	**The NYSE Alternext U.S. LLC**
Medium Term Notes Linked to a Basket of Three International Equity Indices Due August 2, 2010	**The NYSE Alternext U.S. LLC**

Securities registered pursuant to Section 12(g) of the Act: none

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x **Yes** o **No**

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o **Yes** x **No**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x **Yes** o **No**

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

x **Large accelerated filer**	o **Accelerated filer**	o **Non-accelerated filer (Do not check if a smaller reporting company)**	o **Smaller reporting company**

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o **Yes** x **No**

The aggregate market value of JPMorgan Chase & Co. common stock held by non-affiliates of JPMorgan

Chase & Co. on June 30, 2008 was approximately $117,255,349,362.

Number of shares of common stock outstanding on January 31, 2009: 3,757,923,192

Documents Incorporated by Reference: Portions of the Registrant s Proxy Statement for the annual meeting of stockholders to be held on May 19, 2009, are incorporated by reference in this Form 10-K in response to Items 10, 11, 12, 13 and 14 of Part III.

Form 10-K Index

EX-4.1.A: INDENTURE

Table of Contents

Part I

ITEM 1: BUSINESS

Overview

JPMorgan Chase & Co. (JPMorgan Chase or the Firm) is a financial holding company incorporated under Delaware law in 1968. JPMorgan Chase is one of the largest banking institutions in the United States of America (U.S.), with $2.2 trillion in assets, $166.9 billion in stockholders equity and operations in more than 60 countries.

JPMorgan Chase s principal bank subsidiaries are JPMorgan Chase Bank, National Association (JPMorgan Chase Bank, N.A.), a national banking association with U.S. branches in 23 states, and Chase Bank USA, National Association (Chase Bank USA, N.A.), a national banking association that is the Firm s credit card issuing bank. JPMorgan Chase s principal nonbank subsidiary is J.P. Morgan Securities Inc. (JPMorgan Securities), the Firm s U.S. investment banking firm. The bank and nonbank subsidiaries of JPMorgan Chase operate nationally as well as through overseas branches and subsidiaries, representative offices and subsidiary foreign banks.

The Firm s website is www.jpmorganchase.com. JPMorgan Chase makes available free of charge, through its website, annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after it electronically files such material with, or furnishes such material to, the Securities and Exchange Commission (the SEC). The Firm has adopted, and posted on its website, a Code of Ethics for its Chairman and Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and other senior financial officers.

Business segments

JPMorgan Chase s activities are organized, for management reporting purposes, into six business segments, as well as Corporate/Private Equity. The Firm s wholesale businesses comprise the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management segments. The Firm s consumer businesses comprise the Retail Financial Services and Card Services segments.

A description of the Firm s business segments and the products and services they provide to their respective client bases is provided in the Business segment results section of Management s discussion and analysis of financial condition and results of operations (MD&A), beginning on page 40 and in Note 37 on page 214.

Competition

JPMorgan Chase and its subsidiaries and affiliates operate in a highly competitive environment. Competitors include other banks, brokerage firms, investment banking companies, merchant banks, hedge funds, insurance companies, mutual fund companies, credit card companies, mortgage banking companies, trust companies, securities processing companies, automobile financing companies, leasing companies, e-commerce and other Internet-based companies, and a variety of other financial services and advisory companies. JPMorgan Chase s businesses generally compete on the basis of the quality and range of their products and services, transaction execution, innovation and price. Competition also varies based on the types of clients, customers, industries and geographies served. With respect to some of its geographies and products, JPMorgan Chase competes globally; with respect to others, the Firm competes on a regional basis. The Firm s ability to compete also depends upon its ability to attract and retain its professional and other personnel, and on its reputation.

The financial services industry has experienced consolidation and convergence in recent years, as financial institutions involved in a broad range of financial products and services have merged and, in some cases, failed. This convergence trend is expected to continue. Consolidation could result in competitors of JPMorgan Chase gaining greater capital and other resources, such as a broader range of products and services and geographic diversity. It is likely that competition will become even more intense as the Firm s businesses continue to compete with other financial institutions that are or may become larger or better capitalized, or that may have a stronger local presence in certain geographies.

Supervision and regulation

The Firm is subject to regulation under state and federal laws in the U.S., as well as the applicable laws of each of the various jurisdictions outside the U.S. in which the Firm does business.

Recent legislation affecting the Firm: In response to recent market and economic conditions, the United States government, particularly the U.S. Department of the Treasury (the U.S. Treasury), the Board of Governors of the Federal Reserve System (the Federal Reserve) and the Federal Deposit Insurance Corporation (the FDIC), have taken a variety of extraordinary measures designed to provide fiscal stimulus, restore confidence in the financial markets and to strengthen financial institutions, including capital injections, guarantees of bank liabilities and the acquisition of illiquid assets from banks. In particular on October 3, 2008 and February 17, 2009, the Emergency Economic Stabilization Act of 2008 (the EESA) and the American Recovery and Reinvestment Act of 2009 (the ARRA), respectively, were signed into law.

The EESA and the ARRA, together with the U.S. Treasury s Capital Purchase Program (which provides for direct purchases by the U.S. Treasury of equity of financial institutions) contain provisions limiting the Firm s ability to pay dividends, purchase its own common stock, and compensate selected officers and employees, among other restrictions. For further information regarding certain of the recent limitations applicable to the Firm, see Regulatory Capital on pages 71 73.

Other programs and actions taken include (1) the U.S. Treasury s Temporary Guarantee Program for Money Market Funds, which is designed to guarantee the share price of eligible money market funds that apply to the program and pay a fee to participate, (2) the Federal Reserve Bank of New York s Money Market Investor Funding Facility (the MMIFF), which is designed to provide liquidity to U.S. money market investors, (3) the Federal Reserve s Commercial Paper Funding Facility, which is designed to provide liquidity to term funding markets by providing a liquidity backstop to U.S. issuers of commercial paper, (4) the Federal Reserve s Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (the AML Facility), which is designed to provide liquidity to money market mutual funds under certain conditions by providing funding to U.S. depository institutions and bank holding companies secured by high-quality asset-backed commercial paper they purchased from those money market mutual funds, (5) the FDIC s Temporary Liquidity Guarantee Program (the TLG Program), which enables the FDIC to temporarily provide a 100% guarantee of the senior debt of all FDIC-insured institutions and their holding companies, as well as deposits in noninterest-bearing transaction deposit accounts, (6) the Federal Reserve s

Table of Contents

Part I

Primary Dealer Credit Facility (the PDCF), which is designed to foster the financial markets generally, was modified to expand the eligible collateral to include any collateral eligible for tri-party repurchase agreements, (7) the Federal Reserve s Term Securities Lending Facility (the TSLF), which is designed to promote liquidity in the financial markets for treasuries and other collateral, was expanded to (a) include all investment-grade debt securities as eligible collateral for schedule 2 auctions and (b) increase the frequency of schedule 2 auctions, (8) the Federal Reserve s adoption of an interim rule that provides an exemption, until January 30, 2009, to the Federal Reserve Act to allow insured depository institutions to provide liquidity to their affiliates for assets typically funded in the tri-party repurchase agreement market, (9) the Federal Reserve s Term Auction Facility (the TAF), which is designed to allow financial institutions to borrow funds at a rate that is below the discount rate, (10) the Federal Reserve s Term Asset-Backed Securities Loan Facility (the TALF), which is designed to assist in the credit markets in accommodating the credit needs of consumers and small businesses by facilitating the issuance of asset-backed securities and improving the conditions for asset-backed securities more generally, (11) the Federal Reserve s announcement that it will purchase up to $600 billion of direct obligations of housing-related government sponsored enterprises (GSEs) and mortgage-backed securities of GSEs, (12) the U.S. Treasury s Financial Stability Plan, which involves (a) the creation of a public-private investment fund of up to $1 trillion, (b) the expansion of the TALF program up to $1 trillion under the consumer and business lending initiative, and (c) the creation of a financial stability trust for bank investment and additional transparency, and (13) President Obama s Home Owner Affordability and Stability Plan, which is intended to (a) provide refinancing assistance for responsible homeowners suffering from falling home prices, (b) a comprehensive $75 billion homeowner stability initiative, and (c) strengthen confidence in the GSEs. The Firm is currently participating in certain of these programs and may become a future participant in others of these programs, or additional new programs established by the U.S. government.

Permissible business activities: JPMorgan Chase elected to become a financial holding company as of March 13, 2000, pursuant to the provisions of the Gramm-Leach-Bliley Act (GLBA). Under regulations implemented by the Board of Governors of the Federal Reserve System (the Federal Reserve Board), if any depository institution controlled by a financial holding company ceases to meet certain capital or management standards, the Federal Reserve Board may impose corrective capital and/or managerial requirements on the financial holding company and place limitations on its ability to conduct the broader financial activities permissible for financial holding companies. In addition, the Federal Reserve Board may require divestiture of the holding company s depository institutions if the deficiencies persist. The regulations also provide that if any depository institution controlled by a financial holding company fails to maintain a satisfactory rating under the Community Reinvestment Act (CRA), the Federal Reserve Board must prohibit the financial holding company and its subsidiaries from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies. At December 31, 2008, the depository-institution subsidiaries of JPMorgan Chase met the capital, management and CRA requirements necessary to permit the Firm to conduct the broader activities permitted under GLBA. However, there can be no assurance that this will continue to be the case in the future.

Financial holding companies and bank holding companies are required to obtain the approval of the Federal Reserve Board before they may acquire more than five percent of the voting shares of an unaffiliated bank. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Riegle-Neal Act), the Federal Reserve Board may approve an application for such an acquisition without regard to whether the transaction is prohibited under the law of any state, provided that the acquiring bank holding company, before or after the acquisition, does not control more than 10% of the total amount of deposits of insured depository institutions in the U.S. or more than 30% (or such greater or lesser amounts as permitted under state law) of the total deposits of insured depository institutions in the state in which the acquired bank has its home office or a branch.

Regulation by Federal Reserve Board under GLBA: Under GLBA s system of functional regulation, the Federal Reserve Board acts as an umbrella regulator, and certain of JPMorgan Chase s subsidiaries are regulated directly by additional authorities based upon the particular activities of those subsidiaries. JPMorgan Chase Bank, N.A., and Chase Bank USA, N.A., are regulated by the Office of the Comptroller of the Currency (OCC). See Other supervision and regulation below for a further description of the regulatory supervision to which the Firm s subsidiaries are subject.

Dividend restrictions: Federal law imposes limitations on the payment of dividends by national banks. Dividends payable by JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., as national bank subsidiaries of JPMorgan Chase, are limited to the lesser of the amounts calculated under a recent earnings test and an undivided profits test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year s net income combined with the retained net income of the two preceding years, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of a bank s undivided profits. See Note 29 on page 199 for the amount of dividends that the Firm s principal bank subsidiaries could pay, at January 1, 2009 and 2008, to their respective bank holding companies without the approval of their banking regulators.

In addition to the dividend restrictions described above, the OCC, the Federal Reserve Board and the FDIC have authority to prohibit or limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase and its bank and bank holding company subsidiaries, if, in the banking regulator s opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

For a discussion of additional dividend restrictions relating to the Capital Purchase Program, see Capital Purchase Program on page 72.

Capital requirements: Federal banking regulators have adopted risk-based capital and leverage guidelines that require the Firm s capital-to-assets ratios to meet certain minimum standards.

The risk-based capital ratio is determined by allocating assets and specified off balance sheet financial instruments into four weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Under the guidelines, capital is divided into two tiers: Tier 1 capital and Tier 2 capital. The amount of Tier 2 capital may not exceed the amount of Tier 1 capital. Total capital is the sum of Tier 1 capital and Tier 2 capital. Under the guidelines, banking organizations are required to maintain a total capital ratio (total capital to risk-weighted assets) of 8% and a Tier 1 capital ratio of 4%.

The federal banking regulators also have established minimum leverage ratio guidelines. The leverage ratio is defined as Tier 1 capital divided by adjusted average total assets (which reflects adjustments for disallowed goodwill and certain intangible assets). The minimum leverage ratio is 3% for bank holding companies that are considered strong under Federal Reserve Board guidelines or which have implemented the Federal Reserve Board s risk-based capital measure for market risk. Other bank holding companies must have a minimum leverage ratio of 4%. Bank holding companies may be expected to maintain ratios well above the minimum levels, depending upon their particular condition, risk profile and growth plans.

The minimum risk-based capital requirements adopted by the federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. In 2004, the Basel Committee published a revision to the Accord (Basel II). U.S. banking regulators published a final Basel II rule in December 2007 which requires JPMorgan Chase to implement Basel II at the holding company level, as well as at certain of its key U.S. bank subsidiaries. For additional information regarding Basel II, see Regulatory capital on page 72.

Effective January 1, 2008, the SEC authorized JPMorgan Securities to use the alternative method of computing net capital for broker/dealers that are part of Consolidated Supervised Entities as defined by SEC rules. Accordingly, JPMorgan Securities may calculate deductions for market risk using its internal market risk models. For additional information regarding the Firm s regulatory capital, see Regulatory capital on pages 71 73 and Note 30 on pages 200 201.

Federal Deposit Insurance Corporation Improvement Act:

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) provides a framework for regulation of depository institutions and their affiliates, including parent holding companies, by their federal banking regulators. As part of that framework, the FDICIA requires the relevant federal banking regulator to take prompt corrective action with respect to a depository institution if that institution does not meet certain capital adequacy standards.

Supervisory actions by the appropriate federal banking regulator under the prompt corrective action rules generally depend upon an institution s classification within five capital categories. The regulations apply only to banks and not to bank holding companies such as JPMorgan Chase; however, subject to limitations that may be imposed pursuant to GLBA, the Federal Reserve Board is authorized to take appropriate action at the holding company level, based upon the undercapitalized status of the holding company s subsidiary banking institutions. In certain instances relating to an undercapitalized banking institution, the bank holding company would be required to guarantee the performance of the undercapitalized subsidiary s capital restoration plan and might be liable for civil money damages for failure to fulfill its commitments on that guarantee.

Deposit Insurance: Under current FDIC regulations, each depository institution is assigned to a risk category based on capital and supervisory measures. A depository institution is assessed insurance premiums by the FDIC based on its risk category and the amount of deposits held. During the fourth quarter 2008, the amount of FDIC insurance coverage for insured deposits was increased under the EESA, generally from $100,000 per depositor to $250,000 per depositor, and pursuant to the Firm s participation in the FDIC s TLG Program insured deposits held in noninterest-bearing transaction accounts are now fully insured. These increases in insurance coverage are scheduled to end on December 31, 2009. The FDIC has stated its intention, as part of its proposed Deposit Insurance Fund restoration plan, to increase deposit insurance assessments. On January 1, 2009, the FDIC increased its assessment rates, and has proposed further rate increases and changes to the current risk-based assessment framework. In addition, as a result of the Firm s participation in the TLG Program, the Firm is required to pay additional insurance premiums to the FDIC in an amount equal to an annualized 10-basis points on balances in noninterest-bearing transaction accounts that exceed the $250,000 deposit insurance limit, determined on a quarterly basis.

Powers of the FDIC upon insolvency of an insured depository institution: An FDIC-insured depository institution can be held liable for any loss incurred or expected to be incurred by the FDIC in connection with another FDIC-insured institution under common control with such institution being in default or in danger of default (commonly referred to as cross-guarantee liability). An FDIC cross-guarantee claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against such depository institution.

If the FDIC is appointed the conservator or receiver of an insured depository institution upon its insolvency or in certain other events, the FDIC has the power: (1) to transfer any of the depository institution s assets and liabilities to a new obligor without the approval of the depository institution s creditors; (2) to enforce the terms of the depository institution s contracts pursuant to their terms; or (3) to repudiate or disaffirm any contract or lease to which the depository institution is a party, the performance of which is determined by the FDIC to be burdensome and the disaffirmation or repudiation of which is determined by the FDIC to promote the orderly administration of the depository institution. The above provisions would be applicable to obligations and liabilities of JPMorgan Chase s subsidiaries that are insured depository institutions, such as JPMorgan Chase Bank, N.A., and Chase Bank USA, N.A., including, without limitation, obligations under senior or subordinated debt issued by

Part I

those banks to investors (referred to below as public note holders) in the public markets.

Under federal law, the claims of a receiver of an insured depository institution for administrative expense and the claims of holders of U.S. deposit liabilities (including the FDIC, as subrogee of the depositors) have priority over the claims of other unsecured creditors of the institution, including public noteholders and depositors in non-U.S. offices, in the event of the liquidation or other resolution of the institution. As a result, whether or not the FDIC would ever seek to repudiate any obligations held by public noteholders or depositors in non-U.S. offices of any subsidiary of the Firm that is an insured depository institution, such as JPMorgan Chase Bank, N.A., or Chase Bank USA, N.A., such persons would be treated differently from, and could receive, if anything, substantially less than the depositors in U.S. offices of the depository.

The Bank Secrecy Act: The Bank Secrecy Act (BSA) requires all financial institutions, including banks and securities broker-dealers, to, among other things, establish a risk-based system of internal controls reasonably designed to prevent money laundering and the financing of terrorism. The BSA includes a variety of recordkeeping and reporting requirements (such as cash and suspicious activity reporting), as well as due diligence/know-your-customer documentation requirements. The Firm has established a global anti-money laundering program in order to comply with BSA requirements.

Other supervision and regulation: Under current Federal Reserve Board policy, JPMorgan Chase is expected to act as a source of financial strength to its bank subsidiaries and to commit resources to support these subsidiaries in circumstances where it might not do so absent such policy. However, because GLBA provides for functional regulation of financial holding company activities by various regulators, GLBA prohibits the Federal Reserve Board from requiring payment by a holding company or subsidiary to a depository institution if the functional regulator of the payor objects to such payment. In such a case, the Federal Reserve Board could instead require the divestiture of the depository institution and impose operating restrictions pending the divestiture.

The bank subsidiaries of JPMorgan Chase are subject to certain restrictions imposed by federal law on extensions of credit to, and certain other transactions with, the Firm and certain other affiliates, and on investments in stock or securities of JPMorgan Chase and those affiliates. These restrictions prevent JPMorgan Chase and other affiliates from borrowing from a bank subsidiary unless the loans are secured in specified amounts. See Note 29 on page 199.

The Firm s banks and certain of its nonbank subsidiaries are subject to direct supervision and regulation by various other federal and state authorities (some of which are considered functional regulators under GLBA). JPMorgan Chase s national bank subsidiaries, such as JPMorgan Chase Bank, N.A., and Chase Bank USA, N.A., are subject to supervision and regulation by the OCC and, in certain matters, by the Federal Reserve Board and the FDIC. Supervision and regulation by the responsible regulatory agency generally includes comprehensive annual reviews of all major aspects of the relevant bank s business and condition, and imposition of periodic reporting requirements and limitations on investments, among other powers.

The Firm conducts securities underwriting, dealing and brokerage activities in the U.S. through JPMorgan Securities and other broker-dealer subsidiaries, all of which are subject to regulations of the SEC, the Financial Industry Regulatory Authority and the New York Stock Exchange, among others. The Firm conducts similar securities activities outside the U.S. subject to local regulatory requirements. The operations of JPMorgan Chase mutual funds also are subject to regulation by the SEC.

The Firm has subsidiaries that are members of futures exchanges in the U.S. and abroad and are registered accordingly. In the U.S., three subsidiaries are registered as futures commission merchants, with other subsidiaries registered with the Commodity Futures Trading Commission (the CFTC) as commodity pool operators and commodity trading advisors. These CFTC-registered subsidiaries are also members of the National Futures Association. The Firm s U.S. energy business is subject to regulation by the Federal Energy Regulatory Commission. It is also subject to other extensive and evolving energy, commodities, environmental and other governmental regulation both in the U.S. and other jurisdictions globally.

The types of activities in which the non-U.S. branches of JPMorgan Chase Bank, N.A., and the international subsidiaries of JPMorgan Chase may engage are subject to various restrictions imposed by the Federal Reserve Board.

Those non-U.S. branches and international subsidiaries also are subject to the laws and regulatory authorities of the countries in which they operate.

The activities of JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. as consumer lenders also are subject to regulation under various U.S. federal laws, including the Truth-in-Lending, Equal Credit Opportunity, Fair Credit Reporting, Fair Debt Collection Practice and Electronic Funds Transfer acts, as well as various state laws. These statutes impose requirements on consumer loan origination and collection practices.

Under the requirements imposed by GLBA, JPMorgan Chase and its subsidiaries are required periodically to disclose to their retail customers the Firm s policies and practices with respect to the sharing of nonpublic customer information with JPMorgan Chase affiliates and others, and the confidentiality and security of that information. Under GLBA, retail customers also must be given the opportunity to opt out of information-sharing arrangements with nonaffiliates, subject to certain exceptions set forth in GLBA.

ITEM 1A: RISK FACTORS

The following discussion sets forth some of the more important risk factors that could materially affect our financial condition and operations. Other factors that could affect our financial condition and operations are discussed in the Forward-looking statements section on page 115. However, factors besides those discussed below, in MD&A or elsewhere in this or other reports that we filed or furnished with the SEC, also could adversely affect us. You should not consider any descriptions of such factors to be a complete set of all potential risks that could affect us.

Table of Contents

Our results of operations have been, and may continue to be, adversely affected by U.S. and international financial market and economic conditions.

Our businesses have been, and in the future will continue to be, materially affected by economic and market conditions, including factors such as the liquidity of the global financial markets; the level and volatility of debt and equity prices, interest rates and currency and commodities prices; investor sentiment; corporate or other scandals that reduce confidence in the financial markets; inflation; the availability and cost of capital and credit; the occurrence of natural disasters, acts of war or terrorism; and the degree to which U.S. or international economies are expanding or experiencing recessionary pressures. These factors can affect, among other things, the activity level of clients with respect to the size, number and timing of transactions involving our investment and commercial banking businesses, including our underwriting and advisory businesses; the realization of cash returns from our private equity and principal investments businesses; the volume of transactions that we execute for our customers and, therefore, the revenue we receive from commissions and spreads; the number or size of underwritings we manage on behalf of clients; and the willingness of financial sponsors or other investors to participate in loan syndications or underwritings managed by us.

We generally maintain large trading portfolios in the fixed income, currency, commodity and equity markets and we may have from time to time significant investment positions, including positions in securities in markets that lack pricing transparency or liquidity. The revenue derived from mark-to-market values of our businesses are affected by many factors, including our credit standing; our success in proprietary positioning; volatility in interest rates and equity, debt and commodities markets; credit spreads and availability of liquidity in the capital markets; and other economic and business factors. We anticipate that revenue relating to our trading and principal investment businesses will continue to experience volatility and there can be no assurance that such volatility relating to the above factors or other conditions that may affect pricing or our ability to realize returns from such investments could not materially adversely affect our earnings.

The fees we earn for managing third-party assets are also dependent upon general economic conditions. For example, a higher level of U.S. or non-U.S. interest rates or a downturn in trading markets could affect the valuations of the third-party assets we manage or hold in custody, which, in turn, could affect our revenue. Moreover, even in the absence of a market downturn, below-market or sub-par performance by our investment management businesses could result in outflows of assets under management and supervision and, therefore, reduce the fees that we receive.

Our consumer businesses are particularly affected by domestic economic conditions. Such conditions include U.S. interest rates; the rate of unemployment; housing prices; the level of consumer confidence; changes in consumer spending; and the number of personal bankruptcies, among others. The deterioration of these conditions can diminish demand for the consumer businesses products and services, or increase the cost to provide such products and services. In addition, adverse economic conditions, such as declines in home prices, could lead to an increase in mortgage and other loan delinquencies and higher net charge-offs, which can adversely affect our earnings.

During 2008, U.S. and global financial markets were extremely volatile and were materially and adversely affected by a significant lack of liquidity, loss of confidence in the financial sector, disruptions in the credit markets, reduced business activity, rising unemployment, declining home prices, and erosion of consumer confidence. These factors contributed to adversely affecting our business, financial condition and results of operations in 2008 and there is no assurance when such conditions will ameliorate.

If we do not effectively manage our liquidity, our business could be negatively affected.

Our liquidity is critical to our ability to operate our businesses, grow and be profitable. Some potential conditions that could negatively affect our liquidity include illiquid or volatile markets, diminished access to capital markets, unforeseen cash or capital requirements (including, among others, commitments that may be triggered to special purpose entities (SPEs) or other entities), difficulty or inability to sell assets, unforeseen outflows of cash or collateral, and lack of market or customer confidence in us or our prospects. These conditions may be caused by events over which we have little or no control. The liquidity crisis experienced in 2008 increased our cost of funding and limited our access to some of our traditional sources of liquidity such as securitized debt offerings backed by mortgages, loans, credit card receivables and other assets. If current market conditions continue, our liquidity could be adversely affected.

The credit ratings of JPMorgan Chase & Co., JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. are important in order to maintain our liquidity. A reduction in their credit ratings could have an adverse effect on our access to liquidity sources, increase our cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to us, thereby curtailing our business operations and reducing our profitability. Reduction in the ratings of certain SPEs or other entities to which we have a funding or other commitment could also negatively affect our liquidity where such ratings changes lead, directly or indirectly, to us being required to purchase assets or otherwise provide funding. 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.

Our cost of obtaining long-term unsecured funding is directly related to our credit spreads (the amount in excess of the interest rate of U.S. Treasury securities (or other benchmark securities) of the same maturity that we need to pay to our debt investors). Increases in our credit spreads can significantly increase the cost of this funding. Changes in credit spreads are continuous and market-driven, and influenced by market perceptions of our creditworthiness. As such, our credit spreads may be unpredictable and highly volatile.

As a holding company, we rely on the earnings of our subsidiaries for our cash flow and consequent ability to pay dividends and satisfy our obligations. These payments by subsidiaries may take the form of dividends, loans or other payments. Several of our principal subsidiaries are subject to capital adequacy requirements or other regulatory or contractual restrictions on their ability to provide such payments. Limitations in the payments we receive from our subsidiaries could negatively affect our liquidity position.

The soundness of our customers, clients and counterparties, including other financial institutions, could adversely affect us.

A number of our products expose us to credit risk, including loans, leases and lending commitments, derivatives, trading account assets and assets held-for-sale. As one of the nation s largest lenders, we have exposures to many different

Part I

products and counterparties, and the credit quality of our exposures can have a significant impact on our earnings. We estimate and establish reserves for credit risks and potential credit losses inherent in our credit exposure (including unfunded lending commitments). This process, which is critical to our financial results and condition, requires difficult, subjective and complex judgments, including forecasts of how these economic conditions might impair the ability of our borrowers to repay their loans. As is the case with any such assessments, there is always the chance that we will fail to identify the proper factors or that we will fail to accurately estimate the impact of factors that we identify. Any such failure could result in increases in delinquencies and default rates.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default by the counterparty or client, which can be exacerbated during periods of market illiquidity, such as experienced in 2008. During such periods, our credit risk also may be further increased when the collateral held by us cannot be realized upon or is liquidated at prices that are not sufficient to recover the full amount of the loan or derivative exposure due to us. In addition, disputes with counterparties as to the valuation of collateral significantly increases in times of market stress and illiquidity. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

As an example of the risks associated with our relationships with other financial institutions is the collapse of Lehman Brothers Holdings Inc. (LBHI). On September 15, 2008, LBHI filed a voluntary petition for relief under Chapter 11 of Title 11 of the United States Code (the Bankruptcy Code) in the United States Bankruptcy Court for the Southern District of New York, and thereafter several of its subsidiaries also filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the court (LBHI and such subsidiaries collectively, Lehman). On September 19, 2008, a liquidation case under the Securities Investor Protection Act was commenced in the United States District Court for the Southern District of New York for Lehman Brothers Inc. (LBI), LBHI s U.S. broker-dealer subsidiary, and the court now presides over the LBI SIPA liquidation case. We were LBI s clearing bank and are the largest secured creditor in the Lehman and LBI cases, according to Lehman s schedules. We anticipate that claims may be asserted against us and/or our security interests, including by the LBHI Creditors Committee, the SIPA Trustee appointed in the LBI liquidation case, the principal acquiror of LBI s assets, and others in connection with Lehman and LBI cases. We intend to defend ourself against any such claims.

As a result of the current economic environment there is a greater likelihood that more of our customers or counterparties could become delinquent on their loans or other obligations to us which, in turn, could result in a higher level of charge-offs and provision for credit losses, or requirements that we purchase assets or provide other funding, any of which could adversely affect our financial condition. Moreover, a significant deterioration in the credit quality of one of our counterparties could lead to concerns about the credit quality of other counterparties in the same industry, thereby exacerbating our credit risk exposure, and increasing the losses, including mark-to-market losses, we could incur in our trading, clearing, and proprietary businesses.

Concentration of credit and market risk could increase the potential for significant losses.

We have exposure to increased levels of risk when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. We regularly monitor various segments of our portfolio exposures to assess potential concentration risks. Our efforts to diversify or hedge our credit portfolio against concentration risks may not be successful and any concentration of credit risk could increase the potential for significant losses in our credit portfolio. In addition, disruptions in the liquidity or transparency of the financial markets may result in our inability to sell, syndicate or realize upon securities, loans or other instruments or positions held by us, thereby leading to increased concentrations of such positions. These concentrations could expose us to losses if the mark-to-market value of the securities, loans or other instruments or positions decline causing us to take write downs. Moreover, the inability to reduce our positions not only increases the market and credit risks associated with such positions, but also increases the level of risk-weighted assets on our balance sheet, thereby increasing our capital requirements and funding costs, all of which could adversely affect our businesses operations and profitability.

Our framework for managing risks may not be effective in mitigating risk and loss to us.

Our risk management framework seeks to mitigate risk and loss to us. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including liquidity risk, credit risk, market risk, interest rate risk, operational risk, legal and fiduciary risk, reputational risk and private equity risk, among others. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses and could be materially adversely affected.

Our risk management strategies may not be effective because in a difficult or less liquid market environment other market participants may be attempting to use the same or similar strategies to deal with the difficult market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants.

Our derivatives businesses may expose us to unexpected market, credit and operational risks that could cause us to suffer unexpected losses. Severe declines in asset values, unanticipated credit events, or unforeseen circumstances that may cause previously uncorrelated factors to become correlated may create losses resulting from risks not appropriately taken into account in the development, structuring or pricing of a derivative instrument. In addition, certain of our derivative transactions require the physical settlement by delivery of securities, commodities or obligations that we do now own; if we are not able to obtain such securities, commodities or obligations within the required timeframe for delivery, this could cause us to forfeit payments otherwise due to us and could result in settlement delays, which could damage our reputation and ability to transact future business. In addition, many derivative transactions are not cleared and settled through a central clearinghouse or exchange, and they may not always be confirmed or settled by counterparties on a timely basis. In these situations, we are subject to heightened credit and operational risk, and in the event of a default, we may find the contract more difficult to enforce. Further, as new and more complex derivative products are created, disputes regarding the terms or the settlement procedures of the contracts could arise, which could force us to incur unexpected costs, including transaction and legal costs, and impair our ability to manage effectively our risk exposure from these products.

Many of our hedging strategies and other risk management techniques have a basis in historic market behavior, and all such strategies and techniques are based to some degree on management s subjective judgment. For example, many models used by us are based on assumptions regarding correlations among prices of various asset classes or other market indicators. In times of market stress, such as occurred during 2008, or in the event of other unforeseen circumstances, previously uncorrelated indicators may become correlated, or conversely, previously correlated indicators may make unrelated movements. These sudden market movements or unanticipated or unidentified market or economic movements have in some circumstances limited the effectiveness of our risk management strategies, causing us to incur losses. In addition, as our businesses grow and the markets in which they operate continue to evolve, our risk management framework may not always keep sufficient pace with those changes. For example, there is the risk that the credit and market risks associated with new products or new business strategies may not be appropriately identified, monitored or managed. There can be no assurance that our risk management framework, including our underlying assumptions or strategies, will at all times be accurate and effective.

Our operations are subject to risk of loss from unfavorable economic, monetary, political, legal and other developments in the United States and around the world.

Our businesses and earnings are affected by the fiscal and other policies that are adopted by various regulatory authorities of the United States, non-U.S. governments and international agencies.

The Board of Governors of the Federal Reserve System regulates the supply of money and credit in the United States. Its policies determine in large part the cost of funds for lending and investing and the return earned on those loans and investments. The market impact from such policies can also materially decrease the value of financial assets that we hold, such as debt securities and mortgage servicing rights (MSRs). Its policies also can adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans or satisfy their obligations to us. Changes in Federal Reserve policies are beyond our control and, consequently, the impact of these changes on our activities and results of operations is difficult to predict.

Our businesses and revenue are also subject to the risks inherent in maintaining international operations and in investing and trading in securities of companies worldwide. These risks include, among others, risk of loss from the outbreak of hostilities or acts of terrorism and various unfavorable political, economic, legal or other developments, including social or political instability, changes in governmental policies or policies of central banks, expropriation, nationalization, confiscation of assets, price controls, capital controls, exchange controls, and changes in laws and regulations. Further, various countries in which we operate or invest, or in which we may do so in the future, have in the past experienced severe economic disruptions, including extreme currency fluctuations, high inflation, or low or negative growth, among other negative conditions. Crime, corruption, war or military actions, acts of terrorism and a lack of an established legal and regulatory framework are additional challenges in some of these countries, particularly in the emerging markets. Revenue from international operations and trading in non-U.S. securities may be subject to negative fluctuations as a result
of the above considerations. The impact of these fluctuations could be accentuated as some trading markets are smaller, less liquid and more volatile than larger markets. Also, any of the above-mentioned events or circumstances in one country can and has in the past, affected our operations and investments in another country or countries. Any such unfavorable conditions or developments could have an adverse impact on our business and results of operations.

The emergence of a widespread health emergency or pandemic also could create economic or financial disruption that could negatively affect our revenue and operations or impair our ability to manage our businesses in certain parts of the world.

Our power generation and commodities activities are subject to extensive regulation, potential catastrophic events and environmental risks and regulation that may expose it to significant cost and liability.

We engage in power generation, and in connection with the commodities activities of our Investment Bank, we engage in the storage, transportation, marketing or trading of several commodities, including metals, agricultural products, crude oil, oil products, natural gas, electric power, emission credits, coal, freight, and related products and indices. As a result of these activities, we are subject to extensive and evolving energy, commodities, environmental, and other governmental laws and regulations. We expect laws and regulations affecting our power generation and commodities activities to expand in scope and complexity. We may incur substantial costs in complying with current or future laws and regulations and the failure to comply with these laws and regulations may result in substantial civil and criminal fines and penalties. In addition, liability may be incurred without regard to fault under certain environmental laws and regulations for remediation of contaminations. Our power generation and commodities activities also further exposes us to the risk of unforeseen and catastrophic events, including natural disasters, leaks, spills, explosions, release of toxic substances, fires, accidents on land and at sea, wars, and terrorist attacks that could result in personal injuries, loss of life, property damage, damage to our reputation and suspension of operations. In addition, our power generation activities are subject to disruptions, many of which are outside of our control, from the breakdown or failure of power generation equipment, transmission lines or other equipment or processes, and the contractual failure of performance by third-party suppliers or service providers, including the failure to obtain and deliver raw materials necessary for the operation of power generation facilities. We attempt to mitigate our risks, but our actions may not prove adequate to address every contingency. In addition, insurance covering some of these risks may not be available, and the proceeds, if any, from insurance recovery may not be adequate to cover liabilities with respect to particular incidents. As a result, our financial condition and results of operations may be adversely affected by such events.

We rely on our systems, employees and certain counterparties, and certain failures could materially adversely affect our operations.

Our businesses are dependent on our ability to process, record and monitor a large number of increasingly complex transactions. If any of our financial, accounting, or other data

Table of Contents

Part I

processing systems fail or have other significant shortcomings, we could be materially adversely affected. We are similarly dependent on our employees. We could be materially adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Third parties with which we do business could also be sources of operational risk to us, including relating to breakdowns or failures of such parties own systems or employees. Any of these occurrences could diminish our ability to operate one or more of our businesses, or result in potential liability to clients, reputational damage and regulatory intervention, any of which could materially adversely affect us.

If personal, confidential or proprietary information of customers or clients in our possession were to be mishandled or misused, we could suffer significant regulatory consequences, reputational damage and financial loss. Such mishandling or misuse could include, for example, if such information were erroneously provided to parties who are not permitted to have the information, either by fault of our systems, employees, or counterparties, or where such information is intercepted or otherwise inappropriately taken by third parties.

We may be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses or electrical or telecommunications outages, natural disasters, disease pandemics or other damage to property or physical assets, or events arising from local or larger scale politics, including terrorist acts. Such disruptions may give rise to losses in service to customers and loss or liability to us.

In a firm as large and complex as us, lapses or deficiencies in internal control over financial reporting may occur from time to time, and there is no assurance that significant deficiencies or material weaknesses in internal controls may not occur in the future. In addition, there is the risk that our controls and procedures as well as business continuity and data security systems prove to be inadequate. Any such failure could affect our operations and could materially adversely affect our results of operations by requiring us to expend significant resources to correct the defect, as well as by exposing us to litigation, regulatory fines or penalties or losses not covered by insurance.

We operate within a highly regulated industry and our business and results are significantly affected by the laws and regulations to which we are subject.

We operate within a highly regulated industry. We are subject to regulation under state and federal laws in the U.S., as well as the applicable laws of each of the various other jurisdictions outside the U.S. in which we do business. These laws and regulations affect the type and manner in which we do business and may limit our ability to expand our product offerings, pursue acquisitions, or restrict the scope of operations and services provided.

Recent market and economic conditions have led to new legislation and numerous proposals for changes in the regulation of the financial services industry, including significant additional legislation and regulation in the United States. In response to such market and economic conditions, the United States government, particularly the U.S. Department of the Treasury, the Board of Governors of the Federal Reserve System, the FDIC, and foreign governments,
have taken a variety of extraordinary measures designed to restore confidence in the financial markets, increase liquidity and to strengthen financial institutions. For example, on October 3, 2008 and on February 17, 2009, the EESA and the ARRA, respectively, were signed into law. These laws are intended to provide fiscal stimulus and stability to the U.S. economy, by among other things, permitting the U.S. Treasury to make direct investments in financial institutions pursuant to the Capital Purchase Program. There can be no assurance, however, as to the actual impact that these laws and their implementing regulations, or any other governmental program, will have on the financial markets. The failure of the financial markets to stabilize and a continuation or worsening of current financial market and economic conditions could continue to materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

Participation in current or future government programs adopted in response to recent market events and economic conditions may subject us to restrictions and additional oversight on the manner in which we operate our business. We are currently participating in the Capital Purchase Program, and under the terms of the program, as amended by the ARRA, the consent of the U.S. Treasury is required for us to, among other things, increase our common stock dividend from the amount of the last quarterly stock dividend declared by us prior to October 14, 2008 or, except in limited circumstances, repurchase our common stock or other preferred stock unless the Series K Preferred Stock that was issued to the U.S. Treasury under the Capital Purchase Program has been redeemed or the U.S. Treasury has transferred all of the Series K Preferred Stock to a third party. The ARRA also imposes restrictions on our ability to pay incentive compensation to certain of our employees. There can be no assurance that any additional restrictions imposed by reason of our participation in the Capital Purchase Program or other government programs will not have an adverse effect on our business, results of operations and financial condition.

New legislation and regulatory changes could cause business disruptions, result in significant loss of revenue, limit our ability to pursue business opportunities we might otherwise consider engaging in, impact the value of assets that we hold, require us to change certain of our business practices, impose additional costs on us or otherwise adversely affect our business. For example, on December 18, 2008, the Board of Governors of the Federal Reserve System adopted enhanced regulations for credit cards through amendments to Regulation Z, which implements the Truth-in-Lending Act, and also new regulations governing unfair or deceptive acts or practices under the Federal Trade Commission Act. These regulatory changes will require us to invest significant management attention and resources to make the necessary disclosure and system changes, and could adversely affect our business.

Additional legislation and regulations may by enacted or promulgated in the future, and we are unable to predict the form such legislation or regulation may take, or the degree to which we would need to modify our businesses or operations to comply with such legislation or regulation. For example, proposed legislation has been introduced in Congress that would amend to the Bankruptcy Code to permit modifications of certain mortgages that are secured by a Chapter 13 debtor s principal residence. Proposed legislation has also been introduced in Congress that would, among other things, prescribe when interest can be charged on revolving credit card accounts, prescribe when and how interest rates can be increased, limit events of default that can result in interest rate increases on existing balances, restrict the imposition of certain fees, require a specified cutoff hour when payments must be credited to accounts, prescribe how payments must be allocated to outstanding balances on accounts and restrict the issuance of credit cards for persons under 21 years of age except in certain circumstances. There can be no assurance that if any such legislation were enacted that it would not have an adverse effect on our business, results of operations or financial condition.

If we do not comply with the legislation and regulations that apply to our operations, we may be subject to fines, penalties or material restrictions on our businesses in the jurisdiction where the violation occurred. In recent years, regulatory oversight and enforcement have increased substantially, imposing additional costs and increasing the potential risks associated with our operations. If this regulatory trend continues, it could adversely affect our operations and, in turn, our financial results. In addition, adverse publicity and damage to our reputation arising from the failure or perceived failure to comply with legal, regulatory or contractual requirements could affect our ability to attract and retain customers or to maintain access to capital markets, which could adversely affect our financial condition.

We face significant legal risks, both from regulatory investigations and proceedings and from private actions brought against us.

We are named as a defendant or are otherwise involved in various legal proceedings, including class actions and other litigation or disputes with third parties, as well as investigations or proceedings brought by regulatory agencies. Actions brought against us may result in judgments, settlements, fines, penalties or other results adverse to us, which could materially adversely affect our business, financial condition or results of operation, or cause us serious reputational harm. As a participant in the financial services industry, it is likely we will continue to experience a high level of litigation and regulatory scrutiny and investigations related to our businesses and operations.

There is increasing competition in the financial services industry which may adversely affect our results of operations.

We operate in a highly competitive environment and we expect competitive conditions to continue to intensify as continued merger activity in the financial services industry produces larger, better-capitalized and more geographically diverse companies that are capable of offering a wider array of financial products and services at more competitive prices. Consolidations in the financial services industry increased substantially during 2008, as several major U.S. financial institutions merged, were forced to sell assets and, in some cases failed.

We also face an increasing array of competitors. Competitors include other banks, brokerage firms, investment banking companies, merchant banks, hedge funds, insurance companies, mutual fund companies, credit card companies, mortgage banking companies, trust companies, securities processing companies, automobile financing companies, leasing companies, e-commerce and other Internet-based companies, and a variety of other financial services and advisory companies. Technological advances and the growth of e-commerce have made it possible for non-depository institutions to offer products and services that traditionally were banking products, and for financial institutions and other companies to provide electronic and Internet-based financial solutions, including electronic securities trading. Our businesses generally compete on the basis of the quality and variety of our products and services, transaction execution, innovation, reputation and price. Ongoing or increased competition in any one or all of these areas may put downward pressure on prices for our products and services or may cause us to lose market share. Increased competition also may require us to make additional capital investment in our businesses in order to remain competitive. These investments may increase expense or may require us to extend more of our capital on behalf of clients in order to execute larger, more competitive transactions. There can be no assurance that the significant and increasing competition in the financial services industry will not materially adversely affect our future results of operations.

Our acquisitions and the integration of acquired businesses may not result in all of the benefits anticipated.

We have in the past and may in the future seek to grow our business by acquiring other businesses. There can be no assurance that our acquisitions will have the anticipated positive results, including results relating to: the total cost of integration; the time required to complete the integration; the amount of longer-term cost savings; the overall performance of the combined entity; or an improved price for our common stock. Integration of an acquired business can be complex and costly, sometimes including combining relevant accounting and data processing systems and management controls, as well as managing relevant relationships with employees, clients, suppliers and other business partners. Integration efforts could divert management attention and resources, which could adversely affect our operations or results.

Given the continued market volatility and uncertainty, we may continue to experience increased credit costs or need to take additional markdowns and allowances for loan losses on the assets and loans acquired in the merger (the Bear Stearns merger) by and among JPMorgan Chase and The Bear Stearns Companies Inc. (Bear Stearns) and in connection with the acquisition of Washington Mutual Bank s (Washington Mutual) banking operations (the Washington Mutual transaction) that could negatively affect our financial condition and results of operations in the future. There is no assurance that as our integration efforts continue in connection with these transactions, other unanticipated costs or losses will not be incurred.

Acquisitions may also result in business disruptions that cause us to lose customers or cause customers to remove their accounts from us and move their business to competing financial institutions. It is possible that the integration process related to acquisitions could result in the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that could adversely affect our ability to maintain relationships with clients, customers, depositors and employees. The loss of key employees in connection with an acquisition could adversely affect our ability to successfully conduct our business.

Damage to our reputation could damage our businesses.

Maintaining a positive reputation is critical to our attracting and maintaining customers, investors and employees. Damage to our reputation can therefore cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, litigation or regulatory outcomes, failing to deliver minimum standards of service and quality, compliance failures, unethical behavior, and the activities of customers and counterparties. Further, negative publicity regarding us, whether or not true, may also result in harm to our prospects.

We could suffer significant reputational harm if we fail to properly identify and manage potential conflicts of interest. Management of potential conflicts of interests has become increasingly complex as we expand our business activities through more numerous transactions, obligations and interests with and among our clients. The failure to adequately address, or the perceived failure to adequately address, conflicts of interest could affect the willingness of clients to deal with us, or give rise to litigation or enforcement actions. Therefore, there can be no assurance that conflicts of interest will not arise in the future that could cause material harm to us.

Part I

Our ability to attract and retain qualified employees is critical to the success of our business and failure to do so may materially adversely affect our performance.

Our employees are our most important resource and, in many areas of the financial services industry, competition for qualified personnel is intense. The executive compensation restrictions currently, or that may in the future may be, imposed on us as a result of our participation in the Capital Purchase Program or other government programs, may adversely affect our ability to attract and retain qualified senior management and employees. If we are unable to continue to retain and attract qualified employees, our performance, including our competitive position, could be materially adversely affected.

Our financial statements are based in part on assumptions and estimates which, if wrong, could cause unexpected losses in the future.

Pursuant to accounting principles generally accepted in the United States of America, we are required to use certain assumptions and estimates in preparing our financial statements, including in determining credit loss reserves, reserves related to litigations and the fair value of certain assets and liabilities, among other items. If assumptions or estimates underlying our financial statements are incorrect, we may experience material losses.

For example, we make judgments in connection with our consolidation analysis of SPEs. If it is later determined that non-consolidated SPEs should be consolidated, this could negatively affect our Consolidated Balance Sheets, related funding requirements, capital ratios and, if the SPEs assets include unrealized losses, could require us to recognize those losses.

Certain of our financial instruments, including trading assets and liabilities, available-for-sale securities, certain loans, MSRs, private equity investments, structured notes and certain repurchase and resale agreements, among other items, require a determination of their fair value in order to prepare our financial statements. Where quoted market prices are not available, we may make fair value determinations based on internally developed models or other means which ultimately rely to some degree on management judgment. Some of these and other assets and liabilities may have no direct observable price levels, making their valuation particularly subjective, being based on significant estimation and judgment. In addition, sudden illiquidity in markets or declines in prices of certain loans and securities may make it more difficult to value certain balance sheet items, which may lead to the possibility that such valuations will be subject to further change or adjustment and could lead to declines in our earnings.

ITEM 1B: UNRESOLVED SEC STAFF COMMENTS

None.

ITEM 2: PROPERTIES

JPMorgan Chase s headquarters is located in New York City at 270 Park Avenue, which is a 50-story office building owned by JPMorgan Chase. This location contains approximately 1.3 million square feet of space. The building is currently undergoing a major renovation in five stages. The design seeks to attain the highest sustainability rating for renovations of existing buildings under the Leadership in Energy and Environmental Design (LEED) Green Building Rating System. The renovation of the top 15 floors is complete. By year-end 2009, the next 19 floors are expected to be complete and the mechanical infrastructure refresh will be substantially complete with the other stages to follow in the multi-year program.

In connection with the Bear Stearns merger, JPMorgan Chase acquired 383 Madison Avenue in New York City, a 45-story, 1.1 million square-foot office building on land which is subject to a ground lease for an additional 88 years. This building serves as the U.S. headquarters of JPMorgan Chase s Investment Bank.

In total, JPMorgan Chase owned or leased approximately 13.0 million square feet of commercial office space and retail space in New York City at December 31, 2008. JPMorgan Chase and its subsidiaries also own or lease significant administrative and operational facilities in Houston and Dallas, Texas (4.8 million square feet); Chicago, Illinois (4.0 million square feet); Columbus, Ohio (2.7 million square feet); Seattle, Washington (1.6 million square feet); Phoenix, Arizona (1.4 million square feet); Jersey City, New Jersey (1.2 million square feet); San Francisco, California (1.1 million square feet); Wilmington, Delaware (1.0 million square feet); Tampa, Florida (1.0 million square feet); San Antonio, Texas (1.0 million square feet); and 5,474 retail branches in 23 states. At December 31, 2008, the Firm occupied approximately 75.9 million total square feet of space in the United States.

10

At December 31, 2008, the Firm managed and occupied approximately 3.8 million total square feet of space in the United Kingdom, Europe, Middle East and Africa. In the United Kingdom, JPMorgan Chase leased approximately 2.6 million square feet of office space and owned a 360,000 square-foot operations center at December 31, 2008.

In 2008, JPMorgan Chase acquired a 999-year leasehold interest in land at Canary Wharf, London. It is intended to be the future site for construction of a new European headquarters building, which can contain up to approximately 1.9 million square feet of space and have up to five trading floors of approximately 80,000 square feet each. JPMorgan Chase, by agreement with the developer, has the ability to defer commencement of the main construction through at least October 2010. The building design will strive to achieve the highest possible environmental efficiency rating.

In addition, JPMorgan Chase and its subsidiaries occupy offices and other administrative and operational facilities in the Asia Pacific region, Latin America and Canada under various types of ownership and leasehold agreements, aggregating approximately 3.2 million total square feet of space at December 31, 2008. The properties occupied by JPMorgan Chase are used across all of the Firm s business segments and for corporate purposes.

JPMorgan Chase continues to evaluate its current and projected space requirements and may determine from time to time that certain of its premises and facilities are no longer necessary for its operations. There is no assurance that the Firm will be able to dispose of any such excess premises or that it will not incur charges in connection with such dispositions. Such disposition costs may be material to the Firm s results of operations in a given period. For a discussion of occupancy expense, see the Consolidated Results of Operations discussion on pages 33 37.

ITEM 3: LEGAL PROCEEDINGS

Bear Stearns Shareholder Litigation and Related Matters. Various shareholders of Bear Stearns have commenced purported class actions against Bear Stearns and certain of its former officers and/or directors on behalf of all persons who purchased or otherwise acquired common stock of Bear Stearns between December 14, 2006 and March 14, 2008 (the Class Period). The actions, originally commenced in several United States District Courts, allege that the defendants issued materially false and misleading statements regarding Bear Stearns business and financial results and that, as a result of those false statements, Bear Stearns common stock traded at artificially inflated prices during the Class Period. In connection with these allegations, the complaints assert claims for violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Separately, several individual shareholders of Bear Stearns have commenced or threatened to commence arbitration proceedings and lawsuits asserting claims similar to those in the putative class actions.

In addition, Bear Stearns and certain of its former officers and/or directors have also been named as defendants in a number of putative class actions commenced in the United States District Court for the Southern District of New York purporting to represent the interests of participants in the Bear Stearns Employee Stock Ownership Plan (ESOP) during the time period of December 2006 through the
date of the complaints. These actions allege defendants breached their fiduciary duties to plaintiffs and to the other participants and beneficiaries of the ESOP by (a) failing to prudently manage the ESOP s investment in Bear Stearns securities; (b) failing to communicate fully and accurately about the risks of the ESOP s investment in Bear Stearns stock; (c) failing to avoid or address alleged conflicts of interest; and (d) failing to monitor those who managed and administered the ESOP. In connection with these allegations, each plaintiff asserts claims for violations under various sections of the Employee Retirement Income Security Act (ERISA) and seeks reimbursement to the ESOP for all losses, an unspecified amount of monetary damages and imposition of a consecutive trust.

Furthermore, former members of Bear Stearns Board of Directors and certain of Bear Stearns former executive officers have been named as defendants in two purported shareholder derivative suits, each of which was commenced in the United States District Court for the Southern District of New York. Bear Stearns was named as a nominal defendant in both actions. By court order dated February 14, 2008, the actions were consolidated. A consolidated amended complaint was filed on March 3, 2008, asserting claims for breach of fiduciary duty, violations of federal securities laws, waste of corporate assets and gross mismanagement, unjust enrichment, abuse of control and indemnification and contribution in connection with the losses sustained by Bear Stearns as a result of its purchases of sub-prime loans and certain repurchases of its own common stock. Certain individual defendants are also alleged to have sold their holdings of Bear Stearns common stock while in possession of material nonpublic information. The amended complaint seeks compensatory damages in an unspecified amount and an order directing Bear Stearns to improve its corporate governance procedures.

On August 18, 2008, the Judicial Panel on Multidistrict Litigation (MDL Panel) issued a Transfer Order joining for pre-trial purposes before the United States District Court for the Southern District of New York all then-pending securities and ERISA actions, as well as any later-filed actions, making allegations concerning whether Bear Stearns and certain of its current and former officers and directors knowingly made material misstatements or omissions concerning the company s financial health that misled investors and caused investor losses when the company s stock price fell in March 2008. The consolidated shareholders derivative lawsuit was also the subject of the Transfer order. All such actions were assigned to District Judge Robert Sweet. By order dated January 5, 2009, District Judge Sweet ordered the various putative securities class actions to be consolidated, and ordered that the putative ERISA class actions be separately consolidated. The Court also appointed lead plaintiffs and lead plaintiffs counsel in both consolidated actions and appointed lead plaintiffs counsel in the consolidated shareholder derivative action.

Bear Stearns Merger Litigation. Seven putative class actions (five that were commenced in New York and two that were commenced in Delaware) were consolidated in New York State Court in Manhattan under the caption *In re Bear Stearns Litigation*. Bear Stearns, as well as its former directors and certain of its former executive officers, were named as defendants. JPMorgan Chase was also named as a defendant. The actions, which were filed in the Supreme Court of the New York State

Table of Contents

Part I

Court, allege, among other things, that the individual defendants breached their fiduciary duties and obligations to Bear Stearns shareholders by agreeing to the proposed merger. The Firm was alleged to have aided and abetted the alleged breaches of fiduciary duty; breached its fiduciary duty as controlling shareholder/controlling entity; tortuously interfered with the Bear Stearns shareholders voting rights; and was also alleged to have been unjustly enriched. Plaintiffs initially sought to enjoin the proposed merger and enjoin the Firm from voting certain shares acquired by the Firm in connection with the proposed merger. The plaintiffs subsequently informed the Court that they were withdrawing that motion but amended the consolidated complaint to pursue claims, which included a claim for an unspecified amount of compensatory damages. In December 2008, the court ruled in favor of us and other defendants on our and their motion for summary judgment. As a result, the case has been dismissed pending the plaintiff s appeal from the summary judgment ruling.

Municipal Derivatives Investigation and Antitrust Litigation. The New York field office of the Department of Justice s Antitrust Division and the Philadelphia Office of the SEC have been conducting parallel investigations of JPMorgan Chase and Bear Stearns for possible antitrust and securities violations in connection with the bidding or sale of guaranteed investment contracts and derivatives to municipal issuers. The principal focus of the investigations to date has been the period 2001 to 2005. A group of state attorney generals and the OCC also opened investigations into the same underlying conduct. JPMorgan Chase has been cooperating with those investigations and has produced documents and other information.

On March 18, 2008, the Philadelphia Office of the SEC provided to JPMorgan Securities a Wells Notice that it intended to bring civil charges in connection with its investigations. JPMorgan Securities has responded to that Wells Notice. It also responded to a separate Wells Notice that that Office provided to Bear, Stearns & Co. Inc. (now known as J.P. Morgan Securities Inc.) on February 1, 2008.

In addition, beginning in March 2008, purported class action lawsuits and individual actions have been filed against JPMorgan Chase and Bear Stearns, as well as numerous other providers and brokers involved in the market for a variety of financial instruments related to municipal bonds and referred to collectively by plaintiffs as municipal derivatives (the Municipal Derivatives Actions), for alleged antitrust violations in connection with the bidding or sale of municipal derivatives. The MDL Panel ordered the antitrust actions relating to municipal derivatives coordinated for pretrial proceedings in the United States District Court for the Southern District of New York (the MDL court). On August 22, 2008, certain class plaintiffs filed a consolidated class action complaint alleging violations of Section 1 of the Sherman Act based on the alleged conspiracy described above. On October 21, 2008, defendants filed a joint motion to dismiss the consolidated class action complaint. The MDL court declined to stay discovery pending disposition of the motions to dismiss.

There are a number of other actions that are proceeding separately from the consolidated class action complaint. These include purported class actions under the Sherman Act and California state law as well as individual actions that state claims solely under California state law. In addition, there are several actions that have been noticed as a tag-along action to the MDL Panel and are awaiting transfer to the MDL court.

Bear Stearns Hedge Fund Matters. Bear Stearns, certain of its current or former subsidiaries, including Bear Stearns Asset Management, Inc. (BSAM) and Bear Stearns & Co. Inc., and certain current or former employees have been named as defendants (Bear Stearns defendants) in a number of actions relating to the Bear Stearns High Grade Structured Credit Strategies Master Fund, Ltd. (the High Grade Fund) and the Bear Stearns High Grade Structured Credit Strategies Enhanced Leverage Master Fund, Ltd. (the Enhanced Leverage Fund) (collectively, the Funds). BSAM served as investment manager for both of the Funds, which were organized such that there were U.S. and Cayman Islands feeder funds that invested substantially all their assets, directly or indirectly, in the Funds. The Funds are in liquidation.

The Bear Stearns defendants have been sued in five civil actions in United States District Court for the Southern District of New York. The Joint Voluntary Liquidators of the Cayman Islands feeder funds has filed a complaint asserting claims for, among other things, fraud, breach of fiduciary duty, breach of contract, recklessness, gross negligence, negligence, and unjust enrichment. Also joining the Liquidators as plaintiffs are two purported investors in the U.S. feeder funds. In addition to individual claims, these two plaintiffs purport to assert derivative actions with the U.S. feeder funds as nominal defendants and seek damages of not less than $1.5 billion, unspecified punitive damages, costs, and fees. Two purported class action lawsuits have been filed on behalf of purchasers of partnership interests in the High Grade and Enhanced Leverage U.S. feeder funds, respectively. In each such action, the plaintiff has asserted claims for, among other things, breach of fiduciary duty. The class action complaints also purport to assert derivative actions with the High Grade and Enhanced Leverage U.S. feeder funds as nominal defendants. The relief being sought by these plaintiffs is unspecified damages, costs and fees. In addition, Bank of America and Banc of America Securities LLC (together BofA) have filed a lawsuit in United States District Court for the Southern District of New York alleging breach of contract and fraud in connection with a May 2007 $4 billion dollar securitization, known as a CDO-squared, for which BSAM served as collateral manager. This securitization was composed of certain collateralized debt obligation (CDO) holdings that were purchased by BofA from the High Grade Fund and the Enhanced Leverage Fund. The Bear Stearns defendants have filed motions to dismiss each of the four civil actions described above. Finally, in connection with its investment and other transactions related to the Enhanced Leverage Fund, Barclays Bank brought an action asserting claims for, among other things, fraud, fraudulent concealment, breach of fiduciary duty, and negligent misrepresentation. On February 10, 2009, Barclays filed a notice of dismissal of that action against all defendants.

In addition, one or more Bear Stearns defendants have been named as parties in multiple FINRA arbitrations initiated by investors in the Funds. The relief being sought by the claimants in these matters is compensatory damages, unspecified punitive damages, costs and expenses.

Table of Contents

BSAM and its affiliates have also been contacted by, and have received requests for information and documents from, various federal and state regulatory and law enforcement authorities as part of their investigations regarding the Funds, including the SEC, the United States Attorney s Office for the Eastern District of New York and the Securities Division of the Commonwealth of Massachusetts (the Massachusetts Securities Division). On November 14, 2007, the Massachusetts Securities Division filed an administrative complaint against BSAM alleging that BSAM violated multiple provisions of the Massachusetts Securities Act by failing to adequately disclose and/or manage conflicts of interest related to procedures for related party transactions. BSAM submitted an Offer of Settlement to resolve this matter that was accepted by the Massachusetts Securities Division, and then resolved through a Consent Order filed on November 13, 2008.

Enron Litigation. JPMorgan Chase and certain of its officers and directors are involved in a number of lawsuits arising out of its banking relationships with Enron Corp. and its subsidiaries (Enron). Several actions and other proceedings against the Firm have been resolved, including adversary proceedings brought by Enron s bankruptcy estate. In addition, the Firm resolved the lead class action litigation brought on behalf of the purchasers of Enron securities, captioned *Newby v. Enron Corp*., for approximately $2.2 billion (pretax), which the Firm funded on October 16, 2008. The *Newby* settlement does not resolve Enron-related actions filed separately by plaintiffs who opted out of the class action or by certain plaintiffs who are asserting claims not covered by that action. Some of these other actions have been dismissed or settled separately. The remaining Enron-related actions include three actions against the Firm by plaintiffs who were bank lenders or claim to be successors-in-interest to bank lenders who participated in Enron credit facilities co-syndicated by the Firm; individual actions by Enron investors, creditors and counterparties; and a third-party action brought by a defendant in an Enron-related case seeking apportionment of responsibility and contribution under Texas state law against JPMorgan Chase and other defendants. Plaintiffs in the bank lender cases have moved for partial summary judgment, and JPMorgan Chase has moved for summary judgment and/or partial judgment on the pleadings. The three bank lender cases have been transferred to the United States District Court for the Southern District of New York.

In March 2006, two plaintiffs filed complaints in New York Supreme Court against JPMorgan Chase alleging breach of contract, breach of implied duty of good faith and fair dealing and breach of fiduciary duty based upon the Firm s role as Indenture Trustee in connection with two indenture agreements between JPMorgan Chase and Enron. The Firm removed both actions to the United States District Court for the Southern District of New York. The federal court dismissed one of these cases and remanded the other to New York State court. JPMorgan Chase filed a motion to dismiss plaintiffs amended complaint in State court on May 24, 2007, which was denied. JPMorgan Chase appealed, and on December 23, 2008, the Supreme Court, Appellate Division for the First Department reversed the trial court s order, dismissing plaintiffs complaint. Plaintiffs have moved for leave to further appeal this ruling.

In a purported, consolidated class action lawsuit by JPMorgan Chase stockholders alleging that the Firm issued false and misleading press releases and other public documents relating to Enron in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, the United States District Court for the Southern District of New York dismissed the lawsuit in its entirety without prejudice in March 2005. Plaintiffs filed an amended complaint in May 2005. The Firm moved to dismiss the amended complaint, which the Court granted with prejudice on March 28, 2007. Plaintiffs appealed the dismissal. On January 21, 2009, the United States Court of Appeals for the Second Circuit affirmed the trial court s dismissal of the action.

A putative class action on behalf of JPMorgan Chase employees who participated in the Firm s 401(k) plan alleges claims under ERISA for alleged breaches of fiduciary duties and negligence by JPMorgan Chase, its directors and named officers. In August 2005, the United States District Court for the Southern District of New York denied plaintiffs motion for class certification and ordered some of plaintiffs claims dismissed. In September 2005, the Firm moved for summary judgment seeking dismissal of this ERISA lawsuit in its entirety, and in September 2006, the Court granted summary judgment in part, and ordered plaintiffs to show cause as to why the remaining claims should not be dismissed. On December 27, 2006, the Court dismissed the case with prejudice. Plaintiffs appealed the dismissal. On December 24, 2008, the United States Court of Appeals for the Second Circuit reversed the trial court s dismissal and remanded the case back to the District Court for further proceedings.

IPO Allocation Litigation. Beginning in May 2001, JPMorgan Chase and certain of its securities subsidiaries were named, along with numerous other firms in the securities industry, as defendants in a large number of putative class action lawsuits filed in the United States District Court for the Southern District of New York alleging improprieties in the allocation of securities in various public offerings, including some offerings for which a JPMorgan Chase entity served as an underwriter. They also claim violations of securities laws arising from alleged material misstatements and omissions in registration statements and prospectuses for the initial public offerings (IPOs) and alleged market manipulation with respect to aftermarket transactions in the offered securities. The securities lawsuits allege, among other things, misrepresentation and market manipulation of the aftermarket trading for these offerings by tying allocations of shares in IPOs to undisclosed excessive commissions paid to the underwriter defendants, including JPMorgan Securities, and to required aftermarket purchase transactions by customers who received allocations of shares in the respective IPOs, as well as allegations of misleading analyst reports. Bear, Stearns & Co., Inc. is named as a defendant in 95 of the pending IPO securities cases. Antitrust lawsuits based on similar allegations have been dismissed with prejudice.

The District Court denied a motion to dismiss in all material respects relating to the underwriter defendants and generally granted plaintiffs motion for class certification in six focus cases. The U.S. Court of Appeals for the Second Circuit reversed the District Court s order granting class certification, denied plaintiffs applications for rehear-

Part I

ing and rehearing en banc, and remanded. On August 14, 2007, plaintiffs amended their complaints in the six focus cases as well as their master allegations for all such cases to reflect new class-related allegations. On September 27, 2007, plaintiffs filed a new motion for class certification in the District Court, and on November 14, 2007, JPMorgan Securities and the other defendants moved to dismiss the amended complaints. Following a mediation, a settlement in principle has been reached, subject to negotiation of definitive documentation and court approval. It has now been publicly reported by others that the aggregate total of the amounts agreed to be paid by or on behalf of all issuer and underwriter defendants, including Lehman Brothers, Inc., which is now in bankruptcy proceedings, totaled $610 million. JPMorgan Securities share of the settlement will not have a material adverse effect on the consolidated financial condition of the Firm.

JPMorgan Securities is also among numerous underwriting firms named as defendants in a number of complaints filed commencing October 3, 2007, in the United States District Court for the Western District of Washington under Section 16(b) of the Securities and Exchange Act of 1934 in connection with the IPO of securities for 23 issuers. Bear Stearns was named in complaints in connection with four issuers. Motions to dismiss have been fully briefed but have not been decided by the Court.

Interchange Litigation. On June 22, 2005, a group of merchants filed a putative class action complaint in the United States District Court for the District of Connecticut. The complaint alleged that VISA, MasterCard, Chase Bank USA, N.A., and JPMorgan Chase, as well as certain other banks, and their respective bank holding companies, conspired to set the price of credit card interchange fees in violation of Section 1 of the Sherman Act. The complaint further alleged tying/bundling and exclusive dealing. Since the filing of the Connecticut complaint, other complaints were filed in different United States District Courts challenging the setting of interchange, as well as the card associations respective rules. All cases have been consolidated in the Eastern District of New York for pretrial proceedings. An amended consolidated class action complaint was filed on April 24, 2006, that incorporated the interchange claims, described the alleged anticompetitive effects of card associations rules and extended claims beyond credit to debit cards. Defendants filed a motion to dismiss all claims that predated January 1, 2004. On January 8, 2008, the Court granted the motion to dismiss these claims. On January 30, 2009, a second amended consolidated class action complaint was served. The basic theories of the complaint remain the same. Fact discovery has closed, and expert discovery in the case is ongoing. The plaintiffs have filed a motion seeking class certification, and the defendants have opposed that motion. The Court has not yet ruled on the class certification motion.

In addition to the consolidated class action complaint, plaintiffs filed supplemental complaints challenging the MasterCard and Visa IPOs. With respect to MasterCard, plaintiffs first filed a supplemental complaint in May 2006 alleging that the offering violated Section 7 of the Clayton Act and Section 1 of the Sherman Act and that the offering was a fraudulent conveyance. Defendants filed a motion to dis-
miss both of those claims. After the issues were fully briefed, on November 25, 2008, the District Court dismissed the supplemental complaint with leave to replead. On January 30, 2009, the plaintiffs filed and served an amended supplemental complaint again challenging the MasterCard IPO, making antitrust claims similar to those that were set forth in the original supplemental complaint, as well as the fraudulent conveyance claim. With respect to the Visa IPO, on January 30, 2009, the plaintiffs filed a supplemental complaint challenging the Visa IPO on antitrust theories parallel to those articulated in the MasterCard IPO pleading.

Mortgage-Backed Securities Litigation. JPMorgan Securities, J.P. Morgan Acceptance Corp I (JPMAC) and 32 trusts that issued Mortgage Pass-Through Certificates and Asset-Backed Pass-Through Certificates, for which JPMorgan Securities served as underwriter and JPMAC as depositor, as well as certain officers and/or directors of JPMAC, are defendants in a purported class action suit commenced on March 26, 2008, in State court in New York. The suit was subsequently removed by defendants to the United States District Court for the Eastern District of New York. Plaintiffs, two employee benefit plans, assert claims for violations of the federal securities laws alleging that the disclosures in the offering materials for the certificates issued by the 32 trusts contained material misstatements and omissions, particularly as to mortgage origination standards and the risk profile of the investment. The complaint seeks unspecified damages and rescission. Pursuant to a stipulation among the parties, plaintiffs are to serve an amended complaint by March 9, 2009.

A purported class action suit was commenced on August 20, 2008, against Bear, Stearns & Co. Inc. and certain of its subsidiaries and former employees in New York Supreme Court on behalf of purchasers of certificates issued in an offering of Mortgage Loan Pass-Through Certificates. JPMorgan Chase is also named as a defendant solely in its alleged capacity as successor-in-interest to Bear, Stearns & Co. Inc. Plaintiff also asserts claims for violations of the federal securities laws, claiming the offering materials for the certificates allegedly contained material misstatements and omissions with respect to, among other things, mortgage origination standards and the risk profile of the investment. Plaintiff seeks recovery of unspecified compensatory damages and rescission. The defendants have removed this action to the District Court for the Southern District of New York.

Two purported nationwide class actions alleging violations of the federal securities laws in connection with the sale of mortgage-backed securities have also been brought against Washington Mutual Bank and certain of its former subsidiaries by three employee retirement plans. The first case (the State-Filed Action) was filed in the Superior Court of the State Washington, County of King on August 4, 2008, against Washington Mutual Bank; three former Washington Mutual Bank subsidiaries that are now subsidiaries of JPMorgan Chase Bank, N.A. (WaMu Asset Acceptance Corp., WaMu Capital Corp., Washington Mutual Mortgage Securities Corp.); and four former Washington Mutual Bank employees (some of whom are now JPMorgan Chase employees). The plaintiffs in this case allege that defendants made false and misleading statements and omissions relating to mortgage origination and underwriting standards in offering materials for Mortgage Pass-Through certificates, backed by

Table of Contents

pools of Washington Mutual Bank-originated, first-lien, prime mortgages. Plaintiffs also allege that defendants failed to disclose Washington Mutual Bank s alleged coercion of or collusion with appraisal vendors to inflate appraisal valuations and thus misrepresented the loan-to-value ratios of, and the adequacy of appraisals supporting, the loans in the pools. On January 28, 2009, the state court issued an order substituting the FDIC as defendant for Washington Mutual Bank. On January 29, 2009, the FDIC removed this action to the United States District Court for the Western District of Washington. On February 5, 2009, the FDIC moved to stay the State-Filed Action pending completion of the FDIC s administrative review of plaintiff s claims.

The second case (the Federal-Filed Action) filed on January 12, 2009, is pending in the United States District Court for the Western District of Washington in Seattle against Washington Mutual Bank, WaMu Asset Acceptance Corp., WaMu Capital Corp., the same individuals named in the State-Filed Action, and 19 securitization trusts. The plaintiff in the Federal-Filed Action makes similar allegations to the State-Filed Action, but does not specifically challenge defendants appraisal practices. On February 10, 2009, the Court in the Federal-Filed Action ordered that the FDIC be substituted as defendant for Washington Mutual Bank. On February 12, 2009, the FDIC moved to dismiss it from the Federal-Filed Action without prejudice because plaintiffs failed to exhaust administrative remedies before filing their lawsuit. On February 19, 2009, the non-FDIC defendants moved in the Federal-Filed Action to consolidate that action with the State-Filed Action.

EMC Mortgage Corporation (EMC), a subsidiary of JPMorgan Chase, has been named as a defendant in an action commenced on November 5, 2008, in the United States District Court for the Southern District of New York, by Ambac Assurance Corp., a mono-line bond insurer that guaranteed payment on certain classes of mortgage-backed securities issued by EMC. This lawsuit involves four EMC securitizations. Plaintiff claims the loans that served as collateral for the four transactions had origination defects that purportedly violate certain representations and warranties given by EMC to plaintiff and that EMC has breached the relevant agreements between the parties by failing to repurchase allegedly defective mortgage loans. Plaintiff seeks unspecified damages and an order compelling EMC to repurchase individual loans that are allegedly in breach of EMC s representations and warranties.

In addition, the Firm has been named as a defendant in its capacity as an underwriter for other issuers in other litigation involving mortgage-backed securities.

Auction-Rate Securities Investigations and Litigation. Beginning in March 2008, several regulatory authorities initiated investigations of a number of industry participants, including the Firm, concerning possible state and federal securities law violations in connection with the sale of auction-rate securities. The market for many such securities had frozen and a significant number of auctions for those securities began to fail in February 2008. Multiple state and federal agencies, including the SEC, the Financial Industry Regulatory Authority (FINRA), the Attorney General of the State of New York, the State of Florida Office of Financial Regulation, on behalf of the North American Securities Administrators Association (NASAA), and the Massachusetts Attorney General, have either requested information from JPMorgan Chase or issued subpoenas to JPMorgan Chase regarding the activities of its affiliates with respect to auction-rate securities.

On August 13, 2008, the Firm, on behalf of itself and affiliates, agreed to a settlement in principle with the New York Attorney General s Office which provided, among other things, that the Firm would offer to purchase at par certain auction-rate securities purchased from JPMorgan Securities, Chase Investment Services Corp. and Bear, Stearns & Co. Inc. by individual investors, charities, and small- to medium-sized businesses with account values of up to $10 million no later than November 12, 2008. On August 14, 2008, the Firm agreed to a substantively similar settlement in principle with the Office of Financial Regulation for the State of Florida and NASAA Task Force, which agreed to recommend approval of the settlement to all remaining states, Puerto Rico and the U.S. Virgin Islands. The agreements in principle provide for the payment of penalties totaling $25 million to New York and the other states. JPMorgan Chase is currently in the process of negotiating final settlement documentation with the New York Attorney General s Office and the Office of Financial Regulation for the State of Florida. JPMorgan Chase has cooperated, and will continue to cooperate, with the ongoing SEC s investigation.

On October 17, 2008, following an investigation by FINRA into auction-rate securities practices of WaMu Investments Inc., a former Washington Mutual Bank subsidiary acquired by the Firm in the Washington Mutual transaction. WaMu Investments, Inc. resolved the matter by submitting a Letter of Acceptance, Waiver and Consent to

FINRA. Without admitting or denying the findings, WaMu Investments, Inc. consented to findings by FINRA that it violated certain NASD Rules relating to communications with the public and supervisory procedures and, among other things, agreed to offer to purchase at par auction-rate securities purchased by certain WaMu Investments, Inc. customers and to pay a fine of $250,000.

The Firm is the subject of two putative securities class actions in the United States District Court for the Southern District of New York and a number of individual arbitrations and lawsuits relating to the Firm s sales of auction-rate securities. Each complaint alleges that JPMorgan Chase marketed auction-rate securities as safe, liquid, short-term investments although it knew that auction-rate securities were long-dated debt instruments. The complaints also allege that JPMorgan Chase and other broker-dealers artificially supported the auction-rate securities market and that JPMorgan Chase knew that the market would become illiquid if the firms stopped supporting the auctions but did not disclose this fact to investors. Each of the named plaintiffs in these actions accepted JPMorgan Chase s buy-back offer as part of its settlement with the regulatory agencies and no longer owns any auction-rate securities. Judge Berman of the United States District Court for the Southern District of New York consolidated the two putative securities class actions and appointed lead plaintiffs and lead counsel involving the sale of auction-rate securities. One of the groups of plaintiffs previously seeking lead

Table of Contents

Part I

plaintiff status filed a motion for reconsideration of the Court s order. The motion for reconsideration has been fully briefed and is pending before the Court.

Additionally, the Firm is the subject of two putative antitrust class actions in the United States District Court for the Southern District of New York, which actions allege that the Firm, in collusion with numerous other financial institution defendants, entered into an unlawful conspiracy in violation of Section 1 of the Sherman Act. Specifically, the complaints allege that defendants acted collusively to maintain and stabilize the auction-rate securities market and similarly acted collusively in withdrawing their support for the auction-rate securities market in February 2008. JPMorgan Chase and the other defendants filed a joint motion to dismiss both actions. Plaintiffs opposition to the motion is due on March 19, 2009.

In addition to the various cases, proceedings and investigations discussed above, JPMorgan Chase and its subsidiaries are named as defendants or otherwise involved in a number of other legal actions and governmental proceedings arising in connection with their businesses. Additional actions, investigations or proceedings may be initiated from time to time in the future. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, the Firm cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines, penalties or impact related to each pending matter may be. JPMorgan Chase believes, based upon its current knowledge, after consultation with counsel and after taking into account its current litigation reserves, that the outcome of the legal actions, proceedings and investigations currently pending against it should not have a material adverse effect on the Firm s consolidated financial condition. However, in light of the uncertainties involved in such proceedings, actions and investigations, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by the Firm; 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.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

Executive officers of the registrant

Name	**Age (at December 31, 2008)**	**Positions and offices**
James Dimon	**52**	Chairman of the Board since December 31, 2006, and President and Chief Executive Officer since December 31, 2005. He had been President and Chief Operating Officer from July 1, 2004, until December 31, 2005. Prior to the merger between JPMorgan Chase & Co. and Bank One Corporation (the Merger), he had been Chairman and Chief Executive Officer of Bank One Corporation.
Frank J. Bisignano	**49**	Chief Administrative Officer since December 2005. Prior to joining JPMorgan Chase, he had been Chief Executive Officer of Citigroup Inc. s Global Transaction Services.
Steven D. Black	**56**	

		Co-Chief Executive Officer of the Investment Bank since March 2004, prior to which he had been Deputy Head of the Investment Bank.
Michael J. Cavanagh	**42**	Chief Financial Officer since September 2004, prior to which he had been Head of Middle Market Banking. Prior to the Merger, he had been Chief Administrative Officer of Commercial Banking and Chief Operating Officer of Middle Market Banking at Bank One Corporation.
Stephen M. Cutler	**47**	General Counsel since February 2007. Prior to joining JPMorgan Chase, he was a partner and co-chair of the Securities Department at the law firm of WilmerHale since October 2005. Prior to joining WilmerHale, he had been Director of the Division of Enforcement at the U.S. Securities and Exchange Commission since October 2001.
William M. Daley	**60**	Head of Corporate Responsibility since June 2007 and Chairman of the Midwest Region since May 2004. Prior to joining JPMorgan Chase, he had been President of SBC Communications.

Table of Contents

Parts I and II

Ina R. Drew	**52**	Chief Investment Officer since February 2005, prior to which she was Head of Global Treasury.
Samuel Todd Maclin	**52**	Head of Commercial Banking since July 2004, prior to which he had been Chairman and CEO of the Texas Region and Head of Middle Market Banking.
Jay Mandelbaum	**46**	Head of Strategy and Business Development. Prior to the Merger, he had been Head of Strategy and Business Development since September 2002 at Bank One Corporation.
Heidi Miller	**55**	Chief Executive Officer of Treasury & Securities Services. Prior to the Merger, she had been Chief Financial Officer at Bank One Corporation.
Charles W. Scharf	**43**	Chief Executive Officer of Retail Financial Services. Prior to the Merger, he had been Head of Retail Banking at Bank One Corporation.
Gordon A. Smith	**50**	Chief Executive Officer of Card Services since June 2007. Prior to joining JPMorgan Chase, he was with American Express Company for more than 25 years. From August 2005 until June 2007, he was president of American Express global commercial card business. Prior to that, he was president of the consumer card services group and was responsible for all consumer card products in the U.S.
James E. Staley	**52**	Chief Executive Officer of Asset Management.
William T. Winters	**47**	Co-Chief Executive Officer of the Investment Bank since March 2004, prior to which he had been Deputy Head of the Investment Bank and Head of Credit & Rate Markets.
Barry L. Zubrow	**55**	Chief Risk Officer since November 2007. Prior to joining JPMorgan Chase, he was a private investor and has been Chairman of the New Jersey Schools Development Authority since March 2006; prior to November 2003 he held a variety of positions at The Goldman Sachs Group, including Chief Administrative Officer from 1999.

Unless otherwise noted, during the five fiscal years ended December 31, 2008, all of JPMorgan Chase s above-named executive officers have continuously held senior-level positions with JPMorgan Chase or its predecessor institution, Bank One Corporation prior to the Merger. There are no family relationships among the foregoing executive officers.

Part II

ITEM 5: MARKET FOR REGISTRANT S COMMON
EQUITY, RELATED STOCKHOLDER MATTERS AND
ISSUER PURCHASES OF EQUITY SECURITIES

The outstanding shares of JPMorgan Chase common stock are listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. For the quarterly high and low prices of JPMorgan Chase s common stock on the New York Stock Exchange for the last two years, see the section entitled Supplementary information Selected quarterly financial data (unaudited) on page 217. For a comparison of the cumulative total

return for JPMorgan Chase common stock with the comparable total return of the S&P 500 Index and the S&P Financial Index over the five-year period ended December 31, 2008, see Five-year stock performance, on page 27.
On February 23, 2009, the Board of Directors reduced the Firm's quarterly common stock dividend from $0.38 to $0.05 per share, effective for the dividend payable April 30, 2009 to shareholders of record on April 6, 2009.
JPMorgan Chase declared quarterly cash dividends on its common stock in the amount of $0.38 for each quarter of 2008 and the second, third and fourth quarters of 2007, and $0.34 per share for the first quarter of 2007 and for each quarter of 2006. The common dividend payout ratio, based upon reported net income, was 114% for 2008, and 34% for both 2007 and 2006. For a discussion
of restrictions on dividend payments, see Note 24 on pages 193 194 and for additional information regarding the reduction of the dividend, see page 32.
At January 31, 2009, there were 233,908 holders of record of JPMorgan Chase common stock.
On April 17, 2007, the Board of Directors authorized the repurchase of up to $10.0 billion of the Firm s common shares, which supercedes an $8.0 billion repurchase program approved in 2006. The $10.0 billion authorization includes shares to be repurchased to offset issuances under the Firm s employee stock-based plans. The actual number of shares repurchased is subject to various factors, including market conditions; legal 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 potential investment opportunities. The repurchase program does not include specific price targets or timetables, may be executed through open market purchases or privately negoti-

Table of Contents

Part II

ated transactions, or utilizing a written trading plan under Rule 10b5-1 of the Securities Exchange Act of 1934, and may be suspended at any time. A Rule 10b5-1 repurchase plan allows the Firm to repurchase shares during periods when it would not otherwise be repurchasing common stock, for example during internal trading black-out periods. All purchases under a Rule 10b5-1 plan must be made according to a predefined plan that is established when the Firm is not aware of material nonpublic information.

In order to maintain its capital objectives, the Firm did not repurchase any shares during the fourth quarter and full year of 2008, under the current $10.0 billion stock repurchase program. As of December 31, 2008, $6.2 billion of authorized repurchase capacity remained under the current stock repurchase program. For a discussion of restrictions on stock repurchases, see Capital Purchase Program on page 72 and Note 24 on pages 193 194.

Stock repurchases under the stock-based incentive plans

Participants in the Firm s stock-based incentive plans may have shares withheld to cover income taxes. Shares withheld to pay income taxes are repurchased pursuant to the terms of the applicable plan and not under the Firm s share repurchase program. Shares repurchased after October 28, 2008, were repurchased in accordance with an exemption from the Capital Purchase Program s stock repurchase restrictions. Shares repurchased pursuant to these plans during 2008 were as follows:

Year ended December 31, 2008	Total shares repurchased	Average price paid per share
First quarter	**2,043**	**$ 45.61**
Second quarter	**7,041**	**47.57**
Third quarter	**24,214**	**31.05**
October	362	39.89
November	369	44.17
December	460,896	44.29
Fourth quarter	**461,627**	**44.29**
Total for 2008	**494,925**	**$ 43.69**

ITEM 6: SELECTED FINANCIAL DATA

For five-year selected financial data, see Five-year summary of consolidated financial highlights (unaudited) on page 26 and Selected annual financial data (unaudited) on page 218.

ITEM 7: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s discussion and analysis of financial condition and results of operations, entitled Management s discussion and analysis, appears on pages 27 through 114. Such information should be read in conjunction with the consolidated financial statements and notes thereto, which appear on pages 118 through 216.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information related to market risk, see the Market Risk Management section on pages 99 through 104.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, together with the notes thereto and the report of PricewaterhouseCoopers LLP dated February 27, 2009, thereon, appear on pages 117 through 216.

Supplementary financial data for each full quarter within the two years ended December 31, 2008, are included on page 217 in the table entitled Supplementary information Selected quarterly financial data (unaudited). Also included is a Glossary of terms on pages 219 222.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: 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 upon 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 even material weaknesses in internal controls in the future. See page 116 for Management s report on internal control over financial reporting. 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 fourth quarter of 2008 that has materially affected, or is reasonably likely to materially affect, the Firm s internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

None.

Table of Contents

Part III and IV
Part III
ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
See Item 13 below.
ITEM 11: EXECUTIVE COMPENSATION
See Item 13 below.
ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
For security ownership of certain beneficial owners and management, see Item 13 below.

The following table details the total number of shares available for issuance under JPMorgan Chase s employee stock-based incentive plans (including shares available for issuance to nonemployee directors). The Firm is not authorized to grant stock-based incentive awards to nonemployees other than to nonemployee directors.

December 31, 2008 (Shares in thousands)	Number of shares to be issued upon exercise of outstanding options/SARs	Weighted-average exercise price of outstanding options/SARs	Number of shares remaining available for future issuance under stock compensation plans
Plan category			
Employee stock-based incentive plans approved by shareholders	**191,679**	**$ 47.91**	**347,956**(a)
Employee stock-based incentive plans not approved by shareholders	**90,731**	**45.16**	
Total	**282,410**	**$ 47.02**	**347,956**

(a) Represents future shares available under the shareholder-approved 2005 Long-Term Incentive Plan, as amended and restated effective May 20, 2008.

All future shares will be issued under the shareholder-approved 2005 Long-Term Incentive Plan, as amended and restated effective May 20, 2008. For further information see Note 10 on pages 155 158.
ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE
Information to be provided in Items 10, 11, 12, 13 and 14 of Form 10-K and not otherwise included herein is incorporated by reference to the Firm s definitive proxy statement for its 2008 Annual Meeting of Stockholders to be held on May 19, 2009, which will be filed with the SEC within 120 days of the end of the Firm s fiscal year ended December 31, 2008.
ITEM 14: PRINCIPAL ACCOUNTING FEES SERVICES

See Item 13 above.

Part IV

ITEM 15: EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Exhibits, financial statement schedules

1. Financial statements

   The Consolidated financial statements, the Notes thereto and the report thereon listed in Item 8 are set forth commencing on page 18.

2. Financial statement schedules
3. Exhibits

3.1 Restated Certificate of Incorporation of JPMorgan Chase & Co., effective April 5, 2006 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed April 7, 2006).

3.2 Certificate of Designations of Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series I (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed April 24, 2008).

3.3 Certificate of Designations of 6.15% Cumulative Preferred Stock, Series E (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed July 16, 2008).

Table of Contents

Part IV

3.4 Certificate of Designations of 5.72% Cumulative Preferred Stock, Series F (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed July 16, 2008).

3.5 Certificate of Designations of 5.49% Cumulative Preferred Stock, Series G (incorporated by reference to Exhibit 3.3 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed July 16, 2008).

3.6 Certificate of Designations of 8.625% Non-Cumulative Preferred Stock, Series J (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K/A of JPMorgan Chase & Co. (File No. 1-5805) filed September 17, 2008).

3.7 Certificate of Designations of Fixed Rate Cumulative Preferred Stock, Series K (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed October 31, 2008).

3.8 By-laws of JPMorgan Chase & Co., effective July 15, 2008 (incorporated by reference to Exhibit 3.4 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed July 16, 2008).

4.1(a) Indenture, dated as of December 1, 1989, between Chemical Banking Corporation (now known as JPMorgan Chase & Co.) and The Chase Manhattan Bank (National Association) (succeeded by Deutsche Bank Trust Company Americas), as Trustee.

4.1(b) First Supplemental Indenture, dated as of November 1, 2007, between JPMorgan Chase & Co. and Deutsche Bank Trust Company Americas, as Trustee, to the Indenture, dated as of December 1, 1989 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed November 7, 2007).

4.1(c) Fifth Supplemental Indenture, dated as of December 22, 2008, between JPMorgan Chase & Co. and Deutsche Bank Trust Company Americas, as Trustee, to the Indenture, dated as of December 1, 1989.

4.2(a) Indenture, dated as of April 1, 1987, as amended and restated as of December 15, 1992, between Chemical Banking Corporation (now known as JPMorgan Chase & Co.) and Morgan Guaranty Trust Company of New York (succeeded by U.S. Bank Trust National Association), as Trustee (incorporated by reference to Exhibit 4.3(a) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

4.2(b) Third Supplemental Indenture, dated as of December 29, 2000, between The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and U.S. Bank Trust National Association, as Trustee, to the Indenture, dated as of April 1, 1987, as amended and restated as of December 15, 1992 (incorporated by reference to Exhibit 4.3(c) to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005).

4.3(a) Indenture, dated as of May 25, 2001, between J.P. Morgan Chase & Co. and Bankers Trust Company (succeeded by Deutsche Bank Trust Company Americas), as Trustee (incorporated by reference to Exhibit 4(a)(1) to the Registration Statement on Form S-3 of J.P. Morgan Chase & Co. (File No. 333-52826) filed June 13, 2001).

4.3(b)

First Supplemental Indenture, dated as of April 9, 2008, between JPMorgan Chase & Co. and Deutsche Bank Trust Company Americas, as Trustee to the Indenture, dated as of May 25, 2001 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File no. 1-5805) filed October 31, 2008).

4.4(a) Junior Subordinated Indenture, dated as of December 1, 1996, between The Chase Manhattan Corporation (now known as JPMorgan Chase & Co.) and The Bank of New York (succeeded by The Bank of New York Mellon), as Trustee.

4.4(b) Supplemental Indenture (First), dated as of September 23, 2004, between JPMorgan Chase & Co. and The Bank of New York (succeeded by The Bank of New York Mellon), as Debenture Trustee, to the Junior Subordinated Indenture, dated as of December 1, 1996 (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-3 of JPMorgan Chase & Co. (File No. 333-126750) filed September 23, 2004).

4.4(c) Supplemental Indenture (Second), dated as of May 19, 2005, between JPMorgan Chase & Co. and The Bank of New York (succeeded by The Bank of New York Mellon), as Debenture Trustee, to the Junior Subordinated Indenture, dated as of December 1, 1996 (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form S-3 of JPMorgan Chase & Co. (File No. 333-126750) filed July 21, 2005.

4.5 Form of Deposit Agreement (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed April 24, 2008).

4.6 Form of Deposit Agreement (incorporated by reference to Exhibit 4(d) to the Registration Statement on Form S-4 of JPMorgan Chase & Co. (File No. 333-152214) filed July 9, 2007).

4.7 Form of Deposit Agreement (incorporated by reference to Exhibit 4(e) to the Registration Statement on Form S-4 of JPMorgan Chase & Co. (File No. 333-152214) filed July 9, 2007).

4.8 Form of Deposit Agreement (incorporated by reference to Exhibit 4(f) to the Registration Statement on Form S-4 of JPMorgan Chase & Co. (File No. 333-152214) filed July 9, 2007).

4.9 Form of Deposit Agreement (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed August 21, 2008).

Other instruments defining the rights of holders of long-term debt securities of JPMorgan Chase & Co. and its subsidiaries are omitted pursuant to Section (b)(4)(iii)(A) of Item 601 of Regulation S-K. JPMorgan Chase & Co. agrees to furnish copies of these instruments to the SEC upon request.

10.1 Deferred Compensation Plan for Non-Employee Directors of JPMorgan Chase & Co., as amended and restated July 2001 and as of December 31, 2004 (incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2007). *

10.2 2005 Deferred Compensation Plan for Non-Employee Directors of JPMorgan Chase & Co., effective as of January 1, 2005 (incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2007). *

Table of Contents

10.3 Post-Retirement Compensation Plan for Non-Employee Directors of The Chase Manhattan Corporation, as amended and restated, effective May 21, 1996. *

10.4 2005 Deferred Compensation Program of JPMorgan Chase & Co., restated effective as of December 31, 2008. *

10.5 JPMorgan Chase & Co. 2005 Long-Term Incentive Plan as amended and restated effective May 20, 2008 (incorporated by reference to Appendix B of Schedule 14A of JPMorgan Chase & Co. (File No. 1-5805) filed March 31, 2008). *

10.6 Key Executive Performance Plan of JPMorgan Chase & Co., restated as of January 1, 2005 (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005). *

10.7 Excess Retirement Plan of JPMorgan Chase & Co., restated and amended as of December 31, 2008. *

10.8 1995 Stock Incentive Plan of J.P. Morgan & Co. Incorporated and Affiliated Companies, as amended, dated December 11, 1996. *

10.9 Executive Retirement Plan of JPMorgan Chase & Co., as amended and restated December 31, 2008.*

10.10 Amendment to Bank One Corporation Director Stock Plan, as amended and restated effective February 1, 2003. *

10.11 Summary of Bank One Corporation Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005). *

10.12 Bank One Corporation Stock Performance Plan, as amended and restated effective February 20, 2001. *

10.13 Bank One Corporation Supplemental Savings and Investment Plan, as amended and restated effective December 31, 2008. *

10.14 Revised and Restated Banc One Corporation 1989 Stock Incentive Plan, effective January 18, 1989. *

10.15 Banc One Corporation Revised and Restated 1995 Stock Incentive Plan, effective April 17, 1995. *

10.16 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of January 2005 stock appreciation rights (incorporated by reference to Exhibit 10.31 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005). *

10.17 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of October 2005 stock appreciation rights (incorporated by reference to Exhibit 10.33 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2005). *

10.18 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of January 22, 2008 stock appreciation rights (incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2007). *

10.19 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of January 22, 2008 restricted stock units (incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2007). *

10.20 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for stock appreciation rights, dated as of January 20, 2009. *

10.21 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for Operating Committee member stock appreciation rights, dated as of January 20, 2009. *

10.22 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for restricted stock units, dated as of January 20, 2009. *

10.23 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Terms and Conditions for Operating Committee member restricted stock units, dated as of January 20, 2009. *

10.24 Form of JPMorgan Chase & Co. Long-Term Incentive Plan Award Agreement of January 22, 2008 stock appreciation rights for James Dimon (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K of JPMorgan Chase & Co. (File No. 1-5805) for the year ended December 31, 2007). *

Table of Contents

Part IV

10.25 Letter Agreement, including the Securities Purchase Agreement-Standard Terms incorporated therein, dated October 26, 2008, between JPMorgan Chase & Co. and the United States Department of the Treasury (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed October 31, 2008).

10.26 Warrant to purchase up to 88,401,697 shares of Common Stock, issued on October 28, 2008 (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of JPMorgan Chase & Co. (File No. 1-5805) filed October 31, 2008).

12.1 Computation of ratio of earnings to fixed charges.

12.2 Computation of ratio of earnings to fixed charges and preferred stock dividend requirements.

21.1 List of Subsidiaries of JPMorgan Chase & Co.

22.1 Annual Report on Form 11-K of The JPMorgan Chase 401(k) Savings Plan for the year ended December 31, 2008 (to be filed pursuant to Rule 15d-21 under the Securities Exchange Act of 1934).

23.1 Consent of independent registered public accounting firm.

31.1 Certification.

31.2 Certification.

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* This exhibit is a management contract or compensatory plan or arrangement.

Pages 23 and 24 not used

Table of Contents

Table of contents

Financial:

Table of Contents

Five-year summary of consolidated financial highlights

ited) lions, except per share, headcount and ratio data) or for the year ended December 31,	**2008**(f)	2007	2006	2005	20(
ed income statement data					
net revenue	**$ 67,252**	$ 71,372	$ 61,999	$ 54,248	$ 42
ion for credit losses	**19,445**	6,864	3,270	3,483	1
ion for credit losses accounting conformity(a)	**1,534**				
noninterest expense	**43,500**	41,703	38,843	38,926	34
e from continuing operations before income tax expense (benefit)	**2,773**	22,805	19,886	11,839	5
e tax expense (benefit)(b)	**(926)**	7,440	6,237	3,585	1
e from continuing operations	**3,699**	15,365	13,649	8,254	4
e from discontinued operations(c)			795	229	
e before extraordinary gain	**3,699**	15,365	14,444	8,483	4
rdinary gain(d)	**1,906**				
come	**$ 5,605**	$ 15,365	$ 14,444	$ 8,483	$ 4
mmon share					
earnings per share					
e from continuing operations	**$ 0.86**	$ 4.51	$ 3.93	$ 2.36	$
come	**1.41**	4.51	4.16	2.43	
d earnings per share					
e from continuing operations	**$ 0.84**	$ 4.38	$ 3.82	$ 2.32	$
come	**1.37**	4.38	4.04	2.38	
ividends declared per share	**1.52**	1.48	1.36	1.36	
value per share	**36.15**	36.59	33.45	30.71	2
on shares outstanding					
ge: Basic	**3,501**	3,404	3,470	3,492	2
d	**3,605**	3,508	3,574	3,557	2
on shares at period-end	**3,733**	3,367	3,462	3,487	3
price(e)					
	$ 50.63	$ 53.25	$ 49.00	$ 40.56	$ 4
	19.69	40.15	37.88	32.92	3
	31.53	43.65	48.30	39.69	3
t capitalization	**117,695**	146,986	167,199	138,387	138
ed ratios					
on common equity (ROE):					
e from continuing operations	**2%**	13%	12%	8%	
come	**4**	13	13	8	
on assets (ROA):					
e from continuing operations	**0.21**	1.06	1.04	0.70	
come	**0.31**	1.06	1.10	0.72	
ead ratio	**65**	58	63	72	

capital ratio	**10.9**	8.4	8.7	8.5	
apital ratio	**14.8**	12.6	12.3	12.0	
leverage ratio	**6.9**	6.0	6.2	6.3	
ed balance sheet data (period-end)					
g assets	**$ 509,983**	$ 491,409	$ 365,738	$ 298,377	$ 288
ties	**205,943**	85,450	91,975	47,600	94
	744,898	519,374	483,127	419,148	402
ssets	**2,175,052**	1,562,147	1,351,520	1,198,942	1,157
its	**1,009,277**	740,728	638,788	554,991	521
erm debt	**252,094**	183,862	133,421	108,357	95
on stockholders equity	**134,945**	123,221	115,790	107,072	105
tockholders equity	**166,884**	123,221	115,790	107,211	105
ount	**224,961**	180,667	174,360	168,847	160

(a) Results for 2008 and 2004 included an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual Bank s banking operations and the merger with Bank One Corporation, respectively.

(b) The income tax benefit in 2008 is the result of the release of previously established deferred tax liabilities on non-U.S. earnings and business tax credits.

(c) On October 1, 2006, JPMorgan Chase & Co. completed the exchange of selected corporate trust businesses for the consumer, business banking and middle-market banking businesses of The Bank of New York Company Inc. The results of operations of these corporate trust businesses are being reported as discontinued operations for each of the periods presented.

(d) Effective September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank for $1.9 billion. The fair value of the net assets acquired exceeded the purchase price which resulted in negative goodwill. In accordance with SFAS 141, nonfinancial assets that are not held-for-sale were written down against that negative goodwill. The negative goodwill that remained after writing down nonfinancial assets was recognized as an extraordinary gain in 2008.

(e) JPMorgan Chase s common stock is listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. The high, low and closing prices of JPMorgan Chase s common stock are from The New York Stock Exchange Composite Transaction Tape.

(f) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm s results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 123-128 of this Annual Report.

(g) On July 1, 2004, Bank One Corporation merged with and into JPMorgan Chase. Accordingly, 2004 results include six months of the combined Firm s results and six months of heritage JPMorgan Chase results.

Table of Contents

Management s discussion and analysis

FIVE-YEAR STOCK PERFORMANCE

The following table and graph compare the five-year cumulative total return for JPMorgan Chase & Co. (JPMorgan Chase or the Firm) common stock with the cumulative return of the S&P 500 Stock Index and the S&P Financial Index. The S&P 500 Index is a commonly referenced U.S. equity benchmark consisting of leading companies from different economic sectors. The S&P Financial Index is an index of 81 financial companies, all of which are within the S&P 500. The Firm is a component of both industry indices.

The following table and graph assumes simultaneous investments of $100 on December 31, 2003, in JPMorgan Chase common stock and in each of the above S&P indices. The comparison assumes that all dividends are reinvested.

December 31, (in dollars)	2003	2004	2005	2006	2007	**2008**
JPMorgan Chase	$ 100.00	$ 109.92	$ 116.02	$ 145.36	$ 134.91	**$ 100.54**
S&P Financial Index	100.00	110.89	118.07	140.73	114.51	**51.17**
S&P500	100.00	110.88	116.33	134.70	142.10	**89.53**

This section of the JPMorgan Chase s Annual Report for the year ended December 31, 2008 (Annual Report) provides management s discussion and analysis of the financial condition and results of operations (MD&A) of JPMorgan Chase. See the Glossary of terms on pages 218 221 for definitions of terms used throughout this Annual Report. The MD&A included in this Annual Report contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan
Chase s management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase s results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking statements on page 115 of this Annual Report) and in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2008 (2008 Form 10-K), in Part I, Item 1A: Risk factors, to which reference is hereby made.

INTRODUCTION

JPMorgan Chase & Co., 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 $2.2 trillion in assets, $166.9 billion in stockholders equity and operations in more than 60 countries as of December 31, 2008. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world s most prominent corporate, institutional and government clients.

JPMorgan Chase s principal bank subsidiaries are JPMorgan Chase Bank, National Association (JPMorgan Chase Bank, N.A.), a national banking association with branches in 23 states in the U.S.; and Chase Bank USA, National Association (Chase Bank USA, N.A.), a national bank that is the Firm s credit card issuing bank. JPMorgan Chase s principal nonbank subsidiary is J.P. Morgan Securities Inc., the Firm s U.S. investment banking firm.

JPMorgan Chase s activities are organized, for management reporting purposes, into six business segments, as well as Corporate/Private Equity. The Firm s wholesale businesses comprise the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management segments. The Firm s consumer businesses comprise the Retail Financial Services and Card Services segments.

A description of the Firm s business segments, and the products and services they provide to their respective client bases, follows.

Investment Bank

J.P. Morgan is one of the world s leading investment banks, with deep client relationships and broad product capabilities. The Investment Bank s clients are corporations, financial institutions, governments and institutional investors. The Firm offers a full range of investment banking products and services in all major capital markets, including advising on corporate strategy and structure, capital raising in equity and debt markets, sophisticated risk management, market-making in cash securities and derivative instruments, prime brokerage and research. The Investment Bank (IB) also selectively commits the Firm s own capital to principal investing and trading activities.

Retail Financial Services

Retail Financial Services (RFS), which includes the Retail Banking and Consumer Lending reporting segments, serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking as well as through auto dealerships and school financial aid offices. Customers can use more than 5,400 bank branches (third-largest nationally) and 14,500 ATMs (second-largest nationally) as well as online and mobile banking around the clock. More than 21,400 branch salespeople assist

Management s discussion and analysis

customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. Consumers also can obtain loans through more than 16,000 auto dealerships and 4,800 schools and universities nationwide.

Card Services

Chase Card Services (CS) is one of the nation s largest credit card issuers with more than 168 million cards in circulation and more than $190 billion in managed loans. Customers used Chase cards to meet more than $368 billion worth of their spending needs in 2008. Chase has a market leadership position in building loyalty and rewards programs with many of the world s most respected brands and through its proprietary products, which include the Chase Freedom program.

Through its merchant acquiring business, Chase Paymentech Solutions, Chase is one of the leading processors of MasterCard and Visa payments.

Commercial Banking

Commercial Banking (CB) serves more than 26,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion, and nearly 30,000 real estate investors/owners. Delivering extensive industry knowledge, local expertise and dedicated service, CB partners with the Firm s other businesses to provide comprehensive solutions, including lending, treasury services, investment banking and asset management to meet its clients domestic and international financial needs.

Treasury & Securities Services

Treasury & Securities Services (TSS) is a global leader in transaction, investment and information services. TSS is one of the world s largest cash management providers and a leading global custodian. Treasury Services (TS) provides cash management, trade, wholesale card and liquidity products and services to small and mid-sized companies, multinational corporations, financial institutions and government entities. TS partners with the Commercial Banking, Retail Financial Services and Asset Management businesses to serve clients firmwide. As a result, certain TS revenue is included in other segments results. Worldwide Securities Services (WSS) holds, values, clears and services securities, cash and alternative investments for investors and broker-dealers, and manages depositary receipt programs globally.

Asset Management

Asset Management (AM), with assets under supervision of $1.5 trillion, is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including money market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM s client assets are in actively managed portfolios.

Table of Contents

EXECUTIVE OVERVIEW

This overview of management s discussion and analysis highlights selected information and may not contain all of the information that is important to readers of this Annual Report. For a complete description of events, trends and uncertainties, as well as the capital, liquidity, credit and market risks, and the critical accounting estimates affecting the Firm and its various lines of business, this Annual Report should be read in its entirety.

Financial performance of JPMorgan Chase

Year ended December 31, (in millions, except per share and ratio data)	**2008**[c]	2007	Change
Selected income statement data			
Total net revenue	**$ 67,252**	$ 71,372	(6)%
Provision for credit losses[a]	**20,979**	6,864	206
Total noninterest expense	**43,500**	41,703	4
Income before extraordinary gain	**3,699**	15,365	(76)
Extraordinary gain[b]	**1,906**		NM
Net income	**5,605**	15,365	(64)
Diluted earnings per share			
Income before extraordinary gain	**$ 0.84**	$ 4.38	(81)
Net income	**1.37**	4.38	(69)
Return on common equity			
Income before extraordinary gain	**2%**	13%	
Net income	**4%**	13%	

(a) Includes an accounting conformity provision for credit losses of $1.5 billion related to the acquisition of Washington Mutual s banking operations in 2008.

(b) JPMorgan Chase acquired the banking operations of Washington Mutual Bank from the Federal Deposit Insurance

Corporation (FDIC) for $1.9 billion. The fair value of the net assets acquired from the FDIC exceeded the purchase price which resulted in negative goodwill. In accordance with SFAS 141, nonfinancial assets that are not held-for-sale were written down against that negative goodwill. The negative goodwill that remained after writing down nonfinancial assets was recognized as an extraordinary gain in 2008. The allocation of the purchase price to the net assets acquired (based on their respective fair values at September 25, 2008) and the resulting negative goodwill may be modified through September 25, 2009, as more information is obtained about the fair value of assets acquired and liabilities assumed.

(c) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm s results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 123-128 of this Annual Report.

Business overview

JPMorgan Chase reported 2008 net income of $5.6 billion, or $1.37 per share, and total net revenue of $67.3 billion, compared with record net income of $15.4 billion, or $4.38 per share, and record total net revenue of $71.4 billion, for 2007. Return on common equity was 4% in 2008, compared with 13% in 2007. Results in 2008 include the acquisition of The Bear Stearns Companies Inc. (Bear Stearns) on May 30, 2008, and the acquisition of the banking operations of Washington Mutual Bank (Washington Mutual) on September 25, 2008.

The decline in net income for the year was the result of a significantly higher provision for credit losses, reflecting the addition of $13.7 billion to the Firm s allowance for credit losses in 2008; a decline in total net revenue driven by over $10 billion of markdowns on mortgage-related positions and leveraged lending exposures in the Investment Bank; and an increase in total noninterest expense due
to the impact of the Washington Mutual transaction and the Bear Stearns merger.

The business environment for financial services firms was extremely challenging in 2008. The global economy slowed, with many countries, including the U.S., slipping into recession. Financial conditions worsened throughout the year amid a number of unprecedented developments that undermined the economic outlook and eroded confidence in global financial markets. JPMorgan Chase acquired Bear Stearns through a merger consummated in May and acquired the banking operations of Washington Mutual from the Federal Deposit Insurance Corporation (FDIC) in September. The U.S. federal government placed the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae) under its control. Lehman Brothers Holdings Inc. declared bankruptcy. The Bank of America Corporation acquired Merrill Lynch & Co., Inc. and Wells Fargo & Company acquired Wachovia Corporation. The government provided a loan to American International Group, Inc. (AIG) in exchange for an equity interest in AIG to prevent the insurer s failure. Morgan Stanley, The Goldman Sachs Group, Inc., GMAC, American Express, Discover Financial Services and CIT Group received approval from the Board of Governors of the Federal Reserve System (the Federal Reserve) to become federal bank holding companies. In other industries, the U.S. government provided temporary loans to General Motors Corporation and Chrysler LLC.

These events accompanied severe strains in term funding markets, reflecting heightened concerns about counterparty risk. As a result, LIBOR rates rose significantly in the fall, despite a round of coordinated rate cuts by a number of central banks. By year-end, LIBOR rates eased in response to proposals to insure deposits and selected debt of financial institutions. The turmoil in financial markets during 2008 led to tighter credit conditions and diminished liquidity, causing consumers and businesses around the world to become more cautious and curtail spending and investment activity. As a result, the U.S. economy contracted sharply, 2.8 million jobs were lost in 2008, and the U.S. unemployment rate rose significantly, to 7.2% by year-end.

The continued economic and financial disruption led the Federal Reserve to reduce its target overnight interest rates to near zero in the fourth quarter of 2008, capping off a year of near-continuous rate reductions. In addition, the U.S. Department of the Treasury (the U.S. Treasury), the Federal Reserve and the FDIC, working in cooperation with foreign governments and other central banks, including the Bank of England, the European Central Bank and the Swiss National Bank, began, in the fourth quarter of 2008, to take a variety of extraordinary measures designed to restore confidence in the financial markets and strengthen financial institutions, including capital injections, guarantees of bank liabilities and the acquisition of illiquid assets from banks. In particular, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. Pursuant to the EESA, the U.S. Treasury has the authority to take a range of

Table of Contents

Management s discussion and analysis

actions to stabilize and provide liquidity to the U.S. financial markets, including the purchase by the U.S. Treasury of certain troubled assets from financial institutions (the Troubled Asset Relief Program) and the direct purchase by the U.S. Treasury of equity of financial institutions (the Capital Purchase Program).

The efforts to restore confidence in the financial markets and promote economic growth continue in 2009, with initiatives including a fiscal stimulus bill, the American Reinvestment and Recovery Act of 2009, which was signed into law by President Barack Obama on February 17, 2009. Also in February, the U.S. Treasury outlined a plan to restore stability to the financial system and President Obama proposed a plan to help distressed homeowners. The Federal Reserve, working with other government and regulatory agencies, has also implemented a number of new programs to promote the proper functioning of the credit markets and reintroduce liquidity to the financial system. Such actions taken by U.S. regulatory agencies include the introduction of programs to restore liquidity to money market mutual funds, the commercial paper market, and other fixed-income securities markets. In addition, the FDIC issued a temporary liquidity guarantee program (the TLG Program) for the senior debt of all FDIC-insured institutions, as well as deposits in noninterest-bearing transaction deposit accounts.

Despite the difficult operating environment and overall drop in earnings, JPMorgan Chase maintained a strong balance sheet and produced underlying growth in many business areas. The Tier 1 capital ratio was 10.9% at year-end; Treasury & Securities Services and Commercial Banking each reported record revenue and net income for the second straight year; the consumer businesses opened millions of new checking and credit card accounts; Asset Management experienced record net inflows in assets under management; and the Investment Bank gained market share in all major fee categories. The diversified nature of the Firm s businesses and its strong capital position enabled it to weather the recessionary environment during 2008.

JPMorgan Chase has taken a leadership role in helping to stabilize the financial markets. It assumed the risk and expended the necessary resources to acquire Bear Stearns and the banking operations of Washington Mutual. In October 2008, the Firm agreed to accept a $25 billion capital investment by the U.S. Treasury under the Capital Purchase Program. JPMorgan Chase has continued to lend to clients in a safe and sound manner and to provide liquidity to multiple financial markets. The Firm has implemented programs that have prevented more than 300,000 foreclosures, with plans to help more than 400,000 more families keep their homes through Chase-owned mortgage modifications over the next two years. The Firm has expanded this effort to include over $1.1 trillion of investor-owned mortgages.

The discussion that follows highlights the performance of each business segment compared with the prior year, and discusses results on a managed basis unless otherwise noted. For more information about managed basis, see Explanation and reconciliation of the Firm s use of non-GAAP financial measures on pages 38 39 of this Annual Report.

Investment Bank reported a net loss for the year, compared with net income in 2007. The significant decline in results reflected lower total net revenue, a higher provision for credit losses and higher total noninterest expense. Markdowns of over $10 billion on mortgage-related positions and leveraged lending funded and unfunded commitments drove fixed income trading revenue lower; investment banking fees and equity trading revenue declined as well. These decreases were offset by record performance in rates and currencies, credit trading, commodities and emerging markets, as well as strong equity client revenue, and gains from the widening of the Firm s credit spread on certain structured liabilities and derivatives. The provision for credit losses rose from the 2007 level, predominantly reflecting a higher allowance for credit losses, driven by a weakening credit environment, as well as the effect of the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from held-for-sale in the first quarter of 2008. The increase in total noninterest expense was largely driven by additional expense relating to the Bear Stearns merger, offset partially by lower performance-based compensation expense. In addition, IB benefited from a reduction in deferred tax liabilities on overseas earnings.

Retail Financial Services net income declined, reflecting a significant increase in the provision for credit losses, predominantly offset by positive mortgage servicing rights (MSR) risk management results and the positive impact of the Washington Mutual transaction. Additional drivers of revenue growth included wider loan and deposit spreads and higher loan and deposit balances. The provision for credit losses increased as housing price declines have continued to result in significant increases in estimated losses, particularly for high loan-to-value home equity and mortgage loans. The provision was also affected by an increase in estimated losses for the auto, student and business banking loan portfolios. Total noninterest expense rose from the 2007 level, reflecting the impact of the Washington Mutual transaction, higher mortgage reinsurance losses, increased mortgage servicing expense and investments in the retail distribution network.

Card Services net income declined, driven by a higher provision for credit losses partially offset by higher managed total net revenue. The growth in managed total net revenue was driven by the impact of the Washington Mutual transaction, higher average managed loan balances, wider loan spreads and increased interchange income, off-set predominantly by increased rewards expense and higher volume-driven payments to partners, as well as the effect of higher revenue reversals associated with higher charge-offs. The managed provision for credit losses increased from the prior year due to an increase in the allowance for loan losses and a higher level of charge-offs. Total noninterest expense rose from last year, largely due to the impact of the Washington Mutual transaction.

Commercial Banking net income increased, surpassing the record level posted in 2007. The results were driven by record total net revenue, partially offset by an increase in the provision for credit losses. The increase in revenue was driven by double-digit growth in liability and loan balances, the impact of the Washington Mutual transaction, higher deposit and lending-related fees, and increases in other fee income. These were partially offset by spread compression in the liability and loan portfolios. The increase in the provision for credit losses reflected a weakening credit environment and growth in loan balances. Total noninterest expense decreased from the prior year, due to lower performance-based incentive compensation and volume-based charges from service providers, predominantly offset by the impact of the Washington Mutual transaction.

Treasury & Securities Services net income increased over the record level set in 2007, driven by record total net revenue, partially offset by higher noninterest expense. Worldwide Securities Services posted record net revenue, driven by wider spreads in securities lending, foreign exchange and liability products, increased product usage by new and existing clients, and higher liability balances. These benefits were partially offset by market depreciation. Treasury Services posted record net revenue, reflecting higher liability balances and volume growth in electronic funds transfer products and trade loans. Total noninterest expense increased, reflecting higher expense related to business and volume growth, as well as continued investment in new product platforms.

Asset Management net income decreased, driven by lower total net revenue, offset partially by lower total noninterest expense. The decline in revenue was due to lower performance fees and the effect of lower markets, including the impact of lower market valuations of seed capital investments. Partially offsetting these revenue declines were higher deposit and loan balances, the benefit of the Bear Stearns merger, increased revenue from net asset inflows and wider deposit spreads. The provision for credit losses rose from the prior year, reflecting an increase in loan balances, higher net charge-offs and a weakening credit environment. Total noninterest expense declined compared with 2007, driven by lower performance-based compensation, largely offset by the effect of the Bear Stearns merger and higher compensation expense resulting from increased average headcount.

Corporate/Private Equity net income declined from the 2007 level and included an extraordinary gain related to the Washington Mutual transaction and a conforming loan loss provision. Excluding these items, the decrease in net income from the prior year was driven by private equity losses in 2008, compared with gains in 2007, losses on preferred securities of Fannie Mae and Freddie Mac, and a charge related to the offer to repurchase auction-rate securities. These declines were partially offset by the proceeds from the sale of Visa shares in its initial public offering and a gain on the dissolution of the Chase Paymentech Solutions joint venture and the gain from the sale of MasterCard shares. The decrease in total noninterest expense reflected a reduction of credit card-related litigation expense, partially offset by higher merger costs.

The Firm s managed provision for credit losses was $24.6 billion for 2008, compared with $9.2 billion for 2007. The total consumer-managed provision for credit losses was $21.3 billion, compared with $8.3 billion in the prior year, reflecting increases in the allowance for credit losses related to home equity, mortgage and credit card loans, as well as higher net charge-offs. Consumer-managed net charge-offs were $13.0 billion, compared with $6.8 billion in the prior year,
resulting in managed net charge-off rates of 3.06% and 1.97%, respectively. The wholesale provision for credit losses was $3.3 billion, compared with $934 million in the prior year, due to an increase in the allowance for credit losses reflecting the effect of a weakening credit environment and loan growth. Wholesale net charge-offs were $402 million, compared with net charge-offs of $72 million in the prior year, resulting in net charge-off rates of 0.18% and 0.04%, respectively. The Firm had total nonperforming assets of $12.7 billion at December 31, 2008, up from the prior-year level of $3.9 billion.

Total stockholders equity at December 31, 2008, was $166.9 billion, and the Tier 1 capital ratio was 10.9%. During 2008, the Firm raised $11.5 billion of common equity and $32.8 billion of preferred equity, including a warrant issued to the U.S. Treasury.

2009 Business outlook

The following forward-looking statements are based upon the current beliefs and expectations of JPMorgan Chase s management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase s actual results to differ materially from those set forth in such forward-looking statements.

JPMorgan Chase s outlook for 2009 should be viewed against the backdrop of the global and U.S. economies, financial markets activity, the geopolitical environment, the competitive environment and client activity levels. Each of these linked factors will affect the performance of the Firm and its lines of business. In addition, as a result of recent market conditions and events, Congress and regulators have increased their focus on the regulation of financial institutions.

The Firm s current expectations are for the global and U.S. economic environments to weaken further and potentially faster, capital markets to remain under stress, for there to be a continued decline in U.S. housing prices, and for Congress and regulators to continue to adopt legislation and regulations that could limit or restrict the Firm s operations, or impose additional costs upon the Firm in order to comply with such new laws or rules. These factors are likely to continue to adversely impact the Firm s revenue, credit costs, overall business volumes and earnings.
Given the potential stress on the consumer from rising unemployment, the continued downward pressure on housing prices and the elevated national inventory of unsold homes, management remains extremely cautious with respect to the credit outlook for home equity, mortgage and credit card portfolios. Management expects continued deterioration in credit trends for the home equity, mortgage and credit card portfolios, which will likely require additions to the consumer loan loss allowance in 2009 or beyond. Economic data released in early 2009 indicated that housing prices and the labor market have weakened further since year-end, and that deterioration could continue into late 2009.
Based on management s current economic outlook, quarterly net charge-offs could, over the next several quarters, reach $1.0 billion to $1.4 billion for the home equity portfolio, $375 million to $475 million for the prime mortgage portfolio, and $375 million to $475 million for the subprime mortgage portfolio. Management expects the managed net charge-off rate for Card Services (excluding the impact resulting from the acquisition of Washington Mutual s banking operations) to approach 7% in the first quarter of 2009 and likely higher by the end of the year depending on unemployment levels. These charge-off rates could increase even further if the economic environment continues to deteriorate

Table of Contents

Management s discussion and analysis

further than management s current expectations. The wholesale provision for credit losses and nonperforming assets are likely to increase over time as a result of the deterioration in underlying credit conditions. Wholesale net charge-offs in 2008 increased from historic lows in 2007 and are likely to increase materially in 2009 as a result of increasing weakness in the credit environment.

The Investment Bank continues to be negatively affected by the disruption in the credit and mortgage markets, as well as by overall lower levels of liquidity. The continuation of these factors could potentially lead to reduced levels of client activity, lower investment banking fees and lower trading revenue. In addition, if the Firm s own credit spreads tighten, as they did in the fourth quarter of 2008, the change in the fair value of certain trading liabilities would also negatively affect trading results. The Firm held $12.6 billion (gross notional) of legacy leveraged loans and unfunded commitments as held-for-sale as of December 31, 2008. Markdowns averaging 45% of the gross notional value have been taken on these legacy positions as of December 31, 2008, resulting in a net carrying value of $6.9 billion. Leveraged loans and unfunded commitments are difficult to hedge effectively, and if market conditions further deteriorate, additional markdowns may be necessary on this asset class. The Investment Bank also held, at December 31, 2008, an aggregate $6.1 billion of prime and Alt-A mortgage exposure, which is also difficult to hedge effectively, and $875 million of subprime mortgage exposure. In addition, the Investment Bank had $7.7 billion of commercial mortgage exposure. In spite of active hedging, mortgage exposures could be adversely affected by worsening market conditions and further deterioration in the housing market. The combination of credit costs and additional markdowns on the various exposures noted above could reach or exceed $2.0 billion for the first quarter of 2009.

Earnings in Commercial Banking and Treasury & Securities Services could decline due to the impact of tighter spreads in the low interest rate environment or a decline in the level of liability balances. Earnings in Treasury & Securities Services and Asset Management will likely deteriorate if market levels continue to decline, due to reduced levels of assets under management, supervision and custody. Earnings in the Corporate/Private Equity segment could be more volatile due to increases in the size of the Firm s investment portfolio, which is largely comprised of investment-grade securities. Private Equity results are dependent upon the capital markets and at current market levels, management believes additional write-downs of $400 million or more are likely in the first quarter of 2009.

Assuming economic conditions do not worsen beyond management s current expectations, management continues to believe that the net income impact of the acquisition of Washington Mutual s banking operations could be approximately $0.50 per share in 2009; the Bear Stearns merger could contribute $1 billion (after-tax) annualized after 2009; and merger-related items, which include both the Washington Mutual transaction and the Bear Stearns merger, could be approximately $600 million (after-tax) in 2009.

Recent Developments

On February 23, 2009, the Board of Directors reduced the Firm s quarterly common stock dividend from $0.38 to $0.05 per share, effective for the dividend payable April 30, 2009 to shareholders of record on April 6, 2009. The action will enable the Firm to retain an additional $5.0 billion in common equity per year. The Firm expects to maintain the dividend at this level for the time being. The action was taken in order to help ensure that the Firm s balance sheet retained the capital strength necessary to weather a further decline in economic conditions. The Firm intends to return to a more normalized dividend payout as soon as feasible after the environment has stabilized.

Table of Contents

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase s Consolidated Results of Operations on a reported basis for the three-year period ended December 31, 2008. Factors that related primarily to a single business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates Used by the Firm that affect the Consolidated Results of Operations, see pages 107 111 of this Annual Report.

Revenue

Year ended December 31, (in millions)	**2008**[a]	2007	2006
Investment banking fees	**$ 5,526**	$ 6,635	$ 5,520
Principal transactions	**(10,699)**	9,015	10,778
Lending & deposit-related fees	**5,088**	3,938	3,468
Asset management, administration and commissions	**13,943**	14,356	11,855
Securities gains (losses)	**1,560**	164	(543)
Mortgage fees and related income	**3,467**	2,118	591
Credit card income	**7,419**	6,911	6,913
Other income	**2,169**	1,829	2,175
Noninterest revenue	**28,473**	44,966	40,757
Net interest income	**38,779**	26,406	21,242
Total net revenue	**$ 67,252**	$71,372	$61,999

(a) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm s results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 123-128 of this Annual Report.

2008 compared with 2007

Total net revenue of $67.3 billion was down $4.1 billion, or 6%, from the prior year. The decline resulted from the extremely challenging business environment for financial services firms in 2008. Principal transactions revenue decreased significantly and included net markdowns on mortgage-related positions and leveraged lending funded and unfunded commitments, losses on preferred securities of Fannie Mae and Freddie Mac, and losses on private equity investments. Also contributing to the decline in total net revenue were other losses and markdowns recorded in other income, including the Firm s share of Bear Stearns losses from April 8 to May 30, 2008. These declines were largely offset by higher net interest income, proceeds from the sale of Visa shares in its initial public offering, and the gain on the dissolution of the Chase Paymentech Solutions joint venture.

Investment banking fees were down from the record level of the prior year due to lower debt underwriting fees, as well as lower advisory and equity underwriting fees, both of which were at record levels in 2007. These declines were attributable to reduced market activity. For a further discussion of investment banking fees, which are primarily recorded in IB, see IB segment results on pages 42 44 of this Annual Report.

In 2008, principal transactions revenue, which consists of revenue from the Firm s trading and private equity investing activities, declined by $19.7 billion from the prior year. Trading revenue decreased $14.5 billion to a negative $9.8 billion compared with a positive $4.7 billion in 2007. The decline in trading revenue was largely driven by higher net markdowns of $5.9 billion on mortgage-related exposures compared with $1.4 billion in the prior year; higher net markdowns of $4.7 billion on leveraged lending funded and unfunded commitments compared with $1.3 billion in the prior year; losses of $1.1 billion on preferred securities of Fannie Mae and Freddie Mac; and weaker equity trading results compared with a record level in 2007. In addition, trading revenue was adversely impacted by the Bear Stearns merger. Partially offsetting the decline in trading revenue were record results in rates and currencies, credit trading, commodities and emerging markets, as well as strong equity client revenue across products and total gains of $2.0 billion from the widening of the Firm s credit spread on certain structured liabilities and derivatives, compared with $1.3 billion in 2007. Private equity results also declined substantially from the prior year, swinging to losses of $908 million in 2008 from gains of $4.3 billion in 2007. In addition, the first quarter of 2007 included a fair value adjustment related to the adoption of SFAS 157. For a further discussion of principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 42 44 and 61 63, respectively, and Note 6 on pages 146 148 of this Annual Report.

Lending & deposit-related fees rose from the prior year, predominantly resulting from higher deposit-related fees and the impact of the Washington Mutual transaction. For a further discussion of lending & deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 45 50, the TSS segment results on pages 56 57, and the CB segment results on pages 54 55 of this Annual Report.

The decline in asset management, administration and commissions revenue compared with 2007 was driven by lower asset management fees in AM due to lower performance fees and the effect of lower markets on assets under management. This decline was partially offset by an increase in commissions revenue related predominantly to higher brokerage transaction volume within IB s equity markets revenue, which included additions from Bear Stearns Prime Services business; and higher administration fees in TSS driven by wider spreads in securities lending and increased product usage by new and existing clients. For additional information on these fees and commissions, see the segment discussions for IB on pages 42 44, RFS on pages 45 50, TSS on pages 56 57, and AM on pages 58 60 of this Annual Report.

The increase in securities gains compared with the prior year was due to the repositioning of the Corporate investment securities portfolio as a result of lower interest rates as part of managing the structural interest rate risk of the Firm, and higher gains from the sale of MasterCard shares. For a further discussion of securities gains, which are mostly recorded in the Firm s Corporate business, see the Corporate/Private Equity segment discussion on pages 61 63 of this Annual Report.

Mortgage fees and related income increased from the prior year, driven by higher net mortgage servicing revenue, which benefited from an improvement in MSR risk management results and increased loan servicing revenue. Mortgage production revenue increased slightly, as the impact of growth in originations was predominantly

Management s discussion and analysis

offset by markdowns on the mortgage warehouse and increased reserves related to the repurchase of previously sold loans. For a discussion of mortgage fees and related income, which is recorded primarily in RFS Consumer Lending business, see the Consumer Lending discussion on pages 47 50 of this Annual Report.

Credit card income rose compared with the prior year, driven by increased interchange income due to higher customer charge volume in CS and higher debit card transaction volume in RFS, the impact of the Washington Mutual transaction, and increased servicing fees resulting from a higher level of securitized receivables. These results were partially offset by increases in volume-driven payments to partners and expense related to rewards programs. For a further discussion of credit card income, see CS segment results on pages 51 53 of this Annual Report.

Other income increased compared with the prior year, due predominantly to the proceeds from the sale of Visa shares in its initial public offering of $1.5 billion, the gain on the dissolution of the Chase Paymentech Solutions joint venture of $1.0 billion, and gains on sales of certain other assets. These proceeds and gains were partially offset by markdowns on certain investments, including seed capital in AM; a $464 million charge related to the offer to repurchase auction-rate securities at par; losses of $423 million reflecting the Firm s 49.4% ownership in Bear Stearns losses from April 8 to May 30, 2008; and lower securitization income at CS.

Net interest income rose from the prior year, due predominantly to the following: higher trading-related net interest income in IB, the impact of the Washington Mutual transaction, wider net interest spread in Corporate/Private Equity, growth in liability and deposit balances in the wholesale and RFS businesses, higher consumer and wholesale loan balances, and wider spreads on consumer loans in RFS. The Firm s total average interest-earning assets for 2008 were $1.4 trillion, up 23% from the prior year, driven by higher loans, AFS securities, securities borrowed, brokerage receivables and other interest-earning assets balances. The Firm s total average interest-bearing liabilities for 2008 were $1.3 trillion, up 24% from the prior year, driven by higher deposits, long-term debt, brokerage payables and other borrowings balances. The net interest yield on the Firm s interest-earning assets, on a fully taxable equivalent basis, was 2.87%, an increase of 48 basis points from the prior year.

2007 compared with 2006

Total net revenue of $71.4 billion was up $9.4 billion, or 15%, from the prior year. Higher net interest income, very strong private equity gains, record asset management, administration and commissions revenue, higher mortgage fees and related income, and record investment banking fees contributed to the revenue growth. These increases were offset partially by lower trading revenue.

Investment banking fees grew in 2007 to a level higher than the previous record set in 2006. Record advisory and equity underwriting fees drove the results, partially offset by lower debt underwriting fees. For a further discussion of investment banking fees, which are primarily recorded in IB, see IB segment results on pages 42 44 of this Annual Report.

Principal transactions revenue consists of trading revenue and private equity gains. Trading revenue declined significantly from the 2006 level, primarily due to net markdowns in IB of $1.4 billion on sub-prime positions, including subprime collateralized debt obligations (CDOs), and $1.3 billion on leveraged lending funded loans and unfunded commitments. Also in IB, markdowns of securitized products related to nonsubprime mortgages and weak credit trading performance more than offset record revenue in currencies and strong revenue in both rates and equities. Equities benefited from strong client activity and record trading results across all products. IB s Credit Portfolio results increased compared with the prior year, primarily driven by higher revenue from risk management activities. The increase in private equity gains from 2006 reflected a significantly higher level of gains, the classification of certain private equity carried interest as compensation expense and a fair value adjustment in the first quarter of 2007 on nonpublic private equity investments resulting from the adoption of SFAS 157 (Fair Value Measurements). For a further discussion of principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 42 44 and 61 63, respectively, and Note 6 on pages 146 148 of this Annual Report.

Lending & deposit-related fees rose from the 2006 level, driven primarily by higher deposit-related fees and the Bank of New York transaction. For a further discussion of lending & deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 45 50, the TSS segment results on pages 56 57, and the CB segment results on pages 54 55 of this Annual Report.

Asset management, administration and commissions revenue reached a level higher than the previous record set in 2006. Increased assets under management and higher performance and placement fees in AM drove the record results. The 18% growth in assets under management from year-end 2006 came from net asset inflows and market appreciation across all segments: Institutional, Retail, Private Bank and Private Wealth Management. TSS also contributed to the rise in asset management, administration and commissions revenue, driven by increased product usage by new and existing clients and market appreciation on assets under custody. Finally, commissions revenue increased, due mainly to higher brokerage transaction volume (primarily included within Fixed Income and Equity Markets revenue of IB), which more than offset the sale of the insurance business by RFS in the third quarter of 2006 and a charge in the first quarter of 2007 resulting from accelerated surrenders of customer annuities. For additional information on these fees and commissions, see the segment discussions for IB on pages 42 44, RFS on pages 45 50, TSS on pages 56 57, and AM on pages 58 60 of this Annual Report.

The favorable variance resulting from securities gains in 2007 compared with securities losses in 2006 was primarily driven by improvements in the results of repositioning of the Corporate investment securities portfolio. Also contributing to the positive variance was a $234 million gain from the sale of MasterCard shares. For a further discussion of securities gains (losses), which are mostly recorded in the Firm s Corporate business, see the Corporate/Private Equity segment discussion on pages 61 63 of this Annual Report.

Table of Contents

Mortgage fees and related income increased from the prior year as MSRs asset valuation adjustments and growth in third-party mortgage loans serviced drove an increase in net mortgage servicing revenue. Production revenue also grew, as an increase in mortgage loan originations and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 due to the adoption of SFAS 159) more than offset markdowns on the mortgage warehouse and pipeline. For a discussion of mortgage fees and related income, which is recorded primarily in RFS Consumer Lending business, see the Consumer Lending discussion on pages 47 50 of this Annual Report.

Credit card income remained relatively unchanged from the 2006 level, as lower servicing fees earned in connection with securitization activities, which were affected unfavorably by higher net credit losses and narrower loan margins, were offset by increases in net interchange income earned on the Firm s credit and debit cards. For further discussion of credit card income, see CS segment results on pages 51 53 of this Annual Report.

Other income declined compared with the prior year, driven by lower gains from loan sales and workouts, and the absence of a $103 million gain in the second quarter of 2006 related to the sale of MasterCard shares in its initial public offering. (The 2007 gain on the sale of MasterCard shares was recorded in securities gains (losses) as the shares were transferred to the AFS portfolio subsequent to the IPO.) Increased income from automobile operating leases and higher gains on the sale of leveraged leases and student loans partially offset the decline.

Net interest income rose from the prior year, primarily due to the following: higher trading-related net interest income, due to a shift of Interest expense to principal transactions revenue (related to certain IB structured notes to which fair value accounting was elected in connection with the adoption of SFAS 159); growth in liability and deposit balances in the wholesale and consumer businesses; a higher level of credit card loans; the impact of the Bank of New York transaction; and an improvement in Corporate s net interest spread. The Firm s total average interest-earning assets for 2007 were $1.1 trillion, up 12% from the prior year. The increase was primarily driven by higher trading assets debt instruments, loans, and AFS securities, partially offset by a decline in interests in purchased receivables as a result of the restructuring and deconsolidation during the second quarter of 2006 of certain multi-seller conduits that the Firm administered. The net interest yield on these assets, on a fully taxable equivalent basis, was 2.39%, an increase of 23 basis points from the prior year, due in part to the adoption of SFAS 159.

Provision for credit losses

Year ended December 31, (in millions)	**2008**[b]	2007	2006
Wholesale:			
Provision for credit losses	**$ 2,681**	$ 934	$ 321
Provision for credit losses accounting conformity[a]	**646**		
Total wholesale provision for credit losses	**3,327**	934	321
Consumer:			
Provision for credit losses	**16,764**	5,930	2,949
Provision for credit losses accounting conformity[a]	**888**		
Total consumer provision for credit losses	**17,652**	5,930	2,949
Total provision for credit losses	**$ 20,979**	$ 6,864	$ 3,270

(a) 2008 included adjustments to the provision for credit losses to conform the Washington Mutual loan loss reserve methodologies to the Firm s methodologies in connection with the Washington Mutual transaction.

(b) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm s results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 123-128 of this Annual Report.

2008 compared with 2007

The provision for credit losses in 2008 rose by $14.1 billion compared with the prior year due to increases in both the consumer and wholesale provisions. The increase in the consumer provision reflected higher estimated losses for home equity and mortgages resulting from declining housing prices; an increase in estimated losses for the auto, student and business banking loan portfolios; and an increase in the allowance for loan losses and higher charge-offs of credit card loans. The increase in the wholesale provision was driven by a higher allowance resulting from a weakening credit environment and growth in retained loans. The wholesale provision in the first quarter of 2008 also included the effect of the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from held-for-sale. In addition, in 2008 both the consumer and wholesale provisions were affected by a $1.5 billion charge to conform assets acquired from Washington Mutual to the Firm s loan loss methodologies. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 45 50, CS on pages 51 53, IB on pages 42 44 and CB on pages 54 55, and the Credit Risk Management section on pages 80 99 of this Annual Report.

2007 compared with 2006

The provision for credit losses in 2007 rose $3.6 billion from the prior year due to increases in both the consumer and wholesale provisions. The increase in the consumer provision from the prior year was largely due to an increase in estimated losses related to home equity, credit card and subprime mortgage loans. Credit card net charge-offs in 2006 benefited following the change in bankruptcy legislation in the fourth quarter of 2005. The increase in the wholesale provision from the prior year primarily reflected an increase in the allowance for

Table of Contents

Management s discussion and analysis

credit losses due to portfolio activity, which included the effect of a weakening credit environment and portfolio growth. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 45 50, CS on pages 51 53, IB on pages 42 44, CB on pages 54 55 and Credit Risk Management on pages 80 99 of this Annual Report.

Noninterest expense

Year ended December 31, (in millions)	**2008**[a]	2007	2006
Compensation expense	**$ 22,746**	$ 22,689	$ 21,191
Noncompensation expense:			
Occupancy expense	**3,038**	2,608	2,335
Technology, communications and equipment expense	**4,315**	3,779	3,653
Professional & outside services	**6,053**	5,140	4,450
Marketing	**1,913**	2,070	2,209
Other expense	**3,740**	3,814	3,272
Amortization of intangibles	**1,263**	1,394	1,428
Total noncompensation expense	**20,322**	18,805	17,347
Merger costs	**432**	209	305
Total noninterest expense	**$ 43,500**	$ 41,703	$ 38,843

(a) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm s results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 123-128 of this Annual Report.

2008 compared with 2007

Total noninterest expense for 2008 was $43.5 billion, up $1.8 billion, or 4%, from the prior year. The increase was driven by the additional operating costs related to the Washington Mutual transaction and Bear Stearns merger, and investments in the businesses, partially offset by lower performance-based incentives.

Compensation expense increased slightly from the prior year predominantly driven by investments in the businesses, including headcount additions associated with the Bear Stearns merger and Washington Mutual transaction, largely offset by lower performance-based incentives.

Noncompensation expense increased from the prior year as a result of the Bear Stearns merger and Washington Mutual transaction. Excluding the effect of these transactions, noncompensation expense decreased due to a net reduction in other expense related to litigation; lower credit card and consumer lending marketing expense; and a decrease in the amortization of intangibles as certain purchased credit card relationships were fully amortized in 2007 and the amortization rate for core deposit intangibles declined in accordance with the amortization schedule. These decreases were offset partially by increases in professional & outside services, driven by investments in new product platforms in TSS, business and volume growth in CS credit card processing and IB brokerage, clearing and exchange transaction processing. Also contributing to the increases were an increase in other expense due to higher mortgage reinsurance losses and mortgage servicing expense due to increased delinquencies and defaults in RFS; an increase in technology, communications and equipment expense reflecting higher depreciation expense on owned automobiles subject to operating leases in RFS, and other technology-related investments across the businesses; and, an increase in occupancy expense partly for the expansion of RFS retail distribution network. For a further discussion of amortization of intangibles, refer to Note 18 on pages 186 189 of this Annual Report.

For information on merger costs, refer to Note 11 on page 158 of this Annual Report.

2007 compared with 2006

Total noninterest expense for 2007 was $41.7 billion, up $2.9 billion, or 7%, from the prior year. The increase was driven by higher compensation expense, as well as investments across the business segments and acquisitions.

The increase in compensation expense from 2006 was primarily the result of investments and acquisitions in the businesses, including additional headcount from the Bank of New York transaction; the classification of certain private equity carried interest from principal transactions revenue; the classification of certain loan origination costs (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 due to the adoption of SFAS 159); and higher performance-based incentives. Partially offsetting these increases were business divestitures and continuing business efficiencies.

Noncompensation expense increased from 2006 due to higher professional & outside services primarily reflecting higher brokerage expense and credit card processing costs resulting from growth in transaction volume, as well as investments in the businesses and acquisitions. Also contributing to the increase was higher other expense due to increased net legal-related costs, reflecting a lower level of insurance recoveries and increased costs of credit card-related litigation, and other increases driven by business growth and investments in the businesses. Other noncompensation expense increases also included higher occupancy expense driven by ongoing investments in the businesses, in particular, the retail distribution network and the Bank of New York transaction; and higher technology, communications and equipment expense due primarily to higher depreciation expense on owned automobiles subject to operating leases in RFS, and other technology-related investments in the businesses to support business growth. These increases were offset partially by lower credit card marketing expense; decreases due to the sale of the insurance business at the beginning of the third quarter of 2006 and lower credit card fraud-related losses, both in other expense. In addition, expense in general was reduced by the effect of continuing business efficiencies. For a discussion of amortization of intangibles, refer to Note 18 on pages 186 189 of this Annual Report.

For information on merger costs, refer to Note 11 on page 158 of this Annual Report.

Table of Contents

Income tax expense

The Firm s income from continuing operations before income tax expense (benefit), income tax expense (benefit) and effective tax rate were as follows for each of the periods indicated.

Year ended December 31, (in millions, except rate)	**2008**[(a)]	2007	2006
Income from continuing operations before income tax expense (benefit)	**$ 2,773**	$ 22,805	$ 19,886
Income tax expense (benefit)	**(926)**	7,440	6,237
Effective tax rate	**(33.4)%**	32.6%	31.4%

(a) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm s results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 123 128 of this Annual Report.

2008 compared with 2007

The decrease in the effective tax rate in 2008 compared with the prior year was the result of significantly lower reported pretax income combined with changes in the proportion of income subject to U.S. federal taxes. Also contributing to the decrease in the effective tax rate was increased business tax credits and the realization of a

$1.1 billion benefit from the release of deferred tax liabilities. These deferred tax liabilities were associated with the undistributed earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely. These decreases were partially offset by changes in state and local taxes, and equity losses representing the Firm s 49.4% ownership interest in Bear Stearns losses from April 8 to May 30, 2008, for which no income tax benefit was recorded. For a further discussion of income taxes, see Critical Accounting Estimates used by the Firm on pages 107 111 and Note 28 on pages 197 199 of this Annual Report.

2007 compared with 2006

The increase in the effective tax rate for 2007, as compared with the prior year, was primarily the result of higher reported pretax income combined with changes in the proportion of income subject to federal, state and local taxes. Also contributing to the increase in the effective tax rate was the recognition in 2006 of $367 million of benefits related to the resolution of tax audits.

Income from discontinued operations

As a result of the transaction with The Bank of New York on October 1, 2006, the results of operations of the selected corporate trust businesses (i.e., trustee, paying agent, loan agency and document management services) were reported as discontinued operations.

Income from discontinued operations in 2006 was due predominantly to a gain of $622 million from exiting selected corporate trust businesses in the fourth quarter of 2006. No income from discontinued operations was recorded in 2008 or 2007.

Extraordinary gain

The Firm recorded an extraordinary gain of $1.9 billion in 2008 associated with the acquisition of the banking operations of Washington Mutual. The transaction is being accounted for under the purchase method of accounting in accordance with SFAS 141. The adjusted fair value of net assets of the banking operations, after purchase accounting adjustments, was higher than JPMorgan Chase s purchase price. There were no extraordinary gains recorded in 2007 or 2006.

Management s discussion and analysis

EXPLANATION AND RECONCILIATION OF THE FIRM S USE OF NON-GAAP FINANCIAL MEASURES

The Firm prepares its consolidated financial statements using accounting principles generally accepted in the United States of America (U.S. GAAP); these financial statements appear on pages 118 216 of this Annual Report. That presentation, which is referred to as reported basis, provides the reader with an understanding of the Firm s results that can be tracked consistently from year to year and enables a comparison of the Firm s performance with other companies U.S. GAAP financial statements.

In addition to analyzing the Firm s results on a reported basis, management reviews the Firm s results and the results of the lines of business on a managed basis, which is a non-GAAP financial measure. The Firm s definition of managed basis starts with the reported U.S. GAAP results and includes certain reclassifications that assume credit card loans securitized by CS remain on the balance sheet and presents revenue on a fully taxable-equivalent (FTE) basis. These adjustments do not have any impact on net income as reported by the lines of business or by the Firm as a whole.

The presentation of CS results on a managed basis assumes that credit card loans that have been securitized and sold in accordance with SFAS 140 remain on the Consolidated Balance Sheets and that the earnings on the securitized loans are classified in the same manner as the earnings on retained loans recorded on the Consolidated Balance Sheets. JPMorgan Chase uses the concept of managed basis to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations are funded and decisions are made about allocating resources, such as employees and capital, based upon managed financial information. In addition, the same underwriting standards and ongoing risk monitoring

The following summary table provides a reconciliation from the Firm s reported U.S. GAAP results to managed basis. (Table continues on next page)

Year ended December 31, (in millions, except per share and ratio data)	2008 Reported results	2008 Credit card (c)	2008 Fully tax-equivalent adjustments	2008 Managed basis	2007 Reported results	2007 Credit card (c)	2007 Fully tax-equivalent adjustments	2007 Managed basis
Revenue								
Investment banking fees	**$ 5,526**	**$**	**$**	**$ 5,526**	$ 6,635	$	$	$ 6,635
Principal transactions	**(10,699)**			**(10,699)**	9,015			9,015
Lending & deposit-related fees	**5,088**			**5,088**	3,938			3,938
Asset management, administration and commissions	**13,943**			**13,943**	14,356			14,356
Securities gains (losses)	**1,560**			**1,560**	164			164
Mortgage fees and related income	**3,467**			**3,467**	2,118			2,118
Credit card income	**7,419**	**(3,333)**		**4,086**	6,911	(3,255)		3,656
Other income	**2,169**		**1,329**	**3,498**	1,829		683	2,512
Noninterest revenue	**28,473**	**(3,333)**	**1,329**	**26,469**	44,966	(3,255)	683	42,394
Net interest income	**38,779**	**6,945**	**579**	**46,303**	26,406	5,635	377	32,418

Total net revenue	**67,252**	**3,612**	**1,908**	**72,772**	71,372	2,380	1,060	74,812
Provision for credit losses	**19,445**	**3,612**		**23,057**	6,864	2,380		9,244
Provision for credit losses accounting conformity[(a)]	**1,534**			**1,534**				
Noninterest expense	**43,500**			**43,500**	41,703			41,703
Income from continuing operations before income tax expense	**2,773**		**1,908**	**4,681**	22,805		1,060	23,865
Income tax expense (benefit)	**(926)**		**1,908**	**982**	7,440		1,060	8,500
Income from continuing operations	**3,699**			**3,699**	15,365			15,365
Income from discontinued operations								
Income before extraordinary gain	**3,699**			**3,699**	15,365			15,365
Extraordinary gain	**1,906**			**1,906**				
Net income	**$ 5,605**	**$**	**$**	**$ 5,605**	$ 15,365	$	$	$ 15,365
Diluted earnings per share[(b)]	**$ 0.84**	**$**	**$**	**$ 0.84**	$ 4.38	$	$	$ 4.38
Return on common equity[(b)]	**2%**	**%**	**%**	**2%**	13%	%	%	13%
Return on common equity less goodwill[(b)]	**4**			**4**	21			21
Return on assets[(b)]	**0.21**	**NM**	**NM**	**0.20**	1.06	NM	NM	1.01
Overhead ratio	**65**	**NM**	**NM**	**60**	58	NM	NM	56
Loans Period-end	**$ 744,898**	**$ 85,571**	**$**	**$ 830,469**	$ 519,374	$ 72,701	$	$ 592,075
Total assets average	**1,791,617**	**76,904**		**1,868,521**	1,455,044	66,780		1,521,824

(a) 2008 included an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual s banking operations.

(b) Based on income from continuing operations.

(c) Credit card securitizations affect CS. See pages 51 53 of this Annual Report for further information.

Table of Contents

are used for both loans on the Consolidated Balance Sheets and securitized loans. Although securitizations result in the sale of credit card receivables to a trust, JPMorgan Chase retains the ongoing customer relationships, as the customers may continue to use their credit cards; accordingly, the customer s credit performance will affect both the securitized loans and the loans retained on the Consolidated Balance Sheets. JPMorgan Chase believes managed basis information is useful to investors, enabling them to understand both the credit risks associated with the loans reported on the Consolidated Balance Sheets and the Firm s retained interests in securitized loans. For a reconciliation of reported to managed basis results for CS, see CS segment results on pages 51 53 of this Annual Report. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 16 on pages 168 176 of this Annual Report.

Total net revenue for each of the business segments and the Firm is presented on a FTE basis. Accordingly, revenue from tax-exempt securities and investments that receive tax credits is presented in the managed results on a basis comparable to taxable securities and investments. 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 these items is recorded within income tax expense.

Management also uses certain non-GAAP financial measures at the business segment level because it believes these other non-GAAP financial measures provide information to investors about the underlying operational performance and trends of the particular business segment and therefore facilitate a comparison of the business segment with the performance of its competitors.

(Table continued from previous page)

2006			
Reported results	Credit card [c]	Fully tax-equivalent adjustments	Managed basis
$ 5,520	$	$	$ 5,520
10,778			10,778
3,468			3,468
11,855			11,855
(543)			(543)
591			591
6,913	(3,509)		3,404
2,175		676	2,851
40,757	(3,509)	676	37,924
21,242	5,719	228	27,189
61,999	2,210	904	65,113
3,270	2,210		5,480

38,843			38,843
19,886		904	20,790
6,237		904	7,141
13,649			13,649
795			795
14,444			14,444
$ 14,444	$	$	$ 14,444
$ 3.82	$	$	$ 3.82
12%	%	%	12%
20			20
1.04	NM	NM	1.00
63	NM	NM	60
$ 483,127	$ 66,950	$	$ 550,077
1,313,794	65,266		1,379,060

Calculation of certain U.S. GAAP and non-GAAP metrics

The table below reflects the formulas used to calculate both the following U.S. GAAP and non-GAAP measures:

Return on common equity

Net income*/ Average common stockholders equity

Return on common equity less goodwill(d)

Net income*/ Average common stockholders equity less goodwill

Return on assets

Reported: Net income / Total average assets

Managed: Net income / Total average managed assets(e)
(including average securitized credit card receivables)

Overhead ratio

Total noninterest expense / Total net revenue

* Represents net income applicable to common stock

(d)

The Firm uses return on common equity less goodwill, a non-GAAP financial measure, to evaluate the operating performance of the Firm and to facilitate comparisons to competitors.

(e) The Firm uses return on managed assets, a non-GAAP financial measure, to evaluate the overall performance of the managed credit card portfolio, including securitized credit card loans.

Table of Contents

Management s discussion and analysis
BUSINESS SEGMENT RESULTS

The Firm is managed on a line-of-business basis. The business segment financial results presented reflect the current organization of JPMorgan Chase. There are six major reportable business segments: the Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate/Private Equity segment.

The business segments are determined based upon 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.

Business segment changes

Commencing October 1, 2008,RFS was reorganized into the following two reporting segments: Retail Banking and Consumer Lending. Previously, RFS consisted of three reporting segments: Regional Banking, Mortgage Banking and Auto Finance. The new Retail Banking reporting segment now comprises consumer banking and business banking activities, which previously were reported in Regional Banking. The new Consumer Lending reporting segment now comprises: (a) the prior Mortgage Banking and Auto Finance reporting segments,(b) the home equity, student and other lending business activities which were previously reported in the Regional Banking reporting segment and (c) loan activity related to prime mortgages that were originated by RFS, but reported in the Corporate/Private Equity business segment. This reorganization is reflected in this Annual Report and the financial information for prior periods has been revised to reflect the changes as if they had been in effect throughout all periods reported.

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.

Business segment reporting methodologies used by the Firm are discussed below. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

Revenue sharing

When business segments join efforts to sell products and services to the Firm s clients, the participating business segments agree to share revenue from those transactions. The segment results reflect these revenue-sharing agreements.

Funds transfer pricing

Funds transfer pricing is used to allocate interest income and expense to each business and transfer the primary interest rate risk exposures to the Treasury group within the Corporate/Private Equity business segment. The allocation process is unique to each business segment and considers the interest rate risk, liquidity risk and regulatory requirements of that segment s stand-alone peers. This process is overseen by the Firm s Asset-Liability Committee (ALCO). Business segments may retain certain interest rate exposures, subject to management approval, that would be expected in the normal operation of a similar peer business.

Capital allocation

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. Line of business equity increased during the second quarter of 2008 in IB and AM due to the Bear Stearns merger and, for AM, the purchase of the additional equity interest in Highbridge. At the end of the third quarter of 2008, equity was increased for each line of business with a view toward the future implementation of the new Basel II capital rules. For further details on these rules, see Basel II on page 72 of this Annual Report. In addition, equity allocated to RFS,CS and CB was increased as a result of the Washington Mutual transaction. For a further discussion, see Capital management Line of business equity on page 70 of this Annual Report.

Expense allocation

Where business segments use services provided by support units within the Firm, the costs of those support units are allocated to the business segments. The expense is allocated based upon their actual cost or the lower of actual cost or market, as well as upon usage of the services provided. In contrast, certain other expense related to certain corporate functions, or to certain technology and operations, are not allocated to the business segments and are retained in Corporate. Retained expense includes: parent company costs that would not be incurred if the segments were stand-alone businesses; adjustments to align certain corporate staff, technology and operations allocations with market prices; and other one-time items not aligned with the business segments.

Segment results Managed basis[a][b]

The following table summarizes the business segment results for the periods indicated.

Year ended December 31,	Total net revenue			Noninterest expense		
(in millions, except ratios)	**2008**	2007	2006	**2008**	2007	2006
Investment Bank	**$12,214**	$18,170	$18,833	**$13,844**	$13,074	$12,860
Retail Financial Services	**23,520**	17,305	14,825	**12,077**	9,905	8,927
Card Services	**16,474**	15,235	14,745	**5,140**	4,914	5,086
Commercial Banking	**4,777**	4,103	3,800	**1,946**	1,958	1,979
Treasury & Securities Services	**8,134**	6,945	6,109	**5,223**	4,580	4,266
Asset Management	**7,584**	8,635	6,787	**5,298**	5,515	4,578
Corporate/Private Equity	**69**	4,419	14	**(28)**	1,757	1,147
Total	**$72,772**	$74,812	$65,113	**$43,500**	$41,703	$38,843

Year ended December 31,	Net income (loss)			Return on equity		
(in millions, except ratios)	**2008**	2007	2006	**2008**	2007	2006
Investment Bank	**$ (1,175)**	$ 3,139	$ 3,674	**(5)%**	15%	18%
Retail Financial Services	**880**	2,925	3,213	**5**	18	22
Card Services	**780**	2,919	3,206	**5**	21	23
Commercial Banking	**1,439**	1,134	1,010	**20**	17	18
Treasury & Securities Services	**1,767**	1,397	1,090	**47**	47	48
Asset Management	**1,357**	1,966	1,409	**24**	51	40
Corporate/Private Equity[c]	**557**	1,885	842	**NM**	NM	NM
Total	**$ 5,605**	$15,365	$14,444	**4%**	13%	13%

(a) Represents reported results on a tax-equivalent basis and excludes the impact of credit card securitizations.

(b) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm s results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 123-128 of this Annual Report.

(c) Net income included an extraordinary gain of $1.9 billion related to the Washington Mutual transaction for 2008 and income from discontinued operations of $795 million for 2006.

Table of Contents

Management s discussion and analysis
INVESTMENT BANK

J.P. Morgan is one of the world s leading investment banks, with deep client relationships and broad product capabilities. The Investment Bank s clients are corporations, financial institutions, governments and institutional investors. The Firm offers a full range of investment banking products and services in all major capital markets, including advising on corporate strategy and structure, capital raising in equity and debt markets, sophisticated risk management, market-making in cash securities and derivative instruments, prime brokerage and research. IB also selectively commits the Firm s own capital to principal investing and trading activities.

On May 30, 2008, JPMorgan Chase merged with The Bear Stearns Companies, Inc. The merger provided IB with a leading global prime brokerage business and expanded the existing energy platform. It also strengthened IB's franchise in Equity and Fixed Income Markets, as well as client coverage.

Selected income statement data

Year ended December 31, (in millions, except ratios)	**2008**[g]	2007	2006
Revenue			
Investment banking fees	**$ 5,907**	$ 6,616	$ 5,537
Principal transactions[a]	**(7,042)**	4,409	9,512
Lending & deposit-related fees	**463**	446	517
Asset management, administration and commissions	**3,064**	2,701	2,240
All other income[b]	**(462)**	(78)	528
Noninterest revenue	**1,930**	14,094	18,334
Net interest income[c]	**10,284**	4,076	499
Total net revenue[d]	**12,214**	18,170	18,833
Provision for credit losses	**2,015**	654	191
Credit reimbursement from TSS[e]	**121**	121	121
Noninterest expense			
Compensation expense	**7,701**	7,965	8,190
Noncompensation expense	**6,143**	5,109	4,670
Total noninterest expense	**13,844**	13,074	12,860
Income (loss) before income tax expense (benefit)	**(3,524)**	4,563	5,903
Income tax expense (benefit)[f]	**(2,349)**	1,424	2,229
Net income (loss)	**$ (1,175)**	$ 3,139	$ 3,674
Financial ratios			
ROE	**(5)%**	15%	18%
ROA	**(0.14)**	0.45	0.57
Overhead ratio	**113**	72	68
Compensation expense as % of total net revenue	**63**	44	41

(a) The 2008 results include net markdowns on mortgage-related exposures and leveraged lending funded and unfunded commitments of $5.9 billion and $4.7 billion, respectively, compared with $1.4 billion and $1.3 billion, respectively, in 2007.

(b) All other income for 2008 decreased from the prior year due to increased revenue sharing agreements with other business segments. All other income for 2007 decreased from the prior year due mainly to losses on loan sales and lower gains on sales of assets.

(c) Net interest income for 2008 increased from the prior year due to an increase in interest-earning assets, including the addition of the Bear Stearns Prime Services business combined with wider spreads on certain fixed income products. The increase in

2007 from the prior year was due primarily to an increase in interest-earning assets.

(d) Total net revenue included tax-equivalent adjustments, predominantly due to income tax credits related to affordable housing investments and tax-exempt income from municipal bond investments of $1.7 billion, $927 million and $802 million for 2008, 2007 and 2006,respectively.

(e) TSS is charged a credit reimbursement related to certain exposures managed within IB credit portfolio on behalf of clients shared with TSS.

(f) The income tax benefit in 2008 includes the result of reduced deferred tax liabilities on overseas earnings.

(g) Results for 2008 include seven months of the combined Firm s (JPMorgan Chase s and Bear Stearns) results and five months of heritage JPMorgan Chase results. All prior periods reflect heritage JPMorgan Chase results.

The following table provides IB s total net revenue by business segment.

Year ended December 31, (in millions)	**2008[d]**	2007	2006
Revenue by business			
Investment banking fees:			
Advisory	**$ 2,008**	$ 2,273	$ 1,659
Equity underwriting	**1,749**	1,713	1,178
Debt underwriting	**2,150**	2,630	2,700
Total investment banking fees	**5,907**	6,616	5,537
Fixed income markets[a]	**1,957**	6,339	8,736
Equity markets[b]	**3,611**	3,903	3,458
Credit portfolio[c]	**739**	1,312	1,102
Total net revenue	**$12,214**	$18,170	$18,833
Revenue by region			
Americas	**$ 2,530**	$ 8,165	$ 9,601
Europe/Middle East/Africa	**7,681**	7,301	7,421
Asia/Pacific	**2,003**	2,704	1,811
Total net revenue	**$12,214**	$18,170	$18,833

(a) Fixed income markets include client and portfolio management revenue related to both market-making and proprietary risk-taking across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets.

(b) Equities markets include client and portfolio management revenue related to market-making and proprietary risk-taking across global equity products, including cash instruments, derivatives and convertibles.

(c) Credit portfolio revenue includes net interest income, fees and the impact of loan sales activity, as well as gains or losses on securities received as part of a loan restructuring, for IB s credit portfolio. Credit portfolio revenue also includes the results of risk management related to the Firm s lending and derivative activities, and changes in the credit valuation adjustment, which is the component of the fair value of a derivative that reflects the credit quality of the counterparty. Additionally, credit portfolio revenue incorporates an adjustment to the valuation of the Firm s derivative liabilities as a result of the adoption of SFAS 157 on January 1, 2007. See pages 80 99 of the Credit Risk Management section of this Annual Report for further discussion.

(d) Results for 2008 include seven months of the combined Firm s (JPMorgan Chase s and Bear Stearns) results and five months of heritage JPMorgan Chase results. All prior periods reflect heritage JPMorgan Chase results.

2008 compared with 2007

Net loss was $1.2 billion, a decrease of $4.3 billion from the prior year, driven by lower total net revenue, a higher provision for credit losses and higher noninterest expense, partially offset by a reduction in deferred tax liabilities on overseas earnings.

Total net revenue was $12.2 billion, down $6.0 billion, or 33%, from the prior year. Investment banking fees were $5.9 billion, down 11% from the prior year, driven by lower debt underwriting and advisory fees reflecting reduced market activity. Debt underwriting fees were $2.2 billion, down 18% from the prior year, driven by lower loan syndication and bond underwriting fees. Advisory fees of $2.0 billion declined 12% from the prior year. Equity underwriting fees were $1.7 billion, up 2% from the prior year driven by improved market share. Fixed Income Markets revenue was $2.0 billion, compared with $6.3 billion in the prior year. The decrease was driven by $5.9

billion of net markdowns on mortgage-related exposures and $4.7 billion of net markdowns on leveraged lending funded and unfunded commitments. Revenue was also adversely impacted by additional losses and cost to risk reduce related to Bear Stearns positions. These results were offset by record performance in rates and currencies, credit trading, commodities and emerging markets as well as $814 million of gains from the widening of the Firm s credit spread on certain structured liabilities and derivatives. Equity Markets revenue was $3.6 billion, down 7% from the prior year, reflecting weak trading results, partially offset by strong client revenue across products including prime services, as well as $510 million of gains from the widening of the Firm s credit spread on certain structured liabilities and derivatives. Credit portfolio revenue was $739 million, down 44%, driven by losses from widening counterparty credit spreads.

The provision for credit losses was $2.0 billion, an increase of $1.4 billion from the prior year, predominantly reflecting a higher allowance for credit losses, driven by a weakening credit environment, as well as the effect of the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from held-for-sale in the first quarter of 2008. Net charge-offs for the year were $105 million, compared with $36 million in the prior year. Total nonperforming assets were $2.5 billion, an increase of $2.0 billion compared with the prior year, reflecting a weakening credit environment. The allowance for loan losses to average loans was 4.71% for 2008, compared with a ratio of 2.14% in the prior year.

Noninterest expense was $13.8 billion, up $770 million, or 6%,from the prior year, reflecting higher noncompensation expense driven primarily by additional expense relating to the Bear Stearns merger, off-set partially by lower performance-based compensation expense.

Return on equity was a negative 5% on $26.1 billion of average allocated capital, compared with 15% on $21.0 billion in the prior year.

2007 compared with 2006

Net income was $3.1 billion, a decrease of $535 million, or 15%, from the prior year. The decrease reflected lower fixed income revenue, a higher provision for credit losses and increased noninterest expense, partially offset by record investment banking fees and equity markets revenue.

Total net revenue was $18.2 billion, down $663 million, or 4%,from the prior year. Investment banking fees were $6.6 billion, up 19% from the prior year, driven by record fees across advisory and equity underwriting, partially offset by lower debt underwriting fees. Advisory fees were $2.3 billion, up 37%, and equity underwriting fees were $1.7 billion, up 45%; both were driven by record performance across all regions. Debt underwriting fees of $2.6 billion declined 3%, reflecting lower loan syndication and bond underwriting fees, which were negatively affected by market conditions in the second half of the year. Fixed Income Markets revenue decreased 27% from the prior year. The decrease was due to net markdowns of $1.4 billion on subprime positions, including subprime CDOs and net markdowns of $1.3 billion on leveraged lending funded loans and unfunded commitments. Fixed Income Markets revenue also decreased due to markdowns in securitized products on nonsubprime mortgages and weak credit trading performance. These lower
results were offset partially by record revenue in currencies and strong revenue in rates. Equity Markets revenue was $3.9 billion, up 13%, benefiting from strong client activity and record trading results across all products. Credit Portfolio revenue was $1.3 billion, up 19%, primarily due to higher revenue from risk management activities, partially offset by lower gains from loan sales and workouts.

The provision for credit losses was $654 million, an increase of $463 million from the prior year. The change was due to a net increase of $532 million in the allowance for credit losses, primarily due to portfolio activity, which included the effect of a weakening credit environment, and an increase in allowance for unfunded leveraged lending commitments, as well as portfolio growth. In addition, there were $36 million of net charge-offs in 2007, compared with $31 million of net recoveries in the prior year. The allowance for loan losses to average loans was 2.14% for 2007, compared with a ratio of 1.79% in the prior year.

Noninterest expense was $13.1 billion, up $214 million, or 2%, from the prior year.

Return on equity was 15% on $21.0 billion of allocated capital compared with 18% on $20.8 billion in 2006.

Selected metrics

Year ended December 31, (in millions, except headcount)	**2008**	2007	2006
Selected balance sheet data (period-end)			
Equity	**$ 33,000**	$ 21,000	$ 21,000
Selected balance sheet data (average)			
Total assets	**$832,729**	$700,565	$647,569
Trading assets debt and equity instruments[a]	**350,812**	359,775	275,077
Trading assets derivative receivables	**112,337**	63,198	54,541
Loans:			
Loans retained[b]	**73,108**	62,247	58,846
Loans held-for-sale and loans at fair value[a]	**18,502**	17,723	21,745
Total loans	**91,610**	79,970	80,591
Adjusted assets[c]	**679,780**	611,749	527,753
Equity	**26,098**	21,000	20,753
Headcount	**27,938**	25,543	23,729

(a) As a result of the adoption of SFAS 159 in the first quarter of 2007, $11.7 billion of loans were reclassified to trading assets. Loans held-for-sale and loans at fair value were excluded when calculating the allowance coverage ratio and net charge-off (recovery) rate.

(b) Loans retained included credit portfolio loans, leveraged leases and other accrual loans, and excluded loans at fair value.

(c) Adjusted assets, a non-GAAP financial measure, equals total assets minus (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of variable interest entities (VIEs) consolidated under FIN 46R; (3) cash and securities segregated and on deposit for regulatory and other purposes; (4) goodwill and intangibles; (5) securities received as collateral; and (6) investments purchased under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility. The amount of adjusted assets is presented to assist the reader in comparing IB s asset and capital levels to other investment banks in the securities industry.

Asset-to-equity leverage ratios are commonly used as one measure to assess a company s capital adequacy. IB believes an adjusted asset amount that excludes the assets discussed above, which were considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

Table of Contents

Management s discussion and analysis
Selected metrics

Year ended December 31, (in millions, except ratio data)	2008	2007	2006
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ 105**	$ 36	$ (31)
Nonperforming assets:			
Nonperforming loans[(a)]	**1,175**	353	231
Other nonperforming assets	**1,326**	100	38
Total nonperforming assets	**2,501**	453	269
Allowance for credit losses:			
Allowance for loan losses	**3,444**	1,329	1,052
Allowance for lending-related commitments	**360**	560	305
Total allowance for credit losses	**3,804**	1,889	1,357
Net charge-off (recovery) rate[(a)(b)(c)]	**0.14%**	0.06%	(0.05)%
Allowance for loan losses to average loans[(a)(b)(c)]	**4.71**(h)	2.14(h)	1.79
Allowance for loan losses to nonperforming loans[(a)]	**301**	439	461
Nonperforming loans to average loans	**1.28**	0.44	0.29
Market risk average trading and credit portfolio VaR 99% confidence level[(d)]			
Trading activities:			
Fixed income	**$ 181**	$ 80	$ 56
Foreign exchange	**34**	23	22
Equities	**57**	48	31
Commodities and other	**32**	33	45
Diversification[(e)]	**(108)**	(77)	(70)
Total trading VaR[(f)]	**196**	107	84
Credit portfolio VaR[(g)]	**69**	17	15
Diversification[(e)]	**(63)**	(18)	(11)
Total trading and credit portfolio VaR	**$ 202**	$ 106	$ 88

(a) Nonperforming loans included loans held-for-sale and loans at fair value of $32 million, $50 million and $3 million at December 31, 2008, 2007 and 2006, respectively, which were excluded from the allowance coverage ratios. Nonperforming loans at December 31, 2006, excluded distressed loans held-for-sale that were purchased as part of IB s proprietary activities. As a result of the adoption of SFAS 159 in the first quarter of 2007, these loans were reclassified to trading assets.

(b) As a result of the adoption of SFAS 159 in the first quarter of 2007, $11.7 billion of loans were reclassified to trading assets.

(c) Loans held-for-sale and loans at fair value were excluded when calculating the allowance coverage ratio and net charge-off (recovery) rate.

(d) Results for 2008 include seven months of the combined Firm s (JPMorgan Chase s and Bear Stearns) results and five months of heritage JPMorgan Chase results. All prior periods reflect heritage JPMorgan Chase results. For a more complete description of value-at-risk (VaR), see pages 100 103 of this Annual Report.

(e) Average VaRs were less than the sum of the VaRs of their market risk components, which was due to risk offsets resulting from portfolio diversification. The diversification effect reflected the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is usually less than the sum of the risks of the positions themselves.

(f) Trading VaR includes predominantly all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example, correlation risk. Trading VaR does not include VaR related to held-for-sale funded loans and unfunded commitments, nor the debit valuation adjustments (DVA) taken on derivative and structured liabilities to reflect the credit quality of the Firm. See the DVA Sensitivity table on page 103 of this Annual Report for further details. Trading VaR also does not include the MSR portfolio or VaR related to other corporate functions, such as Corporate/Private Equity. Beginning in the fourth quarter of 2008, trading VaR includes the estimated credit spread sensitivity of certain mortgage products.

(g) Included VaR on derivative credit valuation adjustments (CVA), hedges of the CVA and mark-to-market hedges of the retained loan portfolio, which were all reported in principal transactions revenue. This VaR does not include the retained loan portfolio.

(h)

Excluding the impact of a loan originated in March 2008 to Bear Stearns, the adjusted ratio would be 4.84% for 2008. The average balance of the loan extended to Bear Stearns was $1.9 billion for 2008. The allowance for loan losses to period-end loans was 4.83% and 1.92% at December 31, 2008 and 2007, respectively.

Market shares and rankings[(a)]

	2008		2007		2006	
December 31,	Market share	Rankings	Market share	Rankings	Market share	Rankings
Global debt, equity and equity-related	**10%**	**#1**	8%	#2	7%	#2
Global syndicated loans	**12**	**1**	13	1	14	1
Global long-term debt [(b)]	**9**	**2**	7	3	6	3
Global equity and equity-related[(c)]	**12**	**1**	9	2	7	6
Global announced M&A[(d)]	**27**	**2**	27	4	26	4
U.S. debt, equity and equity-related	**16**	**1**	10	2	9	2
U.S. syndicated loans	**26**	**1**	24	1	26	1
U.S. long-term debt[(b)]	**15**	**1**	10	2	9	2
U.S. equity and equity-related[(c)]	**16**	**1**	11	5	8	6
U.S. announced M&A[(d)]	**33**	**3**	28	3	29	3

(a) Source: Thomson Reuters. The results for 2008 are pro forma for the Bear Stearns merger. The results for 2007 and 2006 represent heritage JPMorgan Chase only.

(b) Includes asset-backed securities, mortgage-backed securities and municipal securities.

(c) Includes rights offerings; U.S. domiciled equity and equity-related transactions.

(d) Global announced M&A is based upon rank value; all other rankings are based upon proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%. Global and U.S. announced M&A market share and rankings for 2007 and 2006 include transactions withdrawn since December 31, 2007 and 2006. U.S. announced M&A represents any U.S. involvement ranking.

According to Thomson Reuters, in 2008, the Firm improved its positions to #1 in Global Debt, Equity and Equity-related transactions and Global Equity and Equity-related transactions; and improved its position to #2 in Global Long-term Debt and Global Announced M&A. The Firm maintained its #1 position in Global Syndicated Loans.

According to Dealogic, the Firm was ranked #1 in Investment Banking fees generated during 2008, based upon revenue.

Table of Contents

RETAIL FINANCIAL SERVICES

Retail Financial Services, which includes the Retail Banking and Consumer Lending reporting segments, serves consumers and businesses through multiple channels. Customers can use more than 5,400 bank branches (third-largest nationally),14,500 ATMs (second-largest nationally) as well as online and mobile banking. More than 21,400 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans,and investments across the 23-state footprint from New York and Florida to California. Consumers also can obtain loans through more than 16,000 auto dealerships and 4,800 schools and universities nationwide.

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual from the FDIC for $1.9 billion through a purchase of substantially all of the assets and assumption of specified liabilities of Washington Mutual. Washington Mutual s banking operations consisted of a retail bank network of 2,244 branches, a nationwide credit card lending business, a multi-family and commercial real estate lending business, and nationwide mortgage banking activities. The transaction expanded the Firm s U.S. consumer branch network in California, Florida, Washington, Georgia, Idaho, Nevada and Oregon and created the nation s third-largest branch network.

During the first quarter of 2006, RFS completed the purchase of Collegiate Funding Services, which contributed a student loan servicing capability and provided an entry into the Federal Family Education Loan Program consolidation market. On July 1, 2006, RFS sold its life insurance and annuity underwriting businesses to Protective Life Corporation. On October 1, 2006, JPMorgan Chase completed the Bank of New York transaction, significantly strengthening RFS distribution network in the New York tri-state area.

Selected income statement data

Year ended December 31, (in millions)	**2008**	2007	2006
Revenue			
Lending & deposit-related fees	**$ 2,546**	$ 1,881	$ 1,597
Asset management, administration and commissions	**1,510**	1,275	1,422
Securities gains (losses)		1	(57)
Mortgage fees and related income[(a)]	**3,621**	2,094	618
Credit card income	**939**	646	523
Other income	**739**	882	557
Noninterest revenue	**9,355**	6,779	4,660
Net interest income	**14,165**	10,526	10,165
Total net revenue	**23,520**	17,305	14,825
Provision for credit losses	**9,905**	2,610	561
Noninterest expense			
Compensation expense[(a)]	**5,068**	4,369	3,657
Noncompensation expense[(a)]	**6,612**	5,071	4,806
Amortization of intangibles	**397**	465	464
Total noninterest expense	**12,077**	9,905	8,927

Year ended December 31, (in millions, except ratios)	**2008**	2007	2006
Income before income tax expense	**1,538**	4,790	5,337
Income tax expense	**658**	1,865	2,124
Net income	**$ 880**	$ 2,925	$ 3,213
Financial ratios			
ROE	**5%**	18%	22%
Overhead ratio	**51**	57	60
Overhead ratio excluding core deposit intangibles[(b)]	**50**	55	57

(a) The Firm adopted SFAS 159 in the first quarter of 2007. As a result, beginning in the first quarter of 2007, certain loan-origination costs have been classified as expense.

(b) Retail Financial Services uses the overhead ratio (excluding the amortization of core deposit intangibles (CDI)), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excludes Retail Baking s core deposit intangible amortization expense related to the Bank of New York transaction and the Bank One merger of $394 million, $460 million and $458 million for the years ended December 31, 2008, 2007 and 2006, respectively.

2008 compared with 2007

Net income was $880 million, a decrease of $2.0 billion, or 70%, from the prior year, as a significant increase in the provision for credit losses was partially offset by positive MSR risk management results and the positive impact of the Washington Mutual transaction.

Total net revenue was $23.5 billion, an increase of $6.2 billion, or 36%, from the prior year. Net interest income was $14.2 billion, up $3.6 billion, or 35%, benefiting from the Washington Mutual transaction, wider loan and deposit spreads, and higher loan and deposit balances. Noninterest revenue was $9.4 billion, up $2.6 billion, or 38%, as positive MSR risk management results, the impact of the Washington Mutual transaction, higher mortgage origination volume and higher deposit-related fees were partially offset by an increase in reserves related to the repurchase of previously sold loans and markdowns on the mortgage warehouse.

The provision for credit losses was $9.9 billion, an increase of $7.3 billion from the prior year. Delinquency rates have increased due to overall weak economic conditions, while housing price declines have continued to drive increased loss severities, particularly for high loan-to-value home equity and mortgage loans. The provision includes $4.7 billion in additions to the allowance for loan losses for the heritage Chase home equity and mortgage portfolios. Home equity net charge-offs were $2.4 billion (2.23% net charge-off rate; 2.39% excluding purchased credit-impaired loans), compared with $564 million (0.62% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $933 million (5.49% net charge-off rate; 6.10% excluding purchased credit-impaired loans),compared with $157 million (1.55% net charge-off rate) in the prior year. Prime mortgage net charge-offs were $526 million (1.05% net charge-off rate; 1.18% excluding purchased credit-impaired loans), compared with $33 million (0.13% net charge-off rate) in the prior year. The provision for credit losses was also affected by an increase in estimated losses for the auto, student and business banking loan portfolios.

Table of Contents

Management s discussion and analysis

Total noninterest expense was $12.1 billion, an increase of $2.2 billion, or 22%, from the prior year, reflecting the impact of the Washington Mutual transaction, higher mortgage reinsurance losses, higher mortgage servicing expense and investments in the retail distribution network.

2007 compared with 2006

Net income was $2.9 billion, a decrease of $288 million, or 9%, from the prior year, as a decline in Consumer Lending was offset partially by improved results in Retail Banking.

Total net revenue was $17.3 billion, an increase of $2.5 billion, or 17%, from the prior year. Net interest income was $10.5 billion, up $361 million, or 4%, due to the Bank of New York transaction, wider loan spreads and higher deposit balances. These benefits were offset partially by the sale of the insurance business and a shift to narrower spread deposit products. Noninterest revenue was $6.8 billion, up $2.1 billion, benefiting from positive MSR risk management results; an increase in deposit-related fees; and the absence of a prior-year $233 million loss related to $13.3 billion of mortgage loans transferred to held-for-sale. Noninterest revenue also benefited from the classification of certain mortgage loan origination costs as expense (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 due to the adoption of SFAS 159).

The provision for credit losses was $2.6 billion, compared with $561 million in the prior year. The current year provision includes a net increase of $1.0 billion in the allowance for loan losses related to home equity loans as continued weak housing prices have resulted in an increase in estimated losses for high loan-to-value loans. Home equity net charge-offs were $564 million (0.62% net charge-off rate), compared with $143 million (0.18% net charge-off rate) in the prior year. In addition, the current-year provision includes a $166 million increase in the allowance for loan losses related to subprime mortgage loans, reflecting an increase in estimated losses and growth in the portfolio. Subprime mortgage net charge-offs were $157 million (1.55% net charge-off rate),compared with $47 million (0.34% net charge-off rate) in the prior year.

Total noninterest expense was $9.9 billion, an increase of $978 million, or 11%, from the prior year due to the Bank of New York transaction; the classification of certain loan origination costs as expense due to the adoption of SFAS 159; investments in the retail distribution network; and higher mortgage production and servicing expense. These increases were offset partially by the sale of the insurance business.

Selected metrics

Year ended December 31, (in millions, except headcount and ratios)	**2008**	2007	2006
Selected balance sheet data period-end			
Assets	**$ 419,831**	$ 256,351	$ 237,887
Loans:			
Loans retained	**368,786**	211,324	180,760
Loans held-for-sale and loans at fair value[(a)]	**9,996**	16,541	32,744
Total loans	**378,782**	227,865	213,504
Deposits	**360,451**	221,129	214,081
Equity	**25,000**	16,000	16,000
Selected balance sheet data (average)			
Assets	**$ 304,442**	$ 241,112	$ 231,566
Loans:			
Loans retained	**257,083**	191,645	187,753
Loans held-for-sale and loans at fair value[(a)]	**17,056**	22,587	16,129

Total loans	**274,139**	214,232	203,882
Deposits	**258,362**	218,062	201,127
Equity	**19,011**	16,000	14,629
Headcount	**102,007**	69,465	65,570
Credit data and quality statistics			
Net charge-offs	**$ 4,877**	$ 1,350	$ 576
Nonperforming loans[(b)(c)(d)(e)]	**6,784**	2,828	1,677
Nonperforming assets[(b)(c)(d)(e)]	**9,077**	3,378	1,902
Allowance for loan losses	**8,918**	2,668	1,392
Net charge-off rate[(f)]	**1.90%**	0.70%	0.31%
Net charge-off rate excluding credit-impaired loans[(f)(g)]	**2.08**	0.70	0.31
Allowance for loan losses to ending loans[(f)]	**2.42**	1.26	0.77
Allowance for loan losses to ending loans excluding purchased credit-impaired loans[(f)(g)]	**3.19**	1.26	0.77
Allowance for loan losses to nonperforming loans[(f)]	**136**	97	89
Nonperforming loans to total loans	**1.79**	1.24	0.79

(a) Loans included prime mortgage loans originated with the intent to sell, which, for new originations on or after January 1, 2007, were accounted for at fair value under SFAS 159. These loans, classified as trading assets on the Consolidated Balance Sheets, totaled $8.0 billion and $12.6 billion at December 31, 2008 and 2007, respectively. Average loans included prime mortgage loans, classified as trading assets on the Consolidated Balance Sheets, of $14.2 billion and $11.9 billion for the years ended December 31, 2008 and 2007, respectively.

(b) Excludes purchased credit-impaired loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. These loans were accounted for on a pool basis and the pools are considered to be performing under SOP 03-3.

(c) Nonperforming loans and assets included loans held-for-sale and loans accounted for at fair value of $236 million, $69 million and $116 million at December 31, 2008, 2007 and 2006, respectively. Certain of these loans are classified as trading assets on the Consolidated Balance Sheets.

(d) Nonperforming loans and assets excluded (1) loans eligible for repurchase as well as loans repurchased from Governmental National Mortgage Association (GNMA) pools that are insured by U.S. government agencies of $3.3 billion, $1.5 billion and $1.2 billion at December 31, 2008, 2007 and 2006, respectively, and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $437 million, $417 million and $387 million at December 31, 2008, 2007 and 2006, respectively. These amounts were excluded, as reimbursement is proceeding normally.

Table of Contents

(e) During the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all other home lending products. Amounts for 2007 have been revised to reflect this change. Amounts for 2006 have not been revised as the impact was not material.

(f) Loans held-for-sale and loans accounted for at fair value were excluded when calculating the allowance coverage ratio and the net charge-off rate.

(g) Excludes the impact of purchased credit-impaired loans accounted for under SOP 03-3 that were acquired as part of the Washington

Mutual transaction at December 31, 2008. These loans were accounted for at fair value on the acquisition date, which included the impact of credit losses over the remaining life of the portfolio. Accordingly, no allowance for loan losses has been recorded for these loans.

Retail Banking
Selected income statement data

Year ended December 31, (in millions, except ratios)	**2008**	2007	2006
Noninterest revenue	**$ 4,951**	$ 3,763	$ 3,259
Net interest income	**7,659**	6,193	5,698
Total net revenue	**12,610**	9,956	8,957
Provision for credit losses	**449**	79	114
Noninterest expense	**7,232**	6,166	5,667
Income before income tax expense	**4,929**	3,711	3,176
Net income	**$ 2,982**	$ 2,245	$ 1,922
Overhead ratio	**57%**	62%	63%
Overhead ratio excluding core deposit intangibles[(a)]	**54**	57	58

(a) Retail Banking uses the overhead ratio (excluding the amortization of core deposit intangibles (CDI)), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would result in an improving overhead ratio over time, all things remaining equal. This ratio excludes Retail Baking s core deposit intangible amortization expense related to the Bank of New York transaction and the Bank One merger of $394 million, $460 million and $458 million for the years ended December 31, 2008, 2007 and 2006, respectively.

2008 compared with 2007

Retail Banking net income was $3.0 billion, up $737 million, or 33%, from the prior year. Total net revenue was $12.6 billion, up $2.7 billion, or 27%, reflecting the impact of the Washington Mutual transaction, wider deposit spreads, higher deposit-related fees, and higher deposit balances. The provision for credit losses was $449 million, compared with $79 million in the prior year, reflecting an increase in the allowance for loan losses for Business Banking loans due to higher estimated losses on the portfolio. Noninterest expense was $7.2 billion, up $1.1 billion, or 17%, from the prior year, due to the Washington Mutual transaction and investments in the retail distribution network.

2007 compared with 2006

Retail Banking net income was $2.2 billion, an increase of $323 million, or 17%, from the prior year. Total net revenue was $10.0 billion, up $1.0 billion, or 11%, benefiting from the following: the Bank of New York transaction; increased deposit-related fees; and growth in deposits. These benefits were offset partially by a shift to narrower-spread deposit products. The provision for credit losses was $79 million, compared with $114 million in the prior year. Noninterest expense was $6.2 billion, up $499 million, or 9%, from the prior year, driven by the Bank of New York transaction and investments in the retail distribution network.

Selected metrics

Year ended December 31, (in billions, except ratios and where otherwise noted)	**2008**	2007	2006
Business metrics			
Selected ending balances			
Business banking origination volume	**$ 5.5**	$ 6.9	$ 5.7
End-of-period loans owned	**18.4**	15.6	14.0
End-of-period deposits			
Checking	**$ 109.2**	$ 66.9	$ 67.1
Savings	**144.0**	96.0	91.5
Time and other	**89.1**	48.6	43.2
Total end-of-period deposits	**342.3**	211.5	201.8
Average loans owned	**$ 16.7**	$ 14.9	$ 13.4
Average deposits			
Checking	**$ 77.1**	$ 65.8	$ 62.7
Savings	**114.3**	97.1	89.7
Time and other	**53.2**	43.8	37.5
Total average deposits	**244.6**	206.7	189.9
Deposit margin	**2.89%**	2.72%	2.74%
Average assets	**$ 26.3**	$ 25.0	$ 20.5
Credit data and quality statistics			
(in millions, except ratio)			
Net charge-offs	**$ 346**	$ 163	$ 114
Net charge-off rate	**2.07%**	1.09%	0.85%
Nonperforming assets	**$ 424**	$ 294	$ 244

Retail branch business metrics

Year ended December 31,	**2008**	2007	2006
Investment sales volume (in millions)	**$ 17,640**	$ 18,360	$ 14,882
Number of:			
Branches	**5,474**	3,152	3,079
ATMs	**14,568**	9,186	8,506
Personal bankers[(a)]	**15,825**	9,650	7,573
Sales specialists[(a)]	**5,661**	4,105	3,614
Active online customers (in thousands)	**11,710**	5,918	4,909

Checking accounts (in thousands)	**24,499**	10,839	9,995

(a) Employees acquired as part of the Bank of New York transaction are included beginning in 2007.

Consumer Lending
Selected income statement data

Year ended December 31, (in millions, except ratio)	**2008**	2007	2006
Noninterest revenue	**$ 4,404**	$ 3,016	$ 1,401
Net interest income	**6,506**	4,333	4,467
Total net revenue	**10,910**	7,349	5,868
Provision for credit losses	**9,456**	2,531	447
Noninterest expense	**4,845**	3,739	3,260
Income (loss) before income tax expense	**(3,391)**	1,079	2,161
Net income (loss)	**$ (2,102)**	$ 680	$ 1,291
Overhead ratio	**44%**	51%	56%

Management s discussion and analysis

2008 compared with 2007

Consumer Lending net loss was $2.1 billion, compared with net income of $680 million in the prior year. Total net revenue was $10.9 billion, up $3.6 billion, or 48%, driven by higher mortgage fees and related income (due primarily to positive MSR risk management results), the impact of the Washington Mutual transaction, higher loan balances and wider loan spreads.

The increase in mortgage fees and related income was primarily driven by higher net mortgage servicing revenue. Mortgage production revenue of $898 million was up $18 million, as higher mortgage origination volume was predominantly offset by an increase in reserves related to the repurchase of previously sold loans and markdowns of the mortgage warehouse. Net mortgage servicing revenue (which includes loan servicing revenue, MSR risk management results and other changes in fair value) was $2.7 billion, an increase of $1.5 billion, or 124%, from the prior year. Loan servicing revenue was $3.3 billion, an increase of $924 million. Third-party loans serviced increased 91%, primarily due to the Washington Mutual transaction. MSR risk management results were $1.5 billion, compared with $411 million in the prior year. Other changes in fair value of the MSR asset were negative $2.1 billion, compared with negative $1.5 billion in the prior year.

The provision for credit losses was $9.5 billion, compared with $2.5 billion in the prior year. The provision reflected weakness in the home equity and mortgage portfolios (see Retail Financial Services discussion of the provision for credit losses for further detail).

Noninterest expense was $4.8 billion, up $1.1 billion, or 30%, from the prior year, reflecting higher mortgage reinsurance losses, the impact of the Washington Mutual transaction and higher servicing expense due to increased delinquencies and defaults.

2007 compared with 2006

Consumer Lending net income was $680 million, a decrease of $611 million, or 47%, from the prior year. Total net revenue was $7.3 billion, up $1.5 billion, or 25%, benefiting from positive MSR risk management results, increased mortgage production revenue, wider loan spreads and the absence of a prior-year $233 million loss related to $13.3 billion of mortgage loans transferred to held-for-sale. These benefits were offset partially by the sale of the insurance business.

Mortgage production revenue was $880 million, up $576 million, reflecting the impact of an increase in mortgage loan originations and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 due to the adoption of SFAS 159).These benefits were offset partially by markdowns of $241 million on the mortgage warehouse and pipeline. Net mortgage servicing revenue, which includes loan servicing revenue, MSR risk management results and other changes in fair value, was $1.2 billion, compared with $314 million in the prior year. Loan servicing revenue of $2.3 billion increased $195 million on 17% growth in third-party loans serviced. MSR risk management results were positive $411 million compared with negative $385 million in the prior year. Other changes in fair value of the MSR asset were negative $1.5 billion, compared with negative $1.4 billion in the prior year.

The provision for credit losses was $2.5 billion, compared with $447 million in the prior year. The increase in the provision was due to the home equity and subprime mortgage portfolios (see Retail Financial Services discussion of the provision for credit losses for further detail).

Noninterest expense was $3.7 billion, an increase of $479 million, or 15%. The increase reflected the classification of certain loan origination costs due to the adoption of SFAS 159; higher servicing costs due to increased delinquencies and defaults; higher production expense due to growth in originations; and increased depreciation expense on owned automobiles subject to operating leases. These increases were offset partially by the sale of the insurance business.

Selected metrics

Year ended December 31, (in billions)	**2008**	2007	2006
Business metrics			

Selected ending balances			
Loans excluding purchased credit-impaired			
End-of-period loans owned			
Home equity	**$ 114.3**	$ 94.8	$ 85.7
Prime mortgage	**65.2**	34.0	46.5
Subprime mortgage	**15.3**	15.5	13.2
Option ARMs	**9.0**		
Student loans	**15.9**	11.0	10.3
Auto	**42.6**	42.3	41.0
Other	**1.3**	2.1	2.8
Total end-of-period loans	**$ 263.6**	$ 199.7	$ 199.5
Average loans owned			
Home equity	**$ 99.9**	$ 90.4	$ 78.3
Prime mortgage	**45.0**	30.4	43.3
Subprime mortgage	**15.3**	12.7	15.4
Option ARMs	**2.3**		
Student loans	**13.6**	10.5	8.3
Auto	**43.8**	41.1	42.7
Other loans	**1.1**	2.3	2.4
Total average loans	**$ 221.0**	$ 187.4	$ 190.4

Year ended December 31, (in billions)	**2008**	2007	2006
Purchased credit-impaired loans[(a)]			
End-of-period loans owned			
Home equity	**$ 28.6**	$	$
Prime mortgage	**21.8**		
Subprime mortgage	**6.8**		
Option ARMs	**31.6**		
Total end-of-period loans	**$ 88.8**	$	$
Average loans owned			
Home equity	**$ 7.1**	$	$
Prime mortgage	**5.4**		
Subprime mortgage	**1.7**		
Option ARMs	**8.0**		
Total average loans	**$ 22.2**	$	$

Table of Contents

Year ended December 31, (in billions)	**2008**	2007	2006
Total consumer lending portfolio			
End-of-period loans owned			
Home equity	**$ 142.9**	$ 94.8	$ 85.7
Prime mortgage	**87.0**	34.0	46.5
Subprime mortgage	**22.1**	15.5	13.2
Option ARMs	**40.6**		
Student loans	**15.9**	11.0	10.3
Auto loans	**42.6**	42.3	41.0
Other	**1.3**	2.1	2.8
Total end-of-period loans	**$ 352.4**	$ 199.7	$ 199.5
Average loans owned			
Home equity	**$ 107.0**	$ 90.4	$ 78.3
Prime mortgage	**50.4**	30.4	43.3
Subprime mortgage	**17.0**	12.7	15.4
Option ARMs	**10.3**		
Student loans	**13.6**	10.5	8.3
Auto loans	**43.8**	41.1	42.7
Other	**1.1**	2.3	2.4
Total average loans owned[(b)]	**$ 243.2**	$ 187.4	$ 190.4

(a) Purchased credit-impaired loans represent loans acquired in the Washington Mutual transaction that are accounted for under SOP 03-3.

(b) Total average loans owned includes loans held-for-sale of $2.8 billion, $10.6 billion and $16.1 billion for the years ended

December 31, 2008, 2007 and 2006, respectively.

Credit data and quality statistics

(in millions, except ratios)	**2008**	2007	2006
Net charge-offs excluding purchased credit-impaired[a]			
Home equity	**$ 2,391**	$ 564	$ 143
Prime mortgage	**526**	33	9
Subprime mortgage	**933**	157	47
Option ARMs			
Auto loans	**568**	354	238
Other	**113**	79	25
Total net charge-offs	**$ 4,531**	1,187	462
Net charge-off rate excluding purchased credit-impaired[a]			
Home equity	**2.39%**	0.62%	0.18%
Prime mortgage	**1.18**	0.13	0.03
Subprime mortgage	**6.10**	1.55	0.34
Option ARMs			
Auto loans	**1.30**	0.86	0.56
Other	**0.93**	0.88	0.31
Total net charge-off rate excluding purchased credit-impaired[b]	**2.08**	0.67	0.27
Net charge-off rate reported			
Home equity	**2.23%**	0.62%	0.18%
Prime mortgage	**1.05**	0.13	0.03
Subprime mortgage	**5.49**	1.55	0.34
Option ARMs			
Auto loans	**1.30**	0.86	0.56
Other	**0.93**	0.88	0.31
Total net charge-off rate[b]	**1.89**	0.67	0.27
30+ day delinquency rate excluding purchased credit-impaired[c][d][e]	**4.21%**	3.10%	1.80%
Nonperforming assets[f][g][h]	**$ 8,653**	$ 3,084	$ 1,658
Allowance for loan losses to ending loans	**2.36%**	1.24%	0.64%
Allowance for loan losses to ending loans excluding purchased credit-impaired loans[a]	**3.16**	1.24	0.64

(a) Excludes the impact of purchased

credit-impaired loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. Under SOP 03-3, these loans were accounted for at fair value on the acquisition date, which includes the impact of estimated credit losses over the remaining lives of the loans. Accordingly, no charge-offs and no allowance for loan losses has been recorded for these loans.

(b) Average loans included loans held-for-sale of $2.8 billion, $10.6 billion and $16.1 billion for the years ended December 31, 2008, 2007 and 2006, respectively. These amounts were excluded when calculating the net charge-off rate.

(c) Excluded loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $3.2 billion, $1.2 billion and $960 million, at December 31, 2008 ,2007 and 2006, respectively. These amounts were excluded, as reimbursement is proceeding normally.

(d) Excluded loans that are 30 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $824 million, $663 million and $464 million at December 31, 2008, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.

(e) Excludes purchased credit-impaired loans. The 30+ day delinquency rate for these loans was 17.89% at

December 31, 2008. There were no purchased credit-impaired loans at December 31, 2007 and 2006.

(f) Nonperforming assets excluded (1) loans eligible for repurchase as well as loans repurchased from Governmental National Mortgage Association (GNMA) pools that are insured by U.S. government agencies of $3.3 billion, $1.5 billion and $1.2 billion at December 31, 2008, 2007 and 2006, respectively, and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $437 million, $417 million and $387 million at December 31, 2008, 2007 and

2006, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.

(g) During the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all other home lending products. Amounts for 2007 have been revised to reflect this change. Amounts for 2006 have not been revised as the impact was not material.

(h) Excludes purchased credit-impaired loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis, and the pools are considered to be

performing
under SOP 03-3.

Management s discussion and analysis

Consumer Lending (continued)

(in billions, except ratios and where otherwise noted)	**2008**	2007	2006
Origination volume			
Mortgage origination volume by channel			
Retail	**$ 41.1**	$ 45.5	$ 40.5
Wholesale	**29.4**	42.7	32.8
Correspondent	**55.5**	27.9	13.3
CNT (negotiated transactions)	**43.0**	43.3	32.6
Total mortgage origination volume	**169.0**	159.4	119.2
Home equity	**16.3**	48.3	51.9
Student loans	**6.9**	7.0	8.1
Auto	**19.4**	21.3	19.3
Avg. mortgage loans held-for-sale and loans at fair value[(a)]	**14.6**	18.8	12.9
Average assets	**278.1**	216.1	211.1
Third-party mortgage loans serviced (ending)	**1,172.6**	614.7	526.7
MSR net carrying value (ending)	**9.3**	8.6	7.5
Supplemental mortgage fees and related income details (in millions)			
Production revenue	**$ 898**	$ 880	$ 304
Net mortgage servicing revenue:			
Loan servicing revenue	**3,258**	2,334	2,139
Changes in MSR asset fair value:			
Due to inputs or assumptions in model	**(6,849)**	(516)	165
Other changes in fair value	**(2,052)**	(1,531)	(1,440)
Total changes in MSR asset fair value	**(8,901)**	(2,047)	(1,275)
Derivative valuation adjustments and other	**8,366**	927	(550)
Total net mortgage servicing revenue	**2,723**	1,214	314
Mortgage fees and related income	**3,621**	2,094	618

(a) Included $14.2 billion and $11.9 billion of prime mortgage loans at fair value for the years ended December 31,

2008 and 2007,
respectively.

Mortgage origination channels comprise the following:

Retail Borrowers who are buying or refinancing 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 real estate brokers, home builders or other third parties.

Wholesale A third-party mortgage broker refers loan applications to a mortgage banker at the Firm. Brokers are independent loan originators that specialize in finding and counseling borrowers but do not provide funding for loans.

Correspondent Banks, thrifts, other mortgage banks and other financial institutions that sell closed loans to the Firm.

Correspondent negotiated transactions (CNT) Mid-to large-sized mortgage lenders, banks and bank-owned companies that sell loans or servicing to the Firm on an as-originated basis, excluding bulk servicing transactions.

Production revenue Includes net gains or losses on originations and sales of prime and subprime mortgage loans and other production-related fees.

Net mortgage servicing revenue components: Servicing revenue Represents all gross income earned from servicing third-party mortgage loans, including stated service fees, excess service fees, late fees and other ancillary fees.

Changes in MSR asset fair value due to inputs or assumptions in model Represents MSR asset fair value adjustments due to changes in market-based inputs, such as interest rates and volatility, as well as updates to valuation assumptions used in the valuation model.

Changes in MSR asset fair value due to other changes Includes changes in the MSR value due to modeled servicing portfolio runoff (or time decay).

Derivative valuation adjustments and other Changes in the fair value of derivative instruments used to offset the impact of changes in market-based inputs to the MSR valuation model.

MSR risk management results Includes changes in MSR asset fair value due to inputs or assumptions and derivative valuation adjustments and other.

Table of Contents

CARD SERVICES

Chase Card Services is one of the nation s largest card issuers with more than 168 million credit cards in circulation and more than $190 billion in managed loans. Customers used Chase cards to meet more than $368 billion worth of their spending needs in 2008. Chase has a market leadership position in building loyalty and rewards programs with many of the world s most respected brands and through its proprietary products, which include the Chase Freedom program.

Through its merchant acquiring business, Chase Paymentech Solutions, Chase is one of the leading processors of MasterCard and Visa payments.

JPMorgan Chase uses the concept of managed basis to evaluate the credit performance of its credit card loans, both loans on the balance sheet and loans that have been securitized. For further information, see Explanation and reconciliation of the Firm s use of non-GAAP financial measures on pages 38 39 of this Annual Report. Managed results exclude the impact of credit card securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported net income; however, it does affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets.

The following discussion of CS financial results reflects the acquisition of Washington Mutual s credit card operations, including $28.3 billion of managed credit card loans, as a result of the Washington Mutual transaction on September 25, 2008, and the dissolution of the Chase Paymentech Solutions joint venture on November 1, 2008. See Note 2 on pages 123 128 of this Annual Report for more information concerning these transactions.

Selected income statement data managed basis

Year ended December 31, (in millions, except ratios)	**2008**	2007	2006
Revenue			
Credit card income	**$ 2,768**	$ 2,685	$ 2,587
All other income	**(49)**	361	357
Noninterest revenue	**2,719**	3,046	2,944
Net interest income	**13,755**	12,189	11,801
Total net revenue	**16,474**	15,235	14,745
Provision for credit losses	**10,059**	5,711	4,598
Noninterest expense			
Compensation expense	**1,127**	1,021	1,003
Noncompensation expense	**3,356**	3,173	3,344
Amortization of intangibles	**657**	720	739
Total noninterest expense	**5,140**	4,914	5,086
Income before income tax expense	**1,275**	4,610	5,061
Income tax expense	**495**	1,691	1,855
Net income	**$ 780**	$ 2,919	$ 3,206

Memo: Net securitization gains (amortization)	**$ (183)**	$ 67	$ 82
Financial ratios			
ROE	**5%**	21%	23%
Overhead ratio	**31**	32	34

2008 compared with 2007

Net income was $780 million, a decline of $2.1 billion, or 73%, from the prior year. The decrease was driven by a higher provision for credit losses, partially offset by higher total net revenue.

Average managed loans were $162.9 billion, an increase of $13.5 billion, or 9%, from the prior year. Excluding Washington Mutual, average managed loans were $155.9 billion. End-of-period managed loans were $190.3 billion, an increase of $33.3 billion, or 21%, from the prior year. Excluding Washington Mutual, end-of-period managed loans were $162.1 billion. The increases in both average managed loans and end-of-period managed loans were predominantly due to the impact of the Washington Mutual transaction and organic portfolio growth.

Managed total net revenue was $16.5 billion, an increase of $1.2 billion, or 8%, from the prior year. Net interest income was $13.8 billion, up $1.6 billion, or 13%, from the prior year, driven by the Washington Mutual transaction, higher average managed loan balances, and wider loan spreads. These benefits were offset partially by the effect of higher revenue reversals associated with higher charge-offs. Noninterest revenue was $2.7 billion, a decrease of $327 million, or 11%, from the prior year, driven by increased rewards expense, lower securitization income driven by higher credit losses, and higher volume-driven payments to partners; these were largely offset by increased interchange income, benefiting from a 4% increase in charge volume, as well as the impact of the Washington Mutual transaction.

The managed provision for credit losses was $10.1 billion, an increase of $4.3 billion, or 76%, from the prior year, due to an increase of $1.7 billion in the allowance for loan losses and a higher level of charge-offs. The managed net charge-off rate increased to 5.01%, up from 3.68% in the prior year. The 30-day managed delinquency rate was 4.97%, up from 3.48% in the prior year. Excluding Washington Mutual, the managed net charge-off rate was 4.92% and the 30-day delinquency rate was 4.36%.

Noninterest expense was $5.1 billion, an increase of $226 million, or 5%, from the prior year, predominantly due to the impact of the Washington Mutual transaction.

Table of Contents

Management s discussion and analysis
2007 compared with 2006
Net income of $2.9 billion was down $287 million, or 9%, from the prior year. Prior-year results benefited from significantly lower net charge-offs following the change in bankruptcy legislation in the fourth quarter of 2005. The increase in net charge-offs was offset partially by higher revenue.
End-of-period managed loans of $157.1 billion increased $4.2 billion, or 3%, from the prior year. Average managed loans of $149.3 billion increased $8.2 billion, or 6%, from the prior year. The increases in both end-of-period and average managed loans resulted from organic growth.
Managed total net revenue was $15.2 billion, an increase of $490 million, or 3%, from the prior year. Net interest income was $12.2 billion, up $388 million, or 3%, from the prior year. The increase in net interest income was driven by a higher level of fees and higher average loan balances. These benefits were offset partially by narrower loan spreads, the discontinuation of certain billing practices (including the elimination of certain over-limit fees and the two-cycle billing method for calculating finance charges beginning in the second quarter of 2007) and the effect of higher revenue reversals associated
with higher charge-offs. Noninterest revenue was $3.0 billion, an increase of $102 million, or 3%, from the prior year. The increase reflected a higher level of fee-based revenue and increased net interchange income, which benefited from higher charge volume. Charge volume growth was 4%, reflecting a 9% increase in sales volume, offset primarily by a lower level of balance transfers, the result of more targeted marketing efforts.
The managed provision for credit losses was $5.7 billion, an increase of $1.1 billion, or 24%, from the prior year. The increase was primarily due to a higher level of net charge-offs (the prior year benefited from the change in bankruptcy legislation in the fourth quarter of 2005) and an increase in the allowance for loan losses, driven by higher estimated net charge-offs in the portfolio. The managed net charge-off rate was 3.68%, up from 3.33% in the prior year. The 30-day managed delinquency rate was 3.48%, up from 3.13% in the prior year.
Noninterest expense was $4.9 billion, a decrease of $172 million, or 3%, compared with the prior year, primarily due to lower marketing expense and lower fraud-related expense, partially offset by higher volume-related expense.

The following are brief descriptions of selected business metrics within Card Services.

Charge volume Represents the dollar amount of cardmember purchases, balance transfers and cash advance activity.

Net accounts opened Includes originations, purchases and sales.

Merchant acquiring business Represents a business that processes bank card transactions for merchants.

Bank card volume Represents the dollar amount of transactions processed for merchants.

Total transactions Represents the number of transactions and authorizations processed for merchants.

Selected metrics

Year ended December 31, (in millions, except headcount, ratios and where otherwise noted)	2008	2007	2006
Financial metrics			
% of average managed outstandings:			
Net interest income	**8.45%**	8.16%	8.36%
Provision for credit losses	**6.18**	3.82	3.26
Noninterest revenue	**1.67**	2.04	2.09
Risk adjusted margin[a]	**3.94**	6.38	7.19
Noninterest expense	**3.16**	3.29	3.60
Pretax income (ROO)[b]	**0.78**	3.09	3.59
Net income	**0.48**	1.95	2.27
Business metrics			
Charge volume (in billions)	**$ 368.9**	$ 354.6	$ 339.6
Net accounts opened (in millions)[c]	**27.9**	16.4	45.9
Credit cards issued (in millions)	**168.7**	155.0	154.4
Number of registered Internet customers (in millions)	**35.6**	28.3	22.5
Merchant acquiring business[d]			
Bank card volume (in billions)	**$ 713.9**	$ 719.1	$ 660.6
Total transactions (in billions)	**21.4**	19.7	18.2
Selected balance sheet data (period-end)			
Loans:			
Loans on balance sheets	**$ 104,746**	$ 84,352	$ 85,881
Securitized loans	**85,571**	72,701	66,950
Managed loans	**$ 190,317**	$ 157,053	$ 152,831
Equity	**$ 15,000**	$ 14,100	$ 14,100
Selected balance sheet data (average)			
Managed assets	**$ 173,711**	$ 155,957	$ 148,153
Loans:			
Loans on balance sheets	**$ 83,293**	$ 79,980	$ 73,740
Securitized loans	**79,566**	69,338	67,367
Managed average loans	**$ 162,859**	$ 149,318	$ 141,107
Equity	**$ 14,326**	$ 14,100	$ 14,100
Headcount	**24,025**	18,554	18,639
Managed credit quality statistics			
Net charge-offs	**$ 8,159**	$ 5,496	$ 4,698

Net charge-off rate[e]	**5.01%**	3.68%	3.33%
Managed delinquency ratios			
30+ day[e]	**4.97%**	3.48%	3.13%
90+ day[e]	**2.34**	1.65	1.50
Allowance for loan losses[f][i]	**$ 7,692**	$ 3,407	$ 3,176
Allowance for loan losses to period-end loans[f]	**7.34%**	4.04%	3.70%
Key stats Washington Mutual only[g]			
Managed loans	**$ 28,250**		
Managed average loans	**6,964**		
Net interest income[h]	**14.87%**		
Risk adjusted margin[a][h]	**4.18**		
Net charge-off rate[e]	**7.11**		
30+ day delinquency rate[e]	**8.50**		
90+ day delinquency rate[e]	**3.75**		

Year ended December 31, (in millions, except headcount, ratios and where otherwise noted)	2008	2007	2006
Key stats excluding Washington Mutual			
Managed loans	**$ 162,067**	$ 157,053	$ 152,831
Managed average loans	**155,895**	149,318	141,107
Net interest income[h]	**8.16%**	8.16%	8.36%
Risk adjusted margin[a][h]	**3.93**	6.38	7.19
Net charge-off rate	**4.92**	3.68	3.33
30+ day delinquency rate	**4.36**	3.48	3.13
90+ day delinquency rate	**2.09**	1.65	1.50

(a) Represents total net revenue less provision for credit losses.

(b) Pretax return on average managed

outstandings.

(c) Results for 2008 included approximately 13 million credit card accounts acquired in the Washington Mutual transaction. Results for 2006 included approximately 30 million accounts from loan portfolio acquisitions.

(d) The Chase Paymentech Solutions joint venture was dissolved effective November 1, 2008. For the period January 1, 2008 through October 31, 2008, the data presented represent activity for the Chase Paymentech Solutions joint venture and for the period November 1, 2008 through December 31, 2008, the data presented represent activity for Chase Paymentech Solutions.

(e) Results for 2008 reflect the impact of purchase accounting adjustments related to the Washington Mutual transaction.

(f) Based on loans on a reported basis.

(g) Statistics are only presented for periods after September 25, 2008, the date of the Washington Mutual transaction.

(h) As a percentage of average managed outstandings.

(i) The 2008 allowance for loan losses included an amount related to loans acquired in the Washington Mutual transaction.

The financial information presented below reconciles reported basis and managed basis to disclose the effect of securitizations.

Year ended December 31, (in millions)	**2008**	2007	2006
Income statement data[(a)]			
Credit card income			
Reported	**$ 6,082**	$ 5,940	$ 6,096
Securitization adjustments	**(3,314)**	(3,255)	(3,509)
Managed credit card income	**$ 2,768**	$ 2,685	$ 2,587
Net interest income			
Reported	**$ 6,838**	$ 6,554	$ 6,082
Securitization adjustments	**6,917**	5,635	5,719

Managed net interest income	**$ 13,755**	$ 12,189	$ 11,801
Total net revenue			
Reported	**$ 12,871**	$ 12,855	$ 12,535
Securitization adjustments	**3,603**	2,380	2,210
Managed total net revenue	**$ 16,474**	$ 15,235	$ 14,745
Provision for credit losses			
Reported	**$ 6,456**	$ 3,331	$ 2,388
Securitization adjustments	**3,603**	2,380	2,210
Managed provision for credit losses	**$ 10,059**	$ 5,711	$ 4,598
Balance sheet average balances[(a)]			
Total average assets			
Reported	**$ 96,807**	$ 89,177	$ 82,887
Securitization adjustments	**76,904**	66,780	65,266
Managed average assets	**$ 173,711**	$ 155,957	$ 148,153
Credit quality statistics[(a)]			
Net charge-offs			
Reported	**$ 4,556**	$ 3,116	$ 2,488
Securitization adjustments	**3,603**	2,380	2,210
Managed net charge-offs	**$ 8,159**	$ 5,496	$ 4,698

(a) For a discussion of managed basis, see the non-GAAP financial measures discussion on pages 38 39 of this Annual Report.

Table of Contents

Management s discussion and analysis
COMMERCIAL BANKING

Commercial Banking serves more than 26,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion, and nearly 30,000 real estate investors/owners. Delivering extensive industry knowledge, local expertise and dedicated service, CB partners with the Firm s other businesses to provide comprehensive solutions, including lending, treasury services, investment banking and asset management, to meet its clients domestic and international financial needs.

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual from the FDIC, adding approximately $44.5 billion in loans to the Commercial Term Lending, Real Estate Banking and Other businesses in Commercial Banking. On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York s consumer, business banking and middle-market banking businesses, adding approximately $2.3 billion in loans and $1.2 billion in deposits in Commercial Banking.

Selected income statement data

Year ended December 31, (in millions, except ratios)	**2008**	2007	2006
Revenue			
Lending & deposit-related fees	**$ 854**	$ 647	$ 589
Asset management, administration and commissions	**113**	92	67
All other income[(a)]	**514**	524	417
Noninterest revenue	**1,481**	1,263	1,073
Net interest income	**3,296**	2,840	2,727
Total net revenue	**4,777**	4,103	3,800
Provision for credit losses	**464**	279	160
Noninterest expense			
Compensation expense	**692**	706	740
Noncompensation expense	**1,206**	1,197	1,179
Amortization of intangibles	**48**	55	60
Total noninterest expense	**1,946**	1,958	1,979
Income before income tax expense	**2,367**	1,866	1,661
Income tax expense	**928**	732	651
Net income	**$1,439**	$1,134	$1,010
Financial ratios			
ROE	**20%**	17%	18%
Overhead ratio	**41**	48	52

(a) Revenue from investment banking products sold to CB clients and commercial card revenue is included in all other income.

2008 compared with 2007

Net income was $1.4 billion, an increase of $305 million, or 27%, from the prior year, due to growth in total net revenue including the impact of the Washington Mutual transaction, partially offset by a higher provision for credit losses.

Record total net revenue of $4.8 billion increased $674 million, or 16%. Net interest income of $3.3 billion increased $456 million, or 16%, driven by double-digit growth in liability and loan balances and the impact of the Washington Mutual transaction, partially offset by spread compression in the liability and loan portfolios. Noninterest revenue was $1.5 billion, up $218 million, or 17%, due to higher deposit and lending-related fees.

On a client segment basis, Middle Market Banking revenue was $2.9 billion, an increase of $250 million, or 9%, from the prior year due predominantly to higher deposit-related fees and growth in liability and loan balances. Revenue from Commercial Term Lending, a new client segment established as a result of the Washington Mutual transaction encompassing multi-family and commercial mortgage loans, was $243 million. Mid-Corporate Banking revenue was $921 million, an increase of $106 million, or 13%, reflecting higher loan balances, investment banking revenue, and deposit-related fees. Real Estate Banking revenue of $413 million decreased $8 million, or 2%.

Provision for credit losses was $464 million, an increase of $185 million, or 66%, compared with the prior year, reflecting a weakening credit environment and loan growth. Net charge-offs were $288 million (0.35% net charge-off rate), compared with $44 million (0.07% net charge-off rate) in the prior year, predominantly related to an increase in real estate charge-offs. The allowance for loan losses increased $1.1 billion, which primarily reflected the impact of the Washington Mutual transaction. Nonperforming assets were $1.1 billion, an increase of $1.0 billion compared with the prior year, predominantly reflecting the Washington Mutual transaction and higher real estate-related balances.

Noninterest expense was $1.9 billion, a decrease of $12 million, or 1%, from the prior year, due to lower performance-based incentive compensation and volume-based charges from service providers, predominantly offset by the impact of the Washington Mutual transaction.

2007 compared with 2006

Net income was $1.1 billion, an increase of $124 million, or 12%, from the prior year due primarily to growth in total net revenue, partially offset by higher provision for credit losses.

Record total net revenue of $4.1 billion increased $303 million, or 8%. Net interest income of $2.8 billion increased $113 million, or 4%, driven by double-digit growth in liability balances and loans, which reflected organic growth and the Bank of New York transaction, largely offset by the continued shift to narrower-spread liability products and spread compression in the loan and liability portfolios. Noninterest revenue was $1.3 billion, up $190 million, or 18%, due to increased deposit-related fees, higher investment banking revenue, and gains on sales of securities acquired in the satisfaction of debt.

On a segment basis, Middle Market Banking revenue was $2.7 billion, an increase of $154 million, or 6%, primarily due to the Bank of New York transaction, higher deposit-related fees and growth in investment banking revenue. Mid-Corporate Banking revenue was $815 million, an increase of $159 million, or 24%, reflecting higher

Table of Contents

lending revenue, investment banking revenue, and gains on sales of securities acquired in the satisfaction of debt. Real Estate Banking revenue of $421 million decreased $37 million, or 8%.
Provision for credit losses was $279 million, compared with $160 million in the prior year. The increase in the allowance for credit losses reflected portfolio activity including slightly lower credit quality as well as growth in loan balances. The allowance for loan losses to average loans retained was 2.81%, compared with 2.86% in the prior year.
Noninterest expense was $2.0 billion, a decrease of $21 million, or 1%, largely due to lower compensation expense driven by the absence of prior-year expense from the adoption of SFAS 123R, partially offset by expense growth related to the Bank of New York transaction.

Selected metrics

Year ended December 31, (in millions, except headcount)	**2008**	2007	2006
Revenue by product:			
Lending	**$ 1,743**	$ 1,419	$ 1,344
Treasury services	**2,648**	2,350	2,243
Investment banking	**334**	292	253
Other	**52**	42	(40)
Total Commercial Banking revenue	**$ 4,777**	$ 4,103	$ 3,800
IB revenue, gross[a]	**$ 966**	$ 888	$ 716
Revenue by business:			
Middle Market Banking	**$ 2,939**	$ 2,689	$ 2,535
Commercial Term Lending[b]	**243**		
Mid-Corporate Banking	**921**	815	656
Real Estate Banking[b]	**413**	421	458
Other[b]	**261**	178	151
Total Commercial Banking revenue	**$ 4,777**	$ 4,103	$ 3,800
Selected balance sheet data (period-end)			
Equity	**$ 8,000**	$ 6,700	$ 6,300
Selected balance sheet data (average)			
Total assets	**$ 114,299**	$ 87,140	$ 57,754
Loans:			
Loans retained	**81,931**	60,231	53,154
Loans held-for-sale and loans at fair value	**406**	863	442
Total loans	$ **82,337**	$ 61,094	$ 53,596
Liability balances[c]	**103,121**	87,726	73,613
Equity	$ **7,251**	$ 6,502	$ 5,702
Average loans by business:			
Middle Market Banking	**$ 42,193**	$ 37,333	$ 33,225

Commercial Term Lending[(b)]	**9,310**		
Mid-Corporate Banking	**16,297**	12,481	8,632
Real Estate Banking[(b)]	**9,008**	7,116	7,566
Other[(b)]	**5,529**	4,164	4,173
Total Commercial Banking loans	**$ 82,337**	$ 61,094	$ 53,596
Headcount	**5,206**	4,125	4,459

Year ended December 31, (in millions, except ratios)	2008	2007	2006
Credit data and quality statistics:			
Net charge-offs	**$ 288**	$ 44	$ 27
Nonperforming loans[(d)]	**1,026**	146	121
Nonperforming assets	**1,142**	148	122
Allowance for credit losses:			
Allowance for loan losses[(e)]	**2,826**	1,695	1,519
Allowance for lending-related commitments	**206**	236	187
Total allowance for credit losses	**3,032**	1,931	1,706
Net charge-off rate[(f)]	**0.35%**	0.07%	0.05%
Allowance for loan losses to average loans[(d)(f)]	**3.04**(g)	2.81	2.86
Allowance for loan losses to nonperforming loans[(d)]	**275**	1,161	1,255
Nonperforming loans to average loans[(d)]	**1.10**(g)	0.24	0.23

(a) Represents the total revenue related to investment banking products sold to CB clients.

(b) Results for 2008 include total net revenue and average loans acquired in the Washington Mutual transaction.

(c) Liability balances include deposits and deposits swept to on-balance sheet liabilities such as commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements.

(d) Purchased credit-impaired wholesale loans accounted for under SOP 03-3 that were acquired in the Washington Mutual transaction are considered nonperforming loans because the timing and amount of expected cash flows are not reasonably estimable. These nonperforming loans were included when calculating the allowance coverage ratio, the allowance for loan losses to nonperforming loans ratio, and the nonperforming loans to average loans ratio. The carrying amount of these purchased credit- impaired loans was $224 million at December 31, 2008.

(e) Beginning in 2008, the

allowance for loan losses included an amount related to loans acquired in the Washington Mutual transaction and the Bear Stearns merger.

(f) Loans held-for-sale and loans accounted for at fair value were excluded when calculating the allowance coverage ratio and the net charge-off rate.

(g) The September 30, 2008, ending loan balance of $44.5 billion acquired in the Washington Mutual transaction is treated as if it had been part of the loan balance for the entire third quarter of 2008.

Table of Contents

Management s discussion and analysis
TREASURY & SECURITIES SERVICES

TSS is a global leader in transaction, investment and information services. TSS is one of the world s largest cash management providers and a leading global custodian. TS provides cash management, trade, wholesale card and liquidity products and services to small and mid-sized companies, multinational corporations, financial institutions and government entities. TS partners with the Commercial Banking, Retail Financial Services and Asset Management businesses to serve clients firmwide. As a result, certain TS revenue is included in other segments results. WSS holds, values, clears and services securities, cash and alternative investments for investors and broker-dealers, and manages depositary receipt programs globally.

As a result of the transaction with the Bank of New York on October 1, 2006, selected corporate trust businesses were transferred from TSS to the Corporate/Private Equity segment and are reported in discontinued operations.

Selected income statement data

Year ended December 31, (in millions, except ratio data)	**2008**	2007	2006
Revenue			
Lending & deposit-related fees	**$ 1,146**	$ 923	$ 735
Asset management, administration and commissions	**3,133**	3,050	2,692
All other income	**917**	708	612
Noninterest revenue	**5,196**	4,681	4,039
Net interest income	**2,938**	2,264	2,070
Total net revenue	**8,134**	6,945	6,109
Provision for credit losses	**82**	19	(1)
Credit reimbursement to IB[(a)]	**(121)**	(121)	(121)
Noninterest expense			
Compensation expense	**2,602**	2,353	2,198
Noncompensation expense	**2,556**	2,161	1,995
Amortization of intangibles	**65**	66	73
Total noninterest expense	**5,223**	4,580	4,266
Income before income tax expense	**2,708**	2,225	1,723
Income tax expense	**941**	828	633
Net income	**$ 1,767**	$ 1,397	$ 1,090
Revenue by business			
Treasury Services	**$ 3,555**	$ 3,013	$ 2,792
Worldwide Securities Services	**4,579**	3,932	3,317
Total net revenue	**$ 8,134**	$ 6,945	$ 6,109

Financial ratios			
ROE	**47%**	47%	48%
Overhead ratio	**64**	66	70
Pretax margin ratio[(b)]	**33**	32	28

Year ended December 31, (in millions, except headcount)	**2008**	2007	2006
Selected balance sheet data (period-end)			
Equity	**$ 4,500**	$ 3,000	$ 2,200
Selected balance sheet data (average)			
Total assets	**$ 54,563**	$ 53,350	$ 31,760
Loans[(c)]	**26,226**	20,821	15,564
Liability balances[(d)]	**279,833**	228,925	189,540
Equity	**3,751**	3,000	2,285
Headcount	**27,070**	25,669	25,423

(a) TSS is charged a credit reimbursement related to certain exposures managed within IB credit portfolio on behalf of clients shared with TSS. Beginning in first quarter 2009, income statement and balance sheet items for credit portfolio activity related to joint IB/TSS clients will be reflected proportionally in the respective IB and TSS financials. This will replace the previous approach whereby a credit reimbursement was charged to TSS by IB.

(b) Pretax margin represents income before income tax expense divided by total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its competitors.

(c) Loan balances include wholesale overdrafts, commercial card and trade finance loans.

(d) Liability balances include deposits and deposits swept to on-balance sheet liabilities such as commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements.

2008 compared with 2007

Net income was a record $1.8 billion, an increase of $370 million, or 26%, from the prior year, driven by higher total net revenue. This increase was largely offset by higher noninterest expense.

Total net revenue was a record $8.1 billion, an increase of $1.2 billion, or 17%, from the prior year. Worldwide Securities Services posted record net revenue of $4.6 billion, an increase of $647 million, or 16%, from the prior year. The growth was driven by wider spreads in securities lending, foreign exchange and liability products, increased product usage by new and existing clients (largely in custody, fund services, alternative investment services and depositary receipts) and higher liability balances, reflecting increased client deposit activity resulting from recent market conditions. These benefits were offset partially by market depreciation. Treasury Services posted record net revenue of $3.6 billion, an increase of $542 million, or 18%, reflecting higher liability balances and volume growth in electronic funds transfer products and trade loans. Revenue growth from higher liability balances reflects increased client deposit activity resulting from recent market conditions as well as organic growth. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to $11.1 billion, an increase of $1.5 billion, or 16%. Treasury Services firmwide net revenue grew to $6.5 billion, an increase of $869 million, or 15%.

Noninterest expense was $5.2 billion, an increase of $643 million, or 14%, from the prior year, reflecting higher expense related to business and volume growth as well as continued investment in new product platforms.

2007 compared with 2006

Net income was a record $1.4 billion, an increase of $307 million, or 28%, from the prior year, driven by record total net revenue, partially offset by higher noninterest expense.

Total net revenue was $6.9 billion, an increase of $836 million, or 14%, from the prior year. Worldwide Securities Services net revenue of $3.9 billion was up $615 million, or 19%. The growth was driven by increased product usage by new and existing clients (primarily custody, securities lending, depositary receipts and fund services), market appreciation on assets under custody, and wider spreads on securities lending. These gains were offset partially by spread compression on liability products. Treasury Services net revenue was $3.0 billion, an increase of $221 million, or 8%, from the prior year. The results were driven by growth in electronic transaction volumes and higher liability balances, offset partially by a shift to narrower-spread liability products. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to $9.6 billion, up $1.0 billion, or 12%. Treasury Services firmwide net revenue grew to $5.6 billion, up $391 million, or 7%.

Noninterest expense was $4.6 billion, an increase of $314 million, or 7%, from the prior year, reflecting higher expense related to business and volume growth, as well as investment in new product platforms.

Treasury & Securities Services firmwide metrics include revenue recorded in the CB, Retail Banking and AM lines of business and excludes foreign exchange (FX) revenue recorded in IB for TSS-related FX activity. In order to capture the firmwide impact of TS and TSS products and revenue, management reviews firmwide metrics such as liability balances, revenue and overhead ratios in assessing financial performance for TSS. Firmwide metrics are necessary in order to understand the aggregate TSS business.

Selected metrics

Year ended December 31, (in millions, except ratio data)	**2008**	2007	2006
TSS firmwide disclosures			
Treasury Services revenue reported	**$ 3,555**	$ 3,013	$ 2,792
Treasury Services revenue reported in Commercial Banking	**2,648**	2,350	2,243
Treasury Services revenue reported in other lines of business	**299**	270	207
Treasury Services firmwide revenue[a]	**6,502**	5,633	5,242
Worldwide Securities Services revenue	**4,579**	3,932	3,317
Treasury & Securities Services firmwide revenue[a]	**$ 11,081**	$ 9,565	$ 8,559
Treasury Services firmwide liability balances (average)[b]	**$ 242,706**	$ 199,077	$ 162,020
Treasury & Securities Services firmwide liability balances (average)[b]	**382,947**	316,651	262,678
TSS firmwide financial ratios			
Treasury Services firmwide overhead ratio[c]	**51%**	56%	56%
Treasury & Securities Services firmwide overhead ratio[c]	**57**	60	62

Year ended December 31, (in millions, except ratio data and where otherwise noted)	**2008**	2007	2006
Firmwide business metrics			
Assets under custody (in billions)	**$ 13,205**	$ 15,946	$ 13,903
Number of:			
U.S.$ ACH transactions originated (in millions)	**4,000**	3,870	3,503
Total U.S.$ clearing volume (in thousands)	**115,742**	111,036	104,846
	171,036	168,605	145,325

International electronic funds transfer volume (in thousands)[d]			
Wholesale check volume (in millions)	**2,408**	2,925	3,409
Wholesale cards issued (in thousands)[e]	**22,784**	18,722	17,228
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ (2)**	$	$ 1
Nonperforming loans	**30**		
Allowance for loan losses	**74**	18	7
Allowance for lending-related commitments	**63**	32	1
Net charge-off (recovery) rate	**(0.01)%**	%	0.01%
Allowance for loan losses to average loans	**0.28**	0.09	0.04
Allowance for loan losses to nonperforming loans	**247**	NM	NM
Nonperforming loans to average loans	**0.11**		

(a) TSS firmwide FX revenue, which includes FX revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of IB, was $880 million, $552 million and $445 million for the years ended December 31, 2008, 2007 and 2006, respectively.

(b) Firmwide liability balances include TS liability balances recorded in the Commercial Banking line of business.

(c) Overhead ratios have been calculated based upon firmwide revenue and

TSS and TS expense, respectively, including those allocated to certain other lines of business. FX revenue and expense recorded in IB for TSS-related FX activity are not included in this ratio.

(d) International electronic funds transfer includes non-U.S. dollar ACH and clearing volume.

(e) Wholesale cards issued include domestic commercial card, stored value card, prepaid card and government electronic benefit card products.

Table of Contents

Management s discussion and analysis
ASSET MANAGEMENT

AM, with assets under supervision of $1.5 trillion, is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including money market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM s client assets are in actively managed portfolios.

On May 30, 2008, JPMorgan Chase merged with The Bear Stearns Companies, Inc. The merger resulted in the addition of a new client segment, Bear Stearns Brokerage, but did not materially affect balances or business metrics.

Selected income statement data

Year ended December 31, (in millions, except ratios)	**2008**	2007	2006
Revenue			
Asset management, administration and commissions	**$ 6,004**	$ 6,821	$ 5,295
All other income	**62**	654	521
Noninterest revenue	**6,066**	7,475	5,816
Net interest income	**1,518**	1,160	971
Total net revenue	**7,584**	8,635	6,787
Provision for credit losses	**85**	(18)	(28)
Noninterest expense			
Compensation expense	**3,216**	3,521	2,777
Noncompensation expense	**2,000**	1,915	1,713
Amortization of intangibles	**82**	79	88
Total noninterest expense	**5,298**	5,515	4,578
Income before income tax expense	**2,201**	3,138	2,237
Income tax expense	**844**	1,172	828
Net income	**$ 1,357**	$ 1,966	$ 1,409
Revenue by client segment			
Private Bank[(a)]	**$ 2,565**	$ 2,362	$ 1,686
Institutional	**1,775**	2,525	1,972
Retail	**1,620**	2,408	1,885
Private Wealth Management[(a)]	**1,387**	1,340	1,244
Bear Stearns Brokerage	**237**		
Total net revenue	**$ 7,584**	$ 8,635	$ 6,787

Financial ratios			
ROE	**24%**	51%	40%
Overhead ratio	**70**	64	67
Pretax margin ratio[(b)]	**29**	36	33

(a) In 2008, certain clients were transferred from Private Bank to Private Wealth Management. Prior periods have been revised to conform to this change.

(b) Pretax margin represents income before income tax expense divided by total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its competitors.

2008 compared with 2007

Net income was $1.4 billion, a decline of $609 million, or 31%, from the prior year, driven by lower total net revenue offset partially by lower noninterest expense.

Total net revenue was $7.6 billion, a decrease of $1.1 billion, or 12%, from the prior year. Noninterest revenue was $6.1 billion, a decline of $1.4 billion, or 19%, due to lower performance fees and the effect of lower markets, including the impact of lower market valuations of seed capital investments. The lower results were offset partially by the benefit of the Bear Stearns merger and increased revenue from net asset inflows. Net interest income was $1.5 billion, up $358 million, or 31%, from the prior year, due to higher deposit and loan balances and wider deposit spreads.

Private Bank revenue grew 9% to $2.6 billion, due to increased deposit and loan balances and net asset inflows, partially offset by the effect of lower markets and lower performance fees. Institutional revenue declined 30% to $1.8 billion due to lower performance fees, partially offset by net liquidity inflows. Retail revenue declined 33% to $1.6 billion due to the effect of lower markets, including the impact of lower market valuations of seed capital investments and net equity outflows. Private Wealth Management revenue grew 4% to $1.4 billion due to higher deposit and loan balances. Bear Stearns Brokerage contributed $237 million to revenue.

The provision for credit losses was $85 million, compared with a benefit of $18 million in the prior year, reflecting an increase in loan balances, higher net charge-offs and a weakening credit environment.

Noninterest expense was $5.3 billion, down $217 million, or 4%, compared with the prior year due to lower performance-based compensation, largely offset by the effect of the Bear Stearns merger and higher compensation expense resulting from increased average headcount.

2007 compared with 2006

Net income was a record $2.0 billion, an increase of $557 million, or 40%, from the prior year. Results benefited from record total net revenue, partially offset by higher noninterest expense.

Total net revenue was $8.6 billion, an increase of $1.8 billion, or 27%, from the prior year. Noninterest revenue, primarily fees and commissions, was $7.5 billion, up $1.7 billion, or 29%, largely due to increased assets under management and higher performance and placement fees. Net interest income was $1.2 billion, up $189 million, or 19%, from the prior year, largely due to higher deposit and loan balances.

Institutional revenue grew 28% to $2.5 billion, due to net asset inflows and performance fees. Private Bank revenue grew 40% to $2.4 billion, due to higher assets under management, performance and placement fees, and increased loan and deposit balances. Retail revenue grew 28%, to $2.4 billion, primarily due to market appreciation and net asset inflows. Private Wealth Management revenue

grew 8% to $1.3 billion, reflecting higher assets under management and higher deposit balances.
The provision for credit losses was a benefit of $18 million, compared with a benefit of $28 million in the prior year.
Noninterest expense was $5.5 billion, an increase of $937 million, or 20%, from the prior year. The increase was due primarily to higher performance-based compensation expense and investments in all business segments.

Selected metrics

Year ended December 31, (in millions, except headcount, ranking data, and where otherwise noted)	2008	2007	2006
Business metrics			
Number of:			
Client advisors	**1,705**	1,729	1,506
Retirement planning services participants	**1,531,000**	1,501,000	1,362,000
Bear Stearns brokers	**324**		
% of customer assets in 4 & 5 Star Funds[a]	**42%**	55%	58%
% of AUM in 1st and 2nd quartiles:[b]			
1 year	**54%**	57%	83%
3 years	**65%**	75%	77%
5 years	**76%**	76%	79%
Selected balance sheet data (period-end)			
Equity	**$ 7,000**	$ 4,000	$ 3,500
Selected balance sheet data (average)			
Total assets	**$ 65,550**	$ 51,882	$ 43,635
Loans[c]	**38,124**	29,496	26,507
Deposits	**70,179**	58,863	50,607
Equity	**5,645**	3,876	3,500
Headcount	**15,339**	14,799	13,298
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ 11**	$ (8)	$ (19)
Nonperforming loans	**147**	12	39
Allowance for loan losses	**191**	112	121
Allowance for lending-related commitments	**5**	7	6
Net charge-off (recovery) rate	**0.03%**	(0.03)%	(0.07)%
Allowance for loan losses to average loans	**0.50**	0.38	0.46
Allowance for loan losses to nonperforming loans	**130**	933	310
Nonperforming loans to average loans	**0.39**	0.04	0.15

(a) Derived from following rating services:

Morningstar for the United States; Micropal for the United Kingdom, Luxembourg, Hong Kong and Taiwan; and Nomura for Japan.

(b) Derived from following rating services: Lipper for the United States and Taiwan; Micropal for the United Kingdom, Luxembourg and Hong Kong; and Nomura for Japan.

(c) Reflects the transfer in 2007 of held-for-investment prime mortgage loans transferred from AM to Corporate within the Corporate/Private Equity segment.

AM s client segments comprise the following:

Institutional brings comprehensive global investment services including asset management, pension analytics, asset-liability management and active risk budgeting strategies to corporate and public institutions, endowments, foundations, not-for-profit organizations and governments worldwide.

Retail provides worldwide investment management services and retirement planning and administration through third-party and direct distribution of a full range of investment vehicles.

The **Private Bank** addresses every facet of wealth management for ultra-high-net-worth individuals and families worldwide, including investment management, capital markets and risk management, tax and estate planning, banking, capital raising and specialty-wealth advisory services.

Private Wealth Management offers high-net-worth individuals, families and business owners in the United States comprehensive wealth management solutions, including investment management, capital markets and risk management, tax and estate planning, banking and specialty-wealth advisory services.

Bear Stearns Brokerage provides investment advice and wealth management services to high-net-worth individuals, money managers, and small corporations.

J.P. Morgan Asset Management has established two measures of its overall performance.

Percentage of assets under management in funds rated 4 and 5 stars (3 year). Mutual fund rating services rank funds based on their risk-adjusted performance over various periods. A 5 star rating is the best and represents the top 10% of industry wide ranked funds. A 4 star rating represents the next 22% of industry wide ranked funds. The worst rating is a 1 star rating.

Percentage of assets under management in first- or second- quartile funds (one, three and five years). Mutual fund rating services rank funds according to a peer-based performance system, which measures returns according to specific time and fund classification (small, mid, multi and large cap).

Table of Contents

Management s discussion and analysis
Assets under supervision
2008 compared with 2007

Assets under supervision (AUS) were $1.5 trillion, a decrease of $76 billion, or 5%, from the prior year. Assets under management (AUM) were $1.1 trillion, down $60 billion, or 5%, from the prior year. The decrease was due to the effect of lower markets and non-liquidity outflows, predominantly offset by liquidity product inflows across all segments and the addition of Bear Stearns assets under management. Custody, brokerage, administration and deposit balances were $363 billion, down $16 billion due to the effect of lower markets on brokerage and custody balances, offset by the addition of Bear Stearns Brokerage. The Firm also has a 43% interest in American Century Companies, Inc., whose AUM totaled $70 billion and $102 billion at December 31, 2008 and 2007, respectively, which are excluded from the AUM above.

2007 compared with 2006

AUS were $1.6 trillion, an increase of $225 billion, or 17%, from the prior year. AUM were $1.2 trillion, up 18%, or $180 billion, from the prior year. The increase in AUM was the result of net asset inflows into liquidity and alternative products and market appreciation across all segments. Custody, brokerage, administration and deposit balances were $379 billion, up $45 billion. The Firm also has a 44% interest in American Century Companies, Inc., whose AUM totaled $102 billion and $103 billion at December 31, 2007 and 2006, respectively, which are excluded from the AUM above.

Assets under supervision[a]

As of or for the year ended December 31, (in billions)	**2008**	2007	2006
Assets by asset class			
Liquidity	**$ 613**	$ 400	$ 311
Fixed income	**180**	200	175
Equities & balanced	**240**	472	427
Alternatives	**100**	121	100
Total assets under management	**1,133**	1,193	1,013
Custody/brokerage/ administration/deposits	**363**	379	334
Total assets under supervision	**$ 1,496**	$ 1,572	$ 1,347
Assets by client segment			
Institutional	**$ 681**	$ 632	$ 538
Private Bank[b]	**181**	183	142
Retail	**194**	300	259
Private Wealth Management[b]	**71**	78	74
Bear Stearns Brokerage	**6**		
Total assets under management	**$ 1,133**	$ 1,193	$ 1,013
Institutional	**$ 682**	$ 633	$ 539
Private Bank[b]	**378**	403	328
Retail	**262**	394	343
Private Wealth Management[b]	**124**	142	137

Bear Stearns Brokerage	**50**		
Total assets under supervision	**$ 1,496**	$ 1,572	$ 1,347

Assets by geographic region As of or for the year ended December 31, (in billions)	**2008**	2007	2006
U.S./Canada	**$ 798**	$ 760	$ 630
International	**335**	433	383
Total assets under management	**$ 1,133**	$ 1,193	$ 1,013
U.S./Canada	**$ 1,084**	$ 1,032	$ 889
International	**412**	540	458
Total assets under supervision	**$ 1,496**	$ 1,572	$ 1,347

Mutual fund assets by asset class			
Liquidity	**$ 553**	$ 339	$ 255
Fixed income	**41**	46	46
Equities	**99**	224	206
Total mutual fund assets	**$ 693**	$ 609	$ 507

Assets under management rollforward			
Beginning balance, January 1	**$ 1,193**	$ 1,013	$ 847
Net asset flows:			
Liquidity	**210**	78	44
Fixed income	**(12)**	9	11
Equities, balanced and alternative	**(47)**	28	34
Market/performance/other impacts[(c)]	**(211)**	65	77
Ending balance, December 31	**$ 1,133**	$ 1,193	$ 1,013
Assets under supervision rollforward			
Beginning balance, January 1	**$ 1,572**	$ 1,347	$ 1,149
Net asset flows	**181**	143	102
Market/performance/other impacts[(c)]	**(257)**	82	96
Ending balance, December 31	**$ 1,496**	$ 1,572	$ 1,347

(a) Excludes assets under management of American Century

Companies, Inc., in which the Firm had a 43%, 44% and 43% ownership at December 31, 2008, 2007 and 2006, respectively.

(b) In 2008, certain clients were transferred from Private Bank to Private Wealth Management. Prior periods have been revised to conform to this change.

(c) Includes $15 billion for assets under management and $68 billion for assets under supervision from the Bear Stearns merger in the second quarter of 2008.

Table of Contents

CORPORATE/PRIVATE EQUITY

The Corporate/Private Equity sector comprises Private Equity, Treasury, corporate staff units and expense that is centrally managed. Treasury manages capital, liquidity, interest rate and foreign exchange risk and the investment portfolio for the Firm. The corporate staff units include Central Technology and Operations, Internal Audit, Executive Office, Finance, Human Resources, Marketing & Communications, Legal & Compliance, Corporate Real Estate and General Services, Risk Management, Corporate Responsibility and Strategy & Development. Other centrally managed expense includes the Firm s occupancy and pension-related expense, net of allocations to the business.
Selected income statement data

Year ended December 31, (in millions)	**2008**	2007	2006
Revenue			
Principal transactions[a][b]	**$ (3,588)**	$ 4,552	$ 1,181
Securities gains (losses)[c]	**1,637**	39	(608)
All other income[d]	**1,673**	465	485
Noninterest revenue	**(278)**	5,056	1,058
Net interest income (expense)	**347**	(637)	(1,044)
Total net revenue	**69**	4,419	14
Provision for credit losses	**447**[j][k]	(11)	(1)
Provision for credit losses accounting conformity[e]	**1,534**		
Noninterest expense			
Compensation expense	**2,340**	2,754	2,626
Noncompensation expense[f]	**1,841**	3,025	2,357
Merger costs	**432**	209	305
Subtotal	**4,613**	5,988	5,288
Net expense allocated to other businesses	**(4,641)**	(4,231)	(4,141)
Total noninterest expense	**(28)**	1,757	1,147
Income (loss) from continuing operations before income tax expense (benefit)	**(1,884)**	2,673	(1,132)
Income tax expense (benefit)[g]	**(535)**	788	(1,179)
Income (loss) from continuing operations	**(1,349)**	1,885	47
Income from discontinued operations[h]			795
Income before extraordinary gain	**(1,349)**	1,885	842
Extraordinary gain[i]	**1,906**		

Net income	**$ 557**	$ 1,885	$ 842

(a) Included losses on preferred equity interests in Fannie Mae and Freddie Mac in 2008.
(b) The Firm adopted SFAS 157 in the first quarter of 2007. See Note 4 on pages 129 143 of this Annual Report for additional information.
(c) Included gain on sale of MasterCard shares in 2008.
(d) Included a gain from the dissolution of the Chase Paymentech Solutions joint venture and proceeds from the sale of Visa shares in its initial public offering in 2008.
(e) Represents an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual Bank s banking operations. For a further discussion, see Consumer

Credit Portfolio on page 99 of this Annual Report.

(f) Included a release of credit card litigation reserves in 2008 and insurance recoveries related to settlement of the Enron and WorldCom class action litigations and for certain other material legal proceedings of $512 million for full year 2006.

(g) Includes tax benefits recognized upon resolution of tax audits.

(h) Included a $622 million gain from the sale of selected corporate trust businesses in 2006.

(i) Effective September 25, 2008, JPMorgan Chase acquired Washington Mutual s banking operations from the FDIC for $1.9 billion. The fair value of the Washington Mutual net assets acquired exceeded the purchase price, which resulted in negative goodwill. In accordance with SFAS 141, nonfinancial assets that are not held-for-sale were written down against that negative goodwill. The negative goodwill that remained after writing down nonfinancial assets was recognized as an extraordinary gain in 2008.

(j) In November 2008, the Firm transferred $5.8 billion of higher quality credit card loans from the legacy Chase portfolio to a securitization trust previously established by Washington Mutual (the Trust). As a result of converting higher credit quality Chase-originated on-book receivables to the Trust s seller s interest which has a higher overall loss rate reflective of the total assets within the Trust, approximately $400 million of incremental provision expense was recorded during the fourth quarter. This incremental provision expense was recorded in the Corporate segment as the action related to the acquisition of Washington Mutual s banking operations. For further discussion of credit card securitizations, see Note 16 on pages 169 170 of this Annual Report.

(k) Includes $9 million for credit card securitizations related to the Washington Mutual transaction.

2008 compared with 2007

Net income for Corporate/Private Equity was $557 million, compared with net income of $1.9 billion in the prior year. This segment includes the results of Private Equity and Corporate business segments, as well as merger-related items.

Net loss for Private Equity was $690 million, compared with net income of $2.2 billion in the prior year. Net revenue was negative $963 million, a decrease of $4.9 billion, reflecting Private Equity losses of $894 million, compared with gains of $4.1 billion in the prior year. Noninterest expense was negative $120 million, a decrease of $469 million from the prior year, reflecting lower compensation expense.

Net income for Corporate was $1.5 billion, compared with a net loss of $150 million in the prior year. Net revenue was $1.0 billion, an increase of $580 million. Excluding merger-related items, net revenue was $1.7 billion, an increase of $1.2 billion. Net revenue included a gain of $1.5 billion on the proceeds from the sale of Visa shares in its initial public offering, $1.0 billion on the dissolution of the Chase Paymentech Solutions joint venture, and $668 million from the sale of MasterCard shares, partially offset by losses of $1.1 billion on preferred securities of Fannie Mae and Freddie Mac and $464 million related to the offer to repurchase auction-rate securities. 2007 included a gain of $234 million on the sale of MasterCard shares. Noninterest expense was negative $736 million, compared with $959 million in the prior year, driven mainly by lower litigation expense.

Merger-related items were a net loss of $2.1 billion compared with a net loss of $130 million in the prior year. Washington Mutual merger-related items included conforming loan loss reserve of $1.5 billion, credit card related loan loss reserves of $403 million and net merger-related costs of $138 million. Bear Stearns merger-related included a net loss of $423 million, which represented JPMorgan Chase s 49.4% ownership in Bear Stearns losses from April 8 to May 30, 2008, and net merger-related costs of $665 million. 2007 included merger costs of $209 million related to the Bank One and Bank of New York transactions.

Table of Contents

Management s discussion and analysis

2007 compared with 2006

Net income was $1.9 billion, compared with $842 million in the prior year, benefiting from strong Private Equity gains, partially offset by higher expense. Prior-year results also included Income from discontinued operations of $795 million, which included a one-time gain of $622 million from the sale of selected corporate trust businesses.

Net income for Private Equity was $2.2 billion, compared with $627 million in the prior year. Total net revenue was $4.0 billion, an increase of $2.8 billion. The increase was driven by Private Equity gains of $4.1 billion, compared with $1.3 billion, reflecting a higher level of gains and the change in classification of carried interest to compensation expense. Total noninterest expense was $589 million, an increase of $422 million from the prior year. The increase was driven by higher compensation expense, reflecting the change in the classification of carried interest.

Net loss for Corporate was $150 million, compared with a net loss of $391 million in the prior year. Corporate total net revenue was $452 million, an increase of $1.6 billion. Revenue benefited from net security gains compared with net security losses in the prior year and improved net interest spread. Total noninterest expense was $959 million, an increase of $284 million from the prior year. The increase reflected higher net litigation expense, driven by credit card-related litigation and the absence of prior-year insurance recoveries related to certain material litigation, partially offset by lower compensation expense.

Net loss for merger costs related to the Bank One and the Bank of New York transactions were $130 million, compared with a loss of $189 million in the prior year. Merger costs were $209 million, compared with $305 million in the prior year.

Selected metrics

Year ended December 31, (in millions, except headcount)	**2008**	2007	2006
Total net revenue			
Private equity[(a)]	**$ (963)**	$ 3,967	$ 1,142
Corporate	**1,032**	452	(1,128)
Total net revenue	**$ 69**	$ 4,419	$ 14
Net income (loss)			
Private equity[(a)]	**$ (690)**	$ 2,165	$ 627
Corporate[(b)(c)]	**1,458**	(150)	(391)
Merger-related items[(d)]	**(2,117)**	(130)	(189)
Income (loss) from continuing operations	**(1,349)**	1,885	47
Income from discontinued operations (after-tax)[(e)]			795
Income before extraordinary gain	**(1,349)**	1,885	842
Extraordinary gain	**1,906**		
Total net income	**$ 557**	$ 1,885	$ 842
Headcount	**23,376**	22,512	23,242

(a)

The Firm adopted SFAS 157 in the first quarter of 2007. See Note 4 on pages 129 143 of this Annual Report for additional information.

(b) Included a release of credit card litigation reserves in 2008 and insurance recoveries related to settlement of the Enron and WorldCom class action litigations and for certain other material legal proceedings of $512 million for full year 2006.

(c) Includes tax benefits recognized upon resolution of tax audits.

(d) Includes an accounting conformity loan loss reserve provision related to the Washington Mutual transaction in 2008. 2008 also reflects items related to the Bear Stearns merger, which included Bear Stearns losses, merger costs, Bear Stearns asset management liquidation costs and Bear Stearns private client services broker retention expense. Prior periods represent costs related to the Bank One transaction in 2004 and the Bank of New York transaction in 2006.

(e) Included a $622 million gain from the sale of selected corporate trust business in 2006.

Table of Contents

Private equity portfolio

2008 compared with 2007

The carrying value of the private equity portfolio at December 31, 2008, was $6.9 billion, down from $7.2 billion at December 31, 2007. The portfolio decrease was primarily driven by unfavorable valuation adjustments on existing investments, partially offset by new investments, and the addition of the Bear Stearns portfolios. The portfolio represented 5.8% of the Firm s stockholders equity less goodwill at December 31, 2008, down from 9.2% at December 31, 2007.

2007 compared with 2006

The carrying value of the private equity portfolio at December 31, 2007, was $7.2 billion, up from $6.1 billion at December 31, 2006. The portfolio increase was due primarily to favorable valuation adjustments on nonpublic investments and new investments, partially offset by sales activity. The portfolio represented 9.2% of the Firm s stockholders equity less goodwill at December 31, 2007, up from 8.6% at December 31, 2006.

Selected income statement and balance sheet data

Year ended December 31, (in millions)	**2008**	2007	2006
Corporate			
Securities gains (losses)[a]	**$ 1,652**	$ 37	$ (619)
Investment securities portfolio (average)[b]	**106,801**	85,517	63,361
Investment securities portfolio (ending)[b]	**166,662**	76,200	82,091
Mortgage loans (average)[c]	**7,059**	5,639	
Mortgage loans (ending)[c]	**7,292**	6,635	
Private equity			
Realized gains	**$ 1,717**	$ 2,312	$ 1,223
Unrealized gains (losses)[d][e]	**(2,480)**	1,607	(1)
Total direct investments	**(763)**	3,919	1,222
Third-party fund investments	**(131)**	165	77
Total private equity gains (losses)[f]	**$ (894)**	$ 4,084	$ 1,299
Private equity portfolio information[g]			
Direct investments			
Publicly held securities			
Carrying value	**$ 483**	$ 390	$ 587
Cost	**792**	288	451
Quoted public value	**543**	536	831
Privately held direct securities			
Carrying value	**5,564**	5,914	4,692
Cost	**6,296**	4,867	5,795
Third-party fund investments[h]			
Carrying value	**805**	849	802
Cost	**1,169**	1,076	1,080
Total private equity portfolio Carrying value	**$ 6,852**	$ 7,153	$ 6,081

Total private equity portfolio	Cost	**$ 8,257**	$ 6,231	$ 7,326

(a) Results for 2008 included a gain on the sale of MasterCard shares. All periods reflect repositioning of the Corporate investment securities portfolio and exclude gains/losses on securities used to manage risk associated with MSRs.

(b) Includes Chief Investment Office investment securities only.

(c) Held-for-investment prime mortgage loans were transferred from AM to the Corporate/Private Equity segment for risk management and reporting purposes. The initial transfer in 2007 had no material impact on the financial results of Corporate/Private Equity.

(d) Unrealized gains (losses) contain reversals of unrealized gains and losses that were recognized in prior periods and have now been realized.

(e) The Firm adopted SFAS 157 in the first quarter of 2007. For additional information, see Note 4 on pages 129 143 of this Annual Report.

(f) Included in principal transactions revenue in the Consolidated Statements of Income.

(g) For more information on the Firm s policies regarding the valuation of the private equity portfolio, see Note 4 on pages 129 143 of this Annual Report.

(h) Unfunded commitments to third-party equity funds were $1.4 billion, $881 million and $589 million at December 31, 2008, 2007 and 2006, respectively.

Table of Contents

Management s discussion and analysis
BALANCE SHEET ANALYSIS

Selected balance sheet data

December 31, (in millions)	2008	2007
Assets		
Cash and due from banks	**$ 26,895**	$ 40,144
Deposits with banks	**138,139**	11,466
Federal funds sold and securities purchased under resale agreements	**203,115**	170,897
Securities borrowed	**124,000**	84,184
Trading assets:		
Debt and equity instruments	**347,357**	414,273
Derivative receivables	**162,626**	77,136
Securities	**205,943**	85,450
Loans	**744,898**	519,374
Allowance for loan losses	**(23,164)**	(9,234)
Loans, net of allowance for loan losses	**721,734**	510,140
Accrued interest and accounts receivable	**60,987**	24,823
Goodwill	**48,027**	45,270
Other intangible assets	**14,984**	14,731
Other assets	**121,245**	83,633
Total assets	**$ 2,175,052**	$ 1,562,147
Liabilities		
Deposits	**$ 1,009,277**	$ 740,728
Federal funds purchased and securities loaned or sold under repurchase agreements	**192,546**	154,398
Commercial paper and other borrowed funds	**170,245**	78,431
Trading liabilities:		
Debt and equity instruments	**45,274**	89,162
Derivative payables	**121,604**	68,705
Accounts payable and other liabilities	**187,978**	94,476
Beneficial interests issued by consolidated VIEs	**10,561**	14,016
Long-term debt and trust preferred capital debt securities	**270,683**	199,010
Total liabilities	**2,008,168**	1,438,926
Stockholders equity	**166,884**	123,221
Total liabilities and stockholders equity	**$ 2,175,052**	$ 1,562,147

Consolidated Balance Sheets overview
The following is a discussion of the significant changes in the Consolidated Balance Sheets from December 31, 2007.

Deposits with banks; federal funds sold and securities purchased under resale agreements; securities borrowed; federal funds purchased and securities loaned or sold under repurchase agreements

The Firm utilizes deposits with banks, federal funds sold and securities purchased under resale agreements, securities borrowed, and federal funds purchased and securities loaned or sold under repurchase agreements as part of its liquidity management activities to manage the Firm s cash positions and risk-based capital requirements and to support the Firm s trading and risk management activities. In particular, the Firm uses securities purchased under resale agreements and securities borrowed to provide funding or liquidity to clients by purchasing and borrowing clients securities for the short-term. Federal funds purchased and securities loaned or sold under repurchase agreements are used as short-term funding sources for the Firm and to make securities available to clients for their short-term purposes. The increase from December 31, 2007, in deposits with banks reflected a higher level of interbank lending; a reclassification of deposits with the Federal Reserve Bank from cash and due from banks to deposits with banks reflecting a policy change of the Federal Reserve Bank to pay interest to depository institutions on reserve balances, and assets acquired as a result of the Bear Stearns merger. The increase in securities borrowed and securities purchased under resale agreements was related to assets acquired as a result of the Bear Stearns merger and growth in demand from clients for liquidity. The increase in securities sold under repurchase agreements reflected higher short-term funding requirements to fulfill clients demand for liquidity and finance the Firm s AFS securities inventory, and the effect of the liabilities assumed in connection with the Bear Stearns merger. For additional information on the Firm s Liquidity Risk Management, see pages 76 80 of this Annual Report.

Trading assets and liabilities debt and equity instruments

The Firm uses debt and equity trading instruments for both market-making and proprietary risk-taking activities. These instruments consist predominantly of fixed income securities, including government and corporate debt; equity, including convertible securities; loans, including certain prime mortgage and other loans warehoused by RFS and IB for sale or securitization purposes and accounted for at fair value under SFAS 159; and physical commodities inventories. The decreases in trading assets and liabilities debt and equity instruments from December 31, 2007, reflected the effect of the challenging capital markets environment, particularly for debt securities, partially offset by positions acquired as a result of the Bear Stearns merger. For additional information, refer to Note 4 and Note 6 on pages 129 143 and 146 148, respectively, of this Annual Report.

Trading assets and liabilities derivative receivables and payables

Derivative instruments enable end-users to increase, reduce or alter exposure to credit or market risks. The value of a derivative is derived from its reference to an underlying variable or combination of variables such as interest rate, credit, foreign exchange, equity or commodity prices or indices. JPMorgan Chase makes markets in derivatives for customers, is an end-user of derivatives for its principal risk-taking activities, and is also an end-user of derivatives to hedge or manage risks of market and credit exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. The majority of the Firm s derivatives are entered into for market-making purposes. The increase in derivative receivables and payables from December 31, 2007, was primarily related to the decline in interest rates, widening credit spreads and volatile foreign exchange rates reflected in interest rate, credit and foreign exchange derivatives, respectively. The increase also included positions acquired in the Bear Stearns merger. For additional information, refer to derivative contracts, Note 4, Note 6 and Note 32 on pages 129 143, 146 148, and 202 205, respectively, of this Annual Report.

Securities

Almost all of the Firm s securities portfolio is classified as AFS and is used predominantly to manage the Firm s exposure to interest rate movements, as well as to make strategic longer-term investments. The AFS portfolio increased from December 31, 2007, predominantly as a result of purchases, partially offset by sales and maturities. For additional information related to securities, refer to the Corporate/Private Equity segment discussion, Note 4 and Note 12 on pages 61 63, 129 143 and 158 162, respectively, of this Annual Report.

Loans and allowance for loan losses

The Firm provides loans to a variety of customers, from large corporate and institutional clients to individual consumers. Loans increased from December 31, 2007, largely due to loans acquired in the Washington Mutual transaction, organic growth in lending in the wholesale businesses, particularly CB, and growth in the consumer prime mortgage portfolio driven by the decision to retain, rather than sell, new originations of nonconforming mortgage loans.

Both the consumer and wholesale components of the allowance for loan losses increased from the prior year reflecting the addition of noncredit-impaired loans acquired in the Washington Mutual transaction, including an increase to conform the allowance applicable to assets acquired from Washington Mutual to the Firm s loan loss methodologies. Excluding the Washington Mutual transaction the consumer allowance rose due to an increase in estimated losses for home equity, subprime mortgage, prime mortgage and credit card loans due to the effects of continued housing price declines, rising unemployment and a weakening economic environment. Excluding the Washington Mutual transaction, the increase in the wholesale allowance was due to the impact of the transfer of $4.9 billion of funded and unfunded leveraged lending loans in IB to the retained loan portfolio from the held-for-sale loan portfolio, the effect of a weakening credit environment and loan growth. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 80 99, and Notes 4, 5, 14 and 15 on pages 129 143, 144 146, 163 166 and 166 168, respectively, of this Annual Report.

Accrued interest and accounts receivable; accounts payable and other liabilities

The Firm s accrued interest and accounts receivable consist of accrued interest receivable from interest-earning assets; receivables from customers (primarily from activities related to IB s Prime Services business); receivables from brokers, dealers and clearing organizations; and receivables from failed securities sales. The Firm s accounts payable and other liabilities consist of accounts payable to customers (primarily from activities related to IB s Prime Services business), payables to brokers, dealers and clearing organizations; payables from failed securities purchases; accrued expense, including for interest-bearing liabilities; and all other liabilities, including obligations to return securities received as collateral. The increase in accrued interest and accounts receivable from December 31, 2007, was due largely to the Bear Stearns merger, reflecting higher customer receivables in IB s Prime Services business and the Washington Mutual transaction. The increase in accounts payable and other liabilities
was predominantly due to the Bear Stearns merger, reflecting higher customer payables (primarily related to IB s Prime Services business), as well as higher obligations to return securities received as collateral. For additional information, see Note 22 on page 190 of this Annual Report.

Goodwill

Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed. The increase in goodwill was due predominantly to the dissolution of Chase Paymentech Solutions joint venture, the merger with Bear Stearns, the purchase of an additional equity interest in Highbridge and tax-related purchase accounting adjustments associated with the Bank One merger, which increased goodwill attributed to IB. These items were offset partially by a decrease in goodwill attributed to TSS predominantly resulting from the sale of a previously consolidated subsidiary. For additional information, see Note 18 on pages 186 189 of this Annual Report.

Other intangible assets

The Firm s other intangible assets consist of MSRs, purchased credit card relationships, other credit card-related intangibles, core deposit intangibles, and other intangibles. MSRs increased due to the Washington Mutual transaction and the Bear Stearns merger; sales in RFS of originated loans; and purchases of MSRs. These increases in MSRs were partially offset by markdowns of the fair value of the MSR asset due to changes to inputs and assumptions in the MSR valuation model, including updates to prepayment assumptions to reflect current expectations, and to servicing portfolio run-offs. The decrease in other intangible assets reflects amortization expense associated with credit card-related and core deposit intangibles, partially offset by increases due to the dissolution of the Chase Paymentech Solutions joint venture, the purchase of an additional equity interest in Highbridge, and the acquisition of an institutional global custody portfolio. For additional information on MSRs and other intangible assets, see Note 18 on pages 186 189 of this Annual Report.

Other assets

The Firm s other assets consist of private equity and other investments, collateral received, corporate and bank-owned life insurance policies, premises and equipment, assets acquired in loan satisfaction (including real estate owned), and all other assets. The increase in other assets from December 31, 2007, was due to the Bear Stearns merger, which partly resulted in a higher volume of collateral received from customers, the Washington Mutual transaction, and the purchase of asset-backed commercial paper from money market mutual funds in connection with the Federal Reserve s Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AML Facility), which was established by the Federal Reserve on September 19, 2008, as a temporary lending facility to provide liquidity to eligible MMMFs. For additional information regarding the AML Facility, see Executive Overview and Note 22 on pages 29 32 and 190 respectively, of this Annual Report.

Table of Contents

Management s discussion and analysis

Deposits

The Firm s deposits represent a liability to customers, both retail and wholesale, related to non-brokerage funds held on their behalf. Deposits are generally classified by location (U.S. and non-U.S.), whether they are interest or noninterest-bearing, and by type (i.e., demand, money market deposit, savings, time or negotiable order of withdrawal accounts). Deposits help provide a stable and consistent source of funding for the Firm. Deposits were at a higher level compared with the level at December 31, 2007, predominantly from the deposits assumed in the Washington Mutual transaction, net increases in wholesale interest- and noninterest-bearing deposits in TSS, AM and CB. The increase in TSS was driven by both new and existing clients, and due to the deposit inflows related to the heightened volatility and credit concerns affecting the markets. For more information on deposits, refer to the TSS and RFS segment discussions on pages 56 57 and 45 50, respectively, and the Liquidity Risk Management discussion on pages 76 80 of this Annual Report. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 54 55 and 56 57 of this Annual Report.

Commercial paper and other borrowed funds

The Firm utilizes commercial paper and other borrowed funds as part of its liquidity management activities to meet short-term funding needs, and in connection with a TSS liquidity management product whereby excess client funds, are transferred into commercial paper overnight sweep accounts. The increase in other borrowed funds was predominantly due to advances from Federal Home Loan Banks of $70.2 billion (net of maturities of $10.4 billion) that were assumed as part of the Washington Mutual transaction and nonrecourse advances from the Federal Reserve Bank of Boston (FRBB) to fund purchases of asset-backed commercial paper from money market mutual funds, and other borrowings from the Federal Reserve under the Term Auction Facility program. For additional information on the Firm s Liquidity Risk Management and other borrowed funds, see pages 76 80 and Note 21 on page 190 of this Annual Report.

Long-term debt and trust preferred capital debt securities

The Firm utilizes long-term debt and trust preferred capital debt securities to provide cost-effective and diversified sources of funds and as critical components of the Firm s liquidity and capital management. Long-term debt and trust preferred capital debt securities increased from December 31, 2007, predominantly due to debt assumed in both the Bear Stearns merger and the Washington Mutual transaction, and debt issuances of $20.8 billion, which are guaranteed by the FDIC under its Temporary Liquidity Guarantee Program (the TLG Program). These increases were partially offset by net maturities and redemptions, including IB structured notes, the issuances of which are generally client-driven. For additional information on the Firm s long-term debt activities, see the Liquidity Risk Management discussion on pages 76 80 and Note 23 on pages 191 192 of this Annual Report.

Stockholders equity

The increase in total stockholders equity from December 31, 2007, was predominantly due to the issuance of preferred and common equity securities during 2008. In the fourth quarter of 2008, JPMorgan Chase participated in the Capital Purchase Program and issued preferred stock and a warrant to purchase common stock to the U.S. Treasury, resulting in a $25.0 billion increase to stockholders equity. Additional preferred stock issuances and a common stock issuance during 2008 increased equity by $19.3 billion. Equity from issuances of stock awards under the Firm s employee stock-based compensation plans, the Bear Stearns merger, and net income for 2008 was more than offset by the declaration of cash dividends and net losses recorded within accumulated other comprehensive income related to AFS securities and defined benefit pension and OPEB plans. For a further discussion, see the Capital Management section that follows, and Note 24 and Note 27 on pages 193 194 and 196 197, respectively, of this Annual Report.

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

JPMorgan Chase is involved with several types of off-balance sheet arrangements, including special purpose entities (SPEs) and lending-related financial instruments (e.g., commitments and guarantees).

Special-purpose entities

The basic SPE structure involves a company selling assets to the SPE. The SPE funds the purchase of those assets by issuing securities to investors in the form of commercial paper, short-term asset-backed notes, medium-term notes and other forms of interest. SPEs are generally structured to insulate investors from claims on the SPE s assets by creditors of other entities, including the creditors of the seller of the assets.

SPEs are an important part of the financial markets, providing market liquidity by facilitating investors access to specific portfolios of assets and risks. These arrangements are integral to the markets for mortgage-backed securities, commercial paper and other asset-backed securities.

JPMorgan Chase uses SPEs as a source of liquidity for itself and its clients by securitizing financial assets, and by creating investment products for clients. The Firm is involved with SPEs through multi-seller conduits and investor intermediation activities, and as a result of its loan securitizations, through qualifying special purpose entities (QSPEs). This discussion focuses mostly on multi-seller conduits and investor intermediation. For a detailed discussion of all SPEs with which the Firm is involved, and the related accounting, see Note 1, Note 16 and Note 17 on pages 122 123, 168 176 and 177 186, respectively of this Annual Report.

The Firm holds capital, as deemed appropriate, against all SPE-related transactions and related exposures, such as derivative transactions and lending-related commitments and guarantees.

The Firm has no commitments to issue its own stock to support any SPE transaction, and its policies require that transactions with SPEs be conducted at arm s length and reflect market pricing. Consistent with this policy, no JPMorgan Chase employee is permitted to invest in SPEs with which the Firm is involved where such investment would violate the Firm s Code of Conduct. These rules prohibit employees from self-dealing and acting on behalf of the Firm in transactions with which they or their family have any significant financial interest.

Implications of a credit rating downgrade to JPMorgan Chase Bank, N.A.

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A., was downgraded below specific levels, primarily P-1 , A-1 and F1 for Moody Standard & Poor s and Fitch, respectively. The amount of these liquidity commitments was $61.0 billion and $94.0 billion at December 31, 2008 and 2007, respectively. Alternatively, if JPMorgan Chase Bank, N.A., were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitment, or in certain circumstances,

the Firm could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity. These commitments are included in other unfunded commitments to extend credit and asset purchase agreements, as shown in the Off-balance sheet lending-related financial instruments and guarantees table on page 69 of this Annual Report.

As noted above, the Firm is involved with three types of SPEs. A summary of each type of SPE follows.

Multi-seller conduits

The Firm helps customers meet their financing needs by providing access to the commercial paper markets through variable interest entities (VIEs) known as multi-seller conduits. Multi-seller conduit entities are separate bankruptcy-remote entities that purchase interests in, and make loans secured by, pools of receivables and other financial assets pursuant to agreements with customers of the Firm. The conduits fund their purchases and loans through the issuance of highly rated commercial paper to third-party investors. The primary source of repayment of the commercial paper is the cash flow from the pools of assets. JPMorgan Chase receives fees related to the structuring of multi-seller conduit transactions and receives compensation from the multi-seller conduits for its role as administrative agent, liquidity provider, and provider of program-wide credit enhancement.

Investor intermediation

As a financial intermediary, the Firm creates certain types of VIEs and also structures transactions, typically derivative structures, with these VIEs to meet investor needs. The Firm may also provide liquidity and other support. The risks inherent in derivative instruments or liquidity commitments are managed similarly to other credit, market and liquidity risks to which the Firm is exposed. The principal types of VIEs the Firm uses in these structuring activities are municipal bond vehicles, credit-linked note vehicles and collateralized debt obligation vehicles.

Loan securitizations

JPMorgan Chase securitizes and sells a variety of loans, including residential mortgages, credit cards, automobile, student, and commercial loans (primarily related to real estate). JPMorgan Chase-sponsored securitizations utilize SPEs as part of the securitization process. These SPEs are structured to meet the definition of a QSPE (as discussed in Note 1 on page 122 of this Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected on the Firm s Consolidated Balance Sheets (except for retained interests, as described below). The primary purpose of these vehicles is to meet investor needs and generate liquidity for the Firm through the sale of loans to the QSPEs. These QSPEs are financed through the issuance of fixed or floating-rate asset-backed securities that are sold to third-party investors or held by the Firm.

Consolidation and consolidation sensitivity analysis on capital

For more information regarding these programs and the Firm s other SPEs, as well as the Firm s consolidation analysis for these programs, see Note 16 and Note 17 on pages 168 176 and 177 186, respectively, of this Annual Report.

Table of Contents

Management s discussion and analysis

Special-purpose entities revenue

The following table summarizes certain revenue information related to consolidated and nonconsolidated VIEs and QSPEs with which the Firm has significant involvement. The revenue reported in the table below primarily represents contractual servicing and credit fee income (i.e., for income from acting as administrator, structurer, liquidity provider). It does not include mark-to-market gains and losses from changes in the fair value of trading positions (such as derivative transactions) entered into with VIEs. Those gains and losses are recorded in principal transactions revenue.

Revenue from VIEs and QSPEs

Year ended December 31, (in millions)	**2008**	2007	2006
VIEs:[a]			
Multi-seller conduits	**$ 314**	$ 187[b]	$ 160
Investor intermediation	**18**	33	49
Total VIEs	**332**	220	209
QSPEs[c]	**1,746**	1,420	1,131
Total	**$ 2,078**	$ 1,640	$ 1,340

(a) Includes revenue associated with consolidated VIEs and significant nonconsolidated VIEs.

(b) Excludes the markdown on subprime CDO assets that was recorded in principal transactions revenue in 2007.

(c) Excludes servicing revenue from loans sold to and securitized by third parties. Prior period amounts have been revised to conform to the

current period
presentation.

American Securitization Forum subprime adjustable rate mortgage loans modifications

In December 2007, the American Securitization Forum (ASF) issued the Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans (the Framework). The Framework provides guidance for servicers to streamline evaluation procedures of borrowers with certain subprime adjustable rate mortgage (ARM) loans to more efficiently provide modification of such loans with terms that are more appropriate for the individual needs of such borrowers. The Framework applies to all first-lien subprime ARM loans that have a fixed rate of interest for an initial period of 36 months or less; are included in securitized pools; were originated between January 1, 2005, and July 31, 2007; and have an initial interest rate reset date between January 1, 2008, and July 31, 2010. The Framework categorizes the population of ASF Framework Loans into three segments. Segment 1 includes loans where the borrower is current and likely to be able to refinance into any available mortgage product. Segment 2 includes loans where the borrower is current, unlikely to be able to refinance into any readily available mortgage industry product and meets certain defined criteria. Segment 3 includes loans where the borrower is not current, as defined, and does not meet the criteria for Segments 1 or 2. JPMorgan Chase adopted the Framework during the first quarter of 2008. For those AFS Framework Loans serviced by the Firm and owned by Firm-sponsored QSPEs, the Firm modified principal amounts of $1.7 billion of Segment 2 subprime mortgages during the year ended December 31, 2008. The following table presents selected information relating to the principal amount of Segment 3 loans for the year ended December 31, 2008, including those that have been modified, subjected to other loss mitigation activities or have been prepaid by the borrower.

Year ended December 31, (in millions)	**2008**
Loan modifications	**$ 2,384**
Other loss mitigation activities	**865**
Prepayments	**219**

For additional discussion of the Framework, see Note 16 on page 176 of this Annual Report.

Off-balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes 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 should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and the counterparty subsequently fail to perform according to the terms of the contract. These commitments and guarantees historically expire without being drawn and even higher proportions expire without a default. 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. Further, certain commitments, primarily related to consumer financings, are cancelable, upon notice, at the option of the Firm. For further discussion of lending-related commitments and guarantees and the Firm s accounting for them, see lending-related commitments in Credit Risk Management on page 90 and Note 33 on pages 206 210 of this Annual Report.

Contractual cash obligations

In the normal course of business, the Firm enters into various contractual obligations that may require future cash payments. Commitments for future cash expenditures primarily include contracts to purchase future services and capital expenditures related to real estate related obligations and equipment.

The accompanying table summarizes, by remaining maturity, JPMorgan Chase s off-balance sheet lending-related financial instruments and significant contractual cash obligations at December 31, 2008. Contractual purchases and capital expenditures in the table below reflect the minimum contractual obligation under legally enforceable contracts with terms that are both fixed and determinable. Excluded from the following table are a number of obligations to be settled in cash, primarily in under one year. These obligations are reflected on the Firm s Consolidated Balance Sheets and include federal funds purchased and securities loaned or sold under repurchase agreements; commercial paper; other borrowed funds; purchases of debt and equity instruments; derivative payables; and certain purchases of instruments that resulted in settlement failures. Also excluded are contingent payments associated with certain acquisitions that could not be estimated. For discussion regarding long-term debt and trust preferred capital debt securities, see Note 23 on pages 191 192 of this Annual Report. For discussion regarding operating leases, see Note 31 on page 201 of this Annual Report.

The following table presents maturity information for off-balance sheet lending-related financial instruments, guarantees and commitments.

Off-balance sheet lending-related financial instruments and guarantees

By remaining maturity at December 31,	**2008**					2007
(in millions)	2009	2010-2011	2012-2013	After 2013	**Total**	Total
Lending-related						
Consumer[(a)]	**$ 642,978**	**$ 4,098**	**$ 9,916**	**$ 84,515**	**$ 741,507**	$ 815,936
Wholesale:						
Other unfunded commitments to extend credit[(b)(c)(d)(e)]	**93,307**	**69,479**	**53,567**	**9,510**	**225,863**	250,954
Asset purchase agreements[(f)]	**16,467**	**25,574**	**9,983**	**1,705**	**53,729**	90,105
Standby letters of credit and guarantees[(c)(g)(h)]	**25,998**	**35,288**	**30,650**	**3,416**	**95,352**	100,222
Other letters of credit[(c)]	**3,889**	**718**	**240**	**80**	**4,927**	5,371
Total wholesale	**139,661**	**131,059**	**94,440**	**14,711**	**379,871**	446,652
Total lending-related	**$ 782,639**	**$ 135,157**	**$ 104,356**	**$ 99,226**	**$ 1,121,378**	$ 1,262,588
Other guarantees						
Securities lending guarantees[(i)]	**$ 169,281**	**$**	**$**	**$**	**$ 169,281**	$ 385,758
Residual value guarantees		**670**			**670**	NA
Derivatives qualifying as guarantees[(j)]	**9,537**	**28,970**	**15,452**	**29,876**	**83,835**	85,262

Contractual cash obligations

By remaining maturity at December 31, (in millions)						
Time deposits	**$ 278,520**	**$ 11,414**	**$ 8,139**	**$ 1,028**	**$ 299,101**	$ 249,877
Advances from the Federal Home Loan Banks	**47,406**	**21,089**	**738**	**954**	**70,187**	450
Long-term debt	**36,026**	**78,199**	**51,275**	**86,594**	**252,094**	183,862
Trust preferred capital debt securities				**18,589**	**18,589**	15,148
FIN 46R long-term beneficial interests[(k)]	**67**	**199**	**1,289**	**3,450**	**5,005**	7,209
Operating leases[(l)]	**1,676**	**3,215**	**2,843**	**9,134**	**16,868**	10,908
Contractual purchases and capital expenditures	**1,356**	**878**	**219**	**234**	**2,687**	2,434
Obligations under affinity and co-brand programs	**1,174**	**2,086**	**1,999**	**2,879**	**8,138**	5,477
Other liabilities[(m)]	**666**	**809**	**865**	**2,665**	**5,005**	5,656
Total	**$ 366,891**	**$ 117,889**	**$ 67,367**	**$ 125,527**	**$ 677,674**	$ 481,021

(a) Includes credit card and home equity lending-related commitments of \$623.7 billion and \$95.7 billion, respectively, at December 31, 2008; and \$714.8 billion and \$74.2 billion, respectively, at December 31, 2007. These amounts 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 these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(b) Includes unused advised lines of credit totaling \$36.3 billion and \$38.4 billion at December 31, 2008 and 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve, unused advised lines are not reportable. See the Glossary of terms, on page 218 of this Annual Report, for the Firm s definition of advised lines of credit.

(c) Represents contractual amount net of risk participations totaling $28.3 billion at both December 31, 2008 and 2007.

(d) Excludes unfunded commitments to third-party private equity funds of $1.4 billion and $881 million at December 31, 2008 and 2007, respectively. Also excluded unfunded commitments for other equity investments of $1.0 billion and $903 million at December 31, 2008 and 2007, respectively.

(e) Includes commitments to investment and noninvestment grade counterparties in connection with leveraged acquisitions of $3.6 billion and $8.2 billion at December 31, 2008 and 2007, respectively.

(f) Largely represents asset purchase agreements to the Firm s administered multi-seller, asset-backed commercial paper conduits. The maturity is based upon the weighted-average life of the underlying assets in the SPE, which are based upon the remainder of each conduit transaction s committed liquidity plus either the expected weighted average life of the assets should the committed liquidity expire without renewal, or the expected time to sell the underlying assets in the securitization market. It also includes $96 million and $1.1 billion of asset purchase agreements to other third-party entities at December 31, 2008 and 2007, respectively.

(g) JPMorgan Chase held collateral relating to $31.0 billion and $31.5 billion of these arrangements at December 31, 2008 and 2007, respectively. Prior periods have been revised to conform to the current presentation.

(h) Includes unissued standby letters of credit commitments of $39.5 billion and $50.7 billion at December 31, 2008 and 2007, respectively.

(i) Collateral held by the Firm in support of securities lending indemnification agreements was $170.1 billion and $390.5 billion at December 31, 2008 and 2007, respectively. Securities lending collateral comprises primarily cash, securities issued by governments that are members of the Organisation for Economic Co-operation and Development and U.S. government agencies.

(j) Represents notional amounts

of derivatives qualifying as guarantees. For further discussion of guarantees, see Note 33 on pages 206 210 of this Annual Report.

(k) Included on the Consolidated Balance Sheets in beneficial interests issued by consolidated variable interest entities.

(l) Includes noncancelable operating leases for premises and equipment used primarily for banking purposes and for energy-related tolling service agreements. Excludes the benefit of noncancelable sublease rentals of $2.3 billion and $1.3 billion at December 31, 2008 and 2007, respectively.

(m) Includes deferred annuity contracts. Excludes the $1.3 billion discretionary contribution to the Firm s U.S. defined benefit pension plan that was made on January 15, 2009 (for further discussion, see Note 9 on pages 149 155), and contributions to the U.S. and non-U.S. other postretirement benefits plans, if any, as these contributions are not reasonably estimable at this time. Also excluded are unrecognized tax benefits of $5.9 billion and $4.8 billion at December 31, 2008 and 2007, respectively, as the timing and amount of future cash payments are not determinable at this time.

Table of Contents

Management s discussion and analysis

CAPITAL MANAGEMENT

The Firm s capital management framework is intended to ensure that there is capital sufficient to support the underlying risks of the Firm s business activities and to maintain well-capitalized status under regulatory requirements. In addition, the Firm holds capital above these requirements in amounts deemed appropriate to achieve the Firm s regulatory and debt rating objectives. The process of assigning equity to the lines of business is integrated into the Firm s capital framework and is overseen by the ALCO.

Line of business equity

The Firm s framework for allocating capital is based upon the following objectives:

- integrate firmwide capital management activities with capital management activities within each of the lines of business
- measure performance consistently across all lines of business
- provide comparability with peer firms for each of the lines of business

Equity for a line of business represents the amount the Firm believes the business would require if it were operating independently, incorporating sufficient capital to address economic risk measures, regulatory capital requirements and capital levels for similarly rated peers. 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. Return on common equity is measured and internal targets for expected returns are established as a key measure of a business segment s performance.

Relative to 2007, line of business equity increased during 2008, reflecting growth across the businesses. In addition, at the end of the third quarter of 2008, equity was increased for each line of business in anticipation of the future implementation of the new Basel II capital rules. For further details on these rules, see Basel II on page 72 of this Annual Report. Finally, during 2008, capital allocated to RFS, CS, and CB was increased as a result of the Washington Mutual transaction; capital allocated to AM was increased due to the Bear Stearns merger and the purchase of the additional equity interest in Highbridge; and capital allocated to IB was increased due to the Bear Stearns merger.

In accordance with SFAS 142, the lines of business perform the required goodwill impairment testing. For a further discussion of goodwill and impairment testing, see Critical Accounting Estimates Used by the Firm and Note 18 on pages 107 111 and 186 189, respectively, of this Annual Report.

Line of business equity

December 31, (in billions)	**2008**	2007
Investment Bank	**$ 33.0**	$ 21.0
Retail Financial Services	**25.0**	16.0
Card Services	**15.0**	14.1
Commercial Banking	**8.0**	6.7
Treasury & Securities Services	**4.5**	3.0
Asset Management	**7.0**	4.0
Corporate/Private Equity	**42.4**	58.4
Total common stockholders equity	**$ 134.9**	$ 123.2

Line of business equity

	Yearly Average	
(in billions)	**2008**	2007
Investment Bank	**$ 26.1**	$ 21.0

Retail Financial Services	**19.0**	16.0
Card Services	**14.3**	14.1
Commercial Banking	**7.3**	6.5
Treasury & Securities Services	**3.8**	3.0
Asset Management	**5.6**	3.9
Corporate/Private Equity[(a)]	**53.0**	54.2
Total common stockholders equity	**$ 129.1**	$ 118.7

(a) 2008 and 2007 include $41.9 billion and $41.7 billion, respectively, of equity to off-set goodwill, and $11.1 billion and $12.5 billion, respectively, of equity, primarily related to Treasury, Private Equity and the Corporate pension plan.

Economic risk capital

JPMorgan Chase assesses its capital adequacy relative to the risks underlying the Firm s business activities, utilizing internal risk-assessment methodologies. The Firm assigns economic capital primarily based upon four risk factors: credit risk, market risk, operational risk and private equity risk. In 2008, the growth in economic risk capital was driven by higher credit risk capital, which was increased primarily due to a combination of higher derivative exposure, a weakening credit environment, and asset growth related to the Bear Stearns and Washington Mutual transactions.

Economic risk capital	Yearly Average	
(in billions)	**2008**	2007
Credit risk	**$ 37.8**	$ 30.0
Market risk	**10.5**	9.5
Operational risk	**6.3**	5.6
Private equity risk	**5.3**	3.7
Economic risk capital	**59.9**	48.8
Goodwill	**46.1**	45.2
Other[(a)]	**23.1**	24.7
Total common stockholders equity	**$ 129.1**	$ 118.7

(a) Reflects additional capital required, in the Firm s view, to meet its regulatory and debt rating objectives.

Credit risk capital

Credit risk capital is estimated separately for the wholesale businesses (IB, CB, TSS and AM) and consumer businesses (RFS and CS).

Credit risk capital for the overall wholesale credit portfolio is defined in terms of unexpected credit losses, both from defaults and declines in the portfolio value due to credit deterioration, measured over a one-year period at a confidence level consistent with an AA credit rating standard. Unexpected losses are losses in excess of those for which provisions for credit losses are maintained. The capital methodology is based upon several principal drivers of credit risk: exposure at default (or loan-equivalent amount), default likelihood, credit spreads, loss severity and portfolio correlation.

Credit risk capital for the consumer portfolio is based upon product and other relevant risk segmentation. Actual segment level default and severity experience are used to estimate unexpected losses for a one-year horizon at a confidence level consistent with an AA credit rating standard. Statistical results for certain segments or portfolios are adjusted to ensure that capital is consistent with external benchmarks, such as subordination levels on market transactions or capital held at representative monoline competitors, where appropriate.

Market risk capital

The Firm calculates market risk capital guided by the principle that capital should reflect the risk of loss in the value of portfolios and financial instruments caused by adverse movements in market variables, such as interest and foreign exchange rates, credit spreads, securities prices and commodities prices. Daily Value-at-Risk (VaR), biweekly stress-test results and other factors are used to determine appropriate capital levels. The Firm allocates market risk capital to each business segment according to a formula that weights that segment s VaR and stress-test exposures. See Market Risk Management on pages 99 104 of this Annual Report for more information about these market risk measures.

Operational risk capital

Capital is allocated to the lines of business for operational risk using a risk-based capital allocation methodology which estimates operational risk on a bottom-up basis. The operational risk capital model is based upon actual losses and potential scenario-based stress losses, with adjustments to the capital calculation to reflect changes in the quality of the control environment or the use of risk-transfer products. The Firm believes its model is consistent with the new Basel II Framework.

Private equity risk capital

Capital is allocated to privately and publicly held securities, third-party fund investments and commitments in the private equity portfolio to cover the potential loss associated with a decline in equity markets and related asset devaluations. In addition to negative market fluctuations, potential losses in private equity investment portfolios can be magnified by liquidity risk. The capital allocation for the private equity portfolio is based upon measurement of the loss experience suffered by the Firm and other market participants over a prolonged period of adverse equity market conditions.

Regulatory capital

The Board of Governors of the Federal Reserve System (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 Federal Reserve granted the Firm, for a period of 18 months following the Bear Stearns merger, relief up to a certain specified amount and subject to certain conditions from the Federal Reserve s risk-based capital and leverage requirements with respect to Bear Stearns risk-weighted assets and other exposures acquired. The amount of such relief is subject to reduction by one-sixth each quarter subsequent to the merger and expires on October 1, 2009. The OCC granted JPMorgan Chase Bank, N.A. similar relief from its risk-based capital and leverage requirements.

JPMorgan Chase maintained a well-capitalized position, based upon Tier 1 and Total capital ratios at December 31, 2008 and 2007, as indicated in the tables below. For more information, see Note 30 on pages 200 201 of this Annual Report.

Risk-based capital components and assets

December 31, (in millions)	**2008**	2007
Total Tier 1 capital[(a)]	**$ 136,104**	$ 88,746
Total Tier 2 capital	**48,616**	43,496
Total capital	**$ 184,720**	$ 132,242
Risk-weighted assets	**$ 1,244,659**	$ 1,051,879
Total adjusted average assets	**1,966,895**	1,473,541

(a) The FASB has been deliberating certain amendments to both SFAS 140 and FIN 46R that may impact the accounting for transactions that involve QSPEs and VIEs. Based on the provisions of the current proposal and the Firm's interpretation of the proposal, the Firm estimates that the impact of consolidation could be up to $70 billion of credit card receivables, $40 billion of assets related to Firm-sponsored multi-seller conduits, and $50 billion of other loans (including residential mortgages); the decrease in the Tier 1 capital ratio could be approximately

80 basis points. The ultimate impact could differ significantly due to the FASB's continuing deliberations on the final requirements of the rule and market conditions.

Tier 1 capital was $136.1 billion at December 31, 2008, compared with $88.7 billion at December 31, 2007, an increase of $47.4 billion.

Table of Contents

Management s discussion and analysis

The following table presents the changes in Tier 1 capital for the year ended December 31, 2008.

Tier 1 capital, December 31, 2007 (in millions)	$ 88,746
Net income	5,605
Issuance of cumulative perpetual preferred stock to U.S. Treasury	23,750
Warrant issued to U.S. Treasury in connection with issuance of preferred stock	1,250
Issuance of noncumulative perpetual preferred stock	7,800
Issuance of preferred stock conversion of Bear Stearns preferred stock	352
Net issuance of common stock	11,485
Net issuance of common stock under employee stock-based compensation plans	3,317
Net issuance of common stock in connection with the Bear Stearns merger	1,198
Dividends declared	(6,307)
Net issuance of qualifying trust preferred capital debt securities	2,619
DVA on structured debt and derivative liabilities	(1,475)
Goodwill and other nonqualifying intangibles (net of deferred tax liabilities)	(1,357)
Other	(879)
Increase in Tier 1 capital	**47,358**
Tier 1 capital, December 31, 2008	**$ 136,104**

Additional information regarding the Firm s capital ratios and the federal regulatory capital standards to which it is subject, and the capital ratios for the Firm s significant banking subsidiaries at December 31, 2008 and 2007, are presented in Note 30 on pages 200 201 of this Annual Report.

Capital Purchase Program

Pursuant to the Capital Purchase Program, on October 28, 2008, the Firm issued to the U.S. Treasury, for total proceeds of $25.0 billion, (i) 2.5 million shares of Series K Preferred Stock, and (ii) a Warrant to purchase up to 88,401,697 shares of the Firm s common stock, at an exercise price of $42.42 per share, subject to certain antidilution and other adjustments. The Series K Preferred Stock qualifies as Tier 1 capital.

The Series K Preferred Stock bears cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter. The Series K Preferred Stock ranks equally with the Firm s existing 6.15% Cumulative Preferred Stock, Series E; 5.72% Cumulative Preferred Stock, Series F; 5.49% Cumulative Preferred Stock, Series G; Fixed-to-Floating Rate Noncumulative Perpetual Preferred Stock, Series I; and 8.63% Noncumulative Perpetual Preferred Stock, Series J, in terms of dividend payments and upon liquidation of the Firm.

Any accrued and unpaid dividends on the Series K Preferred Stock must be fully paid before dividends may be declared or paid on stock ranking junior or equally with the Series K Preferred Stock. Pursuant to the Capital Purchase Program, until October 28, 2011, the U.S. Treasury s consent is required for any increase in dividends on the Firm s common stock from the amount of the last quarterly stock dividend declared by the Firm prior to October 14, 2008, unless the Series K Preferred Stock is redeemed in whole before then, or the U.S. Treasury has transferred all of the Series K Preferred Stock it owns to third parties.

The Firm may not repurchase or redeem any common stock or other equity securities of the Firm, or any trust preferred securities issued by the Firm or any of its affiliates, without the prior consent of the U.S. Treasury (other than (i) repurchases of the Series K Preferred Stock and (ii) repurchases of junior preferred shares or common stock in connection with any employee benefit plan in the ordinary course of business consistent with past practice).

Basel II

The minimum risk-based capital requirements adopted by the U.S. federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. In 2004, the Basel Committee published a revision to the Accord

(Basel II). The goal of the new Basel II Framework is to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. U.S. banking regulators published a final Basel II rule in December 2007, which will require JPMorgan Chase to implement Basel II at the holding company level, as well as at certain of its key U.S. bank subsidiaries.

Prior to full implementation of the new Basel II Framework, JPMorgan Chase will be required to complete a qualification period of four consecutive quarters during which it will need to demonstrate that it meets the requirements of the new rule to the satisfaction of its primary U.S. banking regulators. The U.S. implementation timetable consists of the qualification period, starting any time between April 1, 2008, and April 1, 2010, followed by a minimum transition period of three years. During the transition period, Basel II risk-based capital requirements cannot fall below certain floors based on current (Basel I) regulations. JPMorgan Chase expects to be in compliance with all relevant Basel II rules within the established timelines. In addition, the Firm has adopted, and will continue to adopt, based upon various established timelines, Basel II in certain non-U.S. jurisdictions, as required.

Broker-dealer regulatory capital

JPMorgan Chase s principal U.S. broker-dealer subsidiaries are J.P. Morgan Securities Inc. (JPMorgan Securities) and J.P. Morgan Clearing Corp. (formerly known as Bear Stearns Securities Corp.). JPMorgan Securities and J.P. Morgan Clearing Corp. are each subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (Net Capital Rule). JPMorgan Securities and J.P. Morgan Clearing Corp. are also registered as futures commission merchants and subject to Rule 1.17 under the Commodity Futures Trading Commission (CFTC).

JPMorgan Securities and J.P. Morgan Clearing Corp. have elected to compute their minimum net capital requirements in accordance with the Alternative Net Capital Requirement of the Net Capital Rule. At December 31, 2008, JPMorgan Securities net capital, as defined by the Net Capital Rule, of $7.2 billion exceeded the minimum requirement by $6.6 billion. In addition to its net capital requirements, 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 December 31, 2008, JPMorgan Securities had tentative net capital in excess of the minimum and the notification requirements. On October 1, 2008, J.P. Morgan Securities Inc. merged with and into Bear, Stearns & Co. Inc., and the surviving entity changed its name to J.P. Morgan Securities Inc.

J.P. Morgan Clearing Corp., a subsidiary of JPMorgan Securities provides clearing and settlement services. At December 31, 2008, J.P. Morgan Clearing Corp. s net capital, as defined by the Net Capital Rule, of $4.7 billion exceeded the minimum requirement by $3.3 billion.

Dividends

On February 23, 2009, the Board of Directors reduced the Firm s quarterly common stock dividend from $0.38 to $0.05 per share, effective for the dividend payable April 30, 2009 to shareholders of record on April 6, 2009.

JPMorgan Chase declared quarterly cash dividends on its commons stock in the amount of $0.38 for each quarter of 2008 and the second, third and fourth quarters of 2007, and $0.34 per share for the first quarter of 2007 and for each quarter of 2006.

The Firm s common stock dividend policy reflects JPMorgan Chase s earnings outlook, desired dividend payout ratios, need to maintain an adequate capital level and alternative investment opportunities. The Firm s ability to pay dividends is subject to restrictions. For information regarding such restrictions, see page 72 and Note 24 and Note 29 on pages 193 194 and 199, respectively, of this Annual Report and for additional information regarding the reduction of the dividend, see page 32.

The following table shows the common dividend payout ratio based upon reported net income.

Common dividend payout ratio

Year ended December 31,	**2008**	2007	2006
Common dividend payout ratio	**114%**	34%	34%

Issuance

The Firm issued $6.0 billion and $1.8 billion of noncumulative perpetual preferred stock on April 23, 2008, and August 21, 2008, respectively. Pursuant to the Capital Purchase Program, on October 28, 2008, the Firm issued to the U.S. Treasury $25.0 billion of cumulative preferred stock and a warrant to purchase up to 88,401,697 shares of the Firm s common stock. For additional information regarding preferred stock, see Note 24 on pages 193 194 of this Annual Report.

On September 30, 2008, the Firm issued $11.5 billion, or 284 million shares, of common stock at $40.50 per share. For additional information regarding common stock, see Note 25 on pages 194 195 of this Annual Report.

Stock repurchases

During the year ended December 31, 2008, the Firm did not repurchase any shares of its common stock. During 2007, under the respective stock repurchase programs then in effect, the Firm repurchased 168 million shares for $8.2 billion at an average price per share of $48.60.

The Board of Directors approved in April 2007, a stock repurchase program that authorizes the repurchase of up to $10.0 billion of the Firm s common shares, which superseded an $8.0 billion stock repurchase program approved in 2006. The $10.0 billion authorization includes shares to be repurchased to offset issuances under the Firm s employee stock-based plans. The actual number of shares that may be repurchased is subject to various factors, including market conditions; legal 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 potential 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. A Rule 10b5-1 repurchase plan allows the Firm to repurchase shares during periods when it would not otherwise be repurchasing common stock for example, during internal trading black-out periods. All purchases under a Rule 10b5-1 plan must be made according to a predefined plan that is established when the Firm is not aware of material nonpublic information.

As of December 31, 2008, $6.2 billion of authorized repurchase capacity remained under the current stock repurchase program.

For a discussion of restrictions on stock repurchases, see Capital Purchase Program on page 72 and Note 24 on pages 193 194 of this Annual Report.

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 page 17 of JPMorgan Chase s 2008 Form 10-K.

Table of Contents

Management s discussion and analysis
RISK MANAGEMENT

Risk is an inherent part of JPMorgan Chase s business activities. The Firm s risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. The Firm s ability to properly identify, measure, monitor and report risk is critical to both its soundness and profitability.

Risk identification: The Firm s exposure to risk through its daily business dealings, including lending, trading and capital markets activities, is identified and aggregated through the Firm s risk management infrastructure. In addition, individuals who manage risk positions, particularly those positions that are complex, are responsible for identifying and estimating potential losses that could arise from specific or unusual events, that may not be captured in other models, and those risks are communicated to senior management.

Risk measurement: The Firm measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that the Firm s risk estimates are reasonable and reflect underlying positions.

Risk monitoring/control: The Firm s risk management policies and procedures incorporate risk mitigation strategies and include approval limits by customer, product, industry, country and business. These limits are monitored on a daily, weekly and monthly basis, as appropriate.

Risk reporting: Risk reporting is executed on a line of business and consolidated basis. This information is reported to management on a daily, weekly and monthly basis, as appropriate. There are eight major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk.

Risk governance

The Firm s risk governance structure starts with each line of business being responsible for managing its own risks. Each line of business works closely with Risk Management through its own risk committee and, in most cases, its own chief risk officer to manage risk. Each line of business risk committee is responsible for decisions regarding the business risk strategy, policies and controls.

Overlaying the line of business risk management are four corporate functions with risk management related responsibilities: Treasury, the Chief Investment Office, Legal and Compliance and Risk Management.

Risk Management is headed by the Firm s Chief Risk Officer, who is a member of the Firm s Operating Committee and who reports to the Chief Executive Officer and the Board of Directors, primarily through the Board s Risk Policy Committee. Risk Management is responsible for providing a firmwide function of risk management and controls. Within Risk Management are units responsible for credit risk, market risk, operational risk and private equity risk, as well as Risk Management Services and Risk Technology and Operations. Risk Management Services is responsible for risk policy and methodology, risk reporting and risk education; and Risk Technology and Operations is responsible for building the information technology infrastructure used to monitor and manage risk.

Treasury and the Chief Investment Office are responsible for measuring, monitoring, reporting and managing the Firm s liquidity, interest rate and foreign exchange risk.

Legal and Compliance has oversight for legal and fiduciary risk.

In addition to the risk committees of the lines of business and the above-referenced corporate functions, the Firm also has an Investment Committee, ALCO and two other risk-related committees, namely, the Risk Working Group and the Markets Committee. The members of these committees are composed of senior management of the Firm, including representatives of line of business, Risk Management, Finance and other senior executives. Members of these risk committees meet frequently to discuss a broad range of topics including, for example, current market conditions and other external events, current risk exposures and concentrations to ensure that the impact of current risk factors are considered broadly across the Firm s businesses.

Table of Contents

The Investment Committee oversees global merger and acquisition activities undertaken by JPMorgan Chase for its own account that fall outside the scope of the Firm s private equity and other principal finance activities.

The Asset-Liability Committee is responsible for approving the Firm s liquidity policy, including contingency funding planning and exposure to SPEs (and any required liquidity support by the Firm of such SPEs). The Asset-Liability Committee also oversees the Firm s capital management and funds transfer pricing policy (through which lines of business transfer interest and foreign exchange risk to Treasury in the Corporate/Private Equity segment).

The Risk Working Group meets monthly to review issues such as risk policy, risk methodology, Basel II and regulatory issues and topics referred to it by any line of business risk committee. The Markets Committee, chaired by the Chief Risk Officer, meets at least weekly to review and determine appropriate courses of action with respect to significant risk matters, including but not limited to: limits; credit, market and operational risk; large, high risk transactions; and hedging strategies.

The Board of Directors exercises its oversight of risk management, principally through the Board s Risk Policy Committee and Audit Committee. The Risk Policy Committee oversees senior management risk-related responsibilities, including reviewing management policies and performance against these policies and related benchmarks. The Audit Committee is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of compliance with the Firm s operational risk management processes.

Management s discussion and analysis
LIQUIDITY RISK MANAGEMENT

The ability to maintain a sufficient level of liquidity is crucial to financial services companies, particularly maintaining appropriate levels of liquidity during periods of adverse conditions. The Firm s funding strategy is to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities through both stable and adverse conditions.

JPMorgan Chase uses a centralized approach for liquidity risk management. Global funding is managed by Corporate Treasury, using regional expertise as appropriate. Management believes that a centralized framework maximizes liquidity access, minimizes funding costs and permits identification and coordination of global liquidity risk.

Recent events

During the second half of 2008, global markets exhibited extraordinary levels of volatility and increasing signs of stress. Throughout this period, access by market participants to the debt, equity, and consumer loan securitization markets was constrained and funding spreads widened sharply. In response to strains in financial markets, U.S. government and regulatory agencies introduced various programs to inject liquidity into the financial system. JPMorgan Chase participated in a number of these programs, two of which were the Capital Purchase Program and the FDIC s TLG Program. On October 28, 2008, JPMorgan Chase issued $25.0 billion of preferred stock as well as a warrant to purchase up to 88,401,697 shares of the Firm s common stock to the U.S. Treasury under the Capital Purchase Program, which enhanced the Firm s capital and liquidity positions. In addition, on December 4, 2008, JPMorgan Chase elected to continue to participate in the FDIC s TLG Program, which facilitated long-term debt issuances at rates (including the guarantee fee charged by the FDIC) more favorable than those for non-FDIC guaranteed debt issuances. Under the TLG Program, the FDIC guarantees certain senior unsecured debt of JPMorgan Chase, and in return for the guarantees, the FDIC is paid a fee based on the amount and maturity of the debt. Under the TLG Program, the FDIC will pay the unpaid principal and interest on an FDIC-guaranteed debt instrument upon the uncured failure of the participating entity to make a timely payment of principal or interest in accordance with the terms of the instrument. During the fourth quarter of 2008, pursuant to the TLG Program, the Firm issued $20.8 billion of bonds guaranteed by the FDIC, further enhancing the Firm s liquidity position. At December 31, 2008, all of the FDIC-guaranteed debt was outstanding and had a carrying value of $21.0 billion, net of hedges. In the interest of promoting deposit stability, during the fourth quarter, the FDIC also (i) temporarily increased, through 2009, insurance coverage on bank deposits to $250,000 per customer from $100,000 per customer, and (ii) for qualified institutions who participated in the TLG Program (such as the Firm), provided full deposit insurance coverage for noninterest-bearing transaction accounts.

During the second half of 2008, the Firm s deposits (excluding those assumed in connection with the Washington Mutual transaction) increased substantially, as the Firm benefited from the heightened volatility and credit concerns affecting the markets.

On May 30, 2008, JPMorgan Chase completed the merger with Bear Stearns. Due to the structure of the transaction and the de-risking of positions over time, the merger with Bear Stearns had no material impact on the Firm s liquidity. On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual from the FDIC. As part of the Washington Mutual transaction, JPMorgan Chase assumed Washington Mutual s deposits as well as its obligations to its credit card securitization-related master trusts, covered bonds, and liabilities to certain Federal Home Loan Banks. The Washington Mutual transaction had an insignificant impact on the Firm s overall liquidity position. Both S&P and Moody s lowered the Firm s ratings one notch on December 19, 2008 and January 15, 2009, respectively. These rating actions did not have a material impact on the cost or availability of funding to the Firm. For a further discussion of credit ratings, see the Credit Ratings caption of this Liquidity Risk Management section on pages 79-80 of this Annual Report.

Notwithstanding the market events during the latter half of 2008, the Firm s liquidity position remained strong based on its liquidity metrics as of December 31, 2008. The Firm believes that its unsecured and secured funding capacity is sufficient to meet on- and off-balance sheet obligations. JPMorgan Chase s long-dated funding, including core liabilities, exceeded illiquid assets. In addition, during the course of 2008, the Firm raised funds at the parent holding company in excess of its minimum threshold to cover its obligations and those of its nonbank subsidiaries that mature over the next 12 months.

Governance

The Asset-Liability Committee approves and oversees the execution of the Firm s liquidity policy and contingency funding plan. Corporate Treasury formulates the Firm s liquidity and contingency planning strategies and is responsible for measuring, monitoring, reporting and managing the Firm s liquidity risk profile.

Liquidity monitoring

The Firm monitors liquidity trends, tracks historical and prospective on- and off-balance sheet liquidity obligations, identifies and measures internal and external liquidity warning signals to permit early detection of liquidity issues, and manages contingency planning (including identification and testing of various company-specific and market-driven stress scenarios). Various tools, which together contribute to an overall firmwide liquidity perspective, are used to monitor and manage liquidity. Among others, these include: (i) analysis of the timing of liquidity sources versus liquidity uses (i.e., funding gaps) over periods ranging from overnight to one year; (ii) management of debt and capital issuances to ensure that the illiquid portion of the balance sheet can be funded by equity, long-term debt, trust preferred capital debt securities and deposits the Firm believes to be stable; and (iii) assessment of the Firm s capacity to raise incremental unsecured and secured funding.

Liquidity of the parent holding company and its nonbank subsidiaries is monitored independently as well as in conjunction with the liquidity of the Firm s bank subsidiaries. At the parent holding company level, long-term funding is managed to ensure that the parent holding company has, at a minimum, sufficient liquidity to cover its obligations and those of its nonbank subsidiaries within the next 12 months. For bank subsidiaries, the focus of liquidity risk management is on maintenance of unsecured and secured funding capacity sufficient to meet on- and off-balance sheet obligations.

A component of liquidity management is the Firm s contingency funding plan. The goal of the plan is to ensure appropriate liquidity during normal and stress periods. The plan considers various temporary and long-term stress scenarios where access to unsecured funding is severely limited or nonexistent, taking into account both on-and off-balance sheet exposures, and separately evaluates access to funds by the parent holding company and the Firm s banks.

Funding

Sources of funds

The deposits held by the RFS, CB, TSS and AM lines of business are a generally consistent source of funding for JPMorgan Chase Bank, N.A. As of December 31, 2008, total deposits for the Firm were $1.0 trillion, compared with $740.7 billion at December 31, 2007. A significant portion of the Firm s deposits are retail deposits, which are less sensitive to interest rate changes or market volatility and therefore are considered more stable than market-based (i.e., wholesale) liability balances. The Washington Mutual transaction added approximately $159.9 billion of deposits to the Firm, a significant majority of which are retail deposits. In addition, through the normal course of business, the Firm benefits from substantial liability balances originated by RFS, CB, TSS and AM. These franchise-generated liability balances include deposits and funds that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements), a significant portion of which are considered to be stable and consistent sources of funding due to the nature of the businesses from which they are generated. 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 42 60 and 64 66, respectively, of this Annual Report.

Additional sources of funding include a variety of unsecured short-and long-term instruments, including federal funds purchased, certificates of deposits, time deposits, bank notes, commercial paper, long-term debt, trust preferred capital debt securities, preferred stock and common stock. Secured sources of funding include securities loaned or sold under repurchase agreements, asset securitizations, borrowings from the Federal Reserve (including discount window borrowings, the Primary Dealer Credit Facility and the Term Auction Facility) and borrowings from the Chicago, Pittsburgh and, as a result of the Washington Mutual transaction, the San Francisco Federal Home Loan Banks. However, the Firm does not view borrowings from the Federal Reserve as a primary means of funding the Firm.

Issuance

Funding markets are evaluated on an ongoing basis to achieve an appropriate global balance of unsecured and secured funding at favorable rates. Generating funding from a broad range of sources in a variety of geographic locations enhances financial flexibility and limits dependence on any one source.

During 2008, JPMorgan Chase issued approximately $42.6 billion of long-term debt for funding or capital management purposes, including $20.8 billion of FDIC-guaranteed notes issued under the TLG Program. The Firm also issued $28.0 billion of IB structured notes, the issuances of which are generally client-driven and not for funding or capital management purposes, as the proceeds from such transactions are generally used to purchase securities to mitigate the risk associated with structured note exposure. In addition, during the year, the Firm issued $1.8 billion of trust preferred capital debt securities. During the same period, the Firm redeemed or had maturities of $62.7 billion of securities, including $35.8 billion of IB structured notes.

Preferred stock issuances included $6.0 billion and $1.8 billion of noncumulative perpetual preferred stock issued on April 23 and August 21, 2008, respectively, as well as preferred stock issued to the U.S. Treasury on October 28, 2008, under the Capital Purchase Program. In connection with preferred stock issuance under the Capital Purchase Program, the Firm also issued to the U.S. Treasury on October 28, 2008, a warrant to purchase up to 88,401,697 shares of the Firm s common stock, at an exercise price of $42.42 per share, subject to certain antidilution and other adjustments. The Firm has in the past, and may continue in the future, to repurchase from time to time its debt or trust preferred capital debt securities in open market purchases or privately negotiated transactions subject to regulatory and contractual restrictions.

Finally, during 2008, the Firm securitized $21.4 billion of credit card loans. The ability to securitize loans, and the associated gains on those securitizations, are principally dependent upon the credit quality and other characteristics of the assets securitized as well as upon prevailing market conditions. Given the volatility and stress in the financial markets in the second half of 2008, the Firm did not securitize any residential mortgage loans, auto loans or student loans during 2008.

Replacement Capital Covenants

In connection with the issuance of certain of its trust preferred capital debt securities and noncumulative perpetual preferred stock, the Firm entered into Replacement Capital Covenants (RCCs) granting certain rights to the holders of covered debt, as defined in the RCCs, that prohibit the repayment, redemption or purchase of the trust preferred capital debt securities and noncumulative perpetual preferred stock except, with limited exceptions, to the extent that JPMorgan Chase has received, in each such case, specified amounts of proceeds from the sale of certain qualifying securities. Currently the Firm s covered debt is its 5.875% Junior Subordinated Deferrable Interest Debentures, Series O, due in 2035. For more information regarding these covenants, reference is made to the respective RCCs entered into by the Firm in connection with the issuances of such trust preferred capital debt securities and noncumulative perpetual

Management s discussion and analysis

preferred stock, which are filed with the U.S. Securities and Exchange Commission under cover of Forms 8-K.

Cash flows

For the years ended December 31, 2008, 2007 and 2006, cash and due from banks decreased $13.2 billion, $268 million, and increased $3.7 billion, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase s cash flows during 2008, 2007 and 2006.

Cash Flows from Operating Activities

JPMorgan Chase s operating assets and liabilities support the Firm s capital markets and lending activities, including the origination or purchase of loans initially designated as held-for-sale. The operating assets and liabilities can vary significantly in the normal course of business due to the amount and timing of cash flows, which are affected by client-driven activities, market conditions and trading strategies. Management believes cash flows from operations, available cash balances and the Firm s ability to generate cash through short-and long-term borrowings are sufficient to fund the Firm s operating liquidity needs.

For the year ended December 31, 2008, net cash provided by operating activities was $23.1 billion, while for the years ended December 31, 2007 and 2006, net cash used in operating activities was $110.6 billion and $49.6 billion, respectively. In 2008, net cash generated from operating activities was higher than net income, largely as a result of adjustments for operating items such as the provision for credit losses, depreciation and amortization, stock-based compensation, and certain other expense. During 2006, 2007 and 2008, cash was used to fund loans held-for-sale, primarily in IB and RFS. During 2008, proceeds from sales of loans originated or purchased with an initial intent to sell were slightly higher than cash used to acquire such loans; but the cash flows from these activities were at a significantly lower level than for the same periods in 2007 and 2006 as a result of current market conditions. In 2007 and 2006, cash used to acquire such loans was slightly higher than proceeds from sales.

For the years ended December 31, 2007 and 2006, the net cash used in operating activities supported growth in the Firm s lending and capital markets activities. In 2007, when compared with 2006, there was a significant decline in cash flows from IB loan originations/purchases and sale/securitization activities as a result of the difficult wholesale securitization market and capital markets for leveraged financings, which were affected by a significant deterioration in liquidity in the second half of 2007. Cash flows in 2007 associated with RFS residential mortgage activities grew, reflecting an increase in originations.

Cash Flows from Investing Activities

The Firm s investing activities predominantly include originating loans to be held for investment, other receivables, the available-for-sale investment portfolio and other short-term investment vehicles. For the year ended December 31, 2008, net cash of $286.3 billion was used in investing activities, primarily for: purchases of investment securities in Corporate s AFS portfolio to manage the Firm s exposure to interest rate movements, as well as to make strategic longer-term investments; increased deposits with banks as the result of the availability of excess cash for short-term investment opportunities through inter-bank lending, and from deposits with the Federal Reserve (which is now an investing activity, reflecting a policy change of the Federal Reserve to pay interest to depository institutions on reserve balances); net additions to the wholesale loan portfolio, from organic growth in CB; additions to the consumer prime mortgage portfolio as a result of the decision to retain, rather than sell, new originations of nonconforming prime mortgage loans; an increase in securities purchased under resale agreements reflecting growth in demand from clients for liquidity; and net purchases of asset-backed commercial paper from money market mutual funds in connection with a temporary Federal Reserve Bank of Boston lending facility. Partially offsetting these uses of cash were proceeds from sales and maturities of AFS securities; loan sales and credit card securitization activities, which were at a lower level than for the same periods in 2007 as a result of the adverse market conditions that have continued since the last half of 2007; and net cash received from acquisitions and the sale of an investment. Additionally, in June 2008, in connection with the merger with Bear Stearns, the Firm sold assets acquired from Bear Stearns to the FRBNY and received cash proceeds of $28.85 billion (for additional information see Note 2 on page 123 128 of this Annual Report).

For the year ended December 31, 2007, net cash of $73.1 billion was used in investing activities, primarily to fund purchases in the AFS securities portfolio to manage the Firm s exposure to interest rate movements; net additions to the wholesale retained loan portfolios in IB, CB and AM, mainly as a result of business growth; a net increase in the consumer retained loan portfolio, primarily reflecting growth in RFS in home equity loans and net additions to RFS subprime mortgage loans portfolio (which was affected by management s decision in the third quarter to retain (rather than sell) new subprime mortgages), and growth in prime mortgage loans originated by RFS and AM that cannot be sold to U.S. government agencies or U.S. government-sponsored enterprises; and increases in securities purchased under resale agreements as a result of a higher level of cash that was available for short-term investment opportunities in connection with the Firm s efforts to build liquidity. These net uses of cash were partially offset by cash proceeds received from sales and maturities of AFS securities; and credit card, residential mortgage, student and wholesale loan sales and securitization activities, which grew in 2007 despite the difficult conditions in the credit markets.

For the year ended December 31, 2006, net cash of $99.6 billion was used in investing activities. Net cash was invested to fund net additions to the retained wholesale loan portfolio, mainly resulting from capital markets activity in IB leveraged financings; increases in CS loans reflecting strong organic growth; net additions in retail home equity loans; the acquisition of private-label credit card portfolios from Kohl s, BP and Pier 1 Imports, Inc.; the acquisition of Collegiate Funding Services; and purchases of AFS securities in connection with repositioning the portfolio in response to changes in interest rates. These uses of cash were partially offset by cash proceeds provided from credit card, residential mortgage, auto and wholesale loan sales and securitization activities; sales and maturities of AFS securities; the net decline in auto loans, which was caused partially by management s decision to de-emphasize vehicle leasing; and the sale of the insurance business at the beginning of the second quarter.

Cash Flows from Financing Activities

The Firm s financing activities primarily reflect cash flows related to customer deposits, issuances of long-term debt and trust preferred capital debt securities, and issuances of preferred and common stock. In 2008, net cash provided by financing activities was $250.5 billion due to: growth in wholesale deposits, in particular, interest-and noninterest-bearing deposits in TSS (driven by both new and existing clients, and due to the deposit inflows related to the heightened volatility and credit concerns affecting the global markets), as well as increases in AM and CB (due to organic growth); proceeds of $25.0 billion from the issuance of preferred stock and a warrant to the U.S. Treasury under the Capital Purchase Program; additional issuances of common stock and preferred stock used for general corporate purposes; an increase in other borrowings due to nonrecourse secured advances from the Federal Reserve Bank of Boston to fund the purchase of asset-backed commercial paper from money market mutual funds; increases in federal funds purchased and securities loaned or sold under repurchase agreements in connection with higher short-term requirements to fulfill client demand for liquidity and finance the Firm s AFS securities inventory; and a net increase in long-term debt due to a combination of non-FDIC guaranteed debt and trust preferred capital debt securities issued prior to December 4, 2008, and the issuance of $20.8 billion of FDIC-guaranteed long-term debt issued during the fourth quarter of 2008. The fourth-quarter FDIC-guaranteed issuance was offset partially by maturities of non-FDIC guaranteed long-term debt during the same period. The increase in long-term debt and trust preferred capital debt securities was used primarily to fund certain illiquid assets held by the parent holding company and build liquidity. Cash was also used to pay dividends on common and preferred stock. The Firm did not repurchase any shares of its common stock in the open market during 2008 in order to maintain its capital objectives.

In 2007, net cash provided by financing activities was $183.0 billion due to a net increase in wholesale deposits from growth in business volumes, in particular, interest-bearing deposits at TSS, AM and CB;
net issuances of long-term debt and trust preferred capital debt securities primarily to fund certain illiquid assets held by the parent holding company and build liquidity, and by IB from client-driven structured notes transactions; and growth in commercial paper issuances and other borrowed funds due to growth in the volume of liability balances in sweep accounts in TSS and CB, and to fund trading positions and to further build liquidity. Cash was used to repurchase common stock and pay dividends on common stock, including an increase in the quarterly dividend in the second quarter of 2007.

In 2006, net cash provided by financing activities was $152.7 billion due to net cash received from growth in deposits, reflecting new retail account acquisitions and the ongoing expansion of the retail branch distribution network; higher wholesale business volumes; increases in securities sold under repurchase agreements to fund trading positions and higher AFS securities positions; and net issuances of long-term debt and trust preferred capital debt securities. The net cash provided was offset partially by the payment of cash dividends on stock and common stock repurchases.

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. Additionally, the Firm s funding requirements for VIEs and other third-party commitments may be adversely affected. 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 pages 67 68 and Ratings profile of derivative receivables marked to market (MTM) on page 88 of this Annual Report.

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.

The credit ratings of the parent holding company and each of the Firm s significant banking subsidiaries as of January 15, 2009, were as follows.

	Short-term debt			Senior long-term debt		
	Moody s	S&P	Fitch	Moody s	S&P	Fitch
JPMorgan Chase & Co.	P-1	A-1	F1+	Aa3	A+	AA-
JPMorgan Chase Bank, N.A.	P-1	A-1+	F1+	Aa1	AA-	AA-
Chase Bank USA, N.A.	P-1	A-1+	F1+	Aa1	AA-	AA-

Management s discussion and analysis

On December 19, 2008, S&P lowered the senior long-term debt ratings on JPMorgan Chase & Co. and its principal bank subsidiaries one notch from AA- and AA , respectively; lowered the short-term debt rating of JPMorgan Chase & Co. from A-1+ ; and affirmed the short-term debt ratings of its principal bank subsidiaries. These actions were primarily the result of S&P s belief that the Firm s earnings are likely to decline over the next couple of years in response to increasing loan losses associated with the Firm s exposure to consumer lending, as well as declining business volumes. S&P s current outlook is negative. On January 15, 2009, Moody s lowered the senior long-term debt ratings on JPMorgan Chase & Co. and its principal bank subsidiaries from Aa2 and Aaa , respectively. These actions were primarily the result of Moody s view that, in the current economic environment, the Firm may experience difficulties generating capital and could face significant earnings pressure. Moody s affirmed the short-term debt ratings of JPMorgan Chase &
Co. and its principal bank subsidiaries at P-1 . Moody s also revised the outlook to stable from negative due to the Firm s strong capital ratios, significant loan loss reserves, and strong franchise. Ratings from Fitch on JPMorgan Chase & Co. and its principal bank subsidiaries remained unchanged from December 31, 2007, and Fitch s outlook remained stable. The recent rating actions by S&P and Moody s did not have a material impact on the cost or availability of the Firm s funding. If the Firm s senior long-term debt ratings were downgraded by one additional notch, the Firm believes the incremental cost of funds or loss of funding would be manageable within the context of current market conditions and the Firm s liquidity resources. JPMorgan Chase s unsecured debt, other than in certain cases the IB structured notes, does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, nor contain collateral provisions or the creation of an additional financial obligation, based on unfavorable changes in the Firm s credit ratings, financial ratios, earnings, cash flows or stock price. To the extent any IB structured notes do contain such provisions, the Firm believes that, in the event of an acceleration of payments or maturities or provision of collateral, the securities used by the Firm to risk manage such structured notes, together with other liquidity resources, are expected to generate funds sufficient to satisfy the Firm s obligations.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from obligor or counterparty default. The Firm provides credit (for example, through loans, lending-related commitments and derivatives) to a variety of customers, from large corporate and institutional clients to the individual consumer. For the wholesale business, credit risk management includes the distribution of syndicated loans originated by the Firm into the marketplace (primarily to IB clients), with exposure held in the retained portfolio averaging less than 10% of the total originated loans. Wholesale loans generated by CB and AM are generally retained on the balance sheet. With regard to the consumer credit market, the Firm focuses on creating a portfolio that is diversified from both a product and a geographic perspective. Loss mitigation strategies are being employed for all home lending portfolios. These strategies include rate reductions, principal forgiveness, forbearance and other actions intended to minimize the economic loss and avoid foreclosure. In the mortgage business, originated loans are either retained in the mortgage portfolio or securitized and sold to U.S. government agencies and U.S. government-sponsored enterprises.

Credit risk organization

Credit risk management is overseen by the Chief Risk Officer and implemented within the lines of business. The Firm s credit risk management governance consists of the following functions:

- establishing a comprehensive credit risk policy framework
- monitoring and managing credit risk across all portfolio segments, including transaction and line approval
- assigning and managing credit authorities in connection with the approval of all credit exposure
- managing criticized exposures
- calculating the allowance for credit losses and ensuring appropriate credit risk-based capital management

Risk identification

The Firm is exposed to credit risk through lending and capital markets activities. The credit risk management organization works in partnership with the business segments in identifying and aggregating exposures across all lines of business.

Risk measurement

To measure credit risk, the Firm employs several methodologies for estimating the likelihood of obligor or counterparty default. Methodologies for measuring credit risk vary depending on several factors, including type of asset (e.g., consumer installment versus wholesale loan), risk measurement parameters (e.g., delinquency status and credit bureau score versus wholesale risk rating) and risk management and collection processes (e.g., retail collection center versus centrally managed workout groups). Credit risk measurement is based upon the amount of exposure should the obligor or the counterparty default, the probability of default and the loss severity given a default event. Based upon these factors and related market-based inputs, the Firm estimates both probable and unexpected losses for the wholesale and consumer portfolios. Probable losses, reflected in the provision for credit losses, are based primarily upon statistical estimates of credit losses as a result of obligor or counterparty default. However, probable losses are not the sole indicators of risk. If losses were entirely predictable, the probable loss rate could be factored into pricing and covered as a normal and recurring cost of doing business. Unexpected losses, reflected in the allocation of credit risk capital, represent the potential volatility of actual losses relative to the probable level of losses. Risk measurement for the wholesale portfolio is assessed primarily on a risk-rated basis; for the consumer portfolio, it is assessed primarily on a credit-scored basis.

Risk-rated exposure

For portfolios that are risk-rated (generally held in IB, CB, TSS and AM), probable and unexpected loss calculations are based upon estimates of probability of default and loss given default. Probability of default is the expected default calculated on an obligor basis. Loss given default is an estimate of losses given a default event and takes into consideration collateral and structural support for each credit facility. Calculations and assumptions are based upon management information systems and methodologies which are under continual review. Risk ratings are assigned to differentiate risk within the portfolio and are reviewed on an ongoing basis by credit risk management and revised, if needed, to reflect the borrowers current risk profiles and the related collateral and structural positions.

Credit-scored exposure

For credit-scored portfolios (generally held in RFS and CS), probable loss is based upon a statistical analysis of inherent losses over discrete periods of time. Probable losses are estimated using sophisticated portfolio modeling, credit scoring and decision-support tools to project credit risks and establish underwriting standards. In addition, common measures of credit quality derived from historical loss experience are used to predict consumer losses. Other risk characteristics evaluated include recent loss experience in the portfolios, changes in origination sources, portfolio seasoning, loss severity and underlying credit practices, including charge-off policies. These analyses are applied to the Firm s current portfolios in order to estimate delinquencies and severity of losses, which determine the amount of probable losses. These factors and analyses are updated at least on a quarterly basis or more frequently as market conditions dictate.

Risk monitoring

The Firm has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are intended to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposure. Wholesale credit risk is monitored regularly on both an aggregate portfolio level and on an individual customer basis. Management of the Firm s wholesale exposure is accomplished through a number of means including loan syndication and participations, loan sales, securitizations, credit derivatives, use of master netting agreements and collateral and other risk-reduction techniques, which are further discussed in the following risk sections. For consumer credit risk, the key focus items are trends and concentrations at the portfolio level, whereby potential problems can be remedied through changes in underwriting policies and portfolio guidelines. Consumer Credit Risk Management monitors trends against business expectations and industry benchmarks.

Risk reporting

To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit quality forecasts, concentrations levels and risk profile changes are reported regularly to senior credit risk management. Detailed portfolio reporting of industry, customer and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, senior management, for further information, see page 74 of this Annual Report.

2008 Credit risk overview

During 2008, credit markets experienced deterioration and increased defaults and downgrades reflecting, among other things, reduced liquidity. The liquidity and credit crisis has adversely affected many financial institutions, resulting in the failure of some in both the U.S. and Europe, and has impacted the functioning of credit markets, particularly, the loan syndication and asset-backed securitization markets. The Firm s credit portfolio was affected by these market conditions and experienced deteriorating credit quality, especially in the latter part of the year, generally consistent with the market. In 2008, for the wholesale portfolio, criticized assets and NPAs increased, from historical lows, 301% and 525%, respectively, from the previous year. Charge-offs, which typically lag other portfolio deterioration, have increased from historical lows by 458% over 2007. The Firm has remained focused on aggressively managing the portfolio, including ongoing, in-depth reviews of credit quality, as well as of revisions of industry, product and client concentrations. Risk levels are adjusted as needed to reflect the Firm s risk tolerance. Underwriting standards across all areas of lending have been strengthened, consistent with evolving market conditions in order to permit the Firm to lend in a safe and prudent manner. In light of the current market conditions, the wholesale allowance for loan loss coverage ratio has been strengthened to 2.64%, from 1.67% at the end of 2007.

Consumer portfolio credit performance continues to be negatively affected by the economic environment, particularly the weak labor market and the decline in housing prices which occurred nationally. As a result, the Firm took actions throughout the year to reduce risk exposure by tightening underwriting and loan qualification standards in those markets most affected by the housing downturn. In the fourth quarter of 2008, the Firm announced plans to significantly expand loss mitigation efforts related to its mortgage and home equity portfolios. During the implementation period of these expanded loss mitigation efforts, which was substantially in place in early 2009, the Firm did not place loans into foreclosure. These loss mitigation efforts are expected to result in additional increases in the balance of modified loans carried on the Firm s balance sheet, including loans accounted for as troubled debt restructurings, while minimizing the economic loss to the Firm and assisting homeowners to remain in their homes. More detailed discussion of the domestic consumer credit environment can be found on pages 91 92 of this Annual Report.

Table of Contents

Management s discussion and analysis
CREDIT PORTFOLIO

The following table presents JPMorgan Chase s credit portfolio as of December 31, 2008 and 2007. Total credit exposure at December 31, 2008, increased $198.8 billion from December 31, 2007, reflecting an increase of $115.0 billion in the consumer credit portfolio and $83.8 billion in the wholesale credit portfolio. The increase in total credit exposure from the prior year reflects $319.2 billion and $54.3 billion of additional credit exposure acquired in connection with the Washington Mutual and Bear Stearns transactions, respectively. The exposure from the Washington Mutual transaction consisted of $271.7 billion in the consumer portfolio and $47.5 billion in the wholesale portfolio, which was primarily commercial lending. The exposure from the Bear Stearns acquisition was included in the wholesale portfolio. Excluding these two transactions, there was a decrease of $174.7 billion in overall credit exposure, which was largely driven by decreases in lending-related commitments, partly offset by increases in derivative receivables and managed loans.
While overall portfolio exposure declined when excluding the Washington Mutual and Bear Stearns transactions, the Firm provided over $150 billion in new loans and lines of credit to retail and wholesale clients in the fourth quarter of 2008, including individual consumers, small businesses, large corporations, not-for-profit organizations, states and municipalities, and other financial institutions.
In the table below, reported loans include loans accounted for at fair value and loans held-for-sale, which are carried at lower of cost or fair value, with changes in value recorded in noninterest revenue. However, these held-for-sale loans and loans accounted for at fair value are excluded from the average loan balances used for the net charge-off rate calculations.

Total credit portfolio

of or for the year ended December 31, millions, except ratios)	Credit exposure 2008	Credit exposure 2007	Nonperforming assets[h)(i)(j)(k] 2008	Nonperforming assets 2007	90 days past due and still accruing 2008	90 days past due and still accruing 2007	Net charge-offs 2008	Net charge-offs 2007	Average annual net charge-off rate 2008	Average annual net charge-off rate 2007
tal credit portfolio										
ans retained[a]	**$ 728,915**	$ 491,736	**$ 8,921**(j)	$ 3,232(j)	**$ 3,275**	$ 2,043	**$ 9,835**	$ 4,538	**1.73%**	1.00
ans held-for-sale	**8,287**	18,899	**12**	45						NA
ans at fair value	**7,696**	8,739	**20**	5						NA

(a) Loans (other than those for which the SFAS 159 fair value option has been elected) are presented net of unearned income and net deferred loan fees of

$694 million and $1.0 billion at December 31, 2008 and 2007, respectively.

(b) Represents securitized credit card receivables. For further discussion of credit card securitizations, see Card Services on pages 51 53 of this Annual Report.

(c) Primarily represents margin loans to prime and retail brokerage customers included in accrued interest and accounts receivable on the Consolidated Balance Sheets.

(d) Includes credit card and home equity lending-related commitments of $623.7 billion and $95.7 billion, respectively, at December 31, 2008, and $714.8 billion and $74.2 billion, respectively, at December 31, 2007. These amounts for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, nor does it anticipate, all available lines of credit being used at the same time. The Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(e) Includes unused advised lines of credit totaling $36.3 billion and $38.4 billion at December 31, 2008 and 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve, unused advised lines are not reportable. See the Glossary of Terms on page 218 of this Annual Report for the Firm s definition of advised lines of credit.

(f)

Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. For additional information, see page 89 of this Annual Report.

(g) Represents other liquid securities collateral held by the Firm as of December 31, 2008 and 2007, respectively.

(h) Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $3.3 billion and $1.5 billion at December 31, 2008, and 2007, respectively, and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $437 million and $417 million at December 31, 2008 and 2007, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.

(i) During the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all other home lending products. Amounts for 2007 have been revised to reflect this change.

(j) Excludes home lending purchased credit-impaired home loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis and the pools are considered to be performing under SOP 03-3. Also excludes loans held-for-sale and loans at fair value.

(k) Includes $1.5 billion of assets acquired in the Washington Mutual transaction.

Table of Contents

WHOLESALE CREDIT PORTFOLIO

As of December 31, 2008, wholesale exposure (IB, CB, TSS and AM) increased $83.8 billion from December 31, 2007, primarily due to the Bear Stearns merger, which added $54.3 billion of wholesale exposure in the second quarter of 2008 ($26.0 billion of receivables from customers, $18.9 billion of derivative receivables, $5.0 billion of lending-related commitments and $4.4 billion of loans) and the Washington Mutual transaction (which added $47.5 billion of wholesale exposure in the third quarter of 2008, mainly consisting of loans). Excluding these two transactions, the portfolio decreased $18.0 billion, largely driven by decreases of $73.7 billion in lending-related commitments and $9.9 billion in receivables from customers. Partly offsetting these decreases was an increase of $65.5 billion in derivative receivables. The decrease in lending-related commitments was largely related to a reduction in multi-seller conduit-related commitments. The increase in derivative receivables was primarily related to the decline in interest rates, widening credit spreads and volatile foreign exchange rates reflected in interest rate, credit and foreign exchange derivatives, respectively. For additional information regarding conduit-related commitments, see Note 17 on pages 177 186 of this Annual Report. Excluding the Washington Mutual and Bear Stearns transactions, retained loans increased $11.0 billion reflecting increases in traditional lending activity while loans held-for-sale and loans at fair value decreased reflecting sales, reduced carrying values and lower volumes in the syndication market.

Wholesale

As of or for the year ended December 31, (in millions)	Credit exposure 2008	Credit exposure 2007	Nonperforming loans[f] 2008	Nonperforming loans[f] 2007	90 days past due and accruing 2008	90 days past due and accruing 2007
Loans retained[a]	**$ 248,089**	$ 189,427	**$ 2,350**	$ 464	**$ 163**	$ 75
Loans held-for-sale	**6,259**	14,910	**12**	45		
Loans at fair value	**7,696**	8,739	**20**	5		
Loans reported	**$ 262,044**	$ 213,076	**$ 2,382**	$ 514	**$ 163**	$ 75
Derivative receivables	**162,626**	77,136	**1,079**	29		
Receivables from customers[b]	**16,141**					
Total wholesale credit-related assets	**440,811**	290,212	**3,461**	543	**163**	75
Lending-related commitments[c]	**379,871**	446,652	**NA**	NA	**NA**	NA
Total wholesale credit exposure	**$ 820,682**	$ 736,864	**$ 3,461**	$ 543	**$ 163**	$ 75
Credit derivative hedges notional[d]	**$ (91,451)**	$ (67,999)	**$**	$ (3)	**NA**	NA
Collateral held against derivatives[e]	**(19,816)**	(9,824)	**NA**	NA	**NA**	NA

(a)

Includes $224 million of purchased credit-impaired loans at December 31, 2008, which are accounted for in accordance with SOP 03-3. They are considered nonperforming loans because the timing and amount of expected future cash flows is not reasonably estimable. For additional information, see Note 14 on pages 163 166 of this Annual Report.

(b) Primarily represents margin loans to prime and retail brokerage customers, which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.

(c) Includes unused advised lines of credit totaling $36.3 billion and $38.4 billion at December 31, 2008 and 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve, unused advised lines are not reportable.

(d) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. For additional information, see page 89 of this Annual Report.

(e) Represents other liquid securities collateral held by the Firm as of December 31, 2008 and 2007, respectively.

(f) Assets acquired in loan satisfactions have been excluded in this presentation. See the wholesale nonperforming assets by line of business segment table for additional information.

The following table presents net charge-offs (excluding gains from sales of nonperforming loans), for the years ended December 31, 2008 and 2007.

Net charge-offs

Wholesale

Year ended December 31, (in millions, except ratios)	**2008**	2007
Loans reported		
Net charge-offs	**$ 402**	$ 72
Average annual net charge-off rate[(a)]	**0.18%**	0.04%

(a) Excludes average wholesale loans held-for-sale and loans at fair value of $18.9 billion and $18.6 billion for the years ended December 31, 2008 and 2007, respectively.

The following table presents the change in the wholesale nonperforming loan portfolio for the years ended December 31, 2008 and 2007.

Nonperforming loan activity

Wholesale

Year ended December 31, (in millions)	**2008**	2007
Beginning balance	**$ 514**	$ 391
Additions	**3,381**	1,107
Reductions:		
Paydowns and other	**859**	576
Charge-offs	**521**	185
Returned to performing	**93**	136
Sales	**40**	87
Total reductions	**1,513**	984
Net additions	**1,868**	123
Ending balance	**$ 2,382**	$ 514

Table of Contents

Management s discussion and analysis
The following table presents the wholesale nonperforming assets by business segment as of December 31, 2008 and 2007.

As of December 31, (in millions)	2008 Nonperforming loans	2008 Assets acquired in loan satisfactions: Real estate owned	2008 Assets acquired in loan satisfactions: Other	2008 Nonperforming assets	2007 Nonperforming loans	2007 Assets acquired in loan satisfactions: Real estate owned	2007 Assets acquired in loan satisfactions: Other	2007 Nonperforming assets
Investment Bank	**$1,175**	**$247**	**$1,079**(a)	**$ 2,501**	$353	$67	$33(a)	$ 453
Commercial Banking	**1,026**	**102**	**14**	**1,142**	146	2		148
Treasury & Securities Services	**30**			**30**				
Asset Management	**147**		**25**	**172**	12			12
Corporate/Private Equity	**4**			**4**	3			3
Total	**$2,382**	**$349**	**$1,118**	**$ 3,849**	$514	$69	$33	$ 616

(a) Includes derivative receivables of $1.1 billion and $29 million as of December 31, 2008 and 2007, respectively.

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of December 31, 2008 and 2007. The increase in the proportion of loans maturing after five years was predominantly due to the Washington Mutual transaction. The ratings scale is based upon the Firm s internal risk ratings and generally correspond to the ratings as defined by S&P and Moody s.

Wholesale credit exposure maturity and ratings profile

December 31, 2008 (in billions, except ratios)	Maturity profile[c]: Due in 1 year or less	Maturity profile[c]: Due after 1 year through 5 years	Maturity profile[c]: Due after 5 years	Maturity profile[c]: Total	Ratings profile: Investment-grade (IG) AAA/Aaa to BBB-/Baa3	Ratings profile: Noninvestment-grade BB+/Ba1 & below	Ratings profile: Total	Total % of IG
Loans	**32%**	**43%**	**25%**	**100%**	**$161**	**$ 87**	**$248**	**65%**
Derivative receivables	**31**	**36**	**33**	**100**	**127**	**36**	**163**	**78**
Lending-related commitments	**37**	**59**	**4**	**100**	**317**	**63**	**380**	**83**

Total excluding loans held-for-sale and loans at fair value	**34%**	**50%**	**16%**	**100%**	**$605**	**$ 186**	**791**	**77%**
Loans held-for-sale and loans at fair value[a]							**14**	
Receivables from customers							**16**	
Total exposure							**$821**	
Net credit derivative hedges notional[b]	**47%**	**47%**	**6%**	**100%**	**$ (82)**	**$ (9)**	**$ (91)**	**90%**

	Maturity profile[c]				Ratings profile			
December 31, 2007	Due in 1 year	Due after 1 year	Due after		Investment-grade (IG)	Noninvestment-grade		Total %
(in billions, except ratios)	or less	through 5 years	5 years	Total	AAA/Aaa to BBB-/Baa3	BB+/Ba1 & below	Total	of IG
Loans	44%	45%	11%	100%	$127	$ 62	$189	67%
Derivative receivables	17	39	44	100	64	13	77	83
Lending-related commitments	35	59	6	100	380	67	447	85
Total excluding loans held-for-sale and loans at fair value	36%	53%	11%	100%	$571	$ 142	713	80%
Loans held-for-sale and loans at fair value[a]							24	
Total exposure							$737	
Net credit derivative hedges notional[b]	39%	56%	5%	100%	$ (68)	$	$ (68)	100%

(a) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.

(b) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133.

(c) The maturity profile of loans and lending-related commitments is based upon the remaining contractual maturity. The maturity profile of derivative receivables is based upon the maturity profile of average exposure. See page 87 of this Annual Report for a further discussion of average exposure.

Table of Contents

Wholesale credit exposure selected industry concentration

The Firm focuses on the management and diversification of its industry concentrations, with particular attention paid to industries with actual or potential credit concerns. At December 31, 2008, the top 15 industries to which the Firm is exposed remained largely unchanged from December 31, 2007. The Firm s real estate industry exposure increased from the prior year due to the Washington Mutual transaction. Customer receivables of $16.1 billion in the table below represents primarily margin
loans to prime and retail brokerage clients acquired in the Bear Stearns merger. These margin loans are generally fully collateralized by cash or highly liquid securities to satisfy daily minimum collateral requirements. For additional information on industry concentrations, see Note 34 on pages 210 211 of this Annual Report.

Wholesale credit exposure selected industry concentration

December 31, 2008 (in millions, except ratios)	Credit exposure[d]	Investment grade	Noninvestment-grade Noncriticized	Noninvestment-grade Criticized	Net charge-offs/ (recoveries)	Credit derivative hedges[e]	Collateral held against derivative receivables[f]
Exposure by industry[a]							
Real estate	**$ 83,799**	**68%**	**$ 19,346**	**$ 7,737**	**$ 212**	**$ (2,677)**	**$ (48)**
Banks and finance companies	**75,577**	**79**	**12,953**	**2,849**	**28**	**(5,016)**	**(9,457)**
Asset managers	**49,256**	**85**	**6,418**	**819**	**15**	**(115)**	**(5,303)**
Healthcare	**38,032**	**83**	**6,092**	**436**	**2**	**(5,338)**	**(199)**
State and municipal governments	**35,954**	**94**	**1,278**	**847**		**(677)**	**(134)**
Utilities	**34,246**	**83**	**5,844**	**114**	**3**	**(9,007)**	**(65)**
Retail and consumer services	**32,714**	**67**	**9,546**	**1,311**	**(6)**	**(6,120)**	**(1,214)**
Consumer products	**29,766**	**65**	**9,504**	**792**	**32**	**(8,114)**	**(54)**
Securities firms and exchanges	**25,590**	**81**	**4,744**	**138**		**(151)**	**(898)**
Oil and gas	**24,746**	**75**	**5,940**	**231**	**15**	**(6,627)**	**(7)**
Insurance	**17,744**	**78**	**3,138**	**712**		**(5,016)**	**(846)**
Technology	**17,555**	**68**	**5,420**	**230**		**(4,209)**	**(3)**
Media	**17,254**	**56**	**5,994**	**1,674**	**26**	**(4,238)**	**(7)**
Central government	**15,259**	**98**	**276**			**(4,548)**	**(35)**
Metals/mining	**14,980**	**61**	**5,579**	**262**	**(7)**	**(3,149)**	**(3)**
All other[b]	**278,114**	**77**	**57,307**	**7,845**	**82**	**(26,449)**	**(1,543)**
Subtotal	**$ 790,586**	**77%**	**$ 159,379**	**$ 25,997**	**$ 402**	**$ (91,451)**	**$ (19,816)**
Loans held-for-sale and loans at fair value[c]	**13,955**						
Receivables from customers	**16,141**						

Total	**$ 820,682**

December 31, 2007 (in millions, except ratios)	Credit exposure[d]	Investment grade	Noninvestment-grade Noncriticized	Criticized	Net charge-offs/ (recoveries)	Credit derivative hedges[e]	Collateral held against derivative receivables[f]
Exposure by industry[a]							
Real estate	$ 38,295	54%	$ 16,626	$ 1,070	$ 36	$ (2,906)	$ (73)
Banks and finance companies	65,288	83	10,385	498	5	(6,368)	(1,793)
Asset managers	38,554	90	3,518	212		(293)	(2,148)
Healthcare	30,746	84	4,741	246		(4,241)	(10)
State and municipal governments	31,425	98	591	12	10	(193)	(3)
Utilities	28,679	89	3,021	212	1	(6,371)	(43)
Retail and consumer services	23,969	68	7,149	550	3	(3,866)	(55)
Consumer products	29,941	74	7,492	239	5	(4,710)	(13)
Securities firms and exchanges	23,274	87	3,083	1		(467)	(1,321)
Oil and gas	26,082	72	7,166	125		(4,007)	
Insurance	16,782	93	1,104	17		(4,277)	(1,000)
Technology	18,335	70	5,418	77	1	(3,636)	(1)
Media	16,253	58	6,561	303	3	(2,707)	(31)
Central government	9,075	99	112			(2,536)	(7)
Metals/mining	17,714	70	5,119	111		(2,486)	
All other[b]	298,803	80	52,897	3,165	8	(18,935)	(3,326)
Subtotal	$ 713,215	80%	$ 134,983	$ 6,838	$ 72	$ (67,999)	$ (9,824)
Loans held-for-sale and loans at fair value[c]	23,649						
Receivables from customers							
Total	$ 736,864						

Table of Contents

Management s discussion and analysis

(a) Rankings are based upon exposure at December 31, 2008. The industries presented in 2007 table reflect the rankings in the 2008 table.

(b) For more information on exposures to SPEs included in all other, see Note 17 on pages 177 186 of this Annual Report.

(c) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.

(d) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against derivative receivables or loans.

(e) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133.

(f) Represents other liquid securities collateral held by the Firm as of December 31, 2008 and 2007, respectively.

Wholesale criticized exposure

Exposures deemed criticized generally represent a ratings profile similar to a rating of CCC+"/ Caa1 and lower, as defined by S&P and Moody s. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, increased to $26.0 billion at December 31, 2008, from $6.8 billion at year-end 2007. The increase was driven primarily by downgrades in the wholesale portfolio.

Industry concentrations for wholesale criticized exposure as of December 31, 2008 and 2007, were as follows.

	2008		2007	
December 31, (in millions, except ratios)	Credit exposure	% of portfolio	Credit exposure	% of portfolio
Exposure by industry[(a)]				
Real estate	**$ 7,737**	**30%**	$ 1,070	16%
Banks and finance companies	**2,849**	**11**	498	7
Automotive	**1,775**	**7**	1,338	20
Media	**1,674**	**6**	303	4
Building materials/construction	**1,363**	**5**	345	5
Retail and consumer services	**1,311**	**5**	550	8
State and municipal government	**847**	**3**	12	
Asset managers	**819**	**3**	212	3
Consumer products	**792**	**3**	239	4
Agriculture/paper manufacturing	**726**	**3**	138	2
Insurance	**712**	**3**	17	
Chemicals/plastics	**591**	**2**	288	4
Healthcare	**436**	**2**	246	4
Transportation	**319**	**1**	74	1
Metals/mining	**262**	**1**	111	2
All other	**3,784**	**15**	1,397	20
	$ 25,997	**100%**	$ 6,838	100%

Total excluding loans held-for-sale and loans at fair value		
Loans held-for-sale and loans at fair value[b]	**2,258**	205
Receivables from customers		
Total	**$ 28,255**	$ 7,043

(a) Rankings are based upon exposure at December 31, 2008. The industries presented in the 2007 table reflect the rankings in the 2008 table.

(b) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.

Presented below is a discussion of several industries to which the Firm has significant exposure, as well as industries the Firm continues to monitor because of actual or potential credit concerns. For additional information, refer to the tables above and on the preceding page.

Real estate: Exposure to this industry grew in 2008 due to the Washington Mutual transaction, with approximately 70% of this increase consisting of exposure to multi-family lending. Approximately 45% of the real estate exposure is to large real estate companies and institutions (e.g. REITS), professional real estate developers, owners, or service providers, and generally involves real estate leased to third-party tenants. Commercial construction and development accounted for approximately 13% of the real estate portfolio at 2008 year-end. Exposure to national and regional single family homebuilders decreased by 31% from 2007 and represented 5% of the portfolio at 2008 year-end. The increase in criticized exposure was largely a result of downgrades to select names within the portfolio, primarily in IB, reflecting the weakening credit environment. The remaining increase in criticized exposure reflected exposures acquired in the Washington Mutual transaction.

Banks and finance companies: Exposure to this industry increased primarily as a result of higher derivative exposure to commercial banks due to higher volatility and greater trade volume and to the addition of derivative positions from the Bear Stearns merger. The percentage of the portfolio that is investment grade has declined slightly from 2007 as a result of the impact of the weakening credit environment on financial counterparties. The growth in criticized exposure was primarily a result of downgrades to specialty finance companies, reflected in loans and lending-related commitments.

Automotive: Industry conditions deteriorated significantly in 2008, particularly in North America, and are expected to remain under pressure in 2009. The largest percentage of the Firm s wholesale criticized exposure in this segment is related to Original Equipment Manufacturers. However, a majority of the year-over-year increase in criticized exposure related to automotive suppliers which were negatively affected by significant declines in automotive production. Most of the Firm s criticized exposure in this segment remains performing and is substantially secured.

Asset Managers: Exposure in this industry grew from 2007 as a result of increased derivative exposure to primarily investment grade funds and the acquisition of loans and lending-related commitments to this industry due to the Bear Stearns merger.

All other: All other in the wholesale credit exposure concentration table on page 85 of this Annual Report at December 31, 2008 included $278.1 billion of credit exposure to 17 industry segments. Exposures related to SPEs and high-net-worth individuals were 37% and 19%, respectively, of this category. SPEs provide secured financing (generally backed by receivables, loans or bonds on a bankruptcy-remote, nonrecourse or limited-recourse basis) originated by a diverse group of companies in industries that are not highly correlated. For further discussion of SPEs, see Note 17 on pages 177 186 of this Annual Report. The remaining all other exposure is well-diversified across industries and none comprise more than 2% of total exposure.

Derivative contracts

In the normal course of business, the Firm uses derivative instruments to meet the needs of customers; generate revenue through trading activities; manage exposure to fluctuations in interest rates, currencies and other markets; and manage the Firm s credit exposure. The notional amount of the Firm s derivative contracts outstanding significantly exceeded, in the Firm s view, the possible credit losses that could arise from such transactions. For most derivative transactions, the notional amount does not change hands; it is used simply as a reference to calculate payments. For further discussion of these contracts, see Note 32 and Note 34 on pages 202 205 and 210 211 of this Annual Report.

The following tables summarize the aggregate notional amounts and the net derivative receivables MTM for the periods presented.

Notional amounts of derivative contracts

December 31,	Notional amounts[a]	
(in billions)	**2008**	2007
Interest rate contracts		
Interest rate and currency swaps[b]	**$ 56,206**	$ 53,458
Future and forwards	**6,277**	4,548
Written options[c]	**4,803**	5,742
Purchased options	**4,656**	5,349
Total interest rate contracts	**71,942**	69,097
Credit derivatives	**$ 8,388**	$ 7,967
Foreign exchange contracts		
Future and forwards	**$ 3,354**	$ 3,424
Foreign exchange spot contracts	**389**	40
Written options[c]	**972**	909
Purchased options	**959**	906
Total foreign exchange contracts	**5,674**	5,279
Commodity contracts		
Swaps	**$ 234**	$ 275
Future and forwards	**115**	91
Written options[c]	**206**	228
Purchased options	**198**	233
Total commodity contracts	**753**	827

Equity contracts		
Swaps	**$ 77**	$ 105
Future and forwards	**56**	72
Written options[c]	**628**	739
Purchased options	**652**	821
Total equity contracts	**1,413**	1,737
Total derivative notional amounts	**$ 88,170**	$ 84,907

(a) Represents the sum of gross long and gross short third-party notional derivative contracts.
(b) Includes cross currency swap contract notional amounts of $1.7 trillion and $1.4 trillion at December 31, 2008 and 2007, respectively.
(c) Written options do not result in counterparty credit risk.

Derivative receivables marked to market (MTM)

December 31, (in millions)	Derivative receivables MTM 2008	2007
Interest rate contracts	**$ 64,101**	$ 36,020
Credit derivatives	**44,695**	22,083
Foreign exchange contracts	**24,715**	5,616
Commodity contracts	**14,830**	9,419
Equity contracts	**14,285**	3,998
Total, net of cash collateral	**162,626**	77,136
Liquid securities collateral held against derivative receivables	**(19,816)**	(9,824)
Total, net of all collateral	**$ 142,810**	$ 67,312

The amount of derivative receivables reported on the Consolidated Balance Sheets of $162.6 billion and $77.1 billion at December 31, 2008 and 2007, respectively, is the amount of the mark-to-market value (MTM) or fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by the Firm. These amounts represent the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in management s view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of $19.8 billion and $9.8 billion at December 31, 2008 and 2007, respectively, resulting in total exposure, net of all collateral, of $142.8 billion and $67.3 billion at December 31, 2008 and 2007, respectively. Derivative receivables, net of collateral, increased $75.5 billion from December 31, 2007, primarily related to the decline in interest rates, widening credit spreads and volatile foreign exchange rates reflected in interest rate, credit and foreign exchange derivatives, respectively. The increase in 2008 also included positions acquired in the Bear Stearns merger.

The Firm also holds additional collateral delivered by clients at the initiation of transactions, and although this collateral does not reduce the balances noted in the table above, it is available as security against potential exposure that could arise should the MTM of the client s transactions move in the Firm s favor. As of December 31, 2008 and 2007, the Firm held $22.2 billion and $17.4 billion of this additional collateral, respectively. The derivative receivables MTM also do not include other credit enhancements in the form of letters of credit.

While useful as a current view of credit exposure, the net MTM value of the derivative receivables does not capture the potential future variability of that credit exposure. To capture the potential future variability of credit exposure, the Firm calculates, on a client-by-client basis, three measures of potential derivatives-related credit loss: Peak, Derivative Risk Equivalent (DRE), and Average exposure (AVG). These measures all incorporate netting and collateral benefits, where applicable.

Peak exposure to a counterparty is a measure of exposure calculated at a 97.5% confidence level. Derivative Risk Equivalent exposure is a measure that expresses the risk of derivative exposure on a basis intended to be equivalent to the risk of loan exposures. The measurement is done by equating the unexpected loss in a derivative counterparty exposure (which takes into consideration

Table of Contents

Management s discussion and analysis

both the loss volatility and the credit rating of the counterparty) with the unexpected loss in a loan exposure (which takes into consideration only the credit rating of the counterparty). DRE is a less extreme measure of potential credit loss than Peak and is the primary measure used by the Firm for credit approval of derivative transactions.

Finally, AVG is a measure of the expected MTM value of the Firm s derivative receivables at future time periods, including the benefit of collateral. AVG exposure over the total life of the derivative contract is used as the primary metric for pricing purposes and is used to calculate credit capital and the Credit Valuation Adjustment (CVA), as further described below. Average exposure was $83.7 billion and $47.1 billion at December 31, 2008 and 2007, respectively, compared with derivative receivables MTM, net of all collateral, of $142.8 billion and $67.3 billion at December 31, 2008 and 2007, respectively.

The MTM value of the Firm s derivative receivables incorporates an adjustment, the CVA, to reflect the credit quality of counterparties. The CVA is based upon the Firm s AVG to a counterparty and the counterparty s credit spread in the credit derivatives market. The primary components of changes in CVA are credit spreads, new deal activity or unwinds, and changes in the underlying market environment. The Firm believes that active risk management is essential to
controlling the dynamic credit risk in the derivatives portfolio. In addition, the Firm takes into consideration the potential for correlation between the Firm s AVG to a counterparty and the counterparty s credit quality within the credit approval process. The Firm risk manages exposure to changes in CVA by entering into credit derivative transactions, as well as interest rate, foreign exchange, equity and commodity derivative transactions.

The graph below shows exposure profiles to derivatives over the next ten years as calculated by the DRE and AVG metrics. The two measures generally show declining exposure after the first year, if no new trades were added to the portfolio.

Exposure profile of derivatives measures

The following table summarizes the ratings profile of the Firm s derivative receivables MTM, net of other liquid securities collateral, for the dates indicated.

Ratings profile of derivative receivables MTM

Rating equivalent	**2008**		2007	
December 31, (in millions, except ratios)	Exposure net of all collateral	% of exposure net of all collateral	Exposure net of all collateral	% of exposure net of all collateral
AAA/Aaa to AA-/Aa3	**$ 68,708**	**48%**	$ 38,314	57%
A+/A1 to A-/A3	**24,748**	**17**	9,855	15
BBB+/Baa1 to BBB-/Baa3	**15,747**	**11**	9,335	14
BB+/Ba1 to B-/B3	**28,186**	**20**	9,451	14
CCC+/Caa1 and below	**5,421**	**4**	357	
Total	**$ 142,810**	**100%**	$ 67,312	100%

The increase in noninvestment grade derivative receivables reflects a weakening credit environment. The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm s derivatives transactions subject to collateral agreements was 83% as of December 31, 2008, largely unchanged from 82% at December 31, 2007.

The Firm posted $99.1 billion and $33.5 billion of collateral at December 31, 2008 and 2007, respectively.

Certain derivative and collateral agreements include provisions that require the counterparty and/or the Firm, upon specified downgrades in their respective credit ratings, to post collateral for the benefit of the other party. The impact of a single-notch ratings downgrade to JPMorgan Chase Bank, N.A., from its rating of AA- to A+ at December 31, 2008, would have required $2.2 billion of additional collateral to be posted by the Firm. The impact of a six-notch ratings downgrade (from AA- to BBB-) would have required $6.4 billion of additional collateral. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

Credit derivatives are financial contracts that isolate credit risk from an underlying instrument (such as a loan or security) and transfer that risk from one party (the buyer of credit protection) to another (the seller of credit protection). The Firm is both a purchaser and seller of credit protection. As a purchaser of credit protection, the Firm has risk that the counterparty providing the credit protection will default. As a seller of credit protection, the Firm has risk that the underlying instrument referenced in the contract will be subject to a credit event. Of the Firm s $162.6 billion of total derivative receivables MTM at December 31, 2008, $44.7 billion, or 27%, was associated with credit derivatives, before the benefit of liquid securities collateral.

One type of credit derivatives the Firm enters into with counterparties are credit defaults swaps (CDS). For further detailed discussion of these and other types of credit derivatives, see Note 32 on pages 202 205 of this Annual Report. The large majority of CDS are subject to collateral arrangements to protect the Firm from counterparty credit risk. In 2008, the frequency and size of defaults for both trading counterparties and the underlying debt referenced in credit derivatives were well above historical norms. The use of collateral to settle against defaulting counterparties generally performed as designed in significantly mitigating the Firm s exposure to these counterparties.

During 2008, the Firm worked with other significant market participants to develop mechanisms to reduce counterparty credit risk, including the cancellation of offsetting trades. In 2009, it is anticipated that one or more central counterparties for CDS will be established and JPMorgan Chase will face these central counterparties, or clearing houses, for an increasing portion of its CDS business.

The Firm uses credit derivatives for two primary purposes: first, in its capacity as a market-maker in the dealer/client business to meet the needs of customers; and second, in order to mitigate the Firm s own credit risk associated with its overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments), as well as its exposure to residential and commercial mortgages.

The following table presents the Firm s notional amounts of credit derivatives protection purchased and sold as of December 31, 2008 and 2007, distinguishing between dealer/client activity and credit portfolio activity.

	Notional amount				
	Dealer/client		Credit portfolio		
December 31, (in billions)	Protection purchased[(a)]	Protection sold[(a)]	Protection purchased[(b)]	Protection sold	**Total**
2008	**$ 4,097**	**$ 4,198**	**$ 92**	**$ 1**	**$ 8,388**
2007	$ 3,999	$ 3,896	$ 70	$ 2	$ 7,967

(a) Includes $3.9 trillion at December 31, 2008, of notional exposure within protection purchased and protection sold where the underlying reference instrument is identical. The remaining exposure includes single name and index CDS which the Firm purchased to manage the remaining net protection sold. For a further discussion on credit derivatives, see Note 32 on pages 202 205 of this Annual Report.

(b) Includes $34.9 billion and $31.1 billion at December 31, 2008 and 2007, respectively, that represented the notional amount for structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.

Dealer/client business

Within the dealer/client business, the Firm actively utilizes credit derivatives by buying and selling credit protection, predominantly on corporate debt obligations, in response to client demand for credit risk protection on the underlying reference instruments. Protection may be bought or sold by the Firm on single reference debt instruments (single-name credit derivatives), portfolios of referenced instruments (portfolio credit derivatives) or quoted indices (indexed credit derivatives). The risk positions are largely matched as the Firm s exposure to a given reference entity under a contract to sell protection to a counterparty may be offset partially, or entirely, with a contract to purchase protection from another counterparty on the same underlying instrument. Any residual default exposure and spread risk is actively managed by the Firm s various trading desks.

At December 31, 2008, the total notional amount of protection purchased and sold increased $421 billion from year-end 2007. The increase was primarily as a result of the merger with Bear Stearns, partially offset by the impact of industry efforts to reduce offsetting trade activity.

Credit portfolio activities

In managing its wholesale credit exposure the Firm purchases protection through single-name and portfolio credit derivatives to manage the credit risk associated with loans, lending-related commitments and derivative receivables. Gains or losses on the credit derivatives are expected to offset the unrealized increase or decrease in

Table of Contents

Management s discussion and analysis

credit risk on the loans, lending-related commitments or derivative receivables. This activity does not reduce the reported level of assets on the balance sheet or the level of reported off-balance sheet commitments, though it does provide the Firm with credit risk protection. The Firm also diversifies its exposures by selling credit protection, which increases exposure to industries or clients where the Firm has little or no client-related exposure, however, this activity is not material to the Firm s overall credit exposure.

Use of single-name and portfolio credit derivatives

December 31, (in millions)	Notional amount of protection purchased 2008	2007
Credit derivatives used to manage:		
Loans and lending-related commitments	**$ 81,227**	$ 63,645
Derivative receivables	**10,861**	6,462
Total[(a)]	**$ 92,088**	$ 70,107

(a) Included $34.9 billion and $31.1 billion at December 31, 2008 and 2007, respectively, that represented the notional amount for structured portfolio protection; the Firm retains a first risk of loss on this portfolio.

The credit derivatives used by JPMorgan Chase for credit portfolio management activities do not qualify for hedge accounting under SFAS 133, and therefore, effectiveness testing under SFAS 133 is not performed. Loan interest and fees are generally recognized in net interest income, and impairment is recognized in the provision for credit losses. This asymmetry in accounting treatment between loans and lending-related commitments and the credit derivatives utilized in credit portfolio management activities causes earnings volatility that is not representative, in the Firm s view, of the true changes in value of the Firm s overall credit exposure. The MTM related to the Firm s credit derivatives used for managing credit exposure, as well as the MTM related to the CVA, which reflects the credit quality of derivatives counterparty exposure, are included in the table below. These results can vary from period to period due to market conditions that impact specific positions in the portfolio. For a further discussion of credit derivatives, see Note 32 on pages 202 205 of this Annual Report.

Year ended December 31, (in millions)	**2008**	2007	2006

Hedges of lending-related commitments[a]	**$ 2,216**	$ 350	$ (246)
CVA and hedges of CVA[a]	**(2,359)**	(363)	133
Net gains (losses)[b]	**$ (143)**	$ (13)	$ (113)

(a) These hedges do not qualify for hedge accounting under SFAS 133.

(b) Excludes gains of $530 million, $373 million and $56 million for the years ended December 31, 2008, 2007 and 2006, respectively, of other principal transactions revenue that are not associated with hedging activities. The amount for 2008 and 2007 incorporates an adjustment to the valuation of the Firm s derivative liabilities as a result of the adoption of SFAS 157 on January 1, 2007.

The Firm also actively manages wholesale credit exposure through IB and CB loan and commitment sales. During 2008, 2007 and 2006, these sales of $3.9 billion, $4.9 billion and $4.0 billion of loans and commitments, respectively, resulted in losses of $41 million and $7 million in 2008 and 2007 and gains of $83 million in 2006, respectively. These results include gains on sales of nonperforming loans, as discussed on page 83 of this Annual Report. These activities are not related to the Firm s securitization activities, which are undertaken for liquidity and balance sheet management purposes. For a further discussion of securitization activity, see Liquidity Risk Management and Note 16 on pages 76 80 and 168 176, respectively, of this Annual Report.

Lending-related commitments

Wholesale lending-related commitments were $379.9 billion at December 31, 2008, compared with $446.7 billion at December 31, 2007. The decrease was largely related to a reduction in multi-seller conduit-related commitments. In the Firm s view, the total contractual amount of these instruments is not representative of the Firm s actual credit risk 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 instruments, 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 upon average portfolio historical experience, to become outstanding in the event of a default by an obligor. The loan-equivalent amount of the Firm s lending-related commitments was $204.3 billion and $238.7 billion as of December 31, 2008 and 2007, respectively.

Emerging markets country exposure

The Firm has a comprehensive internal process for measuring and managing exposures to emerging markets countries. There is no common definition of emerging markets but the Firm generally, though not exclusively, includes in its definition those countries whose sovereign debt ratings are equivalent to A+ or lower. Exposures to a country include all credit-related lending, trading and investment activities, whether cross-border or locally funded. In addition to monitoring country exposures, the Firm uses stress tests to measure and manage the risk of extreme loss associated with sovereign crises.

The following table presents the Firm s exposure to the top five emerging markets countries. The selection of countries is based solely on the Firm s largest total exposures by country and not the Firm s view of any actual or potentially adverse credit conditions. Exposure is reported based upon the country where the assets of the obligor, counterparty or guarantor are located. Exposure amounts are adjusted for collateral and for credit enhancements (e.g., guarantees and letters of credit) provided by third parties; outstandings supported by a guarantor outside the country or backed by collateral held outside the country are assigned to the country of the enhancement provider. In addition, the effects of credit derivative hedges and other short credit or equity trading positions are reflected in the following table. Total exposure includes exposure to both government and private sector entities in a country.

Table of Contents

Top 5 emerging markets country exposure

At December 31, 2008	Cross-border					**Total**
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Local[(d)]	**exposure**
South Korea	$ 2.9	$ 1.6	$ 0.9	$ 5.4	$ 2.3	$ 7.7
India	2.2	2.8	0.9	5.9	0.6	6.5
China	1.8	1.6	0.3	3.7	0.8	4.5
Brazil	1.8		0.5	2.3	1.3	3.6
Taiwan	0.1	0.2	0.3	0.6	2.5	3.1

At December 31, 2007	Cross-border					**Total**
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Local[(d)]	**exposure**
South Korea	$ 3.2	$ 2.6	$ 0.7	$ 6.5	$ 3.4	$ 9.9
Brazil	1.1	(0.7)	1.2	1.6	5.0	6.6
Russia	2.9	1.0	0.2	4.1	0.4	4.5
India	1.9	0.8	0.8	3.5	0.6	4.1
China	2.2	0.3	0.4	2.9	0.3	3.2

(a) Lending includes loans and accrued interest receivable, interest-bearing deposits with banks, acceptances, other monetary assets, issued letters of credit net of participations, and undrawn commitments to extend credit.

(b) Trading includes: (1) issuer exposure on cross-border debt and equity instruments, held both in trading and investment accounts, adjusted for the impact of issuer hedges, including credit derivatives; and (2) counterparty exposure on derivative and foreign exchange contracts as well as security financing trades (resale agreements and securities borrowed).

(c) Other represents mainly local exposure funded cross-border.

(d) Local exposure is defined as exposure to a country denominated in local currency, booked and funded locally. Any exposure not meeting these criteria is defined as cross-border exposure.

CONSUMER CREDIT PORTFOLIO

JPMorgan Chase s consumer portfolio consists primarily of residential mortgages, home equity loans, credit cards, auto loans, student loans and business banking loans, with a primary focus on serving the prime consumer credit market. The consumer credit portfolio also includes certain loans acquired in the Washington Mutual transaction, primarily mortgage, home equity and credit card loans. The RFS portfolio includes home equity lines of credit and mortgage loans with interest-only payment options to predominantly prime borrowers, as well as certain payment option loans acquired from Washington Mutual that may result in negative amortization.

A substantial portion of the consumer loans acquired in the Washington Mutual transaction were identified as credit-impaired in the third quarter of 2008 based on a preliminary analysis of the acquired portfolio. In addition, as of the acquisition date, a $1.4 billion accounting conformity provision was recorded to reflect the Firm s preliminary estimate of incurred losses related to the portion of the acquired consumer loans that were not considered to be credit-impaired. During the fourth quarter of 2008, the analysis of acquired loans was substantially completed, resulting in a $12.4 billion increase in the credit-impaired loan balances and a corresponding decrease in the non-credit-impaired loan balances. In addition, the estimate of incurred losses related to the non-credit-impaired portfolio was finalized, resulting in a $476 million decrease in the accounting conformity provision for these loans. The purchased credit-impaired loans, which were identified as impaired based on an analysis of risk characteristics, including product type, loan-to-value ratios, FICO scores and delinquency status, are accounted for under SOP 03-3 and were recorded at fair value under SOP 03-3 as of the acquisition date. The fair value of these loans includes an estimate of losses that are expected to be incurred over the estimated remaining lives of the loans, and therefore no allowance for loan losses was recorded for these loans as of the transaction date.

The credit performance of the consumer portfolio across the entire consumer credit product spectrum continues to be negatively affected by the economic environment. High unemployment and weaker overall economic conditions have resulted in increased delinquencies, and continued weak housing prices have driven a significant increase in loss severity. Nonperforming loans and assets continued to increase through year-end 2008, a key indicator that charge-offs will continue to rise in 2009. Additional deterioration in the overall economic environment, including continued deterioration in the labor market, could cause delinquencies to increase beyond the Firm s current expectations, resulting in significant increases in losses in 2009.

Over the past year, the Firm has taken actions to reduce risk exposure by tightening both underwriting and loan qualification standards for real estate lending, as well as for consumer lending for non-real estate products. Tighter income verification, more conservative collateral valuation, reduced loan-to-value maximums and higher FICO and custom risk score requirements are just some of the actions taken to date to mitigate risk. These actions have resulted in significant reductions in new originations of risk layered loans (e.g., loans with high loan-to-value ratios to borrowers with low FICO scores) and improved alignment of loan pricing. New originations of subprime mortgage loans, option ARMs and broker originated-mortgage and home equity loans have been eliminated entirely.

In the fourth quarter of 2008, the Firm announced plans to significantly expand loss mitigation efforts related to its mortgage and home equity portfolios, including a systematic review of the real estate portfolio to identify homeowners most in need of assistance. In addition, the Firm announced plans to open regional counseling centers, hire additional loan counselors, introduce new financing alternatives, proactively reach out to borrowers to offer pre-qualified modifications, and commence a new process to independently review each

Table of Contents

Management s discussion and analysis

loan before moving it into the foreclosure process. During the implementation period of these loss mitigation efforts, which were substantially complete in early 2009, the Firm did not place loans into foreclosure. These loss mitigation efforts, which generally represent various forms of term extensions, rate reductions and forbearances, are expected to result in additional increases in the balances of modified loans carried on the Firm s balance sheet, including loans accounted for as troubled debt restructurings, while minimizing the economic loss to the Firm and assisting homeowners to remain in their homes.

The following table presents managed consumer credit related information for the dates indicated.

Consumer portfolio

of or for the year ended December 31, millions, except ratios)	Credit exposure 2008	2007	Nonperforming loans[g][h][i] 2008	2007	90 days past due and still accruing 2008	2007	Net charge-offs 2008	2007	Average annual net charge-o rate[j] 2008	200
nsumer loans excluding purchased dit-impaired[a]										
ne equity	**$ 114,335**	$ 94,832	**$ 1,394**	$ 786	**$**	$	**$ 2,391**	$ 564	**2.39%**	0.6
ne mortgage	**72,266**	39,988	**1,895**	501			**526**	33	**1.02**	0.1
prime mortgage	**15,330**	15,473	**2,690**	1,017			**933**	157	**6.10**	1.5
ion ARMs	**9,018**		**10**							
o loans[b]	**42,603**	42,350	**148**	116			**568**	354	**1.30**	0.8
dit card reported	**104,746**	84,352	**4**	7	**2,649**	1,547	**4,556**	3,116	**5.47**	3.9
other loans	**33,715**	25,314	**430**	341	**463**	421	**459**	242	**1.58**	1.0
ns held-for-sale[c]	**2,028**	3,989					**NA**	NA	**NA**	N
al consumer loans excluding chased credit-impaired[d]	**394,041**	306,298	**6,571**	2,768	**3,112**	1,968	**9,433**	4,466	**2.90**	1.6
nsumer loans purchased credit aired[d]										
ne equity	**28,555**	NA	**NA**	NA			**NA**	NA	**NA**	N
ne mortgage	**21,855**	NA	**NA**	NA			**NA**	NA	**NA**	N
prime mortgage	**6,760**	NA	**NA**	NA			**NA**	NA	**NA**	N
ion ARMs	**31,643**	NA	**NA**	NA			**NA**	NA	**NA**	N
al purchased credit-impaired	**88,813**	NA	**NA**	NA			**NA**	NA	**NA**	N
al consumer loans reported	**482,854**	306,298	**6,571**	2,768	**3,112**	1,968	**9,433**	4,466	**2.71**	1.6

dit card securitized[d]	**85,571**	72,701			**1,802**	1,050	**3,612**	2,380	**4.53**	3.4
al consumer loans managed	**568,425**	378,999	**6,571**	2,768	**4,914**	3,018	**13,045**	6,846	**3.06**	1.9
nsumer lending-related mitments:										
ne equity[f]	**95,743**	74,191								
ne mortgage	**5,079**	7,394								
prime mortgage		16								
ion ARMs										
o loans	**4,726**	8,058								
dit card[f]	**623,702**	714,848								
other loans	**12,257**	11,429								
al lending-related commitments	**741,507**	815,936								
al consumer credit portfolio	**$ 1,309,932**	$ 1,194,935								
no: Credit card managed	**$ 190,317**	$ 157,053	**$ 4**	$ 7	**$ 4,451**	$ 2,597	**$ 8,168**	$ 5,496	**5.01%**	3.6

(a) Includes RFS, CS and residential mortgage loans reported in the Corporate/Private Equity segment, as well as approximately $80.0 billion in non-credit-impaired consumer loans acquired in the Washington Mutual transaction.

(b) Excludes operating lease-related assets of $2.2 billion and $1.9 billion for December 31, 2008 and 2007, respectively.

(c) Includes loans for prime mortgage and other (largely student loans) of $206 million and

$1.8 billion at December 31, 2008, respectively, and $570 million and $3.4 billion at December 31, 2007, respectively.

(d) Purchased credit-impaired loans represent loans acquired in the Washington Mutual transaction that were considered credit-impaired under SOP 03-3, and include $6.4 billion of loans that were considered nonperforming by Washington Mutual prior to the transaction closing. Under SOP 03-3, these loans are considered to be performing loans as of the transaction date and accrete interest income over the estimated life of the loan when cash flows are reasonably estimable, even if the underlying loans are contractually past due. For additional information, see Note 14 on pages 163 166 of this Annual Report.

(e) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see CS on pages 51 53 of this Annual Report.

(f) The 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 will be utilized at the same time. For credit card commitments and home equity commitments (if certain conditions are met), the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(g) Excludes purchased credit-impaired loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis and the pools are considered to be performing under SOP 03-3.

(h) Excludes nonperforming assets related to: (1) loans eligible for repurchase, as well as loans repurchased from Governmental National Mortgage Association

(GNMA) pools that are insured by U.S. government agencies of $3.3 billion for December 31, 2008 and $1.5 billion for December 31, 2007; and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $437 million and $417 million as of December 31, 2008 and 2007, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.

(i) During the second quarter of 2008, the Firm s policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all the other home lending products. Amounts for 2007 have been revised to reflect this change.

(j) Net charge-off rates exclude average loans held-for-sale of $2.8 billion and $10.6 billion for 2008 and 2007, respectively.

Table of Contents

The following table presents the consumer nonperforming assets by business segment as of December 31, 2008 and 2007.

As of December 31, (in millions)	**2008** Nonperforming loans	Assets acquired in loan satisfactions: Real estate owned	Assets acquired in loan satisfactions: Other	Nonperforming assets	2007 Nonperforming loans	Assets acquired in loan satisfactions: Real estate owned	Assets acquired in loan satisfactions: Other	Nonperforming assets
Retail Financial Services	**$ 6,548**	**$ 2,183**	**$ 110**	**$ 8,841**	$ 2,760	$ 477	$ 72	$ 3,309
Card Services	**4**			**4**	7			7
Corporate/Private Equity	**19**	**1**		**20**	1			1
Total	**$ 6,571**	**$ 2,184**	**$ 110**	**$ 8,865**	$ 2,768	$ 477	$ 72	$ 3,317

The Firm regularly evaluates market conditions and overall economic returns and makes an initial determination of whether new originations will be held-for-investment or sold within the foreseeable future. The Firm also periodically evaluates the expected economic returns of previously originated loans under prevailing market conditions to determine whether their designation as held-for-sale or held-for-investment continues to be appropriate. When the Firm determines that a change in this designation is appropriate, the loans are transferred to the appropriate classification. During the third and fourth quarters of 2007, in response to changes in market conditions, the Firm designated as held-for-investment all new originations of subprime mortgage loans, as well as subprime mortgage loans that were previously designated held-for-sale. In addition, all new prime mortgage originations that cannot be sold to U.S. government agencies and U.S. government-sponsored enterprises have been designated as held-for-investment. Prime mortgage loans originated with the intent to sell are accounted for at fair value under SFAS 159 and are classified as trading assets in the Consolidated Balance Sheets.

The following discussion relates to the specific loan and lending-related categories within the consumer portfolio. Information regarding combined loan-to-value ratios (CLTVs) and loan-to-value ratios (LTVs) were estimated based on the initial appraisal obtained at the time of origination, adjusted using relevant market indices for housing price changes that have occurred since origination. The estimated value of the homes could vary from actual market values due to changes in condition of the underlying property, variations in housing price changes within metropolitan statistical areas (MSAs) and other factors.

Home equity: Home equity loans at December 31, 2008, were $114.3 billion, excluding purchased credit-impaired loans, an increase of $19.5 billion from year-end 2007, primarily reflecting the addition of loans acquired in the Washington Mutual transaction. The 2008 provision for credit losses for the home equity portfolio includes net increases of $2.2 billion to the allowance for loan losses for 2008 for the heritage JPMorgan Chase portfolio as a result of the economic environment noted above. The Firm estimates that loans with effective CLTVs in excess of 100% represented approximately 22% of the home equity portfolio. In response to continued economic weakness, loan underwriting and account management criteria have been tightened, with a particular focus on metropolitan statistical areas (MSAs) with the most significant housing price declines. New originations of home equity loans have decreased significantly, as additional loss mitigation strategies have been employed; these strategies include the elimination of stated income and broker originated loans, a significant reduction of maximum CLTVs for new originations, which now range from 50% to 70%, and additional restrictions on new originations in geographic areas experiencing the greatest housing price depreciation and highest unemployment. Other loss mitigation strategies include the reduction or closure of outstanding credit lines for borrowers who have experienced significant increases in CLTVs or decreases in creditworthiness (e.g. declines in FICO scores.)

Mortgage: Mortgage loans at December 31, 2008, which include prime mortgages, subprime mortgages, option ARMs and loans held-for-sale, were $96.8 billion, excluding purchased credit-impaired loans, reflecting a $40.8 billion increase from year-end 2007, primarily reflecting the addition of loans acquired in the Washington Mutual transaction.

Prime mortgages of $72.5 billion increased $31.9 billion from December 2007 as a result of loans acquired in the Washington Mutual transaction and, to a lesser extent, additional originations into the portfolio. The 2008 provision for credit losses includes a net increase of $1.1 billion to the allowance for loan losses for the heritage JPMorgan Chase portfolio as a result of the economic environment noted above. The Firm estimates that loans with effective LTVs in excess of 100% represented approximately 18% of the prime mortgage portfolio. The Firm has tightened underwriting standards for nonconforming prime mortgages in recent quarters, including eliminating stated income products, reducing LTV maximums, and eliminating the broker origination channel.

Subprime mortgages of $15.3 billion, excluding purchased credit-impaired loans, decreased slightly from December 31, 2007, as the discontinuation of new originations was predominantly offset by loans acquired in the Washington Mutual transaction. The year-to-date provision for credit losses includes a net increase of $1.4 billion to the allowance for loan losses for the heritage JPMorgan Chase portfolio as a result of the economic environment noted above. The Firm estimates that loans with effective LTVs in excess of 100% represented approximately 27% of the subprime mortgage portfolio.

Option ARMs of $9.0 billion, excluding purchased credit-impaired loans, were acquired in the Washington Mutual transaction. New originations of option ARMs were discontinued by Washington

Table of Contents

Management s discussion and analysis

Mutual prior to the date of the Washington Mutual transaction. This portfolio is primarily comprised of loans with low LTVs and high borrower FICOs and for which the Firm currently expects substantially lower losses in comparison with the purchased credit-impaired portfolio. The Firm has not, and does not, originate option ARMs.

Option ARMs are adjustable-rate mortgage products that provide the borrower with the option to make a fully amortizing, interest-only, or minimum payment. The minimum payment is based upon the interest rate charged during the introductory period. This introductory rate is typically well 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. If the borrower continues to make the minimum monthly payment after the introductory period ends, the payment may not be sufficient to cover interest accrued in the previous month. In this case, the loan will negatively amortize as unpaid interest is deferred and added to the principal balance of the loan. Option ARMs typically become fully amortizing loans upon reaching a negative amortization cap or on dates specified in the borrowing agreement, at which time the required monthly payment generally increases substantially.

Auto loans: As of December 31, 2008, auto loans of $42.6 billion increased slightly from year-end 2007. The allowance for loan losses for the auto loan portfolio was increased during 2008, reflecting an increase in estimated losses due to an increase in loss severity and further deterioration of older vintage loans as a result of the worsening credit environment and declines in auto resale values. The auto loan portfolio reflects a high concentration of prime quality credits. In response to recent increases in loan delinquencies and credit losses, particularly in MSAs experiencing the greatest housing price depreciation and highest unemployment, credit underwriting criteria have been tightened, which has resulted in the reduction of both extended-term and high loan-to-value financing.

Credit card: JPMorgan Chase analyzes its credit card portfolio on a managed basis, which includes credit card receivables on the Consolidated Balance Sheets and those receivables sold to investors through securitization. Managed credit card receivables were $190.3 billion at December 31, 2008, an increase of $33.3 billion from year-end 2007, reflecting the acquisition of credit card loans as part of the Washington Mutual transaction, as well as organic growth in the portfolio.

The managed credit card net charge-off rate increased to 5.01% for 2008 from 3.68% in 2007. This increase was due primarily to higher charge-offs as a result of the current economic environment, especially in areas experiencing the greatest housing price depreciation and highest unemployment. The 30-day managed delinquency rate increased to 4.97% at December 31, 2008, from 3.48% at December 31, 2007, partially as a result of the addition of credit card loans acquired in the Washington Mutual transaction. Excluding the Washington Mutual portfolio, the 30-day managed delinquency rate was 4.36%. The Allowance for loan losses was increased due to higher estimated net charge-offs in the portfolio. As a result of continued weakness in housing markets, account acquisition credit criteria and account management credit practices have been tightened, particularly in MSAs experiencing significant home price declines. The managed credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification.

All other loans: All other loans primarily include business banking loans (which are highly collateralized loans, often with personal loan guarantees), student loans, and other secured and unsecured consumer loans. As of December 31, 2008, other loans, including loans held-for-sale, of $35.5 billion were up $6.8 billion from year-end 2007, primarily as a result of organic growth in business banking loans and student loans, as well as an increase in business banking loans as a result of the Washington Mutual transaction.

Purchased credit-impaired loans: Purchased credit-impaired loans of $88.8 billion in the home lending portfolio represent loans acquired in the Washington Mutual transaction that were recorded at fair value at the time of acquisition under SOP 03-3. The fair value of these loans includes an estimate of losses that are expected to be incurred over the estimated remaining lives of the loans, and therefore no allowance for loan losses was recorded for these loans as of the transaction date. Through year-end 2008, the credit performance of these loans has generally been consistent with the assumptions used in determining the initial fair value of these loans, and the Firm s original expectations regarding the amounts and timing of future cash flows has not changed. A probable decrease in management s expectation of future cash collections related to these loans could result in the need to record an allowance for credit losses related to these loans in the future. A significant and probable increase in expected cash flows would generally result in an increase in interest income recognized over the remaining life of the underlying pool of loans.

Other real estate owned: As part of the residential real estate foreclosure process, loans are written down to net realizable value less a cost to sell the asset. In those instances where the Firm gains title, ownership and possession of individual properties at the completion of the foreclosure process, these Other Real Estate Owned (OREO) assets are managed for prompt sale and disposition at the best possible economic value. Any further gain or loss on sale of the disposition of OREO assets are recorded as part of other income.

Table of Contents

The following tables present the geographic distribution of consumer credit outstandings by product as of December 31, 2008 and 2007, excluding purchased credit-impaired loans.

Consumer loans by geographic region

December 31, 2008 (in billions)	Home equity	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans reported	Card securitized	Total consumer loans managed
Excluding purchased credit-impaired											
California	$ 23.2	$ 22.8	$ 2.2	$ 3.8	$ 52.0	$ 4.7	$ 14.8	$ 2.0	$ 73.5	$ 12.5	$ 86.0
New York	16.3	10.4	1.7	0.9	29.3	3.7	8.3	4.7	46.0	6.6	52.6
Texas	8.1	2.7	0.4	0.2	11.4	3.8	7.4	4.1	26.7	6.1	32.8
Florida	6.3	6.0	2.3	0.9	15.5	1.5	6.8	0.9	24.7	5.2	29.9
Illinois	7.2	3.3	0.7	0.3	11.5	2.2	5.3	2.5	21.5	4.6	26.1
Ohio	4.6	0.7	0.4		5.7	3.3	4.1	3.3	16.4	3.4	19.8
New Jersey	5.0	2.5	0.8	0.3	8.6	1.6	4.2	0.9	15.3	3.6	18.9
Michigan	3.6	1.3	0.4		5.3	1.5	3.4	2.8	13.0	2.8	15.8
Arizona	5.9	1.6	0.4	0.2	8.1	1.6	2.3	1.9	13.9	1.8	15.7
Pennsylvania	1.6	0.7	0.5	0.1	2.9	1.7	3.9	0.7	9.2	3.2	12.4
Washington	3.8	2.3	0.3	0.5	6.9	0.6	2.0	0.4	9.9	1.6	11.5
Colorado	2.4	1.9	0.3	0.3	4.9	0.9	2.1	0.9	8.8	2.1	10.9
All other	26.3	16.3	4.9	1.5	49.0	15.5	40.1	10.5	115.1	32.1	147.2
Total excluding purchased credit-impaired	114.3	72.5	15.3	9.0	211.1	42.6	104.7	35.6	394.0	85.6	479.6

Consumer loans by geographic region

December 31, 2007 (in billions)	Home equity	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans reported	Card securitized	Total consumer loans managed
Excluding purchased credit-impaired											
California	$ 14.9	$ 11.4	$ 2.0	$	$ 28.3	$ 5.0	$ 11.0	$ 1.0	$ 45.3	$ 9.6	$ 54.9
New York	14.4	6.4	1.6		22.4	3.6	6.6	4.2	36.8	5.6	42.4
Texas	6.1	1.7	0.3		8.1	3.7	5.8	3.5	21.1	5.4	26.5
Florida	5.3	3.9	2.5		11.7	1.6	4.7	0.5	18.5	4.2	22.7
Illinois	6.7	2.2	0.8		9.7	2.2	4.5	1.9	18.3	3.9	22.2

Ohio	4.9	0.5	0.5		5.9	2.9	3.3	2.6	14.7	3.1	17.8
New Jersey	4.4	1.4	0.8		6.6	1.7	3.3	0.5	12.1	3.1	15.2
Michigan	3.7	1.0	0.6		5.3	1.3	2.9	2.3	11.8	2.5	14.3
Arizona	5.7	1.1	0.4		7.2	1.8	1.7	1.8	12.5	1.4	13.9
Pennsylvania	1.6	0.4	0.5		2.5	1.7	3.2	0.5	7.9	2.9	10.8
Washington	1.6	0.4	0.3		2.3	0.6	1.4	0.2	4.5	1.3	5.8
Colorado	2.3	1.0	0.3		3.6	1.0	2.0	0.8	7.4	1.7	9.1
All other	23.2	9.2	4.8		37.2	15.3	34.0	8.9	95.4	28.0	123.4
Total excluding purchased credit-impaired	$ 94.8	$ 40.6	$ 15.4	$	$ 150.8	$ 42.4	$ 84.4	$ 28.7	$ 306.3	$ 72.7	$ 379.0

Management s discussion and analysis

(a) Excluding the purchased credit-impaired loans acquired in the Washington Mutual transaction.

ALLOWANCE FOR CREDIT LOSSES

JPMorgan Chase s allowance for credit losses is intended to cover probable credit losses, including losses where the asset is not specifically identified or the size of the loss has not been fully determined. At least quarterly, the allowance for credit losses is reviewed by the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm, and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. The allowance is reviewed relative to the risk profile of the Firm s credit portfolio and current economic conditions and is adjusted if, in management s judgment, changes are warranted. The allowance includes an asset-specific and a formula-based component. For further discussion of the components of the allowance for credit losses, see Critical accounting estimates used by the Firm on pages 107 111 and Note 15 on pages 166 168 of this Annual Report. At December 31, 2008, management deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including losses that are not specifically identified or for which the size of the loss has not yet been fully determined).

Table of Contents

Summary of changes in the allowance for credit losses

Year ended December 31, (in millions)	2008 Wholesale	Consumer	Total	2007 Wholesale	Consumer	Total
Loans:						
Beginning balance at January 1,	**$ 3,154**	**$ 6,080**	**$ 9,234**	$ 2,711	$ 4,568	$ 7,279
Cumulative effect of change in accounting principles[(a)]				(56)		(56)
Beginning balance at January 1, adjusted	**3,154**	**6,080**	**9,234**	2,655	4,568	7,223
Gross charge-offs	**521**	**10,243**	**10,764**	185	5,182	5,367
Gross recoveries	**(119)**	**(810)**	**(929)**	(113)	(716)	(829)
Net charge-offs	**402**	**9,433**	**9,835**	72	4,466	4,538
Provision for loan losses:						
Provision excluding accounting conformity	**2,895**	**16,765**	**19,660**	598	5,940	6,538
Accounting conformity[(b)]	**641**	**936**	**1,577**			
Total provision for loan losses	**3,536**	**17,701**	**21,237**	598	5,940	6,538
Acquired allowance resulting from Washington Mutual transaction	**229**	**2,306**	**2,535**			
Other	**28**[(c)]	**(35)**[(c)]	**(7)**	(27)[(i)]	38[(i)]	11
Ending balance at December 31	**$ 6,545**	**$ 16,619**	**$ 23,164**	$ 3,154	$ 6,080	$ 9,234
Components:						
Asset-specific	**$ 712**	**$ 74**	**$ 786**	$ 108	$ 80	$ 188
Formula-based	**5,833**	**16,545**	**22,378**	3,046	6,000	9,046
Total allowance for loan losses	**$ 6,545**	**$ 16,619**	**$ 23,164**	$ 3,154	$ 6,080	$ 9,234
Lending-related commitments:						
Beginning balance at January 1,	**$ 835**	**$ 15**	**$ 850**	$ 499	$ 25	$ 524
Provision for lending-related commitments						

Provision excluding accounting conformity	**(214)**	**(1)**	**(215)**	336	(10)	326
Accounting conformity[(b)]	**5**	**(48)**	**(43)**			
Total provision for lending-related commitments	**(209)**	**(49)**	**(258)**	336	(10)	326
Acquired allowance resulting from Washington Mutual transaction		**66**	**66**			
Other	**8**(c)	**(7)**(c)	**1**			
Ending balance at December 31	**$ 634**	**$ 25**	**$ 659**	$ 835	$ 15	$ 850
Components:						
Asset-specific	**$ 29**	**$**	**$ 29**	$ 28	$	$ 28
Formula-based	**605**	**25**	**630**	807	15	822
Total allowance for lending-related commitments	**$ 634**	**$ 25**	**$ 659**	$ 835	$ 15	$ 850
Total allowance for credit losses	**$ 7,179**	**$ 16,644**	**$ 23,823**	$ 3,989	$ 6,095	$ 10,084
Allowance for loan losses to loans	**2.64**%(d)	**3.46**%(e)(h)	**3.18**%(d)(e)(h)	1.67%(d)	2.01%(e)	1.88%(d)(e)
Allowance for loan losses to loans excluding purchased credit-impaired loans	**2.64**(d)	**4.24**(e)	**3.62**(d)(e)	1.67(d)	2.01(e)	1.88(d)(e)
Net charge-off rates	**0.18**(f)	**2.71**(g)(h)	**1.73**(f)(g)(h)	0.04(f)	1.61(g)	1.00(f)(g)
Net charge-off rates excluding purchased credit-impaired loans	**0.18**(f)	**2.90**(g)	**1.81**(f)(g)	0.04(f)	1.61(g)	1.00(f)(g)

(a) Reflects the effect of the adoption of SFAS 159 at January 1, 2007. For a further discussion of SFAS 159, see Note 5 on pages

144 146 of this Annual Report.

(b) Related to the Washington Mutual transaction in 2008.

(c) Primarily related to the transfer of loans and lending-related commitments from RFS to CB during the first quarter of 2008.

(d) Wholesale loans held-for-sale and loans at fair value were $14.0 billion and $23.6 billion at December 31, 2008 and 2007, respectively. These amounts were excluded when calculating the allowance coverage ratios.

(e) Consumer loans held-for-sale were $2.0 billion and $4.0 billion at December 31, 2008 and 2007, respectively. These amounts were excluded when calculating the allowance coverage ratios.

(f) Average wholesale loans held-for-sale and loans at fair value were $18.9 billion and $18.6 billion for the years ended December 31, 2008 and 2007, respectively.

These amounts were excluded when calculating the net charge-off rates.

(g) Average consumer (excluding card) loans held-for-sale and loans at fair value were $2.8 billion and $10.6 billion for the years ended December 31, 2008 and 2007, respectively. These amounts were excluded when calculating the net charge-off rates.

(h) Includes $88.8 billion of home lending credit-impaired loans acquired in the Washington Mutual transaction and accounted for under SOP 03-3 at December 31, 2008. These loans were accounted for at fair value on the acquisition date, which reflected expected cash flows (including credit losses) over the remaining life of the portfolio. No allowance for loan losses has been recorded for these loans as of December 31, 2008.

(i) Partially related to the transfer of allowance between wholesale and consumer in conjunction with prime mortgages transferred to the Corporate/Private Equity sector.

Table of Contents

Management s discussion and analysis

The allowance for credit losses increased $13.7 billion from the prior year to $23.8 billion. The increase included $4.1 billion of allowance related to noncredit impaired loans acquired in the Washington Mutual transaction and the related accounting conformity provision. Excluding held-for-sale loans, loans carried at fair value, and purchased credit-impaired consumer loans, the allowance for loan losses represented 3.62% of loans at December 31, 2008, compared with 1.88% at December 31, 2007.

The consumer allowance for loan losses increased $10.5 billion from the prior year as a result of the Washington Mutual transaction and increased allowance for loan loss in residential real estate and credit card. The increase included additions to the allowance for loan losses of $4.7 billion driven by higher estimated losses for residential mortgage and home equity loans as the weak labor market and weak overall economic conditions have resulted in increased delinquencies, while continued weak housing prices have driven a significant increase in loss severity. The allowance for loan losses related to credit card increased $4.3 billion from the prior year primarily due to the acquired allowance and subsequent conforming provision for loan loss related to the Washington Mutual Bank acquisition and an increase in provision for loan losses of $2.3 billion in 2008 over 2007, as higher estimated net-charge offs are expected in the portfolio resulting from the current economic conditions.

The wholesale allowance for loan losses increase of $3.4 billion from December 31, 2007, reflected the effect of a weakening credit environment and the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from held-for-sale.

To provide for the risk of loss inherent in the Firm s process of extending credit, an allowance for lending-related commitments is held for both wholesale and consumer, which is reported in other liabilities. The wholesale component is computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown and has an asset-specific component and a formula-based component. For a further discussion on the allowance for lending-related commitment see Note 15 on page 166 168 of this Annual Report. The allowance for lending-related commitments for both wholesale and consumer was $659 million and $850 million at December 31, 2008 and 2007, respectively. The decrease reflects the reduction in lending-related commitments at December 31, 2008. For more information see page 90 of this Annual Report.

The following table presents the allowance for loan losses and net charge-offs (recoveries) by business segment at December 31, 2008 and 2007.

December 31,	Allowance for loan losses		Net charge-offs (recoveries) year ended	
(in millions)	**2008**	2007	**2008**	2007
Investment Bank	**$ 3,444**	$ 1,329	**$ 105**	$ 36
Commercial Banking	**2,826**	1,695	**288**	44
Treasury & Securities Services	**74**	18	**(2)**	
Asset Management	**191**	112	**11**	(8)
Corporate/Private Equity	**10**			
Total Wholesale	**6,545**	3,154	**402**	72
Retail Financial Services	**8,918**	2,668	**4,877**	1,350
Card Services	**7,692**	3,407	**4,556**	3,116
Corporate/Private Equity	**9**	5		

Total Consumer reported	**16,619**	6,080	**9,433**	4,466
Credit card securitized			**3,612**	2,380
Total Consumer managed	**16,619**	6,080	**13,045**	6,846
Total	**$ 23,164**	$ 9,234	**$ 13,477**	$ 6,918

Table of Contents

Provision for credit losses

The managed provision for credit losses includes amounts related to credit card securitizations. For the year ended December 31, 2008, the increase in the provision for credit losses was due to year-over-year increase in the allowance for credit losses largely related to the home equity, subprime mortgage, prime mortgage and credit card loan portfolios in the consumer businesses as well as in the allowance for credit losses related to the wholesale portfolio. The increase in the wholesale provision for loan losses from the prior year was due to the weakening credit environment, loan growth and the transfer of $4.9 billion of funded and unfunded leverage lending commitments to retained loans from held-for-sale. The decrease in provision for lending-related commitments from the prior year benefited from reduced balances of lending-related commitments.

Year ended December 31,	Provision for loan losses			Provision for lending-related commitments			Total provision for credit losses		
(in millions)	**2008**	2007	2006	**2008**	2007	2006	**2008**	2007	2006
Investment Bank	**$ 2,216**	$ 376	$ 112	**$ (201)**	$ 278	$ 79	**$ 2,015**	$ 654	$ 191
Commercial Banking	**505**	230	133	**(41)**	49	27	**464**	279	160
Treasury & Securities Services	**52**	11	(1)	**30**	8		**82**	19	(1)
Asset Management	**87**	(19)	(30)	**(2)**	1	2	**85**	(18)	(28)
Corporate/Private Equity[(a)(b)]	**676**		(1)	**5**			**681**		(1)
Total Wholesale	**3,536**	598	213	**(209)**	336	108	**3,327**	934	321
Retail Financial Services	**9,906**	2,620	552	**(1)**	(10)	9	**9,905**	2,610	561
Card Services reported	**6,456**	3,331	2,388				**6,456**	3,331	2,388
Corporate/Private Equity[(a)(c)(d)]	**1,339**	(11)		**(48)**			**1,291**	(11)	
Total Consumer	**17,701**	5,940	2,940	**(49)**	(10)	9	**17,652**	5,930	2,949
Total provision for credit losses reported	**21,237**	6,538	3,153	**(258)**	326	117	**20,979**	6,864	3,270
Credit card securitized	**3,612**	2,380	2,210				**3,612**	2,380	2,210
Total provision for credit losses managed	**$ 24,849**	$ 8,918	$ 5,363	**$ (258)**	$ 326	$ 117	**$ 24,591**	**$** 9,244	$ 5,480

(a) Includes accounting conformity provisions related to the Washington Mutual transaction in 2008.
(b) Includes provision expense related to loans acquired in the Bear Stearns merger in the

second quarter of 2008.

(c) Includes amounts related to held-for-investment prime mortgages transferred from AM to the Corporate/Private Equity segment.

(d) In November 2008, the Firm transferred $5.8 billion of higher quality credit card loans from the legacy Chase portfolio to a securitization trust previously established by Washington Mutual (the Trust). As a result of converting higher credit quality Chase-originated on-book receivables to the Trust s seller s interest which has a higher overall loss rate reflective of the total assets within the Trust, approximately $400 million of incremental provision expense was recorded during the fourth quarter. This incremental provision expense was recorded in the Corporate segment as the action related to the acquisition of Washington Mutual s banking operations. For further discussion of credit card securitizations, see Note 16 on pages

169 170 of this
Annual Report.

MARKET RISK MANAGEMENT

Market risk is the exposure to an adverse change in the market value of portfolios and financial instruments caused by a change in market prices or rates.

Market risk management

Market risk is identified, measured, monitored, and controlled by Market Risk, a corporate risk governance function independent of the lines of business. Market Risk seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and make the Firm s market risk profile transparent to senior management, the Board of Directors and regulators. Market Risk is overseen by the Chief Risk Officer and performs the following functions:

- Establishment of a comprehensive market risk policy framework

- Independent measurement, monitoring and control of business segment market risk

- Definition, approval and monitoring of limits

- Performance of stress testing and qualitative risk assessments

Risk identification and classification

Market Risk works in partnership with the business segments to identify market risks throughout the Firm and define and monitor market risk policies and procedures. All business segments are responsible for the comprehensive identification and verification of market risks within their units. Risk-taking businesses have functions that act independently from trading personnel and are responsible for verifying risk exposures that the business takes. In addition to providing independent oversight for market risk arising from the business segments, Market Risk is also responsible for identifying exposures which may not be large within individual business segments but which may be large for the Firm in the aggregate. Regular meetings are held between Market Risk and the heads of risk-taking businesses to discuss and decide on risk exposures in the context of the market environment and client flows.

Positions that expose the Firm to market risk can be classified into two categories: trading and nontrading risk. Trading risk includes positions that are held by the Firm as part of a business segment or unit, the main business strategy of which is to trade or make markets. Unrealized gains and losses in these positions are generally reported in principal transactions revenue. Nontrading risk includes securities and other assets held for longer-term investment, mortgage servicing rights, and securities and derivatives used to manage the Firm s asset/liability exposures. Unrealized gains and losses in these positions are generally not reported in principal transactions revenue.

Table of Contents

Management s discussion and analysis

Trading risk

The Firm makes markets and trades its products across several different asset classes. These asset classes include primarily fixed income (which includes interest rate risk and credit spread risk), foreign exchange, equities and commodities. Trading risk arises from positions in these asset classes and may lead to the potential decline in net income (i.e., economic sensitivity) due to adverse changes in market rates, whether arising from client activities or proprietary positions taken by the Firm.

Nontrading risk

Nontrading risk arises from execution of the Firm s core business strategies, the delivery of products and services to its customers, and the positions the Firm undertakes to risk-manage its exposures.

These exposures can result from a variety of factors, including differences in the timing among the maturity or repricing of assets, liabilities and off-balance sheet instruments. Changes in the level and shape of market interest rate curves also may create interest rate risk, since the repricing characteristics of the Firm s assets do not necessarily match those of its liabilities. The Firm is also exposed to basis risk, which is the difference in the repricing characteristics of two floating-rate indices, such as the prime rate and 3-month LIBOR. In addition, some of the Firm s products have embedded optionality that impact pricing and balances.

The Firm s mortgage banking activities give rise to complex interest rate risks, as well as option and basis risk. Option risk arises primarily from prepayment options embedded in mortgages and changes in the probability of newly originated mortgage commitments actually closing. Basis risk results from different relative movements between mortgage rates and other interest rates.

Risk measurement

Tools used to measure risk

Because no single measure can reflect all aspects of market risk, the Firm uses various metrics, both statistical and nonstatistical, including:

- Nonstatistical risk measures
- Value-at-risk (VaR)
- Loss advisories
- Drawdowns
- Economic value stress testing
- Earnings-at-risk stress testing
- Risk identification for large exposures (RIFLE)

Nonstatistical risk measures

Nonstatistical risk measures other than stress testing include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Firm s market risk exposure. They are aggregated by line of business and by risk type, and are used for monitoring limits, one-off approvals and tactical control.

Value-at-risk (VaR)

JPMorgan Chase s primary statistical risk measure, VaR, estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VaR is used for comparing risks across businesses, monitoring limits, and as an input to economic capital calculations. VaR provides risk transparency in a normal trading environment. Each business day the Firm undertakes a comprehensive VaR calculation that includes both its trading and its nontrading risks. VaR for nontrading risk measures the amount of potential change in the fair values of the exposures related to these risks;

however, for such risks, VaR is not a measure of reported revenue since nontrading activities are generally not marked to market through net income. Hedges of nontrading activities may be included in trading VaR since they are marked to market.

To calculate VaR, the Firm uses historical simulation, based on a one-day time horizon and an expected tail-loss methodology, which measures risk across instruments and portfolios in a consistent and comparable way. The simulation is based upon data for the previous 12 months. This approach assumes that historical changes in market values are representative of future changes; this is an assumption that may not always be accurate, particularly given the volatility in the current market environment. For certain products, an actual price time series is not available. In such cases, the historical simulation is done using a proxy time series to estimate the risk. It is likely that using an actual price time series for these products, if available, would impact the VaR results presented. In addition, certain risk parameters, such as correlation risk among certain IB trading instruments, are not fully captured in VaR.

In the third quarter of 2008, the Firm revised its VaR measurement to include additional risk positions previously excluded from VaR, thus creating, in the Firm s view, a more comprehensive view of its market risks. In addition, the Firm moved to calculating VaR using a 95% confidence level to provide a more stable measure of the VaR for day-to-day risk management. The following sections describe JPMorgan Chase s VaR measures under both the legacy 99% confidence level as well as the new 95% confidence level. The Firm intends to solely present the VaR at the 95% confidence level once information for two complete year-to-date periods is available.

Table of Contents

99% Confidence Level VaR

IB trading VaR by risk type and credit portfolio VaR

As of or for the year ended December 31,[a] (in millions)	**2008** Average	**2008** Minimum	**2008** Maximum	2007 Average	2007 Minimum	2007 Maximum	At December 31, **2008**	At December 31, 2007
By risk type:								
Fixed income	**$ 181**	**$ 99**	**$ 409**	$ 80	$ 25	$ 135	**$ 253**	$ 106
Foreign exchange	**34**	**13**	**90**	23	9	44	**70**	22
Equities	**57**	**19**	**187**	48	22	133	**69**	27
Commodities and other	**32**	**24**	**53**	33	21	66	**26**	27
Diversification	**(108)**[b]	**NM**(c)	**NM**(c)	(77)[b]	NM(c)	NM(c)	**(152)**[b]	(82)[b]
Trading VaR	**$ 196**	**$ 96**	**$ 420**	$ 107	$ 50	$ 188	**$ 266**	$ 100
Credit portfolio VaR	**69**	**20**	**218**	17	8	31	**171**	22
Diversification	**(63)**[b]	**NM**(c)	**NM**(b)	(18)[b]	NM(c)	NM(c)	**(120)**[b]	(19)[b]
Total trading and credit portfolio VaR	**$ 202**	**$ 96**	**$ 449**	$ 106	$ 50	$ 178	**$ 317**	$ 103

(a) The results for the year ended December 31, 2008, include five months of heritage JPMorgan Chase only results and seven months of results for the combined JPMorgan Chase and Bear Stearns; 2007 reflects heritage JPMorgan Chase results only.

(b) Average and period-end VaRs were less than the sum of the VaRs of its market risk components, which is due to risk offsets resulting from portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.

(c) 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.

Trading VaR includes substantially all trading activities in IB. Beginning in the fourth quarter of 2008, the credit spread sensitivities of certain mortgage products were included in trading VaR. This change had an insignificant net impact on the average fourth quarter 2008 VaR. However, trading VaR does not include: held-for-sale funded loan and unfunded commitments positions (however, it does include hedges of those positions); the debit valuation adjustments (DVA) taken on derivative and structured liabilities to reflect the credit quality of the Firm; the MSR portfolio; and securities and instruments held by corporate functions, such as Corporate/Private Equity. See the DVA Sensitivity table on page 103 of this Annual Report for further details. For a discussion of MSRs and the corporate functions, see Note 4 on pages 129 143, Note 18 on pages 186 189 and Corporate/ Private Equity on pages 61 63 of this Annual Report.

2008 VaR results

IB s average total trading and credit portfolio VaR was $202 million for 2008, compared with $106 million for 2007, and includes the positions from the Bear Stearns merger since May 31, 2008. The increase in average and maximum VaR during 2008 compared with the prior year was primarily due to increased volatility across virtually all asset classes. In addition, increased hedges of positions not specifically captured in VaR for example, macro hedge strategies that have been deployed to mitigate the consequences of a systemic risk event and hedges of loans held-for-sale significantly increased the VaR compared with the prior period.

For 2008, compared with the prior year, average trading VaR diversification increased to $108 million from $77 million, reflecting the impact of the Bear Stearns merger. In general, over the course of the year, VaR exposures can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR backtesting

To evaluate the soundness of its VaR model, the Firm conducts daily back-testing of VaR against daily IB market risk-related revenue, which is defined as the change in value of principal transactions revenue (less Private Equity gains/losses) plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. The daily IB market risk-related revenue excludes gains and losses on held-for-sale funded loans and unfunded commitments and from DVA. The following histogram illustrates the daily market risk-related gains and losses for IB trading businesses for the year ended 2008. The chart shows that IB posted market risk-related gains on 165 of the 262 days in this period, with 54 days exceeding $120 million. The inset graph looks at those days on which IB experienced losses and depicts the amount by which 99% confidence level VaR exceeded the actual loss on each of those days. During the year ended December 31, 2008, losses were sustained on 97 days; losses exceeded the VaR measure on three of those days compared with eight days for the year ended 2007. The Firm would expect to incur losses greater than those predicted by the 99% confidence level VaR estimates once in every 100 trading days, or about two to three times a year.

Management s discussion and analysis

(a) Includes seven months of Bear Stearns results.

95% Confidence Level VaR

Total IB trading VaR by risk type, credit portfolio VaR and other VaR

	Six months ended December 31, 2008	
(in millions)	Average	At December 31
IB VaR by risk type:		
Fixed income	$ 162	$ 180
Foreign exchange	23	38
Equities	47	39
Commodities and other	23	25
Diversification benefit to IB trading VaR	(88)	(108)
IB Trading VaR	$ 167	$ 174
Credit portfolio VaR	45	77
Diversification benefit to IB trading and credit portfolio VaR	(36)	(57)
Total IB trading and credit portfolio VaR	$ 176	$ 194
Consumer Lending VaR	37	112
Corporate Risk Management VaR	48	114
Diversification benefit to total other VaR	(19)	(48)
Total other VaR	$ 66	$ 178
Diversification benefit to total IB and other VaR	(40)	(86)
Total IB and other VaR	$ 202	$ 286

The Firm s new 95% VaR measure includes all the risk positions taken into account under the 99% confidence level VaR measure, as well as syndicated lending facilities the Firm intends to distribute (and, beginning in the fourth quarter of 2008, the credit spread sensitivities of certain mortgage products). The Firm utilizes proxies to estimate the VaR for these mortgage and credit products since daily time series are largely not available. In addition, the new VaR measure includes certain actively managed positions utilized as part of the Firm s risk management function within Corporate and in the Consumer Lending businesses to provide a total IB and other VaR

Table of Contents

measure. In the Firm s view, including these items in VaR produces a more complete perspective of the Firm s risk profile for items with market risk that can impact the income statement. The Consumer Lending VaR includes the Firm s mortgage pipeline and warehouse loans, MSRs and all related hedges.

The revised VaR measure continues to exclude the DVA taken on derivative and structured liabilities to reflect the credit quality of the Firm. It also excludes certain nontrading activity such as Private Equity, principal investing (e.g., mezzanine financing, tax-oriented investments, etc.) and Corporate balance sheet and capital management positions, as well as longer-term corporate investments. Corporate positions are managed through the Firm s earnings-at-risk and other cash flow monitoring processes rather than by using a VaR measure. Nontrading principal investing activities and Private Equity positions are managed using stress and scenario analyses.

Changing to the 95% confidence interval caused the average VaR to drop by $85 million in the third quarter when the new measure was implemented. Under the 95% confidence interval, the Firm would expect to incur daily losses greater than those predicted by VaR estimates about twelve times a year.

The following table provides information about the sensitivity of DVA to a one basis point increase in JPMorgan Chase s credit spreads. The sensitivity of DVA at December 31, 2008, represents the Firm (including Bear Stearns), while the sensitivity of DVA for December 31, 2007, represents heritage JPMorgan Chase only.

Debit Valuation Adjustment Sensitivity

(in millions)	1 Basis Point Increase in JPMorgan Chase Credit Spread
December 31, 2008	**$ 32**
December 31, 2007	$ 38

Loss advisories and drawdowns

Loss advisories and drawdowns are tools used to highlight to senior management trading losses above certain levels and initiate discussion of remedies.

Economic value stress testing

While VaR reflects the risk of loss due to adverse changes in normal markets, stress testing captures the Firm s exposure to unlikely but plausible events in abnormal markets. The Firm conducts economic value stress tests for both its trading and nontrading activities at least every two weeks using multiple scenarios that assume credit spreads widen significantly, equity prices decline and interest rates rise in the major currencies. Additional scenarios focus on the risks predominant in individual business segments and include scenarios that focus on the potential for adverse moves in complex portfolios. Periodically, scenarios are reviewed and updated to reflect changes in the Firm s risk profile and economic events. Along with VaR, stress testing is important in measuring and controlling risk. Stress testing enhances the understanding of the Firm s risk profile and loss potential, and stress losses are monitored against limits. Stress testing is also utilized in one-off approvals and cross-business risk measurement, as well as an input to economic capital allocation. Stress-test
results, trends and explanations are provided at least every two weeks to the Firm s senior management and to the lines of business to help them better measure and manage risks and understand event risk-sensitive positions.

Earnings-at-risk stress testing

The VaR and stress-test measures described above illustrate the total economic sensitivity of the Firm s balance sheet to changes in market variables. The effect of interest rate exposure on reported net income is also important. Interest rate risk exposure in the Firm s core non-trading business activities (i.e., asset/liability management positions) results from on- and off-balance sheet positions and can occur due to a variety of factors, including:

Differences in the timing among the maturity or repricing of assets, liabilities and off-balance sheet instruments. For example, if liabilities reprice quicker than assets and funding interest rates are declining, earnings will increase initially.

Differences in the amounts of assets, liabilities and off-balance sheet instruments that are repricing at the same time. For example, if more deposit liabilities are repricing than assets when general interest rates are declining, earnings will increase initially.

Differences in the amounts by which short-term and long-term market interest rates change (for example, changes in the slope of the yield curve because the Firm has the ability to lend at long-term fixed rates and borrow at variable or short-term fixed rates. Based upon these scenarios, the Firm s earnings would be affected negatively by a sudden and unanticipated increase in short-term rates paid on its liabilities (e.g., deposits) without a corresponding increase in long-term rates received on its assets (e.g., loans). Conversely, higher long-term rates received on assets generally are beneficial to earnings, particularly when the increase is not accompanied by rising short-term rates paid on liabilities.

The impact of changes in the maturity of various assets, liabilities or off-balance sheet instruments as interest rates change. For example, if more borrowers than forecasted pay down higher rate loan balances when general interest rates are declining, earnings may decrease initially.

The Firm manages interest rate exposure related to its assets and liabilities on a consolidated, corporate-wide basis. Business units transfer their interest rate risk to Treasury through a transfer-pricing system, which takes into account the elements of interest rate exposure that can be risk-managed in financial markets. These elements include asset and liability balances and contractual rates of interest, contractual principal payment schedules, expected prepayment experience, interest rate reset dates and maturities, rate indices used for re-pricing, and any interest rate ceilings or floors for adjustable rate products. All transfer-pricing assumptions are dynamically reviewed.

The Firm conducts simulations of changes in net interest income from its nontrading activities under a variety of interest rate scenarios. Earnings-at-risk tests measure the potential change in the Firm s net interest income, and the corresponding impact to the Firm s pre-

Management s discussion and analysis

tax earnings, over the following 12 months. These tests highlight exposures to various rate-sensitive factors, such as the rates themselves (e.g., the prime lending rate), pricing strategies on deposits, optionality and changes in product mix. The tests include forecasted balance sheet changes, such as asset sales and securitizations, as well as prepayment and reinvestment behavior.

Immediate changes in interest rates present a limited view of risk, and so a number of alternative scenarios are also reviewed. These scenarios include the implied forward curve, nonparallel rate shifts and severe interest rate shocks on selected key rates. These scenarios are intended to provide a comprehensive view of JPMorgan Chase s earnings-at-risk over a wide range of outcomes.

JPMorgan Chase s 12-month pretax earnings sensitivity profile as of December 31, 2008 and 2007, is as follows.

	Immediate change in rates			
(in millions)	+200bp	+100bp	-100bp	-200bp
December 31, 2008	**$ 336**	**$ 672**	$ **NM**[(a)]	$ **NM**[(a)]
December 31, 2007	$ (26)	$ 55	$ (308)	$ (664)

(a) Down 100 and 200 basis point parallel shocks result in a Fed Funds target rate of zero, and negative three- and six-month Treasury rates. The earnings-at-risk results of such a low probability scenario are not meaningful (NM).

The change in earnings-at-risk from December 31, 2007, results from a higher level of AFS securities and lower market interest rates. The benefit to the Firm of an increase in rates results from a widening of deposit margins which are currently compressed due to very low short term interest rates. This benefit would be partially offset by the effect of reduced mortgage prepayments. The impact to the Firm s pretax earnings of reduced mortgage prepayments would become more pronounced under a +200 bp parallel shock.

Additionally, another sensitivity involving a steeper yield curve, with long-term rates rising 100 basis points and short-term rates staying at current levels, results in a 12-month pretax earnings benefit of $740 million. The increase in earnings is due to reinvestment of maturing assets at the higher long-term rates with funding costs remaining unchanged.

Risk identification for large exposures (RIFLE)

Individuals who manage risk positions, particularly those that are complex, are responsible for identifying potential losses that could arise from specific, unusual events, such as a potential tax change, and estimating the probabilities of losses arising from such events. This information is entered into the Firm s RIFLE database. Management of trading businesses control RIFLE entries, thereby permitting the Firm to monitor further earnings vulnerability not adequately covered by standard risk measures.

Risk monitoring and control

Limits

Market risk is controlled primarily through a series of limits. Limits reflect the Firm s risk appetite in the context of the market environment and business strategy. In setting limits, the Firm takes into consideration factors such as market volatility, product liquidity, business trends and management experience.

Market risk management regularly reviews and updates risk limits. Senior management, including the Firm s Chief Executive Officer and Chief Risk Officer, is responsible for reviewing and approving risk limits at least once a year.

The Firm maintains different levels of limits. Corporate-level limits include VaR and stress limits. Similarly, line-of-business limits include VaR and stress limits and may be supplemented by loss advisories, nonstatistical measurements and instrument authorities. Businesses are responsible for adhering to established limits, against which exposures are monitored and reported. Limit breaches are reported in a timely manner to senior management, and the affected business segment is required to reduce trading positions or consult with senior management on the appropriate action.

Qualitative review

The Market Risk Management group also performs periodic reviews as necessary of both businesses and products with exposure to market risk to assess the ability of the businesses to control their market risk. Strategies, market conditions, product details and risk controls are reviewed, and specific recommendations for improvements are made to management.

Model review

Some of the Firm s financial instruments cannot be valued based upon quoted market prices but are instead valued using pricing models. Such models are used for management of risk positions, such as reporting against limits, as well as for valuation. The Model Risk Group, independent of the businesses and market risk management, reviews the models the Firm uses and assesses model appropriateness and consistency. The model reviews consider a number of factors about the model s suitability for valuation and risk management of a particular product, including whether it accurately reflects the characteristics of the transaction and its significant risks, the suitability and convergence properties of numerical algorithms, reliability of data sources, consistency of the treatment with models for similar products, and sensitivity to input parameters and assumptions that cannot be priced from the market.

Reviews are conducted of new or changed models, as well as previously accepted models, to assess whether there have been any changes in the product or market that may impact the model s validity and whether there are theoretical or competitive developments that may require reassessment of the model s adequacy. For a summary of valuations based upon models, see Critical Accounting Estimates used by the Firm on pages 107 111 of this Annual Report.

Risk reporting

Nonstatistical exposures, value-at-risk, loss advisories and limit excesses are reported daily for each trading and nontrading business. Market risk exposure trends, value-at-risk trends, profit and loss changes, and portfolio concentrations are reported weekly. Stress-test results are reported at least every two weeks to business and senior management.

PRIVATE EQUITY RISK MANAGEMENT

Risk management

The Firm makes direct principal investments in private equity. The illiquid nature and long-term holding period associated with these investments differentiates private equity risk from the risk of positions held in the trading portfolios. The Firm s approach to managing private equity risk is consistent with the Firm s general risk governance structure. Controls are in place establishing expected levels for total and annual investment in order to control the overall size of the portfolio. Industry and geographic concentration limits are in place and intended to ensure diversification of the portfolio. All invest-
ments are approved by an investment committee that includes executives who are not part of the investing businesses. An independent valuation function is responsible for reviewing the appropriateness of the carrying values of private equity investments in accordance with relevant accounting policies. At December 31, 2008 and 2007, the carrying value of the private equity businesses was $6.9 billion and $7.2 billion, respectively, of which $483 million and $390 million, respectively, represented publicly traded positions. For further information on the Private equity portfolio, see page 63 of this Annual Report.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events.

Overview

Operational risk is inherent in each of the Firm s businesses and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, inappropriate behavior of employees, or vendors that do not perform in accordance with their arrangements. These events could result in financial losses and other damage to the Firm, including reputational harm.

To monitor and control operational risk, the Firm maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in light of the Firm s financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject. Notwithstanding these control measures, the Firm incurs operational losses.

The Firm s approach to operational risk management is intended to mitigate such losses by supplementing traditional control-based approaches to operational risk with risk measures, tools and disciplines that are risk-specific, consistently applied and utilized firmwide. Key themes are transparency of information, escalation of key issues and accountability for issue resolution.

The Firm s operational risk framework is supported by Phoenix, an internally designed operational risk software tool. Phoenix integrates the individual components of the operational risk management framework into a unified, web-based tool. Phoenix enhances the capture, reporting and analysis of operational risk data by enabling risk identification, measurement, monitoring, reporting and analysis to be done in an integrated manner, thereby enabling efficiencies in the Firm s monitoring and management of its operational risk.

For purposes of identification, monitoring, reporting and analysis, the Firm categorizes operational risk events as follows:

- Client service and selection
- Business practices
- Fraud, theft and malice
- Execution, delivery and process management
- Employee disputes
- Disasters and public safety
- Technology and infrastructure failures

Risk identification and measurement

Risk identification is the recognition of the operational risk events that management believes may give rise to operational losses. All businesses utilize the Firm s standard self-assessment process and supporting architecture as a dynamic risk management tool. The goal of the self-assessment process is for each business to identify the key operational risks specific to its environment and assess the degree to which it maintains appropriate controls. Action plans are developed for control issues identified, and businesses are held accountable for tracking and resolving these issues on a timely basis.

Risk monitoring

The Firm has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis, performed both at a line-of-business level and by risk-event type, enables identification of the causes associated with risk events faced by the businesses. Where available, the internal data can be supplemented with external data for comparative analysis with industry patterns. The data reported enables the Firm to back-test against self-assessment results. The Firm is a founding member of the Operational Riskdata eXchange Association, a not-for-profit industry association formed for the purpose of collecting operational loss data, sharing data in an anonymous form and benchmarking results back to members. Such information supplements the Firm s ongoing operational risk measurement and analysis.

Management s discussion and analysis

Risk reporting and analysis

Operational risk management reports provide timely and accurate information, including information about actual operational loss levels and self-assessment results, to the lines of business and senior management. The purpose of these reports is to enable management to maintain operational risk at appropriate levels within each line of business, to escalate issues and to provide consistent data aggregation across the Firm s businesses and support areas.

Audit alignment

Internal Audit utilizes a risk-based program of audit coverage to provide an independent assessment of the design and effectiveness of key controls over the Firm s operations, regulatory compliance and reporting. This includes reviewing the operational risk framework, the effectiveness and accuracy of the business self-assessment process and the loss data collection and reporting activities.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

A firm s success depends not only on its prudent management of the liquidity, credit, market and operational risks that are part of its business risks, but equally on the maintenance among many constituents clients, investors, regulators, as well as the general public of a reputation for business practices of the highest quality. Attention to reputation always has been a key aspect of the Firm s practices, and maintenance of the Firm s reputation is the responsibility of everyone at the Firm. JPMorgan Chase bolsters this individual responsibility in many ways, including through the Firm s Code of Conduct, training, maintaining adherence to policies and procedures, and oversight functions that approve transactions. These oversight functions include a Conflicts Office, which examines wholesale transactions with the potential to create conflicts of interest for the Firm, and regional reputation risk review committees, which review certain transactions with clients, especially complex derivatives and structured finance transactions, that have the potential to affect adversely the Firm s reputation. These regional committees, whose members are senior representatives of businesses and control functions in the region, focus on the purpose and effect of the transactions from the client s point of view, with the goal that these transactions are not used to mislead investors or others.

Fiduciary risk management

The risk management committees within each line of business include in their mandate the oversight of the legal, reputational and, where appropriate, fiduciary risks in their businesses that may produce significant losses or reputational damage. The Fiduciary Risk Management function works with the relevant line-of-business risk committees with the goal of ensuring that businesses providing investment or risk management products or services that give rise to fiduciary duties to clients perform at the appropriate standard relative to their fiduciary relationship with a client. Of particular focus are the policies and practices that address a business responsibilities to a client, including client suitability determination; disclosure obligations and communications; and performance expectations with respect to risk management products or services being provided. In this way, the relevant line-of-business risk committees, together with the Fiduciary Risk Management function, provide oversight of the Firm s efforts to monitor, measure and control the risks that may arise in the delivery of the products or services to clients that give rise to such fiduciary duties, as well as those stemming from any of the Firm s fiduciary responsibilities to employees under the Firm s various employee benefit plans.

Table of Contents

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 value of assets and liabilities. The Firm has established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well-controlled, independently reviewed and applied consistently from period to period. 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 value of its assets and liabilities are appropriate. The following is a brief description of the Firm s critical accounting estimates involving significant valuation judgments.

Allowance for credit losses

JPMorgan Chase s allowance for credit losses covers the wholesale and consumer loan portfolios, as well as the Firm s portfolio of lending-related commitments. The allowance for credit losses is intended to adjust the value of the Firm s loan assets for probable credit losses as of the balance sheet date. For further discussion of the methodologies used in establishing the Firm s allowance for credit losses, see Note 15 on pages 166 168 of this Annual Report.

Wholesale loans and lending-related commitments

The methodology for calculating both the allowance for loan losses and the allowance for lending-related commitments involves significant judgment. First and foremost, it involves the early identification of credits that are deteriorating. Second, it involves judgment in establishing the inputs used to estimate the allowances. Third, it involves management judgment to evaluate certain macroeconomic factors, underwriting standards, and other relevant internal and external factors affecting the credit quality of the current portfolio and to refine loss factors to better reflect these conditions.

The Firm uses a risk-rating system to determine the credit quality of its wholesale loans. Wholesale loans are reviewed for information affecting the obligor s ability to fulfill its obligations. In assessing the risk rating of a particular loan, among the factors considered are the obligor s debt capacity and financial flexibility, the level of the obligor s earnings, the amount and sources for repayment, the level and nature of contingencies, management strength and the industry and geography in which the obligor operates. These factors are based upon an evaluation of historical and current information, and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could impact the risk rating assigned by the Firm to that loan.

The Firm applies its judgment to establish loss factors used in calculating the allowances. Wherever possible, the Firm uses independent, verifiable data or the Firm s own historical loss experience in its models for estimating the allowances. Many factors can affect estimates of loss, including volatility of loss given default, probability of default and rating migrations. Consideration is given as to whether the loss estimates should be calculated as an average over the entire credit cycle or at a particular point in the credit cycle, as well as to which external data should be used and when they should be used. Choosing data that are not reflective of the Firm s specific loan portfolio characteristics could also affect loss estimates. The application of different inputs would change the amount of the allowance for credit losses determined appropriate by the Firm.

Management also applies its judgment to adjust the loss factors derived, taking into consideration model imprecision, external factors and economic events that have occurred but are not yet reflected in the loss factors by establishing ranges using historical experience of both loss given default and probability of default. Factors related to concentrated and deteriorating industries also are incorporated where relevant. These estimates are based upon management s view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards and other relevant internal and external factors affecting the credit quality of the current portfolio.

As noted on page 84 of this Annual Report, the Firm s wholesale allowance is sensitive to the risk rating assigned to a loan. Assuming a one-notch downgrade in the Firm s internal risk ratings for its entire wholesale portfolio, the allowance for loan losses for the wholesale portfolio would increase by approximately $1.8 billion as of December 31, 2008. This sensitivity analysis is hypothetical. In the Firm s view, the likelihood of a one-notch downgrade for all wholesale loans within a short timeframe is remote. The purpose of this analysis is to provide an indication of the impact of risk ratings on the estimate of the allowance for loan losses for wholesale loans. It is not intended to imply management s expectation of future deterioration in risk ratings. Given the process the Firm follows in determining the risk ratings of its loans, management believes the risk ratings currently assigned to wholesale loans are appropriate.

Consumer loans and lending-related commitments

The allowance for credit losses for the consumer portfolio is sensitive to changes in the economic environment, delinquency status, credit bureau scores, the realizable value of collateral, borrower behavior and other risk factors, and is intended to represent management s best estimate of incurred losses as of the balance sheet date. The credit performance of the consumer portfolio across the entire consumer credit product spectrum continues to be negatively affected by the economic environment, as the weak labor market and weak overall economic conditions have resulted in increased delinquencies, while continued weak housing prices have driven a significant increase in loss severity. Significant judgment is required to estimate the duration and severity of the current economic downturn, as well as its potential impact on housing prices and the labor market. While the allowance for credit losses is highly sensitive to both home prices and unemployment rates, in the current market it is difficult to estimate how potential changes in one or both of these factors might impact the allowance for credit losses. For example, while both factors are important determinants of overall allowance levels, changes in one factor or the other may not occur at the same rate, or changes may be directionally inconsistent such that improvement in one factor

Table of Contents

Management s discussion and analysis

may offset deterioration in the other. In addition, changes in these factors would not necessarily be consistent across geographies or product types. Finally, it is difficult to predict the extent to which changes in both or either of these factors will ultimately impact the frequency of losses, the severity of losses, or both, and overall loss rates are a function of both the frequency and severity of individual loan losses.

The allowance is calculated by applying statistical loss factors and other risk indicators to pools of loans with similar risk characteristics to arrive at an estimate of incurred losses in the portfolio. Management applies judgment to the statistical loss estimates for each loan portfolio category using delinquency trends and other risk characteristics to estimate charge-offs. Management utilizes additional statistical methods and considers portfolio and collateral valuation trends to review the appropriateness of the primary statistical loss estimate.

The statistical calculation is adjusted to take into consideration model imprecision, external factors and current economic events that have occurred but are not yet reflected in the factors used to derive the statistical calculation, and is accomplished in part by analyzing the historical loss experience for each major product segment. In the current economic environment, it is difficult to predict whether historical loss experience is indicative of future loss levels. Management applies judgment within estimated ranges in determining this adjustment, taking into account the numerous uncertainties inherent in the current economic environment. The estimated ranges and the determination of the appropriate point within the range are based upon management s judgment related to uncertainties associated with current macroeconomic and political conditions, quality of underwriting standards, and other relevant internal and external factors affecting the credit quality of the portfolio.

Fair value of financial instruments, MSRs and commodities inventory

JPMorgan Chase carries a portion of it assets and liabilities at fair value. The majority of such assets and liabilities are carried at fair value on a recurring basis. In addition, certain assets are carried at fair value on a nonrecurring basis, including loans accounted for at the lower of cost or fair value that are only subject to fair value adjustments under certain circumstances.

On January 1, 2007, the Firm adopted SFAS 157, which established a three-level valuation hierarchy for disclosure of fair value measurements. An instrument s categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Therefore, for instruments classified in levels 1 and 2 of the hierarchy, where inputs are principally based on observable market data, there is less judgment applied in arriving at a fair value measurement. For instruments classified within level 3 of the hierarchy, judgments are more significant. The Firm reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels.

Table of Contents

Assets carried at fair value

The table that follows includes the Firm s assets carried at fair value and the portion of such assets that are classified within level 3 of the valuation hierarchy.

December 31,	2008		2007	
(in billions)	Total at fair value	Level 3 total	Total at fair value	Level 3 total
Trading debt and equity securities[a]	**$ 347.4**	**$ 41.4**	$ 414.3	$ 24.1
Derivative receivables gross	**2,741.7**	**53.0**	909.8	20.2
Netting adjustment	**(2,579.1)**		(832.7)	
Derivative receivables net	**162.6**	**53.0**[e]	77.1	20.2[e]
AFS Securities	**205.9**	**12.4**	85.4	0.1
Loans	**7.7**	**2.7**	8.7	8.4
MSRs	**9.4**	**9.4**	8.6	8.6
Private equity investments	**6.9**	**6.4**	7.2	6.8
Other[b]	**46.5**	**5.0**	34.2	3.1
Total assets carried at fair value on a recurring basis	**786.4**	**130.3**	635.5	71.3
Total assets carried at fair value on a nonrecurring basis[c]	**11.0**	**4.3**	14.9	11.8
Total assets carried at fair value	**$ 797.4**	**$ 134.6**[f]	$ 650.4	$ 83.1
Less: level 3 assets for which the Firm does not bear economic exposure[d]		**21.2**		
Total level 3 assets for which the Firm bears economic exposure		**$ 113.4**		
Total Firm assets	**$ 2,175.1**		$ 1,562.1	
Level 3 assets as a percentage of total Firm assets		**6%**		5%
Level 3 assets for which the Firm bears economic exposure as a percentage of total Firm assets		**5**		
Level 3 assets as a percentage of total Firm assets at fair value		**17**		13
Level 3 assets for which the Firm bears economic exposure as a percentage of total assets at fair value		**14**		

(a) Includes physical commodities carried at the lower of cost or fair value.
(b) Includes certain securities purchased under resale agreements, certain securities borrowed and certain other investments.
(c) Predominantly consists of debt financing and other loan warehouses held-for-sale and other assets.
(d) Balances for which the Firm did not bear economic exposure at December 31, 2007, were not significant.
(e) The Firm does not allocate the FIN 39 netting adjustment across the levels of the fair value hierarchy. As such, the level 3 derivative receivables balance included in the level 3 total balance is reported gross of any netting adjustments.
(f) Included in the table above are $95.1 billion of level 3 assets,

consisting of recurring and nonrecurring assets, carried by IB at December 31, 2008. This includes $21.2 billion of assets for which the Firm serves as an intermediary between two parties and does not bear economic exposure.

Valuation

For instruments classified within level 3 of the hierarchy, judgments may be significant. In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, due to the lack of observability of significant inputs, management must assess all relevant empirical data in deriving valuation inputs including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Finally,
management judgment must be applied to assess the appropriate level of valuation adjustments to reflect counterparty credit quality, the Firm s creditworthiness, constraints on liquidity and unobservable parameters, where relevant. 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.

Management s discussion and analysis

Imprecision in estimating unobservable market inputs can impact the amount of revenue 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 use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value for individual financial instruments, see Note 4 on pages 129 133 of this Annual Report. In addition, for a further discussion of the significant judgments and estimates involved in the determination of the Firm s mortgage-related exposures, see Mortgage-related exposures carried at fair value in Note 4 on pages 139 141 of this Annual Report.

Purchased credit-impaired loans

JPMorgan Chase acquired, in connection with the Washington Mutual transaction, certain loans with evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that the Firm would be unable to collect all contractually required payments receivable. These purchased credit-impaired loans are accounted for in accordance with SOP 03-3. Many of the assumptions and estimates underlying the application of SOP 03-3 are both significant and judgmental, particularly considering the current economic environment. The level of future home price declines, the duration and severity of the current economic downturn and the lack of market liquidity and transparency are factors that have impacted and may continue to impact these assumptions and estimates.

Determining which loans are included in the scope of SOP 03-3 is highly subjective and requires the application of significant judgment. In the Washington Mutual transaction, consumer loans with certain attributes (e.g., higher loan-to-value ratios, borrowers with lower FICO scores, delinquencies) were determined to be credit-impaired, provided that those attributes arose subsequent to loan origination. Wholesale loans were determined to be credit-impaired if they met the definition of an impaired loan under SFAS 114 at the acquisition date. Applying SOP 03-3 to the appropriate population of loans is important because loans that are not within the scope of SOP 03-3 are subject to different accounting standards. Choosing different attributes in making the management assessment of which loans were credit-impaired and within the scope of SOP 03-3 could have resulted in a different (i.e., larger or smaller) population of loans deemed credit-impaired at the transaction date.

Loans determined to be within the scope of SOP 03-3 are initially recorded at fair value. The Firm has estimated the fair value of these loans by discounting the cash flows expected to be collected at a market observable discount rate, when available, adjusted for factors that a market participant would consider in determining fair value. The initial estimate of cash flows expected to be collected entails significant management judgment, as such cash flows were derived from assumptions such as default rates, loss severities and the amount and timing of prepayments. Particularly in the current economic environment, estimating the initial fair value of these loans was highly subjective. The application of different assumptions by management would have resulted in different initial fair values.

The Firm has elected to aggregate the purchased credit-impaired consumer loans into pools of loans with common risk characteristics. Significant judgment is required in evaluating whether individual loans have common risk characteristics for purposes of establishing these pools. Each resulting pool is considered one loan with a composite interest rate and estimation of cash flows expected to be collected for purposes of applying SOP 03-3 subsequent to acquisition. The process of estimating cash flows expected to be collected subsequent to acquisition is both subjective and judgmental and may have an impact on the recognition and measurement of impairment losses and/or interest income. In addition, the decision to pool these loans and the manner in which they were pooled may have an impact on the recognition, measurement and/or classification of interest income and/or impairment losses.

Goodwill impairment

Under SFAS 142, goodwill must be allocated to reporting units and tested for impairment. SFAS 142 defines reporting units of an entity as either SFAS 131 operating segments (i.e., one level below the SFAS 131 reportable segments as disclosed in Note 37 of this Annual Report) or one level below the SFAS 131 operating segments. JPMorgan Chase generally determined its reporting units to be one level below the six major business segments identified in Note 37 on pages 214 215 of this Annual Report, plus Private Equity which is included in Corporate. This determination was based on how the Firm s operating segments are managed and how they are reviewed by the Firm s Operating Committee.

The Firm tests goodwill for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. The first part of the test is a comparison, at the reporting unit level, of the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared with the carrying amount of goodwill recorded in the Firm s financial records. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, then the Firm would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against net income.

If the fair value of the reporting unit in the first part of the test is determined to be greater than the carrying amount of the reporting unit including goodwill, then and in accordance with SFAS 142 goodwill is deemed not to be impaired. During the fourth quarter of 2008, the Firm performed its annual goodwill impairment testing and concluded that the fair value of each of its reporting units was in excess of their respective carrying values including goodwill. Accordingly, the Firm concluded that its goodwill was not impaired at December 31, 2008.

Table of Contents

The Firm considers discounted cash flow models to be its primary method of determining the fair value of its reporting units. The models project levered cash flows for five years and use the perpetuity growth method to calculate terminal values. The first year s projected cash flows are based on the reporting units internal budget forecasts for the upcoming calendar year (which are reviewed with the Operating Committee of the Firm). To assess the reasonableness of the valuations derived from the discounted cash flow models, the Firm also analyzes market-based trading and transaction multiples, where available. These trading and transaction comparables are used to assess the reasonableness of the estimated fair values, as observable market information is generally not available.
JPMorgan Chase s stock price, consistent with stock prices in the broader financial services sector, declined significantly during the last half of 2008. JPMorgan Chase s market capitalization fell below its recorded book value, principally during the fourth quarter of 2008. Although the Firm believes it is reasonable to conclude that market capitalization could be an indicator of fair value over time, the Firm is of the view that short-term fluctuations in market capitalization do not reflect the long-term fair value of its reporting units.
Management applies significant judgment when determining the fair value of its reporting units. Imprecision in estimating the future cash flows of the Firm s reporting units as well as the appropriate cost of equity used to discount those cash flows can impact their estimated fair values. If JPMorgan Chase s common stock were to trade at the level it was at the end of 2008 over a sustained period and weak economic market conditions persist, these factors could indicate that the long-term earnings
potential of the Firm s reporting units could be adversely affected which could result in supplemental impairment testing during interim reporting periods and possible impairment of goodwill in the future.

Income taxes

JPMorgan Chase is subject to the income tax laws of the various jurisdictions in which it operates, including U.S. federal, state and non-U.S. jurisdictions. These laws are often complex and may be subject to different interpretations. To determine the financial statement impact of its accounting for income taxes, including the provision for income tax expense and its unrecognized tax benefits, JPMorgan Chase must make assumptions and judgments about how to interpret and apply these complex tax laws to numerous transactions and business events. Disputes over interpretations with the various taxing authorities may be settled upon audit or administrative appeals. In some cases, the Firm s interpretations of tax laws may be subject to adjudication by the court systems of the tax jurisdictions in which it operates. JPMorgan Chase regularly reviews whether the Firm may be assessed additional income taxes as a result of the resolution of these matters, and the Firm records additional reserves as appropriate.
The Firm does not anticipate that current market events will adversely impact the realizability of its deferred tax assets.
The Firm adjusts its unrecognized tax benefits as necessary when additional information becomes available. The reassessment of JPMorgan Chase s unrecognized tax benefits may have a material impact on its effective tax rate in the period in which it occurs.

ACCOUNTING AND REPORTING DEVELOPMENTS

Derivatives netting amendment of FASB Interpretation No. 39

In April 2007, the FASB issued FSP FIN 39-1, which permits offsetting of cash collateral receivables or payables with net derivative positions under certain circumstances. The Firm adopted FSP FIN 39-1 effective January 1, 2008. The FSP did not have a material impact on the Firm s Consolidated Balance Sheets.

Accounting for income tax benefits of dividends on share-based payment awards

In June 2007, the FASB ratified EITF 06-11, which must be applied prospectively for dividends declared in fiscal years beginning after December 15, 2007. EITF 06-11 requires that realized tax benefits from dividends or dividend equivalents paid on equity-classified share-based payment awards that are charged to retained earnings be recorded as an increase to additional paid-in capital and included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. Prior to the issuance of EITF 06-11, the Firm did not include these tax benefits as part of this pool of excess tax benefits. The Firm adopted EITF 06-11 on January 1, 2008. The adoption of this consensus did not have an impact on the Firm s Consolidated Balance Sheets or results of operations.

Fair value measurements written loan commitments

In November 2007, the SEC issued SAB 109, which revises and rescinds portions of SAB 105. Specifically, SAB 109 states that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The provisions of SAB 109 are applicable to written loan commitments issued or modified beginning on January 1, 2008. The Firm adopted SAB 109 on January 1, 2008. The adoption of this pronouncement did not have a material impact on the Firm s Consolidated Balance Sheets or results of operations.

Business combinations/noncontrolling interests in consolidated financial statements

In December 2007, the FASB issued SFAS 141R and SFAS 160, which amend the accounting and reporting of business combinations, as well as noncontrolling (i.e., minority) interests. For JPMorgan Chase, SFAS 141R is effective for business combinations that close on or after January 1, 2009. SFAS 160 is effective for JPMorgan Chase for fiscal years beginning on or after December 15, 2008.

Table of Contents

Management s discussion and analysis

SFAS 141R will generally only impact the accounting for future business combinations and will impact certain aspects of business combination accounting, such as transaction costs and certain merger-related restructuring reserves, as well as the accounting for partial acquisitions where control is obtained by JPMorgan Chase. One exception to the prospective application of SFAS 141R relates to accounting for income taxes associated with business combinations that closed prior to January 1, 2009. Once the purchase accounting measurement period closes for these acquisitions, any further adjustments to income taxes recorded as part of these business combinations will impact income tax expense. Previously, further adjustments were predominately recorded as adjustments to Goodwill. JPMorgan Chase will continue to evaluate the impact that SFAS 141R will have on its consolidated financial statements.

SFAS 160 requires that noncontrolling interests be accounted for and presented as equity, rather than as a liability or mezzanine equity. Changes to how the income statement is presented will also result. SFAS 160 presentation and disclosure requirements are to be applied retrospectively. The adoption of this pronouncement is not expected to have a material impact on the Firm s Consolidated Balance Sheets, results of operations or ratios.

Accounting for transfers of financial assets and repurchase financing transactions

In February 2008, the FASB issued FSP FAS 140-3, which requires an initial transfer of a financial asset and a repurchase financing that was entered into contempora-neously with, or in contemplation of, the initial transfer to be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. The Firm adopted FSP FAS 140-3 on January 1, 2009, for new transactions entered into after the date of adoption. The adoption of FSP FAS 140-3 is not expected to have a material impact on the Consolidated Balance Sheets or results of operations.

Disclosures about derivative instruments and hedging activities FASB Statement No. 161

In March 2008, the FASB issued SFAS 161, which amends the disclosure requirements of SFAS 133. SFAS 161 requires increased disclosures about derivative instruments and hedging activities and their effects on an entity s financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. SFAS 161 will only affect JPMorgan Chase s disclosures of derivative instruments and related hedging activities, and not its Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows.

Determining whether instruments granted in share-based payment transactions are participating securities

In June 2008, the FASB issued FSP EITF 03-6-1, which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Adoption of FSP EITF 03-6-1 does not affect net income or results of operations but may result in a reduction of basic and/or diluted earnings per share in certain periods.

Disclosures about credit derivatives and certain guarantees

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4. The FSP requires enhanced disclosures about credit derivatives and guarantees to address the potential adverse effects of changes in credit risk on the financial position, financial performance and cash flows of the sellers of these instruments. The FSP is effective for reporting periods ending after November 15, 2008, with earlier application permitted. The disclosures required by this FSP are incorporated in this Annual Report. FSP FAS 133-1 and FIN 45-4 only affects JPMorgan Chase s disclosures of credit derivatives and guarantees and not its Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows.

Determining whether an instrument (or embedded feature) is indexed to an entity s own stock

In September 2008, the EITF issued EITF 07-5, which establishes a two-step process for evaluating whether equity-linked financial instruments and embedded features are indexed to a company s own stock for purposes of determining whether the derivative scope exception in SFAS 133 should be applied. EITF 07-5 is effective for fiscal years beginning after December 2008. The adoption of this EITF is not expected to have a material impact on the Firm s Consolidated Balance Sheets or results of operations.

Accounting for transfers of financial assets and consolidation of variable interest entities

The FASB has been deliberating certain amendments to both SFAS 140 and FIN 46R that may impact the accounting for transactions that involve QSPEs and VIEs. Among other things, the FASB is proposing to eliminate the concept of QSPEs from both SFAS 140 and FIN 46R and make key changes to the consolidation model of FIN 46R that will change the method of determining which party to a VIE should consolidate the VIE. A final standard is expected to be issued in the second quarter of 2009, with an

Table of Contents

expected effective date in January 2010. Entities expected to be impacted include revolving securitization entities, bank-administered asset-backed commercial paper conduits, and certain mortgage securitization entities. The Firm is monitoring the FASB s deliberations on these proposed amendments and continues to evaluate their potential impact. The ultimate impact to the Firm will depend upon the guidance issued by the FASB in a final statement amending SFAS 140 and FIN 46R.

Determining the fair value of an asset when the market for that asset is not active

In October 2008, the FASB issued FSP FAS 157-3, which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial instrument when the market for that financial asset is not active. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. The application of this FSP did not have an impact on the Firm s Consolidated Balance Sheets or results of operations.

Disclosure about transfers of financial assets and interests in VIEs

On December 11, 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, which requires additional disclosures relating to transfers of financial assets and interests in securitization entities and other variable interest entities. The purpose of this FSP is to require improved disclosure by public enterprises prior to the effective dates of the proposed amendments to SFAS 140 and FIN 46(R). The effective date for the FSP is for reporting periods (interim and annual) beginning with the first reporting period that ends after December 15, 2008. The disclosures required by this FSP are incorporated in this Annual Report. FSP SFAS 140-4 and FIN 46(R)-8 only affects JPMorgan Chase s disclosure of transfers of financial assets and interests in securitization entities and other variable interest entities and not its Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows.

Employers disclosures about postretirement benefit plan assets

In December 2008, the FASB issued FSP FAS 132(R)-1, which requires more detailed disclosures about employers plan assets, including investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. This FSP is effective for fiscal years ending after December 15, 2009. The Firm intends to adopt these additional disclosure requirements on the effective date.

Amendments to the impairment guidance of EITF Issue No. 99-20

In January 2009, the FASB issued FSP EITF 99-20-1, which amends the impairment guidance in EITF 99-20 to make the investment security impairment model in EITF 99-20 more consistent with the securities impairment model in SFAS 115. FSP EITF 99-20-1 removes the requirement that a holder s best estimate of cash flows be based exclusively upon those that a market participant would use and allows for reasonable judgment to be applied in considering whether an adverse change in cash flows has occurred based on all available information relevant to the collectibility of the security. FSP EITF 99-20-1 is effective for interim and annual periods ending after December 15, 2008, and therefore the Firm has adopted FSP EITF 99-20-1 as of December 31, 2008. The adoption of this FSP did not have a material impact on the Firm s Consolidated Balance Sheets or results of operations.

Table of Contents

Management s discussion and analysis

NONEXCHANGE-TRADED COMMODITY DERIVATIVE CONTRACTS AT FAIR VALUE

In the normal course of business, JPMorgan Chase trades nonexchange-traded commodity derivative contracts. To determine the fair value of these contracts, the Firm uses various fair value estimation techniques, primarily based upon internal models with significant observable market parameters. The Firm s nonexchange-traded commodity derivative contracts are primarily energy-related.

The following table summarizes the changes in fair value for nonexchange-traded commodity derivative contracts for the year ended December 31, 2008.

For the year ended December 31, 2008 (in millions)	Asset position	Liability position
Net fair value of contracts outstanding at January 1, 2008	$ 8,090	$ 5,809
Effect of legally enforceable master netting agreements	26,108	25,957
Gross fair value of contracts outstanding at January 1, 2008	34,198	31,766
Contracts realized or otherwise settled	(12,773)	(12,802)
Fair value of new contracts	40,916	39,194
Changes in fair values attributable to changes in valuation techniques and assumptions		
Other changes in fair value	(6,818)	(4,293)
Gross fair value of contracts outstanding at December 31, 2008	55,523	53,865
Effect of legally enforceable master netting agreements	(48,091)	(48,726)
Net fair value of contracts outstanding at December 31, 2008	$ 7,432	$ 5,139

The following table indicates the schedule of maturities of nonexchange-traded commodity derivative contracts at December 31, 2008.

December 31, 2008 (in millions)	Asset position	Liability position
Maturity less than 1 year	$ 27,282	$ 24,381
Maturity 1 3 years	22,463	20,047
Maturity 4 5 years	3,954	3,609
Maturity in excess of 5 years	1,824	5,828
Gross fair value of contracts outstanding at December 31, 2008	55,523	53,865
Effects of legally enforceable master netting agreements	(48,091)	(48,726)
Net fair value of contracts outstanding at December 31, 2008	$ 7,432	$ 5,139

Table of Contents

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 meanin Forward-looking statements provide JPMorgan Chase s current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase s disclosures in this Annual Report 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 SEC. In addition, the Firm s senior management may make forward-looking statements orally to analysts, investors, 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 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 saving behavior;

ability of the Firm to manage effectively its liquidity;

credit ratings assigned to the Firm or its subsidiaries;

the Firm s reputation;

ability of the Firm to deal effectively with an economic slowdown or other economic or market difficulty;

technology changes instituted by the Firm, its counterparties or competitors;

mergers and acquisitions, including the Firm s ability to integrate acquisitions;

ability of the Firm to develop new products and services;

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 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;

- changes in laws and regulatory requirements or adverse judicial 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, including any effect of any such disasters, calamities or conflicts on the Firm s power generation facilities and the Firm s other commodity-related activities;
- the other risks and uncertainties detailed in Part 1, Item 1A: Risk Factors in the Firm s Annual Report on Form 10-K for the year ended December 31, 2008.

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 statement was 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.

Table of Contents

Management s report on internal control over financial reporting

Management of JPMorgan Chase & Co. (JPMorgan Chase or the Firm) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Firm s principal executive and principal financial officers, or persons performing similar functions, and effected by JPMorgan Chase s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

JPMorgan Chase s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Firm s assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Firm are being made only in accordance with authorizations of JPMorgan Chase s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Firm s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has completed an assessment of the effectiveness of the Firm s internal control over financial reporting as of December 31, 2008. In making the assessment, management used the framework in Internal Control Integrated Framework promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the COSO criteria.

Based upon the assessment performed, management concluded that as of December 31, 2008, JPMorgan Chase s internal control over financial reporting was effective based upon the COSO criteria. Additionally, based upon management s assessment, the Firm determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2008.

The effectiveness of the Firm s internal control over financial reporting as of December 31, 2008, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

James Dimon
Chairman and Chief Executive Officer

Michael J. Cavanagh
Executive Vice President and Chief Financial Officer
February 27, 2009

Table of Contents

Report of independent registered public accounting firm

Report of Independent Registered Public Accounting Firm To the Board of Directors and Stockholders of JPMorgan Chase & Co.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of JPMorgan Chase & Co. and its subsidiaries (the Firm) at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Firm maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Firm s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s report on internal control over financial reporting. Our responsibility is to express opinions on these financial statements and on the Firm s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 4, Note 5, and Note 28 to the Consolidated Financial Statements, effective January 1, 2007 the Firm adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurement, Statement of Financial Accounting Standards No. 159, Fair Value Option for Financial Assets and Financial Liabilities, and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

February 27, 2009

Table of Contents

Consolidated statements of income

Year ended December 31, (in millions, except per share data)	2008	2007	2006
Revenue			
Investment banking fees	**$ 5,526**	$ 6,635	$ 5,520
Principal transactions	**(10,699)**	9,015	10,778
Lending & deposit-related fees	**5,088**	3,938	3,468
Asset management, administration and commissions	**13,943**	14,356	11,855
Securities gains (losses)	**1,560**	164	(543)
Mortgage fees and related income	**3,467**	2,118	591
Credit card income	**7,419**	6,911	6,913
Other income	**2,169**	1,829	2,175
Noninterest revenue	**28,473**	44,966	40,757
Interest income	**73,018**	71,387	59,107
Interest expense	**34,239**	44,981	37,865
Net interest income	**38,779**	26,406	21,242
Total net revenue	**67,252**	71,372	61,999
Provision for credit losses	**20,979**	6,864	3,270
Noninterest expense			
Compensation expense	**22,746**	22,689	21,191
Occupancy expense	**3,038**	2,608	2,335
Technology, communications and equipment expense	**4,315**	3,779	3,653
Professional & outside services	**6,053**	5,140	4,450
Marketing	**1,913**	2,070	2,209
Other expense	**3,740**	3,814	3,272
Amortization of intangibles	**1,263**	1,394	1,428
Merger costs	**432**	209	305
Total noninterest expense	**43,500**	41,703	38,843
Income from continuing operations before income tax expense (benefit)	**2,773**	22,805	19,886
Income tax expense (benefit)	**(926)**	7,440	6,237
Income from continuing operations	**3,699**	15,365	13,649
Income from discontinued operations			795
Income before extraordinary gain	**3,699**	15,365	14,444

Extraordinary gain	**1,906**		
Net income	**$ 5,605**	$15,365	$14,444
Net income applicable to common stock	**$ 4,931**	$15,365	$14,440
Per common share data			
Basic earnings per share:			
Income from continuing operations	**$ 0.86**	$ 4.51	$ 3.93
Net income	**1.41**	4.51	4.16
Diluted earnings per share:			
Income from continuing operations	**0.84**	4.38	3.82
Net income	**1.37**	4.38	4.04
Average basic shares	**3,501**	3,404	3,470
Average diluted shares	**3,605**	3,508	3,574
Cash dividends per common share	**$ 1.52**	$ 1.48	$ 1.36

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Consolidated balance sheets

December 31, (in millions, except share data)	2008	2007
Assets		
Cash and due from banks	**$ 26,895**	$ 40,144
Deposits with banks	**138,139**	11,466
Federal funds sold and securities purchased under resale agreements (included $20,843 and $19,131 at fair value at December 31, 2008 and 2007, respectively)	**203,115**	170,897
Securities borrowed (included $3,381 and zero at fair value at December 31, 2008 and 2007, respectively)	**124,000**	84,184
Trading assets (included assets pledged of $75,063 and $79,229 at December 31, 2008 and 2007, respectively)	**509,983**	491,409
Securities (included $205,909 and $85,406 at fair value at December 31, 2008 and 2007, respectively, and assets pledged of $25,942 and $3,958 at December 31, 2008 and 2007, respectively)	**205,943**	85,450
Loans (included $7,696 and $8,739 at fair value at December 31, 2008 and 2007, respectively)	**744,898**	519,374
Allowance for loan losses	**(23,164)**	(9,234)
Loans, net of allowance for loan losses	**721,734**	510,140
Accrued interest and accounts receivable	**60,987**	24,823
Premises and equipment	**10,045**	9,319
Goodwill	**48,027**	45,270
Other intangible assets:		
Mortgage servicing rights	**9,403**	8,632
Purchased credit card relationships	**1,649**	2,303
All other intangibles	**3,932**	3,796
Other assets (included $29,199 and $22,151 at fair value at December 31, 2008 and 2007, respectively)	**111,200**	74,314
Total assets	**$ 2,175,052**	$ 1,562,147
Liabilities		
Deposits (included $5,605 and $6,389 at fair value at December 31, 2008 and 2007, respectively)	**$ 1,009,277**	$ 740,728
Federal funds purchased and securities loaned or sold under repurchase agreements (included $2,993 and $5,768 at fair value at December 31, 2008 and 2007, respectively)	**192,546**	154,398
Commercial paper	**37,845**	49,596
Other borrowed funds (included $14,713 and $10,777 at fair value at December 31, 2008 and 2007, respectively)	**132,400**	28,835
Trading liabilities	**166,878**	157,867
Accounts payable and other liabilities (including the allowance for lending-related commitments of $659 and $850 at December 31, 2008 and 2007, respectively, and zero and $25 at fair value at December 31, 2008 and 2007, respectively)	**187,978**	94,476
Beneficial interests issued by consolidated variable interest entities (included $1,735 and $3,004 at fair value at December 31, 2008 and 2007, respectively)	**10,561**	14,016

Long-term debt (included $58,214 and $70,456 at fair value at December 31, 2008 and 2007, respectively)	**252,094**	183,862
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	**18,589**	15,148
Total liabilities	**2,008,168**	1,438,926
Commitments and contingencies (see Note 31 on page 201 of this Annual Report)		
Stockholders equity		
Preferred stock ($1 par value; authorized 200,000,000 shares at December 31, 2008 and 2007; issued 5,038,107 and 0 shares at December 31, 2008 and 2007, respectively)	**31,939**	
Common stock ($1 par value; authorized 9,000,000,000 shares at December 31, 2008 and 2007; issued 3,941,633,895 shares and 3,657,671,234 shares at December 31, 2008 and 2007, respectively)	**3,942**	3,658
Capital surplus	**92,143**	78,597
Retained earnings	**54,013**	54,715
Accumulated other comprehensive income (loss)	**(5,687)**	(917)
Shares held in RSU Trust, at cost (4,794,723 shares at December 31, 2008)	**(217)**	
Treasury stock, at cost (208,833,260 shares and 290,288,540 shares at December 31, 2008 and 2007, respectively)	**(9,249)**	(12,832)
Total stockholders equity	**166,884**	123,221
Total liabilities and stockholders equity	**$ 2,175,052**	$ 1,562,147

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Consolidated statements of changes in stockholders equity and comprehensive income

Year ended December 31, (in millions, except per share data)	2008	2007	2006
Preferred stock			
Balance at beginning of year	$	$	$ 139
Issuance of preferred stock	**31,550**		
Issuance of preferred stock conversion of the Bear Stearns preferred stock	**352**		
Accretion of preferred stock discount on issuance to U.S. Treasury	**37**		
Redemption of preferred stock			(139)
Balance at end of year	**31,939**		
Common stock			
Balance at beginning of year	**3,658**	3,658	3,618
Issuance of common stock	**284**		40
Balance at end of year	**3,942**	3,658	3,658
Capital surplus			
Balance at beginning of year	**78,597**	77,807	74,994
Issuance of common stock	**11,201**		
Shares issued and commitments to issue common stock for employee stock-based compensation awards and related tax effects	**859**	790	2,813
Net change from the Bear Stearns merger:			
Reissuance of treasury stock and the Share Exchange agreement	**48**		
Employee stock awards	**242**		
Warrant issued to U.S. Treasury in connection with issuance of preferred stock	**1,250**		
Preferred stock issue cost	**(54)**		
Balance at end of year	**92,143**	78,597	77,807
Retained earnings			
Balance at beginning of year	**54,715**	43,600	33,848
Cumulative effect of change in accounting principles		915	172
Balance at beginning of year, adjusted	**54,715**	44,515	34,020
Net income	**5,605**	15,365	14,444
Dividends declared:			
Preferred stock	**(674)**		(4)
Common stock ($1.52, $1.48 and $1.36 per share for the years ended December 31, 2008, 2007 and 2006, respectively)	**(5,633)**	(5,165)	(4,860)
Balance at end of year	**54,013**	54,715	43,600
Accumulated other comprehensive income (loss)			
Balance at beginning of year	**(917)**	(1,557)	(626)

Cumulative effect of change in accounting principles		(1)	
Balance at beginning of year, adjusted	**(917)**	(1,558)	(626)
Other comprehensive income (loss)	**(4,770)**	641	171
Adjustment to initially apply SFAS 158			(1,102)
Balance at end of year	**(5,687)**	(917)	(1,557)
Shares held in RSU Trust			
Balance at beginning of year			
Resulting from the Bear Stearns merger	**(269)**		
Reissuance from RSU Trust	**52**		
Balance at end of year	**(217)**		
Treasury stock, at cost			
Balance at beginning of year	**(12,832)**	(7,718)	(4,762)
Purchase of treasury stock		(8,178)	(3,938)
Reissuance from treasury stock	**2,454**	3,199	1,334
Share repurchases related to employee stock-based compensation awards	**(21)**	(135)	(352)
Net change from the Bear Stearns merger as a result of the reissuance of treasury stock and the Share Exchange agreement	**1,150**		
Balance at end of year	**(9,249)**	(12,832)	(7,718)
Total stockholders equity	**$ 166,884**	$ 123,221	$ 115,790
Comprehensive income			
Net income	**$ 5,605**	$ 15,365	$ 14,444
Other comprehensive income (loss)	**(4,770)**	641	171
Comprehensive income	**$ 835**	$ 16,006	$ 14,615

The Notes to Consolidated Financial Statements are an integral part of these statements.

Table of Contents

Consolidated statements of cash flows

Year ended December 31, (in millions)	2008	2007	2006
Operating activities			
Net income	**$ 5,605**	$ 15,365	$ 14,444
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for credit losses	**20,979**	6,864	3,270
Depreciation and amortization	**3,143**	2,427	2,149
Amortization of intangibles	**1,263**	1,394	1,428
Deferred tax (benefit) expense	**(2,637)**	1,307	(1,810)
Investment securities (gains) losses	**(1,560)**	(164)	543
Proceeds on sale of investment	**(1,540)**		
Gains on disposition of businesses	**(199)**		(1,136)
Stock-based compensation	**2,637**	2,025	2,368
Originations and purchases of loans held-for-sale	**(34,902)**	(116,471)	(178,355)
Proceeds from sales, securitizations and paydowns of loans held-for-sale	**38,036**	107,350	173,448
Net change in:			
Trading assets	**(12,787)**	(121,240)	(61,664)
Securities borrowed	**15,408**	(10,496)	916
Accrued interest and accounts receivable	**10,221**	(1,932)	(1,170)
Other assets	**(33,629)**	(21,628)	(7,193)
Trading liabilities	**24,061**	12,681	(4,521)
Accounts payable and other liabilities	**1,012**	4,284	7,815
Other operating adjustments	**(12,013)**	7,674	(111)
Net cash provided by (used in) operating activities	**23,098**	(110,560)	(49,579)
Investing activities			
Net change in:			
Deposits with banks	**(118,929)**	2,081	8,168
Federal funds sold and securities purchased under resale agreements	**(44,597)**	(29,814)	(6,939)
Held-to-maturity securities:			
Proceeds	**10**	14	19
Available-for-sale securities:			
Proceeds from maturities	**44,414**	31,143	24,909
Proceeds from sales	**96,806**	98,450	123,750
Purchases	**(248,599)**	(122,507)	(201,530)
Proceeds from sales and securitizations of loans held-for-investment	**27,531**	34,925	20,809
Other changes in loans, net	**(59,123)**	(83,437)	(70,837)
Net cash received (used) in business acquisitions or dispositions	**2,128**	(70)	185
Proceeds from assets sale to the FRBNY	**28,850**		
Net purchases of asset-backed commercial paper guaranteed by the FRBB	**(11,228)**		
All other investing activities, net	**(3,609)**	(3,903)	1,839

Net cash used in investing activities	**(286,346)**	(73,118)	(99,627)
Financing activities			
Net change in:			
Deposits	**177,331**	113,512	82,105
Federal funds purchased and securities loaned or sold under repurchase agreements	**15,250**	(7,833)	36,248
Commercial paper and other borrowed funds	**9,186**	41,412	12,657
Proceeds from the issuance of long-term debt and capital debt securities	**72,407**	95,141	56,721
Repayments of long-term debt and capital debt securities	**(62,691)**	(49,410)	(34,267)
Excess tax benefits related to stock-based compensation	**148**	365	302
Proceeds from issuance of common stock	**11,969**	1,467	1,659
Proceeds from issuance of preferred stock and warrant to the U.S. Treasury	**25,000**		
Proceeds from issuance of preferred stock	**7,746**		
Redemption of preferred stock			(139)
Repurchases of treasury stock		(8,178)	(3,938)
Cash dividends paid	**(5,911)**	(5,051)	(4,846)
All other financing activities, net	**71**	1,561	6,247
Net cash provided by financing activities	**250,506**	182,986	152,749
Effect of exchange rate changes on cash and due from banks	**(507)**	424	199
Net (decrease) increase in cash and due from banks	**(13,249)**	(268)	3,742
Cash and due from banks at the beginning of the year	**40,144**	40,412	36,670
Cash and due from banks at the end of the year	**$ 26,895**	$ 40,144	$ 40,412
Cash interest paid	**$ 37,267**	$ 43,472	$ 36,415
Cash income taxes paid	**2,280**	7,472	5,563

Note: In 2008, the fair values of noncash assets acquired and liabilities assumed in the merger with Bear Stearns were $288.2 billion and $287.7 billion, respectively; approximately 26 million shares of common stock, valued at approximately $1.2 billion, were issued in connection with the Bear Stearns merger. Also, in 2008 the fair values of noncash assets acquired and liabilities assumed in the Washington Mutual transaction were $260.0 billion and $259.8 billion, respectively. In 2006, the Firm exchanged selected corporate trust businesses for The Bank of New York s consumer, business banking and middle-market banking businesses. The fair values of the noncash assets exchanged were $2.15 billion.

The Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to consolidated financial statements

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 businesses, financial transaction processing and asset management. For a discussion of the Firm s business segment information, see Note 37 on pages 214 215 of this Annual Report.
The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities.
Certain amounts in prior periods have been reclassified to conform to the current presentation.

Consolidation

The Consolidated Financial Statements include the accounts of JPMorgan Chase and other entities in which the Firm has a controlling financial interest. All material intercompany balances and transactions have been eliminated.
The usual condition for a controlling financial interest is the ownership of a majority of the voting interests of the entity. However, a controlling financial interest also may be deemed to exist with respect to entities, such as special purpose entities (SPEs), through arrangements that do not involve controlling voting interests.
SPEs are an important part of the financial markets, providing market liquidity by facilitating investors access to specific portfolios of assets and risks. For example, they are critical to the functioning of the mortgage- and asset-backed securities and commercial paper markets. SPEs may be organized as trusts, partnerships or corporations and are typically established for a single, discrete purpose. SPEs are not typically operating entities and usually have a limited life and no employees. The basic SPE structure involves a company selling assets to the SPE. The SPE funds the purchase of those assets by issuing securities to investors. The legal documents that govern the transaction specify how the cash earned on the assets must be allocated to the SPE s investors and other parties that have rights to those cash flows. SPEs are generally structured to insulate investors from claims on the SPE s assets by creditors of other entities, including the creditors of the seller of the assets.
There are two different accounting frameworks applicable to SPEs: The qualifying SPE (QSPE) framework under SFAS 140 and the variable interest entity (VIE) framework under FIN 46R. The applicable framework depends on the nature of the entity and the Firm s relation to that entity. The QSPE framework is applicable when an entity transfers (sells) financial assets to an SPE meeting certain criteria defined in SFAS 140. These criteria are designed to ensure that the activities of the entity are essentially predetermined at the inception of the vehicle and that the transferor of the financial assets cannot exercise control over the entity and the assets therein. Entities
meeting these criteria are not consolidated by the transferor or other counterparties as long as they do not have the unilateral ability to liquidate or to cause the entity to no longer meet the QSPE criteria. The Firm primarily follows the QSPE model for securitizations of its residential and commercial mortgages, and credit card, automobile and student loans. For further details, see Note 16 on pages 168 176 of this Annual Report.
When an SPE does not meet the QSPE criteria, consolidation is assessed pursuant to FIN 46R. Under FIN 46R, a VIE is defined as an entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity s operations; and/or (3) has equity owners that do not have an obligation to absorb the entity s losses or the right to receive the entity s returns.
FIN 46R requires a variable interest holder (i.e., a counterparty to a VIE) to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive the majority of the expected residual returns of the VIE, or both. This party is considered the primary beneficiary. In making this determination, the Firm thoroughly evaluates the VIE s design, capital structure and relationships among the variable interest holders. When the primary beneficiary cannot be identified through a qualitative analysis, the Firm performs a quantitative analysis, which computes and allocates expected losses or residual returns to variable interest holders. The allocation of expected cash flows in this analysis is based upon the relative rights and preferences of each variable interest holder in the VIE s capital structure.
The Firm reconsiders whether it is the primary beneficiary of a VIE when certain events occur as required by FIN

46R. For further details, see Note 17 on pages 177 186 of this Annual Report.
All retained interests and significant transactions between the Firm, QSPEs and nonconsolidated VIEs are reflected on JPMorgan Chase s Consolidated Balance Sheets and in the Notes to consolidated financial statements.
Investments in companies that are considered to be voting-interest entities under FIN 46R in which the Firm has significant influence over operating and financing decisions are either accounted for in accordance with the equity method of accounting or at fair value if elected under SFAS 159 (Fair Value Option). These investments are generally included in other assets, with income or loss included in other income.
For a discussion of the accounting for private equity investments, see Note 6 on pages 147 148 of this Annual Report.
Assets held for clients in an agency or fiduciary capacity by the Firm are not assets of JPMorgan Chase and are not included in the Consolidated Balance Sheets.
Use of estimates in the preparation of consolidated financial statements
The preparation of Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expense, and disclosures

of contingent assets and liabilities. Actual results could be different from these estimates. For discussion of Critical Accounting Estimates used by the Firm, see pages 107 111 of this Annual Report.

Foreign currency translation

JPMorgan Chase revalues assets, liabilities, revenue and expense denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates.

Gains and losses relating to translating functional currency financial statements for U.S. reporting are included in other comprehensive income (loss) within stockholders equity. Gains and losses relating to nonfunctional currency transactions, including non-U.S. operations where the functional currency is the U.S. dollar, are reported in the Consolidated Statements of Income.

Foreclosed property

The Firm acquires property from borrowers through loan restructurings, workouts, and foreclosures. Property acquired may include real property (e.g., land, buildings, and fixtures) and personal property (e.g., aircraft, railcars, and ships). Acquired property is valued at fair value less costs to sell at acquisition. Each quarter the fair value of the acquired property is reviewed and adjusted, if necessary. Any adjustments to fair value in the first 90 days are credited/charged to the allowance for loan losses and thereafter to other expense.

Statements of cash flows

For JPMorgan Chase s Consolidated Statements of Cash Flows, cash is defined as those amounts included in cash and due from banks.

Significant accounting policies

The following table identifies JPMorgan Chase s other significant accounting policies and the Note and page where a detailed description of each policy can be found.

Fair value measurement	Note 4	Page 129
Fair value option	Note 5	Page 144
Principal transactions activities	Note 6	Page 146
Other noninterest revenue	Note 7	Page 148
Pension and other postretirement employee benefit plans	Note 9	Page 149
Employee stock-based incentives	Note 10	Page 155
Noninterest expense	Note 11	Page 158
Securities	Note 12	Page 158
Securities financing activities	Note 13	Page 162
Loans	Note 14	Page 163
Allowance for credit losses	Note 15	Page 166
Loan securitizations	Note 16	Page 168
Variable interest entities	Note 17	Page 177
Goodwill and other intangible assets	Note 18	Page 186
Premises and equipment	Note 19	Page 189
Other borrowed funds	Note 21	Page 190
Accounts payable and other liabilities	Note 22	Page 190
Income taxes	Note 28	Page 197
Commitments and contingencies	Note 31	Page 201
Accounting for derivative instruments and hedging activities	Note 32	Page 202
Off-balance sheet lending-related financial instruments and guarantees	Note 33	Page 206

Note 2 Business changes and developments

Decrease in Common Stock Dividend

On February 23, 2009, the Board of Directors reduced the Firm s quarterly common stock dividend from $0.38 to $0.05 per share, effective for the dividend payable April 30, 2009 to shareholders of record on April 6, 2009.

Acquisition of the banking operations of Washington Mutual Bank

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank (Washington Mutual) from the Federal Deposit Insurance Corporation (FDIC) for $1.9 billion. The acquisition expands JPMorgan Chase s consumer branch network into several states, including California, Florida and Washington, among others. The acquisition also extends the reach of the Firm s business banking, commercial banking, credit card, consumer lending and wealth management businesses. The acquisition was accounted for under the purchase method of accounting in accordance with SFAS 141.

The $1.9 billion purchase price was allocated to the Washington Mutual assets acquired and liabilities assumed using preliminary allocated values as of September 25, 2008, which resulted in negative goodwill. The initial allocation of the purchase price was presented on a preliminary basis at September 30, 2008, due to the short time period between the closing of the transaction (which occurred simultaneously with its announcement on September 25, 2008) and the end of the third quarter. In accordance with SFAS 141, noncurrent nonfinancial assets that are not held-for-sale, such as the premises and equipment and other intangibles, acquired in the Washington Mutual transaction were written down against the negative goodwill. The negative goodwill that remained after writing down the nonfinancial assets was recognized as an extraordinary gain. As a result of the refinement of the purchase price allocation during the fourth quarter of 2008, the initial extraordinary gain of $581 million was increased $1.3 billion to $1.9 billion. The computation of the purchase price and the allocation of the purchase price to the net assets acquired in the Washington Mutual transaction based upon their respective values as of September 25, 2008, and the resulting negative goodwill are presented below. The allocation of the purchase price may be modified through September 25, 2009, as more information is obtained about the fair value of assets acquired and liabilities assumed.

Table of Contents

Notes to consolidated financial statements

(in millions)		
Purchase price		
Purchase price		$ 1,938
Direct acquisition costs		3
Total purchase price		1,941
Net assets acquired		
Washington Mutual s net assets before fair value adjustments	$ 38,766	
Washington Mutual s goodwill and other intangible assets	(7,566)	
Subtotal	31,200	
Adjustments to reflect assets acquired at fair value:		
Securities	(20)	
Trading assets	(591)	
Loans	(31,018)	
Allowance for loan losses	8,216	
Premises and equipment	680	
Accrued interest and accounts receivable	(295)	
Other assets	4,125	
Adjustments to reflect liabilities assumed at fair value:		
Deposits	(683)	
Other borrowed funds	68	
Accounts payable and other liabilities	(900)	
Long-term debt	1,127	
Fair value of net assets acquired		11,909
Negative goodwill before allocation to nonfinancial assets		(9,968)
Negative goodwill allocated to nonfinancial assets[a]		8,062
Negative goodwill resulting from the acquisition[b]		$ (1,906)

(a) The acquisition was accounted for as a purchase business combination in accordance with SFAS 141. SFAS 141 requires the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of an acquired business as of the effective date of the acquisition to be recorded at their respective fair values and consolidated with those of JPMorgan Chase. The fair value of the net assets of Washington Mutual s banking operations exceeded the $1.9 billion purchase price, resulting in negative goodwill. In accordance with SFAS 141, noncurrent, nonfinancial assets not held-for-sale, such as premises and equipment and other intangibles, were written down against the negative goodwill. The negative goodwill that remained after writing down transaction related core deposit intangibles of approximately $4.9 billion and premises and equipment of approximately $3.2 billion was recognized as an extraordinary gain of $1.9 billion.

(b) The extraordinary gain was recorded in Corporate/Private Equity.

The following condensed statement of net assets acquired reflects the value assigned to the Washington Mutual net assets as of September 25, 2008.

(in millions)		September 25, 2008
Assets		
Cash and due from banks	**$**	**3,680**
Deposits with banks		**3,517**
Federal funds sold and securities purchased under resale agreements		**1,700**
Trading assets		**5,691**
Securities		**17,220**
Loans (net of allowance for loan losses)		**206,436**
Accrued interest and accounts receivable		**3,201**
Mortgage servicing rights		**5,874**
All other assets		**16,330**
Total assets	**$**	**263,649**
Liabilities		
Deposits	**$**	**159,869**
Federal funds purchased and securities loaned or sold under repurchase agreements		**4,549**
Other borrowed funds		**81,622**
Trading liabilities		**585**
Accounts payable and other liabilities		**6,523**
Long-term debt		**6,654**
Total liabilities		**259,802**
Washington Mutual net assets acquired	**$**	**3,847**

Table of Contents

Merger with The Bear Stearns Companies Inc.

Effective May 30, 2008, BSC Merger Corporation, a wholly owned subsidiary of JPMorgan Chase, merged with The Bear Stearns Companies Inc. (Bear Stearns) pursuant to the Agreement and Plan of Merger, dated as of March 16, 2008, as amended March 24, 2008, and Bear Stearns became a wholly owned subsidiary of JPMorgan Chase. The merger provided the Firm with a leading global prime brokerage platform; strengthened the Firm s equities and asset management businesses; enhanced capabilities in mortgage origination, securitization and servicing; and expanded the platform of the Firm s energy business. The merger is being accounted for under the purchase method of accounting, which requires that the assets and liabilities of Bear Stearns be fair valued. The total purchase price to complete the merger was $1.5 billion.

The merger with Bear Stearns was accomplished through a series of transactions that were reflected as step acquisitions in accordance with SFAS 141. On April 8, 2008, pursuant to the share exchange agreement, JPMorgan Chase acquired 95 million newly issued shares of Bear Stearns common stock (or 39.5% of Bear Stearns common stock after giving effect to the issuance) for 21 million shares of JPMorgan Chase common stock. Further, between March 24, 2008, and May 12, 2008, JPMorgan Chase acquired approximately 24 million shares of Bear Stearns common stock in the open market at an average purchase price of $12.37 per share. The share exchange and cash purchase transactions resulted in JPMorgan Chase owning approximately 49.4% of Bear Stearns common stock immediately prior to consummation of the merger. Finally, on May 30, 2008, JPMorgan Chase completed the merger. As a result of the merger, each outstanding share of Bear Stearns common stock (other than shares then held by JPMorgan Chase) was converted into the right to receive 0.21753 shares of common stock of JPMorgan Chase. Also, on May 30, 2008, the shares of common stock that JPMorgan Chase and Bear Stearns acquired from each other in the share exchange transaction were cancelled. From April 8, 2008, through May 30, 2008, JPMorgan Chase accounted for the investment in Bear Stearns under the equity method of accounting in accordance with APB 18. During this period, JPMorgan Chase recorded reductions to its investment in Bear Stearns representing its share of Bear Stearns net losses, which was recorded in other income and accumulated other comprehensive income.

In conjunction with the Bear Stearns merger, in June 2008, the Federal Reserve Bank of New York (the FRBNY) took control, through a limited liability company (LLC) formed for this purpose, of a portfolio of $30 billion in assets acquired from Bear Stearns, based on the value of the portfolio as of March 14, 2008. The assets of the LLC were funded by a $28.85 billion term loan from the FRBNY, and a $1.15 billion subordinated loan from JPMorgan Chase. The JPMorgan Chase note is subordinated to the FRBNY loan and will bear the first $1.15 billion of any losses of the portfolio. Any remaining assets in the portfolio after repayment of the FRBNY loan, the JPMorgan Chase note and the expense of the LLC will be for the account of the FRBNY.

As a result of step acquisition accounting, the total $1.5 billion purchase price was allocated to the Bear Stearns assets acquired and liabilities assumed using their fair values as of April 8, 2008, and May 30, 2008, respectively. The summary computation of the purchase price and the allocation of the purchase price to the net assets of Bear Stearns are presented below. The allocation of the purchase price may be modified through May 30, 2009, as more information is obtained about the fair value of assets acquired and liabilities assumed.

Table of Contents

Notes to consolidated financial statements

(in millions, except for shares (in thousands), per share amounts and where otherwise noted)

Purchase price		
Shares exchanged in the Share Exchange transaction (April 8, 2008)	95,000	
Other Bear Stearns shares outstanding	145,759	
Total Bear Stearns stock outstanding	240,759	
Cancellation of shares issued in the Share Exchange transaction	(95,000)	
Cancellation of shares acquired by JPMorgan Chase for cash in the open market	(24,061)	
Bear Stearns common stock exchanged as of May 30, 2008	121,698	
Exchange ratio	0.21753	
JPMorgan Chase common stock issued	26,473	
Average purchase price per JPMorgan Chase common share[(a)]	$ 45.26	
Total fair value of JPMorgan Chase common stock issued		$ 1,198
Bear Stearns common stock acquired for cash in the open market (24 million shares at an average share price of $12.37 per share)		298
Fair value of employee stock awards (largely to be settled by shares held in the RSU Trust[(b)])		242
Direct acquisition costs		27
Less: Fair value of Bear Stearns common stock held in the RSU Trust and included in the exchange of common stock		(269)[(b)]
Total purchase price		1,496
Net assets acquired		
Bear Stearns common stockholders equity	$ 6,052	
Adjustments to reflect assets acquired at fair value:		
Trading assets	(3,831)	
Premises and equipment	497	
Other assets	(235)	
Adjustments to reflect liabilities assumed at fair value:		
Long-term debt	504	
Other liabilities	(2,252)	
Fair value of net assets acquired excluding goodwill		735
Goodwill resulting from the merger[(c)]		$ 761

(a) The value of JPMorgan Chase common

stock was determined by averaging the closing prices of JPMorgan Chase s common stock for the four trading days during the period March 19, 2008, through March 25, 2008.

(b) Represents shares of Bear Stearns common stock held in an irrevocable grantor trust (the RSU Trust) to be used to settle stock awards granted to selected employees and certain key executives under certain heritage Bear Stearns employee stock plans. Shares in the RSU Trust were exchanged for 6 million shares of JPMorgan Chase common stock at the merger exchange ratio of 0.21753. For further discussion of the RSU trust, see Note 10 on pages 155 158 of this Annual Report.

(c) The goodwill was recorded in

the Investment
Bank.

Table of Contents

Condensed statement of net assets acquired

The following reflects the value assigned to Bear Stearns net assets as of the merger date.

(in millions)		May 30, 2008
Assets		
Cash and due from banks	**$**	**534**
Federal funds sold and securities purchased under resale agreements		**21,204**
Securities borrowed		**55,195**
Trading assets		**136,535**
Loans		**4,407**
Accrued interest and accounts receivable		**34,677**
Goodwill		**761**
All other assets		**35,418**
Total assets	**$**	**288,731**
Liabilities		
Federal funds purchased and securities loaned or sold under repurchase agreements	**$**	**54,643**
Other borrowings		**16,166**
Trading liabilities		**24,267**
Beneficial interests issued by consolidated VIEs		**47,042**
Long-term debt		**67,015**
Accounts payable and other liabilities		**78,532**
Total liabilities		**287,665**
Bear Stearns net assets[(a)]	**$**	**1,066**

(a) Reflects the fair value assigned to 49.4% of the Bear Stearns net assets acquired on April 8, 2008 (net of related amortization), and the fair value assigned to the remaining 50.6% of the Bear Stearns net assets acquired on May 30, 2008. The difference between the

Bear Stearns net assets acquired as presented above and the fair value of the net assets acquired (including goodwill) presented in the previous table represents JPMorgan Chase s net losses recorded under the equity method of accounting.

Unaudited pro forma condensed combined financial information reflecting Bear Stearns merger and Washington Mutual transaction

The following unaudited pro forma condensed combined financial information presents the results of operations of the Firm as they may have appeared if the Bear Stearns merger and the Washington Mutual transaction had been completed on January 1, 2008, and January 1, 2007.

Year ended December 31, (in millions, except per share data)	**2008**	2007
Total net revenue	**$ 68,071**	$ 92,052
Income (loss) before extraordinary gain	**(14,141)**	17,733
Net income (loss)	**(12,235)**	17,733
Net income per common share data:		
Basic earnings per share		
Income (loss) before extraordinary gain	**$ (4.22)**	$ 5.16
Net income (loss)	**(3.68)**	5.16
Diluted earnings per share[(a)]		
Income (loss) before extraordinary gain	**(4.22)**	5.01
Net income (loss)	**(3.68)**	5.01
Average common shares issued and outstanding		
Basic	**3,511**	3,430
Diluted[(a)]	**3,511**	3,534

(a) Common equivalent shares have been excluded from the pro forma computation of diluted loss per share for the year ended

December 31,
2008, as the
effect would be
antidilutive.

The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2008, or as of January 1, 2007, nor is it indicative of the results of operations in future periods. Included in the unaudited pro forma combined financial information for the years ended December 31, 2008 and 2007, were pro forma adjustments to reflect the results of operations of Bear Stearns, and Washington Mutual s banking operations, considering the purchase accounting, valuation and accounting conformity adjustments related to each transaction. For the Washington Mutual transaction, the amortization of purchase accounting adjustments to report interest-earnings assets acquired and interest-bearing liabilities assumed at current interest rates is reflected in all periods presented. Valuation adjustments and the adjustment to conform allowance methodologies in the Washington Mutual transaction, and valuation and accounting conformity adjustments related to the Bear Stearns merger are reflected in the results for the years ended December 31, 2008 and 2007.

Internal reorganization related to the Bear Stearns merger

On June 30, 2008, JPMorgan Chase fully and unconditionally guaranteed each series of outstanding preferred stock of Bear Stearns, as well as all of Bear Stearns outstanding Securities and Exchange Commission (SEC) registered U.S. debt securities and obligations relating to trust preferred capital debt securities. Subsequently, on July 15, 2008, JPMorgan Chase completed an internal merger transaction, which resulted in each series of outstanding preferred stock of Bear Stearns being automatically exchanged into newly issued shares of JPMorgan Chase preferred stock having substantially identical terms. Depositary shares, which formerly had represented a one-fourth interest in a share of Bear Stearns preferred stock, continue to trade on the New York Stock Exchange but following completion of this internal merger transaction, represent a one-fourth interest in a share of JPMorgan Chase preferred stock. In addition, on July 31, 2008, JPMorgan Chase assumed (1) all of Bear Stearns then-outstanding SEC-registered U.S. debt securities; (2) Bear Stearns obligations relating to trust preferred capital debt securities; (3) certain of Bear Stearns then-outstanding foreign debt securities; and (4) certain of Bear Stearns guarantees of then-outstanding foreign debt securities issued by subsidiaries of Bear Stearns, in each case, in accordance with the agreements and indentures governing these securities. JPMorgan Chase also guaranteed Bear Stearns obligations under Bear Stearns U.S. $30.0 billion Euro Medium Term Note Programme and U.S. $4.0 billion Euro Note Issuance Programme.

Other business events

Termination of Chase Paymentech Solutions joint venture

The dissolution of Chase Paymentech Solutions joint venture, a global payments and merchant acquiring joint venture between JPMorgan Chase and First Data Corporation, was completed on November 1, 2008. JPMorgan Chase retained approximately 51% of the business and will operate the business under the name Chase Paymentech Solutions. The dissolution of Chase Paymentech

Table of Contents

Notes to consolidated financial statements

Solutions joint venture was accounted for as a step acquisition in accordance with SFAS 141, and the Firm recognized an after-tax gain of $627 million in the fourth quarter of 2008 as a result of the dissolution. The gain represents the amount by which the fair value of the net assets acquired (predominantly intangible assets and goodwill) exceeded JPMorgan Chase s book basis in the net assets transferred to First Data Corporation. Upon dissolution, the Firm began to consolidate the retained Chase Paymentech Solutions business.

Proceeds from Visa Inc. shares

On March 19, 2008, Visa Inc. (Visa) completed its initial public offering (IPO). Prior to the IPO, JPMorgan Chase held approximately a 13% equity interest in Visa. On March 28, 2008, Visa used a portion of the proceeds from the offering to redeem a portion of the Firm s equity interest, which resulted in the recognition of a pre-tax gain of $1.5 billion (recorded in other income). In conjunction with the IPO, Visa placed $3.0 billion in escrow to cover liabilities related to certain litigation matters. The escrow was increased by $1.1 billion in the fourth quarter of 2008. JPMorgan Chase s interest in the escrow was recorded as a reduction of other expense and reported net to the extent of established litigation reserves.

Purchase of additional interest in Highbridge Capital Management

In January 2008, JPMorgan Chase purchased an additional equity interest in Highbridge Capital Management, LLC (Highbridge). As a result, the Firm currently owns 77.5% of Highbridge.

Acquisition of the consumer, business banking and middle-market banking businesses of The Bank of New York in exchange for selected corporate trust businesses, including trustee, paying agent, loan agency and document management services

On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York Company, Inc. s (The Bank of New York) consumer, business and middle-market banking businesses in exchange for selected corporate trust businesses plus a cash payment of $150 million. The transaction also included a contingent payment payable to The Bank of New York; the amount due of $25 million was paid in 2008. The acquisition added 339 branches and more than 400 ATMs, and it significantly strengthened Retail Financial Services distribution network in the New York tri-state area. The Bank of New York businesses acquired were valued at a premium of $2.3 billion; the Firm s corporate trust businesses that were transferred (i.e., trustee, paying agent, loan agency and document management services) were valued at a premium of $2.2 billion. This transaction included the acquisition of approximately $7.7 billion in loans net of allowance for loan losses and $12.9 billion in deposits from the Bank of New York. The Firm also recognized core deposit intangibles of $485 million, which are being amortized using an accelerated method over a 10-year period. JPMorgan Chase recorded an after-tax gain of $622 million on this transaction in the fourth quarter of 2006. For additional discussion related to the transaction, see Note 3 on pages 128 129 of this Annual Report.

JPMorgan Partners management

On August 1, 2006, the buyout and growth equity professionals of JPMorgan Partners (JPMP) formed an independent firm, CCMP Capital, LLC (CCMP), and the venture professionals separately formed an independent firm, Panorama Capital, LLC (Panorama). The investment professionals of CCMP and Panorama continue to manage the former JPMP investments pursuant to a management agreement with the Firm.

Sale of insurance underwriting business

On July 1, 2006, JPMorgan Chase completed the sale of its life insurance and annuity underwriting businesses to Protective Life Corporation for cash proceeds of approximately $1.2 billion, consisting of $900 million of cash received from Protective Life Corporation and approximately $300 million of preclosing dividends received from the entities sold. The after-tax impact of this transaction was negligible. The sale included both the heritage Chase insurance business and the insurance business that Bank One had bought from Zurich Insurance in 2003.

Acquisition of private-label credit card portfolio from Kohl s Corporation

On April 21, 2006, JPMorgan Chase completed the acquisition of $1.6 billion of private-label credit card receivables and approximately 21 million accounts from Kohl s Corporation (Kohl s). JPMorgan Chase and Kohl s also entered into an agreement under which JPMorgan Chase is offering private-label credit cards to both new and existing Kohl s customers.

Collegiate Funding Services

On March 1, 2006, JPMorgan Chase acquired, for approximately $663 million, Collegiate Funding Services, a leader in student loan servicing and consolidation. This acquisition included $6 billion of student loans.

Note 3 Discontinued operations

On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York s consumer, small-business and middle-market banking businesses in exchange for selected corporate trust businesses. Refer to Note 2 on pages 123 128 of this Annual Report for additional information.

In anticipation of the close of the transaction on October 1, 2006, effective with the second quarter of 2006, the results of operations of these corporate trust businesses were transferred from the Treasury & Securities Services (TSS) segment to the Corporate/Private Equity segment, and reported as discontinued operations. Condensed financial information of the selected corporate trust businesses follows.

Table of Contents

Selected income statements data[a]

Year ended December 31, (in millions)	2006
Other noninterest revenue	$ 407
Net interest income	264
Gain on sale of discontinued operations	1,081
Total net revenue	1,752
Noninterest expense	385
Income from discontinued operations before income taxes	1,367
Income tax expense	572
Income from discontinued operations	$ 795

(a) There was no income from discontinued operations during 2008 or 2007.

The following is a summary of the assets and liabilities associated with the selected corporate trust businesses related to the Bank of New York transaction that closed on October 1, 2006.

Selected balance sheet data

(in millions)	October 1, 2006
Goodwill and other intangibles	$ 838
Other assets	547
Total assets	$ 1,385
Deposits	$ 24,011
Other liabilities	547
Total liabilities	$ 24,558

JPMorgan Chase provides certain transitional services to The Bank of New York for a defined period of time after the closing date. The Bank of New York compensates JPMorgan Chase for these transitional services.

Note 4 Fair value measurement

In September 2006, the FASB issued SFAS 157 (Fair Value Measurements), which was effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Firm chose early adoption for SFAS 157 effective January 1, 2007. SFAS 157:

Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;

- Establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date;

- Nullifies the guidance in EITF 02-3, which required the deferral of profit at inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique;

- Eliminates large position discounts for financial instruments quoted in active markets and requires consideration of the Firm s creditworthiness when valuing liabilities; and

- Expands disclosures about instruments measured at fair value.

The Firm also chose early adoption for SFAS 159 effective January 1, 2007. SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments and written loan commitments not previously recorded at fair value. The Firm elected fair value accounting for certain assets and liabilities not previously carried at fair value. For more information, see Note 5 on pages 144 146 of this Annual Report.

The following is a description of the Firm s valuation methodologies for assets and liabilities measured at fair value. The Firm has an established and well-documented process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity of the instrument. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Firm s creditworthiness, constraints on liquidity and unobservable parameters. Valuation adjustments are applied consistently over time.

- Credit valuation adjustments (CVA) are necessary when the market price (or parameter) is not indicative of the credit quality of the counterparty. As few classes of derivative contracts are listed on an exchange, the majority of derivative positions are valued using internally developed models that use as their basis observable market parameters. Market practice is to quote parameters equivalent to a AA credit rating whereby all counterparties are assumed to have the same credit quality. Therefore, an adjustment is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value. The adjustment also takes into account contractual factors designed to reduce the Firm s credit exposure to each counterparty, such as collateral and legal rights of offset.

- Debit valuation adjustments (DVA) are necessary to reflect the credit quality of the Firm in the valuation of liabilities measured at fair value. This adjustment was incorporated into the Firm s valuations commencing January 1, 2007, in accordance with SFAS 157. The methodology to determine the adjustment is consistent with CVA and incorporates JPMorgan Chase s credit spread as observed through the credit default swap market.

- Liquidity valuation adjustments are necessary when the Firm may not be able to observe a recent market price for a financial instrument that trades in inactive (or less active) markets or to reflect the cost of exiting larger-than-normal market-size risk positions (liquidity adjustments are not taken for positions classified within level 1 of the fair value hierarchy). The Firm tries to ascertain the amount of uncertainty in the initial valuation based upon the degree of liquidity of the market in which the financial

Table of Contents

Notes to consolidated financial statements

instrument trades and makes liquidity adjustments to the carrying value of the financial instrument. The Firm measures the liquidity adjustment based upon the following factors: (1) the amount of time since the last relevant pricing point; (2) whether there was an actual trade or relevant external quote; and (3) the volatility of the principal risk component of the financial instrument. Costs to exit larger-than-normal market-size risk positions are determined based upon the size of the adverse market move that is likely to occur during the period required to bring a position down to a nonconcentrated level.

Unobservable parameter valuation adjustments are necessary when positions are valued using internally developed models that use as their basis unobservable parameters that is, parameters that must be estimated and are, therefore, subject to management judgment. These positions are normally traded less actively. Examples include certain credit products where parameters such as correlation and recovery rates are unobservable. Unobservable parameter valuation adjustments are applied to mitigate the possibility of error and revision in the estimate of the market price provided by the model.

The Firm has numerous controls in place intended to ensure that its fair valuations are appropriate. An independent model review group reviews the Firm s valuation models and approves them for use for specific products. All valuation models within the Firm are subject to this review process. A price verification group, independent from the risk-taking function, ensures observable market prices and market-based parameters are used for valuation wherever possible. For those products with material parameter risk for which observable market levels do not exist, an independent review of the assumptions made on pricing is performed. Additional review includes deconstruction of the model valuations for certain structured instruments into their components, and benchmarking valuations, where possible, to similar products; validating valuation estimates through actual cash settlement; and detailed review and explanation of recorded gains and losses, which are analyzed daily and over time. Valuation adjustments, which are also determined by the independent price verification group, are based upon established policies and are applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more or less transparent, the Firm continues to refine its valuation methodologies. During 2008, no material changes were made to the Firm s valuation models.

The methods described above to estimate fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Valuation Hierarchy

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. For a level 3 analysis, see pages 138 139 of this Note.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Assets

Securities purchased under resale agreements (resale agreements)

To estimate the fair value of resale agreements, cash flows are evaluated taking into consideration any derivative features of the resale agreement and are then discounted using the appropriate market rates for the applicable maturity. As the inputs into the valuation are primarily based upon readily observable pricing information, such resale agreements are generally classified within level 2 of the valuation hierarchy.

Loans and unfunded lending-related commitments

The majority of the Firm s loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The fair value of such loans and lending-related commitments is included in the disclosures required by SFAS 107 on pages 142 143 of this Note. Loans carried at fair value on a recurring and nonrecurring basis are included in the applicable tables that follow.

Wholesale

The fair value of loans and lending-related commitments is calculated using observable market information, including pricing from actual market transactions or broker quotations where available. Where pricing information is not available for the specific loan, the valuation is generally based upon quoted market prices of similar instruments, such as loans and bonds. These comparable instruments share characteristics that typically include industry, rating, capital structure, seniority, and consideration of counterparty credit risk. In addition, general market conditions, including prevailing market spreads for credit and liquidity risk, are also considered in the valuation process.

For certain loans that are expected to be securitized, such as commercial and residential mortgages, fair value is estimated based upon observable pricing of asset-backed securities (ABS) with similar collateral and incorporates adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity to arrive at the whole loan price. When data from recent market transactions is available it is incorporated as appropriate. If particular loans are not expected to be securitized they are marked for individual sale taking into consideration potential liquidation proceeds and property repossession/liquidation information, as appropriate. For further discussion of the valuation of mortgage loans carried at fair value, see the Mortgage-related exposures carried at fair value section of this Note on pages 139 141.

The Firm s loans carried at fair value and reported in trading assets are largely classified within level 3 due to the lack of observable pricing. Loans carried at fair value and reported in loans including leveraged lending funded loans, high-yield bridge financing and purchased non-performing loans held in the Investment Bank (IB) are classified within level 2 or 3 of the valuation hierarchy depending on the level of liquidity and activity in the markets for a particular product.

Consumer

Fair values for consumer installment loans (including automobile financings and consumer real estate not expected to be securitized), for which market rates for comparable loans are readily available, are based upon discounted cash flows adjusted for prepayment assumptions. The discount rates used for consumer installment loans are based on current market rates for new originations of comparable loans. Fair value for credit card receivables is based upon discounted expected cash flows. The discount rates used for credit card receivables incorporate only the effects of interest rate changes, since the expected cash flows already reflect an adjustment for credit risk. Consumer installment loans and credit card receivables that are not carried on the balance sheet at fair value are not classified within the fair value hierarchy. For further discussion of the valuation of mortgage loans carried at fair value, see the Mortgage-related exposures carried at fair value section of this Note.

Securities

Where quoted prices for identical securities are available in an active market, securities are classified in level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, mortgage products for which there are quoted prices in active markets (such as U.S. government agency or U.S. government-sponsored enterprise pass-through mortgage-backed securities) and exchange-traded equities.

If quoted market prices are not available for the specific security, the Firm may estimate the value of such instruments using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. The Firm may also use pricing models or discounted cash flows. In cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy.

For certain collateralized mortgage and debt obligations, asset-backed securities and high-yield debt securities the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. For cash collateralized debt obligations (CDOs), external price information is not available. Therefore, cash CDOs are valued using market-standard models, such as Intex, to model the specific collateral composition and cash flow structure of each deal; key inputs to the model are market spread data for each credit rating, collateral type and other relevant contractual features. Asset-backed securities are valued based on external prices or market spread data, using current market assumptions on prepayments and defaults. For those asset-backed securities where the external price data is not observable or the limited available data is opaque, the collateral performance is monitored and the value of the security is assessed. To benchmark its valuations, the Firm looks to transactions for similar instruments and utilizes independent pricing provided by third-party vendors, broker quotes and relevant market indices such as the ABX index, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of the Firm s estimates. The majority of collateralized mortgage and debt obligations, high-yield debt securities and asset-backed securities are currently classified in level 3 of the valuation hierarchy. For further discussion of the valuation of mortgage securities carried at fair value see the Mortgage-related exposures carried at fair value section of this Note on pages 139 141.

Commodities

Commodities inventory is carried at the lower of cost or fair value. The fair value for commodities inventory is determined primarily using pricing and data derived from the markets on which the underlying commodities are traded. Market prices may be adjusted for liquidity. The Firm also has positions in commodity-based derivatives that can be traded on an exchange or over-the-counter. The pricing inputs to these derivatives include forward curves of underlying commodities, basis curves, volatilities, correlations, and occasionally other model parameters. The valuation of these derivatives is based upon calibrating to market transactions, as well as to independent pricing information from sources such as brokers and dealer consensus pricing services. Where inputs are unobservable, they are benchmarked to observable market data based upon historic and implied correlations, then adjusted for uncertainty where appropriate. The majority of commodities inventory and commodities-based derivatives are classified within level 2 of the valuation hierarchy.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the Firm s derivative positions are valued using internally developed models that use as their basis readily observable market parameters that is, parameters that are actively quoted and can be validated to external sources, including industry pricing services. Depending on the types and contractual terms of derivatives, fair value can be modeled using a series of techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models, which are consistently applied. Where derivative products have been established for some time, the Firm uses models that are widely accepted in the financial services industry. These models reflect the

Table of Contents

Notes to consolidated financial statements

contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity, as the methodologies used in the models do not require significant judgment, and inputs to the model are readily observable from actively quoted markets, as is the case for plain vanilla interest rate swaps and option contracts and credit default swaps (CDS). Such instruments are generally classified within level 2 of the valuation hierarchy.

Derivatives that are valued based upon models with significant unobservable market parameters and that are normally traded less actively, have trade activity that is one way, and/or are traded in less-developed markets are classified within level 3 of the valuation hierarchy. Level 3 derivatives, for example, include credit default swaps referenced to mortgage-backed securities, certain types of CDO transactions, options on baskets of single-name stocks, and callable exotic interest rate options. Such derivatives are primarily used for risk management purposes.

For certain derivative products, such as credit default swaps referenced to mortgage-backed securities, the value is based on the underlying mortgage risk. As these instruments are not actively quoted, the estimate of fair value considers the valuation of the underlying collateral (mortgage loans). Inputs to the valuation will include available information on similar underlying loans or securities in the cash market. The prepayments and loss assumptions on the underlying loans or securities are estimated using a combination of historical data, prices on market transactions, and other prepayment and default scenarios and analysis. Relevant observable market indices such as the ABX or CMBX, are considered, as well as any relevant transaction activity.

Other complex products, such as those sensitive to correlation between two or more underlyings, also fall within level 3 of the hierarchy. Such instruments include complex credit derivative products which are illiquid and non-standard in nature, including CDOs and CDO-squared. A CDO is a debt security collateralized by a variety of debt obligations, including bonds and loans of different maturities and credit qualities. The repackaging of such securities and loans within a CDO results in the creation of tranches, which are instruments with differing risk profiles. In a CDO-squared, the instrument is a CDO where the underlying debt instruments are also CDOs. For CDO-squared transactions, while inputs such as CDS spreads and recovery rates may be observable, the correlation between the underlying debt instruments is unobservable. The correlation levels are not only modeled on a portfolio basis but are also calibrated at a transaction level to liquid benchmark tranches. For all complex credit derivative products, actual transactions, where available, are used to regularly recalibrate all unobservable parameters.

Correlation sensitivity is also material to the overall valuation of options on baskets of single-name stocks; the valuation of these baskets is typically not observable due to their non-standardized structuring. Correlation for products such as these are typically estimated based on an observable basket of stocks and then adjusted to reflect the differences between the underlying equities.

For callable exotic interest rate options, while most of the assumptions in the valuation can be observed in active markets (e.g. interest rates and volatility), the callable option transaction flow is essentially one-way, and as such, price observability is limited. As pricing information is limited, assumptions are based upon the dynamics of the underlying markets (e.g. the interest rate markets) including the range and possible outcomes of the applicable inputs. In addition, the models used are calibrated, as relevant, to liquid benchmarks and valuation is tested against monthly independent pricing services and actual transactions.

Mortgage servicing rights and certain retained interests in securitizations

Mortgage servicing rights (MSRs) and certain retained interests from securitization activities do not trade in an active, open market with readily observable prices. While sales of MSRs do occur, the precise terms and conditions typically are not readily available. Accordingly, the Firm estimates the fair value of MSRs and certain other retained interests in securitizations using discounted cash flow (DCF) models.

For MSRs, the Firm uses an option-adjusted spread (OAS) valuation model in conjunction with the Firm s proprietary prepayment model to project MSR cash flows over multiple interest rate scenarios, which are then discounted at risk-adjusted rates to estimate an expected fair value of the MSRs. The OAS model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The Firm reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. Due to the nature of the valuation inputs, MSRs are classified within level 3 of the valuation hierarchy.

For certain retained interests in securitizations (such as interest-only strips), a single interest rate path discounted cash flow model is used and generally includes assumptions based upon projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions and contractual interest paid to third-party investors. Changes in the assumptions used may have a significant impact on the Firm s valuation of retained interests, and such interests are therefore typically classified within level 3 of the valuation hierarchy.

For both MSRs and certain other retained interests in securitizations, the Firm compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. For further discussion of the most significant assumptions used to value retained interests in securitizations and MSRs, as well as the applicable stress tests for those assumptions, see Note 16 and Note 18 on pages 168 176 and 186 189, respectively, of this Annual Report.

Private equity investments

The valuation of nonpublic private equity investments, held primarily by the Private Equity business within Corporate, requires significant management judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. As such, private equity investments are valued initially based upon cost. Each quarter, valuations are reviewed utilizing available and relevant market data to determine if the carrying value of these investments should be adjusted. Such market data primarily includes observations of the trading multiples of public companies considered comparable to the private companies being valued and the operating performance of the underlying portfolio company, including its historical and projected net income and earnings before interest, taxes, depreciation and amortization (EBITDA). Valuations are adjusted to account for company-specific issues, the lack of liquidity inherent in a nonpublic investment and the fact that comparable public companies are not identical to the companies being valued. In addition, a variety of additional factors are reviewed by management, including, but not limited to, financing and sales transactions with third parties, future expectations of the particular investment, changes in market outlook and the third-party financing environment. The Firm applies its valuation methodology consistently from period to period and believes that the methodology and associated valuation adjustments are appropriate. Nonpublic private equity investments are included in level 3 of the valuation hierarchy.

Private equity investments also include publicly held equity investments, generally obtained through the initial public offering of privately held equity investments. Publicly held investments in liquid markets are marked to market at the quoted public value less adjustments for regulatory or contractual sales restrictions. Discounts for restrictions are quantified by analyzing the length of the restriction period and the volatility of the equity security. Publicly held investments are largely classified in level 2 of the valuation hierarchy.

Other assets

The fair value of asset-backed commercial paper (ABCP) investments purchased under the Federal Reserve s Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AML Facility) for U.S. money market mutual funds is determined based on observable market information and is classified in level 2 of the valuation hierarchy.

Liabilities

Securities sold under repurchase agreements (repurchase agreements)

To estimate the fair value of repurchase agreements, cash flows are evaluated taking into consideration any derivative features and are then discounted using the appropriate market rates for the applicable maturity. Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to, or in excess of, the principal amount loaned; as a result, there would be no adjustment, or an immaterial adjustment, to reflect the credit quality of the Firm (i.e., DVA) related to these agreements. As the inputs into the valuation are primarily based upon observable pricing information, repurchase agreements are classified within level 2 of the valuation hierarchy.

Beneficial interests issued by consolidated VIEs

The fair value of beneficial interests issued by consolidated VIEs (beneficial interests) is estimated based upon the fair value of the underlying assets held by the VIEs. The valuation of beneficial interests does not include an adjustment to reflect the credit quality of the Firm, as the holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. As the inputs into the valuation are generally based upon readily observable market pricing information, the majority of beneficial interests issued by consolidated VIEs are classified within level 2 of the valuation hierarchy.

Deposits, other borrowed funds and long-term debt

Included within deposits, other borrowed funds and long-term debt are structured notes issued by the Firm that are financial instruments containing embedded derivatives. To estimate the fair value of structured notes, cash flows are evaluated taking into consideration any derivative features and are then discounted using the appropriate market rates for the applicable maturities. In addition, the valuation of structured notes includes an adjustment to reflect the credit quality of the Firm (i.e., the DVA). Where the inputs into the valuation are primarily based upon readily observable market pricing information, the structured notes are classified within level 2 of the valuation hierarchy. Where significant inputs are unobservable, structured notes are classified within level 3 of the valuation hierarchy.

Table of Contents

Notes to consolidated financial statements

The following table presents the financial instruments carried at fair value as of December 31, 2008 and 2007, by caption on the Consolidated Balance Sheets and by SFAS 157 valuation hierarchy (as described above).

Assets and liabilities measured at fair value on a recurring basis

December 31, 2008 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	FIN 39 netting[(d)]	Total carrying value in the Consolidated Balance Sheets
Federal funds sold and securities purchased under resale agreements	$	$ 20,843	$	$	$ 20,843
Securities borrowed		3,381			3,381
Trading assets:					
Debt and equity instruments:					
U.S. government, agency, sponsored enterprise and non-U.S. governments	98,393	29,597	870		128,860
State and municipal securities		10,361	2,641		13,002
Certificates of deposit, bankers acceptances and commercial paper	1,180	6,312			7,492
Corporate debt and other	5	61,230	6,506		67,741
Equity securities	73,174	3,992	1,380		78,546
Loans		14,711	17,091		31,802
Mortgage- and asset-backed securities		3,401	12,932		16,333
Physical commodities[(a)]		3,581			3,581
Total debt and equity instruments:	172,752	133,185	41,420		347,357
Derivative receivables	3,630	2,685,101	52,991	(2,579,096)	162,626
Total trading assets	176,382	2,818,286	94,411	(2,579,096)	509,983
Available-for-sale securities	118,823	74,695	12,391		205,909
Loans		5,029	2,667		7,696
Mortgage servicing rights			9,403		9,403
Other assets:					
Private equity investments	151	332	6,369		6,852
All other	5,977	11,355	5,015		22,347

Total other assets	**6,128**	**11,687**	**11,384**		**29,199**
Total assets at fair value	**$ 301,333**	**$ 2,933,921**	**$ 130,256**	**$ (2,579,096)**	**$ 786,414**
Less: Level 3 assets for which the Firm does not bear economic exposure(b)			**21,169**		
Total level 3 assets for which the Firm bears economic exposure			**$ 109,087**		
Deposits	**$**	**$ 4,370**	**$ 1,235**	**$**	**$ 5,605**
Federal funds purchased and securities loaned or sold under repurchase agreements		**2,993**			**2,993**
Other borrowed funds		**14,612**	**101**		**14,713**
Trading liabilities:					
Debt and equity instruments	**34,568**	**10,418**	**288**		**45,274**
Derivative payables	**3,630**	**2,622,371**	**43,484**	**(2,547,881)**	**121,604**
Total trading liabilities	**38,198**	**2,632,789**	**43,772**	**(2,547,881)**	**166,878**
Accounts payable and other liabilities					
Beneficial interests issued by consolidated VIEs		**1,735**			**1,735**
Long-term debt		**41,666**	**16,548**		**58,214**
Total liabilities at fair value	**$ 38,198**	**$ 2,698,165**	**$ 61,656**	**$ (2,547,881)**	**$ 250,138**

Table of Contents

Assets and liabilities measured at fair value on a recurring basis

December 31, 2007 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	FIN 39 netting[d]	Total carrying value in the Consolidated Balance Sheets
Federal funds sold and securities purchased under resale agreements	$	$ 19,131	$	$	$ 19,131
Trading assets:					
Debt and equity instruments:					
U.S. government, agency, sponsored enterprise and non-U.S. governments	106,572	40,362	258		147,192
State and municipal securities	7,230	5,860			13,090
Certificates of deposit, bankers acceptances and commercial paper	3,019	5,233			8,252
Corporate debt and other	6	52,137	7,972		60,115
Equity securities	82,499	9,552	1,197		93,248
Loans		46,038	11,776		57,814
Mortgage- and asset-backed securities		27,209	2,863		30,072
Physical commodities[a]		4,490			4,490
Total debt and equity instruments:	199,326	190,881	24,066		414,273
Derivative receivables	18,574	871,105	20,188	(832,731)	77,136
Total trading assets	217,900	1,061,986	44,254	(832,731)	491,409
Available-for-sale securities	71,941	13,364	101		85,406
Loans		359	8,380		8,739
Mortgage servicing rights			8,632		8,632
Other assets:					
Private equity investments	68	322	6,763		7,153
All other	10,784	1,054	3,160		14,998
Total other assets	10,852	1,376	9,923		22,151
Total assets at fair value	$ 300,693	$ 1,096,216	$ 71,290	$ (832,731)	$ 635,468

Deposits	$	$ 5,228	$ 1,161	$	$ 6,389
Federal funds purchased and securities loaned or sold under repurchase agreements		5,768			5,768
Other borrowed funds		10,672	105		10,777
Trading liabilities:					
Debt and equity instruments	73,023	15,659	480		89,162
Derivative payables	19,553	852,055	19,555	(822,458)	68,705
Total trading liabilities	92,576	867,714	20,035	(822,458)	157,867
Accounts payable and other liabilities(c)			25		25
Beneficial interests issued by consolidated VIEs		2,922	82		3,004
Long-term debt		48,518	21,938		70,456
Total liabilities at fair value	$ 92,576	$ 940,822	$ 43,346	$ (822,458)	$ 254,286

(a) Physical commodities inventories are accounted for at the lower of cost or fair value.
(b) Includes assets for which the Firm serves as an intermediary between two parties and does not bear market risk. The assets are predominantly reflected within derivative receivables.
(c) Includes the fair value adjustment for unfunded lending-related commitments accounted for at fair value.
(d) As permitted under FIN 39,

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. The increase in FIN 39 netting from December 31, 2007, primarily relates to the decline in interest rates, widening credit spreads and volatile foreign exchange rates reflected in interest rate, credit and foreign exchange derivatives, respectively.

Balances for which the Firm did not bear economic exposure at December 31, 2007, were not significant.

Table of Contents

Notes to consolidated financial statements

Changes in level 3 recurring fair value measurements

The tables below include a rollforward of the balance sheet amounts for the years ended December 31, 2008 and 2007 (including the change in fair value), for financial instruments classified by the Firm within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3, the determination is based upon 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 valuation hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the 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					
For the year ended December 31, 2008 (in millions)	Fair value, January 1, 2008	Total realized/ unrealized gains/ (losses)[c]	Purchases, issuances settlements, net	Transfers into and/or out of level 3[c]	Fair value, December 31, 2008	Change in unrealized gains and (losses) related to financial instruments held at December 31, 2008
Assets:						
Trading assets:						
Debt and equity instruments	**$ 24,066**	**$ (12,805)**[d][e]	**$ 6,201**	**$ 23,958**	**$ 41,420**	$ **(9,860)**[d][e]
Net derivative receivables	**633**	**4,556**[d]	**2,290**	**2,028**	**9,507**	**1,814**[d]
Available-for-sale securities	**101**	**(1,232)**[f]	**3,772**	**9,750**	**12,391**	**(422)**[f]
Loans	**8,380**	**(1,547)**[d]	**12**	**(4,178)**	**2,667**	**(1,324)**[d]
Mortgage servicing rights	**8,632**	**(6,933)**[e]	**7,704**		**9,403**	**(6,933)**[e]
Other assets:						
Private equity investments[a]	**6,763**	**(638)**[d]	**320**	**(76)**	**6,369**	**(1,089)**[d]
All other	**3,160**	**(930)**[g]	**2,802**	**(17)**	**5,015**	**(742)**[g]

Liabilities[b]**:**

Deposits	$ (1,161)	$ 57(d)	$ (79)	$ (52)	$ (1,235)	$ 69(d)
Other borrowed funds	(105)	7(d)	(53)	50	(101)	24(d)
Trading liabilities:						
Debt and equity instruments	(480)	73(d)	33	86	(288)	125(d)
Accounts payable and other liabilities	(25)	25(d)				(d)
Beneficial interests issued by consolidated VIEs	(82)	24(d)	603	(545)		(d)
Long-term debt	(21,938)	4,502(d)	1,717	(829)	(16,548)	3,682(d)

Table of Contents

Fair value measurements using significant unobservable inputs

For the year ended December 31, 2007 (in millions)	Fair value, January 1, 2007	Total realized/ unrealized gains/ (losses)[c]	Purchases, issuances settlements, net	Transfers into and/or out of level 3[c]	Fair value, December 31, 2007	Change in unrealized gains and (losses) related to financial instruments held at December 31, 2007
Assets:						
Trading assets:						
Debt and equity instruments	$ 9,320	$ (916)[d][e]	$ 5,902	$ 9,760	$ 24,066	$ (912)[d][e]
Net derivative receivables	(2,800)	1,674[d]	257	1,502	633	1,979[d]
Available-for-sale securities	177	38[f]	(21)	(93)	101	(5)[f]
Loans	643	(346)[d]	8,013	70	8,380	(36)[d]
Mortgage servicing rights	7,546	(516)[e]	1,602		8,632	(516)[e]
Other assets:						
Private equity investments[a]	5,493	4,051[d]	(2,764)	(17)	6,763	1,711[d]
All other	1,591	37[g]	1,059	473	3,160	(19)[g]
Liabilities[b]:						
Deposits	$ (385)	$ (42)[d]	$ (667)	$ (67)	$ (1,161)	$ (38)[d]
Other borrowed funds		(67)[d]	(34)	(4)	(105)	(135)[d]
Trading liabilities:						
Debt and equity instruments	(32)	383[d]	(125)	(706)	(480)	(734)[d]
Accounts payable and other liabilities		(460)[d]	435		(25)	(25)[d]
Beneficial interests issued by consolidated VIEs	(8)	6[d]	1	(81)	(82)	
Long-term debt	(11,386)	(1,142)[d]	(6,633)	(2,777)	(21,938)	(468)[d]

(a) Private equity instruments

represent investments within the Corporate/Private Equity line of business.

(b) Level 3 liabilities as a percentage of total Firm liabilities accounted for at fair value (including liabilities carried at fair value on a nonrecurring basis) were 25% and 17% at December 31, 2008 and 2007, respectively. The Firm does not allocate the FIN 39 netting adjustment across the levels of the fair value hierarchy. As such, the level 3 derivative payables balance included in the level 3 total balance is gross of any netting adjustments.

(c) Beginning January 1, 2008, all transfers in and out of level 3 are assumed to occur at the beginning of the reporting period.

(d) Reported in principal transactions revenue.

(e) Changes in fair value for Retail Financial Services mortgage loans originated with the intent to sell and MSRs are measured at fair value and reported in mortgage fees and related income.

(f) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss).

(g) Reported in other income.

Table of Contents

Notes to consolidated financial statements

Assets and liabilities measured at fair value on a nonrecurring basis

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances
(for example, when there is evidence of impairment). The following tables present the financial instruments carried on the Consolidated Balance Sheets by caption and level within the SFAS 157 valuation hierarchy (as described above) as of December 31, 2008 and 2007, for which a nonrecurring change in fair value has been recorded during the reporting period.

December 31, 2008 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated Balance Sheets
Loans[a]	**$**	**$ 4,991**	**$ 3,999**	**$ 8,990**
Other assets		**1,763**	**291**	**2,054**
Total assets at fair value on a nonrecurring basis	**$**	**$ 6,754**	**$ 4,290**	**$ 11,044**
Accounts payable and other liabilities[b]	**$**	**$ 212**	**$ 98**	**$ 310**
Total liabilities at fair value on a nonrecurring basis	**$**	**$ 212**	**$ 98**	**$ 310**

December 31, 2007 (in millions)	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated Balance Sheets
Loans[a][c]	$	$ 2,818	$ 16,196	$ 19,014
Other assets		267	126	393

Total assets at fair value on a nonrecurring basis	$	$	3,085	$	16,322	$	19,407
Accounts payable and other liabilities[b]	$	$		$	103	$	103
Total liabilities at fair value on a nonrecurring basis	$	$		$	103	$	103

(a) Includes leveraged lending and other loan warehouses held-for-sale.
(b) Represents the fair value adjustment associated with $1.5 billion and $3.2 billion of unfunded held-for-sale lending-related commitments within the leveraged lending portfolio at December 31, 2008 and 2007, respectively.
(c) Includes $4.5 billion of level 3 held-for-sale loans reclassified to held-for-investment during 2007.

Nonrecurring fair value changes

The following table presents the total change in value of financial instruments for which a fair value adjustment has been included in the Consolidated Statements of Income for the years ended December 31, 2008 and 2007, related to financial instruments held at December 31, 2008 and 2007.

Year ended December 31, (in millions)	**2008**	2007
Loans	**$ (3,887)**	$ (720)
Other assets	**(685)**	(161)
Accounts payable and other liabilities	**(285)**	2
Total nonrecurring fair value gains (losses)	**$ (4,857)**	$ (879)

In the above table, loans predominantly include the change in fair value for IB leveraged lending and warehouse loans carried on the balance sheet at the lower of cost or fair value; and accounts payable and other liabilities predominantly include the change in fair value for unfunded lending-related commitments within the leveraged lending portfolio.

Level 3 analysis

Level 3 assets (including assets measured at fair value on a nonrecurring basis) were 6% of total Firm assets at December 31, 2008. The following describes significant changes to level 3 assets during the year.

Level 3 assets increased $46.9 billion in 2008, largely due to the following:

- Acquisition of $41.5 billion of level 3 assets as a result of the merger with Bear Stearns.
- Acquisition of $5.9 billion of MSRs related to the Washington Mutual transaction.
- Purchase of approximately $4.4 billion of reverse mortgages in the first quarter of 2008, for which there is limited pricing information and a lack of market liquidity.
- Transfers of $14.0 billion of AAA-rated CLOs backed by corporate loans, based upon a significant reduction in new deal issuance and price transparency; $10.5 billion of mortgage-related assets, including commercial mortgage-backed securities with a rating below AAA , other noninvestment grade mortgage securities and certain prime mortgages; and $2.8 billion of auction-rate securities, in each case due to a significant reduction in market liquidity.

The increases in level 3 assets described above were partially offset by:

- Approximately $20.0 billion of sales and markdowns of residential mortgage-backed securities, prime residential mortgage loans and Alt-A residential mortgage loans.
- $11.5 billion of sales and markdowns of leveraged loans, as well as transfers of similar loans to level 2 due to the increased price transparency for such assets.

$3.5 billion of transfers of bridge loans to level 2 due to increased price transparency for such assets.

Gains and Losses

Gains and losses in the tables above for 2008 include:

Losses on trading debt and equity instruments of approximately $12.8 billion, principally from mortgage-related transactions and auction-rate securities.

A $6.9 billion decline in the fair value of the MSR asset.

Losses of approximately $3.9 billion on leveraged loans. Leveraged loans are typically classified as held-for-sale and measured at the lower of cost or fair value and therefore included in the nonrecurring fair value assets.

Gains of $4.5 billion related to structured notes, principally due to significant volatility in the equity markets.

Net gains of $4.6 billion related to derivatives, principally due to changes in credit spreads and rate curves.

The Firm risk manages level 3 financial instruments using securities and derivative positions classified within level 1 or 2 of the valuation hierarchy; the effect of these risk management activities is not reflected in the level 3 gains and losses included in the tables above.

For further information on changes in the fair value of the MSRs, see Note 18 on pages 187 188 of this Annual Report.

Credit adjustments

When determining the fair value of an instrument, it may be necessary to record a valuation adjustment to arrive at an exit price in accordance with SFAS 157. Valuation adjustments include, but are not limited to, amounts to reflect counterparty credit quality and the Firm s own creditworthiness. For a detailed discussion of the valuation adjustments the Firm considers, see the valuation discussion at the beginning of this Note.

The following table provides the credit adjustments, gross of hedges where risk is actively managed, as reflected within the Consolidated Balance Sheets of the Firm as of the dates indicated.

Year ended December 31, (in millions)	**2008**	2007
Derivatives receivables balance	**$ 162,626**	$ 77,136
Derivatives CVA[(a)]	**(9,566)**	(1,265)
Derivatives payable balance	**121,604**	68,705
Derivatives DVA	**1,389**	518
Structured notes balance	**67,340**	87,622
Structured notes DVA[(b)]	**2,413**	896

(a) Derivative CVA, gross of hedges, includes results managed by Credit Portfolio and other lines of business within IB.

(b) Structured notes are carried at

fair value based upon the Firm s election under SFAS 159. For further information on these elections, see Note 5 on page 144 of this Annual Report.

The following table provides the impact of credit adjustments, gross of hedges where risk is actively managed, on earnings in the respective periods.

Year ended December 31, (in millions)	**2008**	2007
Credit adjustments:		
Derivatives CVA[(a)]	**$ (7,561)**	$ (803)
Derivatives DVA	**789**	514
Structured Notes DVA[(b)]	**1,211**	806

(a) Derivative CVA, gross of hedges, includes results managed by Credit Portfolio and other lines of business within IB.

(b) Structured notes are carried at fair value based upon the Firm s election under SFAS 159. For further information on these elections, see Note 5 on page 144 of this Annual Report.

The market s view of the Firm s credit quality is reflected in credit spreads observed in the credit default swap market. These credit spreads are affected by a number of factors, such as the performance of the assets the Firm holds. Consequently, significant deterioration in the value of sizable exposures held by the Firm are likely to result in wider credit default swap spreads. This will lead to an increase in the Firm s credit adjustment (i.e., DVA) for liabilities carried at fair value.

Mortgage-related exposures carried at fair value

As noted above, certain of the Firm s wholesale and consumer loans are carried at fair value including mortgage related loans. Since the second half of 2007, liquidity in certain sectors of the mortgage markets has decreased, thereby limiting the price transparency of certain mortgage-related instruments. The table below summarizes the

Firm s mortgage-related exposures that are carried at fair value through earnings or at the lower of cost or fair value; the table excludes securities held in the available-for-sale portfolio.

(in millions)	Exposure as of December 31, 2008 Gross	Net of risk management activities[d]	Net gains/(losses)[e] reported in income year ended December 31, 2008
U.S. Residential Mortgage:[a][b][c]			
Prime	$ 11,221	$ 5,044	
Alt-A	3,934	3,917	
	15,155	8,961	$ (1,468)
Subprime	941	(28)	(369)
Non-U.S. Residential	1,591	951	(292)
Commercial Mortgage:			
Securities	2,836	1,438	(792)
Loans	4,338	2,179	(752)

(a) Included exposures in IB and Retail Financial Services segments.

(b) Excluded from the table above are certain mortgage-related assets that are carried at fair value and recorded in trading assets, such as: (i) U.S. government agency and U.S. government-sponsored enterprise securities that are liquid and of high credit quality of $58.9 billion at December 31, 2008; and (ii) reverse mortgages of $4.3 billion at December 31, 2008, for which the principal risk is mortality risk. Also excluded are mortgage servicing rights, which are reported in Note 18 on pages 187 188 of this Annual Report.

(c) Also excluded from the table above are certain mortgage-related financing transactions, which are collateralized by mortgage-related assets, of $5.7 billion at December 31, 2008. These financing transactions are excluded from the table as they are accounted for on an accrual basis of accounting. For financings deemed to be impaired, impairment is measured and recognized based upon the fair value of the collateral. Of these financing transactions, $1.2 billion at December 31, 2008, was considered impaired.

(d) The amounts presented reflect the effects of derivatives utilized to risk manage the gross exposures arising from cash-based instruments and are presented on a bond or loan equivalent (notional) basis. Derivatives are excluded from the gross exposure as they are principally used for risk management purposes.

(e) Net gains and losses include all revenue related to the positions (i.e., interest income, changes in fair value of the assets, changes in fair value of the related risk management positions, and interest expense related to the liabilities funding the positions).

Table of Contents

Notes to consolidated financial statements

Residential mortgages

Prime Mortgage   The Firm had exposure of $11.2 billion to prime mortgages carried at fair value through earnings or at the lower of cost or fair value at December 31, 2008, which consisted of $2.9 billion of securities (including $1.2 billion of forward purchase commitments), largely rated AAA , and $8.3 billion of first-lien mortgages.

Alt-A mortgage   The Firm had exposure of $3.9 billion to Alt-A mortgages carried at fair value through earnings or at the lower of cost or fair value at December 31, 2008, which consisted of $787 million of securities and $3.1 billion of first-lien mortgages.

Subprime mortgage   The Firm had exposure of $941 million to sub-prime mortgages carried at fair value through earnings or at the lower of cost or fair value at December 31, 2008, which included $680 million of securities and $261 million of first-lien mortgages.

Classification and Valuation

Residential mortgage loans and mortgage-backed securities are classified within level 2 or level 3 of the valuation hierarchy depending on the level of liquidity and activity in the markets for a particular product. Level 3 assets include residential whole loans, prime and Alt-A residential mortgage-backed securities rated below AAA , subprime residential mortgage-backed securities and single-name CDS on ABS. Products that continue to have reliable price transparency as evidenced by consistent market transactions, such as AAA-rated prime and Alt-A securities, as well as agency securities, continue to be classified in level 2.

For those products classified within level 2 of the valuation hierarchy, the Firm estimates the value of such instruments using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services.

When relevant market activity is not occurring or is limited, the fair value is estimated as follows:

*Residential mortgage loan*s   Fair value of residential mortgage loans is estimated by projecting the expected cash flows and discounting those cash flows at a rate reflective of current market liquidity. To estimate the projected cash flows (inclusive of assumptions of prepayment, default rates and loss severity), specific consideration is given to both borrower-specific and other market factors including, but not limited to: the borrower s FICO score; the type of collateral supporting the loan; an estimate of the current value of the collateral supporting the loan; the level of documentation for the loan; and market-derived expectations for home price appreciation or depreciation in the respective geography of the borrower.

Residential mortgage-backed securities   Fair value of residential mortgage-backed securities is estimated considering the value of the collateral and the specific attributes of the securities held by the Firm. The value of the collateral pool supporting the securities is
analyzed using the same techniques and factors described above for residential mortgage loans, albeit in a more aggregated manner across the pool. For example, average FICO scores, average delinquency rates, average loss severities and prepayment rates, among other metrics, may be evaluated. In addition, as each securitization vehicle distributes cash in a manner or order that is predetermined at the inception of the vehicle, the priority in which each particular mortgage-backed security is allocated cash flows, and the level of credit enhancement that is in place to support those cash flows, are key considerations in deriving the value of residential mortgage-backed securities. Finally, the risk premium that investors demand for securitized products in today s market is factored into the valuation. To benchmark its valuations, the Firm looks to transactions for similar instruments and utilizes independent pricing provided by third-party vendors, broker quotes and relevant market indices such as the ABX index, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of the Firm s estimates.

Commercial mortgages

Commercial mortgages are loans to companies backed by commercial real estate. Commercial mortgage-backed securities are securities collateralized by a pool of commercial mortgages. Typically, commercial mortgages have lock-out periods, where the borrower is restricted from prepaying the loan for a specified timeframe, or periods where there are disincentives for the borrower to prepay the loan due to prepayment penalties. These features reduce prepayment risk for commercial mortgages relative to that of residential mortgages.

The Firm had exposure to $7.2 billion of commercial mortgage-backed assets carried at fair value through earnings or at the lower of cost or fair value at December 31, 2008, which consisted of $2.8 billion of securities, largely rated AAA, and $4.4 billion of first-lien mortgages, largely in the U.S.

Classification and Valuation

While commercial mortgages and commercial mortgage-backed securities are classified within level 2 or level 3 of the valuation hierarchy, depending on the level of liquidity and activity in the markets, the majority of these mortgages, including both loans and lower-rated securities, are currently classified in level 3. Level 2 assets include AAA-rated fixed-rate commercial mortgage-backed securities.

Commercial mortgage loans Fair value of commercial mortgage loans is estimated by projecting the expected cash flows and discounting those cash flows at a rate reflective of current market liquidity. To estimate the projected cash flows, consideration is given to both borrower-specific and other market factors including, but not limited to: the borrower s debt-to-service coverage ratio; the type of commercial property (e.g., retail, office, lodging, multi-family, etc.); an estimate of the current loan-to-value ratio; and market-derived expectations for property price appreciation or depreciation in the respective geographic location.

Commercial mortgage-backed securities When relevant market activity is not present or is limited, the value of commercial mortgage-backed securities is estimated considering the value of the collateral and the specific attributes of the securities held by the Firm. The value of the collateral pool supporting the securities is analyzed using the same techniques and factors described above for the valuation of commercial mortgage loans, albeit in a more aggregated manner across the pool. For example, average delinquencies, loan or geographic concentrations and average debt-service coverage ratios, among other metrics, may be evaluated. In addition, as each securitization vehicle distributes cash in a manner or order that is predetermined at the inception of the vehicle, the priority in which each particular mortgage-backed security is allocated cash flows, and the level of credit enhancement that is in place to support those cash flows, are key considerations in deriving the value of commercial mortgage-backed securities. Finally, the risk premium that investors demand for securitized products in today s market is factored into the valuation. To benchmark its valuations, the Firm utilizes independent pricing provided by third-party vendors, and broker quotes, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of the Firm s estimates.

The following table presents mortgage-related activities within the available-for-sale securities portfolio.

(in millions)	Exposures as of December 31, 2008	Net gains/(losses) reported in income year ended December 31, 2008[(a)]	Unrealized gains/(losses) included in other comprehensive income (pretax) year ended December 31, 2008
U.S. residential mortgage:			
Prime	$ 6,027	$ (32)	$ (1,769)
Alt-A	868		(196)
Subprime	194	(89)	(32)
Non-U.S. residential	2,075	2	(156)
Commercial mortgage	3,939		(684)
U.S. government and federal agency obligations:			
Mortgage-backed securities	$ 6,424	$ 23	$ 165
Collateralized mortgage obligations	558	(5)	(4)
U.S. government-sponsored enterprise obligations:			
Mortgage-backed securities	110,403	458	1,915
Direct obligations	9,657	11	(54)

(a) Excludes related net interest income.

Exposures in the table above include $140.1 billion of mortgage-backed securities classified as available-for-sale in the Firm s Consolidated Balance Sheets at December 31, 2008. These investments are primarily used as part of the Firm s centralized risk management of structural interest rate risk (the sensitivity of the Firm s aggregate balance sheet to changes in interest rates). Changes in the Firm s structural interest rate position, as well as changes in the overall interest rate environment, are continually monitored, resulting in periodic repositioning of mortgage-backed securities classified as available-for-sale. Given that this portfolio is primarily used to manage interest rate risk, predominantly all of these securities are backed by either U.S. government agencies, government sponsored entities, or they are rated AAA .

Investment securities in the available-for-sale portfolio include:

- $6.9 billion of prime and Alt-A securities, principally rated AAA . The fair value of these securities is determined based upon independent pricing services supported by relevant and observable market data for similar securities. The Firm classifies these securities in level 2 of the valuation hierarchy.
- $3.9 billion of commercial mortgage-backed securities, principally rated AAA . The fair value of these securities is determined using a third party pricing service that uses relevant and observable market data. The Firm classifies these securities in level 2 of the valuation hierarchy.
- $127.0 billion of U.S. government agencies or U.S. government-sponsored enterprise mortgage-backed securities. Where these securities trade in active markets and there is market-observable pricing, they are classified in level 1 of the valuation hierarchy. Where the determination of fair value is based on broker quotes and independent pricing services, supported by relevant and observable market data, the Firm classifies such securities in level 2 of the valuation hierarchy.

Table of Contents

Notes to consolidated financial statements

SFAS 157 Transition

In connection with the initial adoption of SFAS 157, the Firm recorded the following on January 1, 2007:

- a cumulative effect increase to retained earnings of $287 million, primarily related to the release of profit previously deferred in accordance with EITF 02-3;
- an increase to pretax income of $166 million ($103 million after-tax) related to the incorporation of the Firm s creditworthiness in the valuation of liabilities recorded at fair value; and
- an increase to pretax income of $464 million ($288 million after-tax) related to valuations of nonpublic private equity investments.

Prior to the adoption of SFAS 157, the Firm applied the provisions of EITF 02-3 to its derivative portfolio. EITF 02-3 precluded the recognition of initial trading profit in the absence of: (a) quoted market prices, (b) observable prices of other current market transactions or (c) other observable data supporting a valuation technique. In accordance with EITF 02-3, the Firm recognized the deferred profit in principal transactions revenue on a systematic basis (typically straight-line amortization over the life of the instruments) and when observable market data became available.

Prior to the adoption of SFAS 157 the Firm did not incorporate an adjustment into the valuation of liabilities carried at fair value on the Consolidated Balance Sheets. Commencing January 1, 2007, in accordance with the requirements of SFAS 157, an adjustment was made to the valuation of liabilities measured at fair value to reflect the credit quality of the Firm.

Prior to the adoption of SFAS 157, privately held investments were initially valued based upon cost. The carrying values of privately held investments were adjusted from cost to reflect both positive and negative changes evidenced by financing events with third-party capital providers. The investments were also subject to ongoing impairment reviews by private equity senior investment professionals. The increase in pretax income related to nonpublic private equity investments in connection with the adoption of SFAS 157 was due to there being sufficient market evidence to support an
increase in fair values using the SFAS 157 methodology, although there had not been an actual third-party market transaction related to such investments.

Financial disclosures required by SFAS 107

Many but not all of the financial instruments held by the Firm are recorded at fair value on the Consolidated Balance Sheets. SFAS 107 requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair value. Financial instruments within the scope of SFAS 107 are included in the table below. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a partial estimate of the fair value of JPMorgan Chase. For example, the Firm has developed long-term relationships with its customers through its deposit base and credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items, in the aggregate, add significant value to JPMorgan Chase, but their fair value is not disclosed in this Note.

Financial instruments for which fair value approximates carrying value

Certain financial instruments that are not carried at fair value on the Consolidated Balance Sheets are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. These instruments include cash and due from banks, deposits with banks, federal funds sold and securities purchased under resale agreements and securities borrowed with short-dated maturities, short-term receivables and accrued interest receivable, commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements with short-dated maturities, other borrowed funds (excluding advances from Federal Home Loan Banks), accounts payable and accrued liabilities. In addition, SFAS 107 requires that the fair value for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments.

Table of Contents

The following table presents the carrying value and estimated fair value of financial assets and liabilities as required by SFAS 107 (a discussion of the valuation of the individual instruments can be found at the beginning of this Note or following the table below).

	2008			2007		
December 31, (in billions)	Carrying value	Estimated fair value	Appreciation/ (depreciation)	Carrying value	Estimated fair value	Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	**$ 226.0**	**$ 226.0**	**$**	$ 76.4	$ 76.4	$
Federal funds sold and securities purchased under resale agreements (included $20.8 and $19.1 at fair value at December 31, 2008 and 2007, respectively)	**203.1**	**203.1**		170.9	170.9	
Securities borrowed (included $3.4 and zero at fair value at December 31, 2008 and 2007, respectively)	**124.0**	**124.0**		84.2	84.2	
Trading assets	**510.0**	**510.0**		491.4	491.4	
Securities	**205.9**	**205.9**		85.4	85.4	
Loans (included $7.7 and $8.7 at fair value at December 31, 2008 and 2007, respectively)	**721.7**	**700.0**	**(21.7)**	510.1	510.7	0.6
Mortgage servicing rights at fair value	**9.4**	**9.4**		8.6	8.6	
Other (included $29.2 and $22.2 at fair value at December 31, 2008 and 2007, respectively)	**104.6**	**104.7**	**0.1**	66.6	67.1	0.5
Total financial assets	**$ 2,104.7**	**$ 2,083.1**	**$ (21.6)**	$ 1,493.6	$ 1,494.7	$ 1.1
Financial liabilities						
Deposits (included $5.6 and $6.4 at fair value at December 31, 2008 and 2007, respectively)[(a)]	**$ 1,009.3**	**$ 1,010.2**	**$ (0.9)**	$ 740.7	$ 741.3	$ (0.6)
Federal funds purchased and securities loaned or sold under repurchase agreements (included $3.0 and $5.8 at fair value at December 31, 2008 and 2007, respectively)	**192.5**	**192.5**		154.4	154.4	
Commercial paper	**37.8**	**37.8**		49.6	49.6	
Other borrowed funds (included $14.7 and $10.8 at	**132.4**	**134.1**	**(1.7)**	28.8	28.8	

fair value at December 31, 2008 and 2007, respectively)						
Trading liabilities	**166.9**	**166.9**		157.9	157.9	
Accounts payable and other liabilities	**183.3**	**183.3**		89.0	89.0	
Beneficial interests issued by consolidated VIEs (included $1.7 and $3.0 at fair value at December 31, 2008 and 2007, respectively)	**10.6**	**10.5**	**0.1**	14.0	13.9	0.1
Long-term debt and junior subordinated deferrable interest debentures (included $58.2 and $70.5 at fair value at December 31, 2008 and 2007, respectively)(b)	**270.7**	**262.1**	**8.6**	199.0	198.7	0.3
Total financial liabilities	**$ 2,003.5**	**$ 1,997.4**	**$ 6.1**	$ 1,433.4	$ 1,433.6	$ (0.2)
Net (depreciation) appreciation			**$ (15.5)**			$ 0.9

(a) The fair value of interest-bearing deposits are estimated by discounting cash flows using the appropriate market rates for the applicable maturity.

(b) Fair value for long-term debt, including junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities, is based upon current market rates and adjusted for JPMorgan Chase s credit quality.

The majority of the Firm s unfunded lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets nor are they actively traded. Although there is no liquid secondary market for wholesale commitments, the Firm estimates the fair value of its wholesale lending-related commitments primarily using the cost of credit derivatives (which is adjusted to account for the difference in recovery rates between bonds, upon which the cost of credit derivatives is based, and loans) and loan equivalents (which represent the portion of an unused commitment expected, based
upon the Firm s average portfolio historical experience, to become outstanding in the event an obligor defaults). On this basis, the estimated fair value of the Firm s lending-related commitments at December 31, 2008 and 2007, was a liability of $7.5 billion and $1.9 billion, respectively. 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 prior notice, or, in some cases, without notice as permitted by law.

Table of Contents

Notes to consolidated financial statements

Note 5 Fair value option

In February 2007, the FASB issued SFAS 159, which was effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Firm chose early adoption for SFAS 159 effective January 1, 2007. SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value.

Elections

The following is a discussion of the primary financial instruments for which fair value elections were made and the basis for those elections:

Loans and unfunded lending-related commitments

On January 1, 2007, the Firm elected to record, at fair value, the following:

Loans and unfunded lending-related commitments that are extended as part of IB s principal investing activities. The transition amount related to these loans included a reversal of the allowance for loan losses of $56 million.

Certain loans held-for-sale. These loans were reclassified to trading assets debt and equity instruments. This election enabled the Firm to record loans purchased as part of the Investment Bank s commercial mortgage securitization activity and proprietary activities at fair value and discontinue SFAS 133 fair value hedge relationships for certain originated loans.

Beginning on January 1, 2007, the Firm chose to elect fair value as the measurement attribute for the following loans originated or purchased after that date:

Loans purchased or originated as part of IB s securitization warehousing activities.

Prime mortgage loans originated with the intent to sell within Retail Financial Services (RFS).

The election to fair value the above loans did not include loans within these portfolios that existed on January 1, 2007, based upon the short holding period of the loans and/or the negligible impact of the elections.

Warehouse loans elected to be reported at fair value are classified as trading assets debt and equity instruments. For additional information regarding warehouse loans, see Note 16 on pages 168 176 of this Annual Report.

Beginning in the third quarter of 2007, the Firm elected the fair value option for newly originated bridge financing activity in IB. These elections were made to align further the accounting basis of the bridge financing activities with their related risk management practices. For these activities, the loans continue to be classified within loans on the Consolidated Balance Sheets; the fair value of the unfunded commitments is recorded within accounts payable and other liabilities.

Securities Financing Arrangements

On January 1, 2007, the Firm elected to record at fair value resale and repurchase agreements with an embedded derivative or a maturity of greater than one year. The intent of this election was to mitigate volatility due to the differences in the measurement basis for the agreements (which were previously accounted for on an accrual basis) and the associated risk management arrangements (which are accounted for on a fair value basis). An election was not made for short-term agreements, as the carrying value for such agreements generally approximates fair value. For additional information regarding these agreements, see Note 13 on pages 162 163 of this Annual Report.

In the second quarter of 2008, the Firm began electing the fair value option for newly transacted securities borrowed and securities lending agreements with a maturity of greater than one year. An election was not made for any short-term agreements, as the carrying value for such agreements generally approximates fair value.

Structured Notes

IB issues structured notes as part of its client-driven activities. Structured notes are financial instruments that contain embedded derivatives and are included in long-term debt. On January 1, 2007, the Firm elected to record at fair value all structured notes not previously elected or eligible for election under SFAS 155. The election was made to mitigate the volatility due to the differences in the measurement basis for structured notes and the associated risk management arrangements as well as to eliminate the operational burdens of having different accounting models for the same type of financial instrument.

Other

In the third quarter of 2008, the Firm elected the fair value option for the ABCP investments purchased under the

Federal Reserve s AML Facility for U.S. money market mutual funds, as well as the related nonrecourse advance from the Federal Reserve Bank of Boston (FRBB). At December 31, 2008, ABCP investments of $11.2 billion were recorded in other assets; the corresponding non-recourse liability to the FRBB in the same amount was recorded in other borrowed funds. For further discussion, see Note 21 on page 190 of this Annual Report.

In 2008, the Firm elected the fair value option for certain loans acquired as part of the Bear Stearns merger that were included in the trading portfolio and for prime mortgages previously designated as held-for-sale by Washington Mutual as part of the Washington Mutual transaction. In addition, the Firm elected the fair value option for certain tax credit and other equity investments acquired as part of the Washington Mutual transaction.

Table of Contents

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 years ended December 31, 2008 and 2007, for items for which the fair value election was made. 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.

	2008			2007		
December 31, (in millions)	Principal transactions[c]	Other income[c]	Total changes in fair value recorded	Principal transactions[c]	Other income[c]	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	**$ 1,139**	**$**	**$ 1,139**	$ 580	$	$ 580
Securities borrowed	**29**		**29**			
Trading assets:						
Debt and equity instruments, excluding loans	**(870)**	**(58)**[d]	**(928)**	421	(1)[d]	420
Loans reported as trading assets:						
Changes in instrument-specific credit risk	**(9,802)**	**(283)**[d]	**(10,085)**	(517)	(157)[d]	(674)
Other changes in fair value	**696**	**1,178**[d]	**1,874**	188	1,033[d]	1,221
Loans:						
Changes in instrument-specific credit risk	**(1,991)**		**(1,991)**	102		102
Other changes in fair value	**(42)**		**(42)**	40		40
Other assets		**(660)**[e]	**(660)**		30[e]	30
Deposits[a]	**(132)**		**(132)**	(906)		(906)
Federal funds purchased and securities loaned or sold under repurchase agreements	**(127)**		**(127)**	(78)		(78)
Other borrowed funds[a]	**1,888**		**1,888**	(412)		(412)
Trading liabilities	**35**		**35**	(17)		(17)
Accounts payable and other liabilities				(460)		(460)
Beneficial interests issued by consolidated VIEs	**355**		**355**	(228)		(228)
Long-term debt:						
Changes in instrument-specific credit risk[a]	**1,174**		**1,174**	771		771
Other changes in fair value[b]	**16,202**		**16,202**	(2,985)		(2,985)

(a) Total changes in instrument-specific credit risk related to structured notes were $1.2 billion and $806 million for the years ended December 31, 2008 and 2007, respectively, which includes adjustments for structured notes classified within deposits and other borrowed funds, as well as long-term debt.

(b) Structured notes are debt instruments with embedded derivatives that are tailored to meet a client s need for derivative risk in funded form. The embedded derivative is the primary driver of risk. The 2008 gain included in Other changes in fair value results from a significant decline in the value of certain structured notes where the embedded derivative is principally linked to either equity indices or commodity prices, both of which declined sharply during the second half of 2008. Although the risk associated with the structured notes is actively managed, the balance reported in this table does not include the income statement impact of such risk management instruments.

(c) Included in the amounts are gains and losses related to certain financial instruments previously carried at fair value by the Firm, such as structured liabilities elected pursuant to SFAS 155 and loans purchased as part of the Investment Bank s trading activities.

(d) Reported in mortgage fees and related income.

(e) Reported in other income.

Determination of instrument-specific credit risk for items for which a fair value election was made

The following describes how the gains and losses included in earnings during 2008 and 2007, which were attributable to changes in instrument-specific credit risk, were determined.

Loans and lending-related commitments: For floating-rate instruments, all changes in value are attributed to instrument-specific credit risk. For fixed-rate instruments, an allocation of the changes in value for the period is made between those changes in value that are interest rate-related and changes in value that are credit-related. Allocations are generally based upon an analysis of borrower-specific credit spread and recovery information, where available, or benchmarking to similar entities or industries.

Long-term debt: Changes in value attributable to instrument-specific credit risk were derived principally from observable changes in the Firm s credit spread. The gain for 2008 and 2007 was attributable to the widening of the Firm s credit spread.

Resale and repurchase agreements, securities borrowed agreements and securities lending agreements: Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to or in excess of the principal amount loaned; as a result, there would be no adjustment or an immaterial adjustment for instrument-specific credit risk related to these agreements.

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 December 31, 2008 and 2007, for loans and long-term debt for which the SFAS 159 fair value option has been elected. The loans were classified in trading assets debt and equity instruments or in loans.

Table of Contents

Notes to consolidated financial statements

	2008			2007		
December 31, (in millions)	Remaining aggregate contractual principal amount outstanding	Fair value	Fair value over (under) remaining aggregate contractual principal amount outstanding	Remaining aggregate contractual principal amount outstanding	Fair value	Fair value over (under) remaining aggregate contractual principal amount outstanding
Loans						
Performing loans 90 days or more past due						
Loans reported as trading assets	**$**	**$**	**$**	$	$	$
Loans				11	11	
Nonaccrual loans						
Loans reported as trading assets	**7,454**	**1,519**	**(5,935)**	3,044	1,176	(1,868)
Loans	**189**	**51**	**(138)**	15	5	(10)
Subtotal	**7,643**	**1,570**	**(6,073)**	3,070	1,192	(1,878)
All other performing loans						
Loans reported as trading assets	**34,038**	**30,283**	**(3,755)**	56,164	56,638	474
Loans	**10,206**	**7,441**	**(2,765)**	9,011	8,580	(431)
Total loans	**$ 51,887**	**$ 39,294**	**$ (12,593)**	$ 68,245	$ 66,410	$ (1,835)
Long-term debt						
Principal protected debt	**$ (27,043)**[(b)]	**$ (26,241)**	**$ (802)**	$ (24,262)[(b)]	$ (24,033)	$ (229)
Nonprincipal protected debt[(a)]	**NA**	**(31,973)**	**NA**	NA	(46,423)	NA
Total long-term debt	**NA**	**$ (58,214)**	**NA**	NA	$ (70,456)	NA
FIN 46R long-term beneficial interests						
Principal protected debt	**$**	**$**	**$**	$ (58)	$ (58)	$
Nonprincipal protected debt[(a)]	**NA**	**(1,735)**	**NA**	NA	(2,946)	NA
Total FIN 46R long-term beneficial interests	**NA**	**$ (1,735)**	**NA**	NA	$ (3,004)	NA

(a) Remaining contractual principal is not applicable to nonprincipal protected notes. Unlike principal protected notes for which the Firm is obligated to return a stated amount of principal at the maturity of the note, nonprincipal protected notes do not obligate the Firm to return a stated amount of principal at maturity but to return an amount based upon the performance of an underlying variable or derivative feature embedded in the note.
(b) 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.

The contractual amount of unfunded lending-related commitments for which the fair value option was elected was negligible at December 31, 2008. At December 31, 2007, the contractual amount of unfunded lending-related commitments for which the fair value option was elected was $1.0 billion with a corresponding fair value of $25 million. Such commitments are reflected as liabilities and included in accounts payable and other liabilities.

Note 6 Principal transactions

Principal transactions revenue consists of realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value), changes in fair value associated with financial instruments held by the Investment Bank for which the SFAS 159 fair value option was elected, and loans held-for-sale within the wholesale lines of business. For loans measured at fair value under SFAS 159, origination costs are recognized in the associated expense category as incurred. Principal transactions revenue also includes private equity gains and losses.

The following table presents principal transactions revenue.

Year ended December 31, (in millions)	**2008**	2007	2006
Trading revenue	**$ (9,791)**	$ 4,736	$ 9,418
Private equity gains (losses)[(a)]	**(908)**	4,279	1,360
Principal transactions	**$ (10,699)**	$ 9,015	$ 10,778

(a) Includes revenue on private equity investments held in the Private Equity business within Corporate/Private Equity and those held in other business segments.

Trading assets and liabilities

Trading assets include debt and equity instruments held for trading purposes that JPMorgan Chase owns (long positions), certain loans for which the Firm manages on a fair value basis and has elected the SFAS 159 fair value option, and physical commodities inventories that are accounted for at the lower of cost or fair value. Trading liabilities include debt and equity instruments that the Firm has sold to other parties but does not own (short positions). The Firm is obligated to purchase instruments at a future date to cover the short positions. Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. Trading assets and liabilities are carried at fair value on the Consolidated Balance Sheets. For a discussion of the valuation of trading assets and trading liabilities, see Note 5 on pages 144 146 of this Annual Report.

Table of Contents

The following table presents the fair value of trading assets and trading liabilities for the dates indicated.

December 31, (in millions)	**2008**	2007
Trading assets		
Debt and equity instruments:[a]		
U.S. government and federal agency obligations:		
U.S. treasuries	**$ 22,121**	$ 32,378
Mortgage-backed securities	**6,037**	791
Agency obligations	**35**	2,264
U.S. government-sponsored enterprise obligations:		
Mortgage-backed securities	**52,871**	33,910
Direct obligations	**9,149**	9,928
Obligations of state and political subdivisions	**13,002**	13,090
Certificates of deposit, bankers acceptances and commercial paper	**7,492**	8,252
Debt securities issued by non-U.S. governments	**38,647**	67,921
Corporate debt securities	**60,323**	53,941
Equity securities	**78,546**	93,248
Loans	**31,802**	57,814
Mortgage-backed securities:		
Prime	**1,725**	6,136
Alt-A	**787**	3,572
Subprime	**680**	1,459
Non-U.S. residential	**805**	974
Commercial	**2,816**	8,256
Asset-backed securities:		
Credit card receivables	**1,296**	321
Automobile loans	**722**	605
Other consumer loans	**1,343**	2,675
Commercial and industrial loans	**1,604**	169
Collateralized debt obligations	**3,868**	4,879
Other	**687**	1,026
Physical commodities	**3,581**	4,490
Other	**7,418**	6,174
Total debt and equity instruments	**347,357**	414,273
Derivative receivables:		
Interest rate	**64,101**	36,020
Credit	**44,695**	22,083
Commodity	**14,830**	9,419
Foreign exchange	**24,715**	5,616
Equity	**14,285**	3,998
Total derivative receivables	**162,626**	77,136
Total trading assets	**$ 509,983**	$ 491,409

December 31, (in millions)	**2008**	2007
Trading liabilities		
Debt and equity instruments[(b)]	**$ 45,274**	$ 89,162
Derivative payables:		
Interest rate	**48,449**	25,542
Credit	**23,566**	11,613
Commodity	**11,921**	6,942
Foreign exchange	**20,352**	7,552
Equity	**17,316**	17,056

(a) Prior periods have been revised to reflect the current presentation.

(b) Primarily represents securities sold, not yet purchased.

Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. As permitted under FIN 39, 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. The netted amount of cash collateral received and paid was $103.6 billion and $72.4 billion, respectively, at December 31, 2008, and $34.9 billion and $24.6 billion, respectively, at December 31, 2007. The Firm received and paid excess collateral of $22.2 billion and $3.7 billion, respectively, at December 31, 2008, and $17.4 billion and $2.4 billion, respectively, at December 31, 2007. This additional collateral received and paid secures potential exposure that could arise in the derivatives portfolio should the mark-to-market of the transactions move in the Firm s favor or the client s favor, respectively, and is not nettable against the derivative receivables or payables in the table above. The above amounts also exclude liquid securities held and posted as collateral by the Firm to secure derivative receivables and derivative payables. Collateral amounts held and posted in securities form are not recorded on the Firm s balance sheet, and are therefore not nettable against derivative receivables. The Firm held securities collateral of $19.8 billion and $9.8 billion at December 31, 2008 and 2007, respectively, related to derivative receivables. The Firm posted $11.8 billion and $5.9 billion of securities collateral at December 31, 2008 and 2007, respectively, related to derivative payables.

Average trading assets and liabilities were as follows for the periods indicated.

Year ended December 31, (in millions)	**2008**	2007	2006
Trading assets debt and equity instruments	**$ 384,102**	$ 381,415	$ 280,079
Trading assets derivative receivables	**121,417**	65,439	57,368
Trading liabilities debt and equity instruments[(a)]	**$ 78,841**	$ 94,737	$ 102,794
Trading liabilities derivative payables	**93,200**	65,198	57,938

(a)

Primarily represent securities sold, not yet purchased.

Private equity investments

Private equity investments are recorded in other assets on the Consolidated Balance Sheets. The following table presents the carrying value and cost of the private equity investment portfolio held by the Private Equity business within Corporate/Private Equity for the dates indicated.

December 31,	**2008**		2007	
(in millions)	Carrying value	Cost	Carrying value	Cost
Total private equity investments	**$ 6,852**	**$ 8,257**	$ 7,153	$ 6,231

The above private equity investments include investments in buyouts, growth equity and venture opportunities. These investments are accounted for under investment company guidelines. Accordingly, these investments, irrespective of the percentage of equity ownership interest held, are carried on the Consolidated Balance Sheets at fair value. Realized and unrealized gains and losses arising from changes in fair

Table of Contents

Notes to consolidated financial statements

value are reported in principal transactions revenue in the Consolidated Statements of Income in the period that the gains or losses are recognized. For a discussion of the valuation of private equity investments, see Note 5 on pages 144 146 of this Annual Report.

Note 7 Other noninterest revenue

Investment banking fees

This revenue category includes advisory and equity and debt underwriting fees. Advisory fees are recognized as revenue when the related services have been performed. Underwriting fees are recognized as revenue when the Firm has rendered all services to the issuer and is entitled to collect the fee from the issuer, as long as there are no other contingencies associated with the fee (e.g., the fee is not contingent upon the customer obtaining financing). Underwriting fees are net of syndicate expense; the Firm recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

The following table presents the components of Investment banking fees.

Year ended December 31, (in millions)	**2008**	2007	2006
Underwriting:			
Equity	**$ 1,477**	$ 1,713	$ 1,179
Debt	**2,094**	2,650	2,703
Total underwriting	**3,571**	4,363	3,882
Advisory	**1,955**	2,272	1,638
Total investment banking fees	**$ 5,526**	$ 6,635	$ 5,520

Lending & deposit-related fees

This revenue category includes fees from loan commitments, standby letters of credit, financial guarantees, deposit-related fees in lieu of compensating balances, cash management-related activities or transactions, deposit accounts and other loan-servicing activities. These fees are recognized over the period in which the related service is provided.

Asset management, administration and commissions

This revenue category includes fees from investment management and related services, custody, brokerage services, insurance premiums and commissions, and other products. These fees are recognized over the period in which the related service is provided. Performance-based fees, which are earned based upon exceeding certain benchmarks or other performance targets, are accrued and recognized at the end of the performance period in which the target is met.

The following table presents components of asset management, administration and commissions.

Year ended December 31, (in millions)	**2008**	2007	2006
Asset management:			
Investment management fees	**$ 5,562**	$ 6,364	$ 4,429
All other asset management fees	**432**	639	567
Total asset management fees	**5,994**	7,003	4,996
Total administration fees[(a)]	**2,452**	2,401	2,430
Commission and other fees:			
Brokerage commissions	**3,141**	2,702	2,184
All other commissions and fees	**2,356**	2,250	2,245

Total commissions and fees	**5,497**	4,952	4,429
Total asset management, administration and commissions	**$ 13,943**	$ 14,356	$ 11,855

(a) Includes fees for custody, securities lending, funds services and broker-dealer clearance.

Mortgage fees and related income

This revenue category primarily reflects Retail Financial Services mortgage banking revenue, including: fees and income derived from mortgages originated with the intent to sell; mortgage sales and servicing; the impact of risk management activities associated with the mortgage pipeline, warehouse loans and MSRs; and revenue related to any residual interests held from mortgage securitizations. This revenue category also includes gains and losses on sales and lower of cost or fair value adjustments for mortgage loans held-for-sale, as well as changes in fair value for mortgage loans originated with the intent to sell and measured at fair value under SFAS 159. For loans measured at fair value under SFAS 159, origination costs are recognized in the associated expense category as incurred. Costs to originate loans held-for-sale and accounted for at the lower of cost or fair value are deferred and recognized as a component of the gain or loss on sale. Net interest income from mortgage loans and securities gains and losses on available-for-sale (AFS) securities used in mortgage-related risk management activities are recorded in interest income and securities gains (losses), respectively. For a further discussion of MSRs, see Note 18 on pages 187 188 of this Annual Report.

Credit card income

This revenue category includes interchange income from credit and debit cards and servicing fees earned in connection with securitization activities. Volume-related payments to partners and expense for rewards programs are netted against interchange income; expense related to rewards programs are recorded when the rewards are earned by the customer, as more fully described below. Other fee revenue is recognized as earned, except for annual fees, which are deferred and recognized on a straight-line basis over the 12-month period to which they pertain. Direct loan origination costs are also deferred and recognized over a 12-month period. In addition, due to the consolidation of Chase Paymentech Solutions in the fourth quarter of 2008, this category now includes net fees earned for processing card transactions for merchants.

Table of Contents

Credit card revenue sharing agreements

The Firm has contractual agreements with numerous affinity organizations and co-brand partners, which grant the Firm exclusive rights to market to the members or customers of such organizations and partners. These organizations and partners endorse the credit card programs and provide their mailing lists to the Firm, and they may also conduct marketing activities and provide awards under the various credit card programs. The terms of these agreements generally range from three to ten years. The economic incentives the Firm pays to the endorsing organizations and partners typically include payments based upon new account originations, charge volumes, and the cost of the endorsing organizations or partners marketing activities and awards.

The Firm recognizes the payments made to the affinity organizations and co-brand partners based upon new account originations as direct loan origination costs. Payments based upon charge volumes are considered by the Firm as revenue sharing with the affinity organizations and co-brand partners, which are deducted from interchange income as the related revenue is earned. Payments based upon marketing efforts undertaken by the endorsing organization or partner are expensed by the Firm as incurred. These costs are recorded within noninterest expense.

Note 8 Interest income and Interest expense

Details of interest income and interest expense were as follows.

Year ended December 31, (in millions)	**2008**	2007	2006
Interest income[(a)]			
Loans[(b)]	**$38,347**	$36,660	$33,121
Securities[(b)]	**6,344**	5,232	4,147
Trading assets	**17,236**	17,041	10,942
Federal funds sold and securities purchased under resale agreements	**5,983**	6,497	5,578
Securities borrowed	**2,297**	4,539	3,402
Deposits with banks	**1,916**	1,418	1,265
Interests in purchased receivables[(b)]			652
Other assets[(c)]	**895**		
Total interest income	**73,018**	71,387	59,107
Interest expense[(a)]			
Interest-bearing deposits	**14,546**	21,653	17,042
Short-term and other liabilities[(d)]	**10,933**	16,142	14,086
Long-term debt	**8,355**	6,606	5,503
Beneficial interests issued by consolidated VIEs	**405**	580	1,234
Total interest expense	**34,239**	44,981	37,865
Net interest income	**38,779**	26,406	21,242
Provision for credit losses	**19,445**	6,864	3,270
Provision for credit losses accounting conformity[(e)]	**1,534**		
Total provision for credit losses	**$20,979**	$ 6,864	$ 3,270

Net interest income after provision for credit losses	**$17,800**	$19,542	$17,972

(a) Interest income and interest expense include the current period interest accruals for financial instruments measured at fair value except for financial instruments containing embedded derivatives that would be separately accounted for in accordance with SFAS 133 absent the SFAS 159 fair value election; for those instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue.

(b) As a result of restructuring certain multi-seller conduits the Firm administers, JPMorgan Chase deconsolidated $29 billion of interests in purchased receivables, $3 billion of loans and $1 billion of securities and recorded $33 billion of lending-related commitments during 2006.

(c) Predominantly margin loans.

(d) Includes brokerage customer payables.

(e) Includes accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual s banking operations.

Note 9 Pension and other postretirement employee benefit plans

The Firm s defined benefit pension plans are accounted for in accordance with SFAS 87 and SFAS 88, and its other postretirement employee benefit (OPEB) plans are accounted for in accordance with SFAS 106. In September 2006, the FASB issued SFAS 158, which requires companies to recognize on their Consolidated Balance Sheets the overfunded or underfunded status of their defined benefit postretirement plans, measured as the difference between the fair value of plan assets and the benefit obligation. SFAS 158 requires unrecognized amounts (e.g., net loss and prior service costs) to be recognized in accumulated other comprehensive income (loss) (AOCI) and that these amounts be adjusted as they are subsequently recognized as components of net periodic benefit cost based upon the current amortization and recognition requirements of SFAS 87 and SFAS 106. The Firm prospectively adopted SFAS 158 on December 31, 2006, and recorded an after-tax charge to AOCI of $1.1 billion at that date.

SFAS 158 also eliminates the provisions of SFAS 87 and SFAS 106 that allow plan assets and obligations to be measured as of a date not more than three months prior to the reporting entity s balance sheet date. The Firm uses a measurement date of December 31 for its defined benefit pension and OPEB plans; therefore, this provision of SFAS 158 had no effect on the Firm s financial statements.

For the Firm s defined benefit pension plans, fair value is used to determine the expected return on plan assets. For the Firm s OPEB plans, a calculated value that recognizes changes in fair value over a five-year period is used to determine the expected return on plan assets. Amortization of net gains and losses is included in annual net periodic benefit cost if, as of the beginning of the year, the net gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the fair value of the plan assets. Any excess, as well as prior service costs, are amortized over the average future service period of defined benefit pension plan participants, which for the U.S. defined benefit pension plan is currently nine years (the decrease of one year from the prior year in the assumptions is related to pension plan demographic assumption revisions at December 31, 2007, to reflect recent experience relating to the form and timing of benefit distributions and rates of turnover). For OPEB plans, any excess net gains and losses also are amortized over the average future service period, which is currently six years; however, prior service costs are amortized over the average years of service remaining to full eligibility age, which is currently four years. The amortization periods for net gains and losses and prior service costs for OPEB are unchanged from the prior year.

Table of Contents

Notes to consolidated financial statements

Defined benefit pension plans

The Firm has a qualified noncontributory U.S. defined benefit pension plan that provides benefits to substantially all U.S. employees. The U.S. plan employs a cash balance formula in the form of pay and interest credits to determine the benefits to be provided at retirement, based upon eligible compensation and years of service. Employees begin to accrue plan benefits after completing one year of service, and beginning January 1, 2008, benefits generally vest after three years of service. The Firm also offers benefits through defined benefit pension plans to qualifying employees in certain non-U.S. locations based upon factors such as eligible compensation, age and/or years of service.

It is the Firm s policy to fund the pension plans in amounts sufficient to meet the requirements under applicable employee benefit and local tax laws. On January 15, 2009, the Firm made a discretionary cash contribution to its U.S. defined benefit pension plan of $1.3 billion, funding the plan to the maximum allowable amount under applicable tax law. The expected amount of 2009 contributions to its non-U.S. defined benefit pension plans is $44 million, of which $20 million is contractually required. The amount of potential 2009 contributions to the United Kingdom (U.K.) defined benefit plans is not reasonably estimable at this time.

JPMorgan Chase also has a number of defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act. The most significant of these plans is the Excess Retirement Plan, pursuant to which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by law under a qualified plan. The Excess Retirement Plan had an unfunded projected benefit obligation in the amount of $273 million and $262 million, at December 31, 2008 and 2007, respectively.

Defined contribution plans

JPMorgan Chase offers several defined contribution plans in the U.S. and in certain non-U.S. locations, all of which are administered in accordance with applicable local laws and regulations. The most significant of these plans is The JPMorgan Chase 401(k) Savings Plan (the 401(k) Savings Plan), which covers substantially all U.S. employees. The 401(k) Savings Plan allows employees to make pretax and Roth 401(k) contributions to tax-deferred investment portfolios. The JPMorgan Chase Common Stock Fund, which is an investment option under the 401(k) Savings Plan, is a nonleveraged employee stock ownership plan. The Firm matches eligible employee contributions up to a certain percentage of benefits-eligible compensation per pay period, subject to plan and legal limits. Employees begin to receive matching contributions after completing a one-year-of-service requirement and are immediately vested in the Firm s contributions when made. Employees with total annual cash compensation of $250,000 or more are not eligible for matching contributions. The 401(k) Savings Plan also permits discretionary profit-sharing contributions by participating companies for certain employees, subject to a specified vesting schedule.

OPEB plans

JPMorgan Chase offers postretirement medical and life insurance benefits to certain retirees and postretirement medical benefits to qualifying U.S. employees. These benefits vary with length of service and date of hire and provide for limits on the Firm s share of covered medical benefits. The medical benefits are contributory, while the life insurance benefits are noncontributory. Postretirement medical benefits also are offered to qualifying U.K. employees. JPMorgan Chase s U.S. OPEB obligation is funded with corporate-owned life insurance (COLI) purchased on the lives of eligible employees and retirees. While the Firm owns the COLI policies, COLI proceeds (death benefits, withdrawals and other distributions) may be used only to reimburse the Firm for its net postretirement benefit claim payments and related administrative expense. The U.K. OPEB plan is unfunded.

Table of Contents

The following table presents the changes in benefit obligations and plan assets and funded status amounts reported on the Consolidated Balance Sheets for the Firm s U.S. and non-U.S. defined benefit pension and OPEB plans.

As of or for the year ended December 31,	Defined benefit pension plans U.S.		Non-U.S.		OPEB plans[d]	
(in millions)	**2008**	2007	**2008**	2007	**2008**	2007
Change in benefit obligation						
Benefit obligation, beginning of year	**$ (7,556)**	$ (8,098)	**$ (2,743)**	$ (2,917)	**$ (1,204)**	$ (1,443)
Benefits earned during the year	**(278)**	(270)	**(29)**	(36)	**(5)**	(7)
Interest cost on benefit obligations	**(488)**	(468)	**(142)**	(144)	**(74)**	(74)
Plan amendments				2		
Business combinations					**(1)**[e]	
Liabilities of newly material plans				(5)		
Employee contributions	**NA**	NA	**(3)**	(3)	**(61)**	(57)
Net gain (loss)	**(147)**	494	**214**	327	**99**	231
Benefits paid	**673**	789	**105**	90	**154**	165
Expected Medicare Part D subsidy receipts	**NA**	NA	**NA**	NA	**(10)**	(11)
Curtailments				4	**(6)**	(6)
Settlements				24		
Special termination benefits			**(3)**	(1)		(1)
Foreign exchange impact and other		(3)	**594**	(84)	**13**	(1)
Benefit obligation, end of year	**$ (7,796)**	$ (7,556)	**$ (2,007)**	$ (2,743)	**$ (1,095)**	$ (1,204)
Change in plan assets						
Fair value of plan assets, beginning of year	**$ 9,960**	$ 9,955	**$ 2,933**	$ 2,813	**$ 1,406**	$ 1,351
Actual return on plan assets	**(2,377)**	753	**(298)**	57	**(246)**	87
Firm contributions	**38**	37	**88**	92	**3**	3
Employee contributions			**3**	3		
Assets of newly material plans				3		
Benefits paid	**(673)**	(789)	**(105)**	(90)	**(37)**	(35)
Settlements				(24)		
Foreign exchange impact and other		4	**(613)**	79		
Fair value of plan assets, end of year	**$ 6,948**(c)	$ 9,960(c)	**$ 2,008**	$ 2,933	**$ 1,126**	$ 1,406
Funded (unfunded) status[a][b]	**$ (848)**	$ 2,404	**$ 1**	$ 190	**$ 31**	$ 202
Accumulated benefit obligation, end of year	**$ (7,413)**	$ (7,184)	**$ (1,977)**	$ (2,708)	**NA**	NA

(a) Represents overfunded plans with an aggregate balance of

$122 million and $3.3 billion at December 31, 2008 and 2007, respectively, and underfunded plans with an aggregate balance of $938 million and $491 million at December 31, 2008 and 2007, respectively.

(b) The table above does not include any amounts attributable to the Washington Mutual Pension and OPEB plans. The disposition of those plans has not been determined.

(c) At December 31, 2008 and 2007, approximately $313 million and $299 million, respectively, of U.S. plan assets included participation rights under participating annuity contracts.

(d) Includes an unfunded accumulated postretirement benefit obligation of $32 million and $49 million at

December 31, 2008 and 2007, respectively, for the U.K. plan.

(e) Represents change resulting from the Bear Stearns merger.

The following table presents pretax pension and OPEB amounts recorded in AOCI.

	Defined benefit pension plans					
As of the year ended December 31,	U.S.		Non-U.S.		OPEB plans	
(in millions)	**2008**	2007	**2008**	2007	**2008**	2007
Net loss	**$ (3,493)**	$ (250)	**$ (492)**	$ (434)	**$ (349)**	$ (98)
Prior service cost (credit)	**(26)**	(31)	**2**	2	**40**	58
Accumulated other comprehensive income (loss), pretax, end of year	**$ (3,519)**	$ (281)	**$ (490)**	$ (432)	**$ (309)**	$ (40)

Table of Contents

Notes to consolidated financial statements

The following table presents the components of net periodic benefit costs reported in the Consolidated Statements of Income and other comprehensive income for the Firm s U.S. and non-U.S. defined benefit pension and OPEB plans.

	Defined benefit pension plans								
	U.S.			Non-U.S.			OPEB plans		
r ended December 31, (in millions)	**2008**	2007	2006	**2008**	2007	2006	**2008**	2007	20
mponents of net periodic benefit cost									
efits earned during the year	**$ 278**	$ 270	$ 281	**$ 29**	$ 36	$ 37	**$ 5**	$ 7	$
rest cost on benefit obligations	**488**	468	452	**142**	144	120	**74**	74	
ected return on plan assets	**(719)**	(714)	(692)	**(152)**	(153)	(122)	**(98)**	(93)	(
ortization:									
loss			12	**25**	55	45		14	
or service cost (credit)	**4**	5	5				**(16)**	(16)	(
tailment (gain) loss	**1**		2			1	**4**	2	
lement (gain) loss					(1)	4			
cial termination benefits				**3**	1	1		1	
periodic benefit cost	**52**	29	60	**47**	82	86	**(31)**	(11)	
er defined benefit pension plans[(a)]	**11**	4	2	**14**	27	36	**NA**	NA	N
al defined benefit plans	**63**	33	62	**61**	109	122	**(31)**	(11)	
al defined contribution plans	**263**	268	254	**286**	219	199	**NA**	NA	N
al pension and OPEB cost included in compensation expense	**$ 326**	$ 301	$ 316	**$ 347**	$ 328	$ 321	**$ (31)**	$ (11)	$
anges in plan assets and benefit obligations recognized in other nprehensive income									
(gain) loss arising during the year	**$ 3,243**	$ (533)	NA	**$ 235**	$ (176)	NA	**$ 248**	$ (223)	N
or service credit arising during the year			NA		(2)	NA			N
ortization of net loss			NA	**(27)**	(55)	NA		(14)	N
ortization of prior service (cost) credit	**(5)**	(5)	NA			NA	**15**	16	N
tailment (gain) loss			NA		(5)	NA	**3**	3	N
lement loss			NA		1	NA			N
eign exchange impact and other			NA	**(150)**		NA	**3**		N
al recognized in other comprehensive income	**3,238**	(538)	NA	**58**	(237)	NA	**269**	(218)	N
al recognized in net periodic benefit cost and other nprehensive income	**$ 3,290**	$ (509)	NA	**$ 105**	$ (155)	NA	**$ 238**	$ (229)	N

(a) Includes various defined benefit pension plans, which are

individually
immaterial.

The estimated pretax amounts that will be amortized from AOCI into net periodic benefit cost in 2009 are as follows.

	Defined benefit pension plans		OPEB plans	
Year ended December 31, 2009 (in millions)	U.S.	Non-U.S.	U.S.	Non-U.S.
Net loss	$ 301	$ 42	$	$
Prior service cost (credit)	4		(14)	
Total	$ 305	$ 42	$ (14)	$

Plan assumptions

JPMorgan Chase s expected long-term rate of return for U.S. defined benefit pension and OPEB plan assets is a blended average of the investment advisor s projected long-term (10 years or more) returns for the various asset classes, weighted by the asset allocation. Returns on asset classes are developed using a forward-looking building-block approach and are not strictly based upon historical returns. Equity returns are generally developed as the sum of inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of inflation, real bond yield and
risk spread (as appropriate), adjusted for the expected effect on returns from changing yields. Other asset-class returns are derived from their relationship to the equity and bond markets. Consideration was also given to current market conditions and the short-term portfolio mix of each Plan; as a result, the Firm has generally maintained the same expected return on assets from the prior year.

For the U.K. defined benefit pension plans, which represent the most significant of the non-U.S. defined benefit pension plans, procedures similar to those in the U.S. are used to develop the expected

Table of Contents

long-term rate of return on defined benefit pension plan assets, taking into consideration local market conditions and the specific allocation of plan assets. The expected long-term rate of return on U.K. plan assets is an average of projected long-term returns for each asset class. The return on equities has been selected by reference to the yield on long-term U.K. government bonds plus an equity risk premium above the risk-free rate. The return on AA -rated long-term corporate bonds has been taken as the average yield on such bonds, adjusted for the expected downgrades and the expected narrowing of credit spreads over the long term.

The discount rate used in determining the benefit obligation under the U.S. defined benefit pension and OPEB plans was selected by reference to the yields on portfolios of bonds with maturity dates and coupons that closely match each of the plan s projected cash flows; such portfolios are derived from a broad-based universe of high-quality corporate bonds as of the measurement date. In years in which these hypothetical bond portfolios generate excess cash, such excess is assumed to be reinvested at the one-year forward rates implied by the Citigroup Pension Discount Curve published as of the measurement date. The discount rate for the U.K. defined benefit pension and OPEB plans represents a rate implied from the yield curve of the year-end iBoxx £ corporate AA 15-year-plus bond index (adjusted for expected downgrades in the underlying bonds comprising the index) with a duration corresponding to that of the underlying benefit obligations.

The following tables present the weighted-average annualized actuarial assumptions for the projected and accumulated postretirement benefit obligations and the components of net periodic benefit costs for the Firm s U.S. and non-U.S. defined benefit pension and OPEB plans, as of and for the periods indicated.

Weighted-average assumptions used to determine benefit obligations

	U.S.		Non-U.S.	
December 31,	**2008**	2007	**2008**	2007
Discount rate:				
Defined benefit pension plans	**6.65%**	6.60%	**2.00-6.20%**	2.25-5.80%
OPEB plans	**6.70**	6.60	**6.20**	5.80
Rate of compensation increase	**4.00**	4.00	**3.00-4.00**	3.00-4.25
Health care cost trend rate:				
Assumed for next year	**8.50**	9.25	**7.00**	5.75
Ultimate	**5.00**	5.00	**5.50**	4.00
Year when rate will reach ultimate	**2014**	2014	**2012**	2010

Weighted-average assumptions used to determine net periodic benefit costs

	U.S.			Non-U.S.		
Year ended December 31,	**2008**	2007	2006	**2008**	2007	2006
Discount rate:						
Defined benefit pension plans	**6.60%**	5.95%	5.70%	**2.25-5.80%**	2.25-5.10%	2.00-4.70%
OPEB plans	**6.60**	5.90	5.65	**5.80**	5.10	4.70
Expected long-term rate of return on plan assets:						
Defined benefit pension plans	**7.50**	7.50	7.50	**3.25-5.75**	3.25-5.60	3.25-5.50
OPEB plans	**7.00**	7.00	6.84	**NA**	NA	NA

Rate of compensation increase	**4.00**	4.00	4.00	**3.00-4.25**	3.00-4.00	3.00-3.75
Health care cost trend rate:						
Assumed for next year	**9.25**	10.00	10.00	**5.75**	6.63	7.50
Ultimate	**5.00**	5.00	5.00	**4.00**	4.00	4.00
Year when rate will reach ultimate	**2014**	2014	2013	**2010**	2010	2010

The following table presents the effect of a one-percentage-point change in the assumed health care cost trend rate on JPMorgan Chase s total service and interest cost and accumulated postretirement benefit obligation.

For the year ended December 31, 2008 (in millions)	1-Percentage-point increase	1-Percentage-point decrease
Effect on total service and interest cost	$ 3	$ (3)
Effect on accumulated postretirement benefit obligation	45	(40)

Notes to consolidated financial statements

At December 31, 2008, the Firm increased the discount rates used to determine its benefit obligations for the U.S. defined benefit pension and OPEB plans based upon current market interest rates, which will result in a decrease in expense of approximately $1.6 million for 2009. The 2009 expected long-term rate of return on U.S. pension plan assets and U.S. OPEB plan assets remained at 7.5% and 7.0%, respectively. The health care benefit obligation trend assumption declined from 9.25% in 2008 to 8.5% in 2009, declining to a rate of 5% in 2014. As of December 31, 2008, the interest crediting rate assumption and the assumed rate of compensation increase remained at 5.25% and 4.0%, respectively.

JPMorgan Chase s U.S. defined benefit pension and OPEB plan expense is sensitive to the expected long-term rate of return on plan assets and the discount rate. With all other assumptions held constant, a 25-basis point decline in the expected long-term rate of return on U.S. plan assets would result in an increase of approximately $23 million in 2009 U.S. defined benefit pension and OPEB plan expense. A 25-basis point decline in the discount rate for the U.S. plans would result in an increase in 2009 U.S. defined benefit pension and OPEB plan expense of approximately $9 million and an increase in the related projected benefit obligations of approximately $159 million. A 25-basis point decline in the discount rates for the non-U.S. plans would result in an increase in the 2009 non-U.S. defined benefit pension and OPEB plan expense of approximately $10 million. A 25-basis point increase in the interest crediting rate for the U.S. defined benefit pension plan would result in an increase in 2009 U.S. defined benefit pension expense of approximately $16 million and an increase in the related projected benefit obligations of approximately $66 million.

Investment strategy and asset allocation

The investment policy for the Firm s postretirement employee benefit plan assets is to optimize the risk-return relationship as appropriate to the respective plan s needs and goals, using a global portfolio of various asset classes diversified by market segment, economic sector and issuer. Specifically, the goal is to optimize the asset mix for future benefit obligations, while managing various risk factors and each plan s investment return objectives. For example, long-duration fixed income securities are included in the U.S. qualified pension plan s asset allocation, in recognition of its long-duration obligations. Plan assets are managed by a combination of internal and external investment managers and are rebalanced within approved ranges on a continued basis. The Firm reviews the allocation daily and all factors that impact portfolio changes to ensure the Plan stays within these ranges, rebalancing when deemed necessary.

The Firm s U.S. defined benefit pension plan assets are held in trust and invested in a well-diversified portfolio of equities (including U.S. large and small capitalization and international equities), fixed income (including corporate and government bonds, Treasury inflation-indexed and high-yield securities), real estate, cash equivalents and alternative investments. Non-U.S. defined benefit pension plan assets are held in various trusts and similarly invested in well-diversified portfolios of equity, fixed income and other securities. Assets of the Firm s COLI policies, which are used to fund partially the U.S. OPEB plan, are held in separate accounts with an insurance company and are invested in equity and fixed income index funds. As of December 31, 2008, assets held by the Firm s U.S. and non-U.S. defined benefit pension and OPEB plans do not include JPMorgan Chase common stock, except in connection with investments in third-party stock-index funds.

The following table presents the weighted-average asset allocation of the fair values of total plan assets at December 31 for the years indicated, as well as the respective approved range/target allocation by asset category, for the Firm s U.S. and non-U.S. defined benefit pension and OPEB plans.

	Defined benefit pension plans								
	U.S.			Non-U.S.			OPEB plans[a]		
	Target	% of plan assets		Target	% of plan assets		Target	% of plan assets	
December 31,	Allocation	**2008**	2007	Allocation	**2008**	2007	Allocation	**2008**	2007
Asset category									

Debt securities	10-30%	**25%**	28%	68%	**73%**	70%	50%	**50%**	50%
Equity securities	25-60	**36**	45	27	**21**	25	50	**50**	50
Real estate	5-20	**7**	9	1	**1**	1			
Alternatives	15-50	**32**	18	4	**5**	4			
Total	100%	**100%**	100%	100%	**100%**	100%	100%	**100%**	100%

(a) Represents the U.S. OPEB plan only, as the U.K. OPEB plan is unfunded.

Table of Contents

The following table presents the actual rate of return on plan assets for the U.S. and non-U.S. defined benefit pension and OPEB plans.

	U.S.			Non-U.S.		
December 31,	**2008**	2007	2006	**2008**	2007	2006
Actual rate of return:						
Defined benefit pension plans	**(25.17)%**	7.96%	13.40%	**(21.58)-5.06%**	0.06-7.51%	2.80-7.30%
OPEB plans	**(17.89)**	6.51	9.30	**NA**	NA	NA

Estimated future benefit payments

The following table presents benefit payments expected to be paid, which include the effect of expected future service, for the years indicated. The OPEB medical and life insurance payments are net of expected retiree contributions.

Year ended December 31, (in millions)	U.S. defined benefit pension plans	Non-U.S. defined benefit pension plans	OPEB before Medicare Part D subsidy	Medicare Part D subsidy
2009	$ 917	$ 88	$ 109	$ 11
2010	928	94	111	12
2011	597	99	112	13
2012	616	102	110	14
2013	629	107	109	15
Years 2014 2018	3,333	571	513	87

Note 10 Employee stock-based incentives

Effective January 1, 2006, the Firm adopted SFAS 123R and all related interpretations using the modified prospective transition method. SFAS 123R requires all share-based payments to employees, including employee stock options and stock appreciation rights (SARs), to be measured at their grant date fair values. The Firm also adopted the transition election provided by FSP FAS 123(R)-3.

Upon adopting SFAS 123R, the Firm began to recognize in the Consolidated Statements of Income compensation expense for unvested stock options previously accounted for under APB 25. Additionally, JPMorgan Chase recognized as compensation expense an immaterial cumulative effect adjustment resulting from the SFAS 123R requirement to estimate forfeitures at the grant date instead of recognizing them as incurred. Finally, the Firm revised its accounting policies for share-based payments granted to employees eligible for continued vesting under specific age and service or service-related provisions (full-career eligible employees) under SFAS 123R. Prior to adopting SFAS 123R, the Firm s accounting policy for share-based payment awards granted to full-career eligible employees was to recognize compensation cost over the award s stated service period. Beginning with awards granted to full-career eligible employees in 2006, JPMorgan Chase recognized compensation expense on the grant date without giving consideration to the impact of post-employment restrictions. In the first quarter of 2006, the Firm also began to accrue the estimated cost of stock awards granted to full-career eligible employees in the following year.

In June 2007, the FASB ratified EITF 06-11, which requires that realized tax benefits from dividends or dividend equivalents paid on equity-classified share-based payment awards that are charged to retained earnings be recorded as an increase to additional paid-in capital and included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. Prior to the issuance of EITF 06-11, the Firm did not include these tax benefits as part of this pool of excess tax benefits. The Firm adopted EITF 06-11 on January 1, 2008. The adoption of this consensus did not have an impact on the Firm s Consolidated Balance Sheets or results of operations.

In connection with the Bear Stearns merger, 46 million Bear Stearns employee stock awards, principally restricted stock units (RSUs), capital appreciation plan units and stock options, were exchanged for equivalent JPMorgan Chase awards using the merger exchange ratio of 0.21753. The fair value of these employee stock awards was included in the purchase price since substantially all of the awards were fully vested immediately after the merger date under provisions that provided for accelerated vesting upon a change of control of Bear Stearns. However, Bear Stearns vested employee stock options had no impact on the purchase price; since the employee stock options were significantly out of the money at the merger date, the fair value of these awards was equal to zero upon their conversion into JPMorgan Chase options.

The Firm also exchanged 6 million shares of its common stock for 27 million shares of Bear Stearns common stock held in an irrevocable grantor trust (the RSU Trust) using the merger exchange ratio of 0.21753. The RSU Trust was established to hold common stock underlying awards granted to selected employees and key executives under certain Bear Stearns employee stock plans. The RSU Trust was consolidated on JPMorgan Chase s Consolidated Balance Sheets as of June 30, 2008, and the shares held in the RSU Trust were recorded in Shares held in RSU Trust, which reduced stockholders equity, similar to the treatment for treasury stock. A related obligation to issue stock under these employee stock plans is reported in capital surplus. The issuance of shares held in the RSU Trust to employees will not have any effect on the Firm s total stockholders equity, net

Table of Contents

Notes to consolidated financial statements

income or earnings per share. Shares in the RSU Trust were distributed in 2008 with approximately half of the shares in the RSU Trust distributed in January 2009. The remaining shares are expected to be distributed over the next four years.

Employee stock-based awards

In 2008, 2007 and 2006, JPMorgan Chase granted long-term stock-based awards to certain key employees under the 2005 Long-Term Incentive Plan (the 2005 Plan). The 2005 Plan, plus prior Firm plans and plans assumed as the result of acquisitions, constitute the Firm s stock-based incentive plans (LTI Plan). The 2005 Plan became effective on May 17, 2005, after approval by shareholders at the 2005 annual meeting. In May 2008, the 2005 Plan was amended and under the terms of the amended plan as of December 31, 2008, 348 million shares of common stock are available for issuance through May 2013. The amended 2005 Plan is the only active plan under which the Firm is currently granting stock-based incentive awards.

RSUs are awarded at no cost to the recipient upon their grant. RSUs are generally granted annually and generally vest 50 percent after two years and 50 percent after three years and convert to shares of common stock at the vesting date. In addition, RSUs typically include full-career eligibility provisions, which allow employees to continue to vest upon voluntary termination, subject to post-employment and other restrictions. All of these awards are subject to forfeiture until the vesting date. An RSU entitles the recipient to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding.

Under the LTI Plan, stock options and SARs have been granted with an exercise price equal to the fair value of JPMorgan Chase s common stock on the grant date. The Firm typically awards SARs to certain key employees once per year, and it also periodically grants discretionary stock-based incentive awards to individual employees, primarily in the form of both employee stock options and SARs. The 2008 and 2007 grants of SARs to key employees vest ratably over five years (i.e., 20% per year) and the 2006 awards vest one-third after each of years three, four, and five. These awards do not include any full-career eligibility provisions and all awards generally expire ten years after the grant date.

The Firm separately recognizes compensation expense for each tranche of each award as if it were a separate award with its own vesting date. For each tranche granted (other than grants to employees who are full-career eligible at the grant date), compensation expense is recognized on a straight-line basis from the grant date until the vesting date of the respective tranche, provided that the employees will not become full-career eligible during the vesting period. For each tranche granted to employees who will become full-career eligible during the vesting period, compensation expense is recognized on a straight-line basis from the grant date until the earlier of the employee s full-career eligibility date or the vesting date of the respective tranche.

The Firm s policy for issuing shares upon settlement of employee stock-based incentive awards is to issue either new shares of common stock or treasury shares. During 2008 and 2007, the Firm settled all of its employee stock-based awards by issuing treasury shares. During 2006, the Firm settled all of its employee stock-based awards by issuing new shares of common stock from January 1 through May 31, 2006, and by issuing treasury shares thereafter.

In January 2008, the Firm awarded to its Chairman and Chief Executive Officer up to two million SARs. The terms of this award are distinct from, and more restrictive than, other equity grants regularly awarded by the Firm. The SARs, which have a ten-year term, will become exercisable no earlier than January 22, 2013, and have an exercise price of $39.83, the price of JPMorgan Chase common stock on the date of the award. The number of SARs that will become exercisable (ranging from none to the full two million) and their exercise date or dates may be determined by the Board of Directors based on an assessment of the performance of both the CEO and JPMorgan Chase. That assessment will be made by the Board in the year prior to the fifth anniversary of the date of the award, relying on such factors that in its sole discretion the Board deems appropriate. Due to the substantial uncertainty surrounding the number of SARs that will ultimately be granted and their exercise dates, a grant date has not been established for accounting purposes. However, since the service inception date precedes the grant date, the Firm will recognize this award ratably over an assumed five-year service period, subject to a requirement to recognize changes in the fair value of the award through the grant date. The Firm recognized $1 million in compensation expense in 2008 for this award.

RSU activity

Compensation expense for RSUs is measured based upon the number of shares granted multiplied by the stock price at the grant date and is recognized in net income as previously described. The following table summarizes JPMorgan Chase s RSU activity for 2008.

Year ended December 31, 2008

(in thousands, except weighted average data)	Number of Shares	Weighted-average grant date fair value
Outstanding, January 1	99,017	$ 43.11
Granted	85,890	40.37
Bear Stearns conversion	5,975	42.24
Vested	(36,606)	38.95
Forfeited	(6,232)	42.90
Outstanding, December 31	148,044	$ 42.53

The total fair value of shares that vested during the years ended December 31, 2008, 2007 and 2006, was $1.6 billion, $1.5 billion and $1.3 billion, respectively.

Table of Contents

Employee stock option and SARs activity

Compensation expense, which is measured at the grant date as the fair value of employee stock options and SARs, is recognized in net income as described above.

The following table summarizes JPMorgan Chase s employee stock option and SARs activity for the year ended December 31, 2008, including awards granted to key employees and awards granted in prior years under broad-based plans.

Year ended December 31, 2008

(in thousands, except weighted-average data)	Number of options/SARs	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, January 1	325,931	$ 41.70		
Granted	9,341	41.37		
Bear Stearns conversion	3,906	399.91		
Exercised	(34,761)	33.73		
Forfeited	(3,382)	44.13		
Canceled	(17,666)	47.61		
Outstanding, December 31	283,369	$ 47.21	3.5	$ 224,632
Exercisable, December 31	242,653	47.85	2.7	224,632

The weighted-average grant date per share fair value of stock options and SARs granted during the years ended December 31, 2008, 2007 and 2006, was $10.36, $13.38 and $10.99, respectively. The total intrinsic value of options exercised during the years ended December 31, 2008, 2007 and 2006 was $391 million, $937 million and $994 million, respectively.

Impact of adoption of SFAS 123R

During 2006, the incremental expense related to the Firm s adoption of SFAS 123R was $712 million. This amount represents an accelerated noncash recognition of costs that would otherwise have been incurred in future periods. Also, as a result of adopting SFAS 123R, the Firm s income from continuing operations (pretax) for the year ended December 31, 2006, was lower by $712 million, and each of income from continuing operations (after-tax) and net income for the year ended December 31, 2006, was lower by $442 million, than if the Firm had continued to account for stock-based incentives under APB 25 and SFAS 123. Basic and diluted earnings per share from continuing operations, as well as basic and diluted net income per share, for the year ended December 31, 2006 were $.13 and $.12 lower, respectively, than if the Firm had not adopted SFAS 123R.

Compensation expense

The Firm recognized noncash compensation expense related to its various employee stock-based incentive awards of $2.6 billion, $2.0 billion and $2.4 billion (including the $712 million incremental impact of adopting SFAS 123R) for the years ended December 31, 2008, 2007, and 2006, respectively, in its Consolidated Statements of Income. These amounts included an accrual for the estimated cost of stock awards to be granted to full-career eligible employees of $409 million, $500 million and $498 million for the years ended December 31, 2008, 2007 and 2006, respectively. At December 31, 2008, approximately $1.9 billion (pretax) of compensation cost related to unvested awards has not yet been charged to net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 1.3 years. The Firm does not capitalize any compensation cost related to share-based compensation awards to employees.

Cash flows and tax benefits

The total income tax benefit related to stock-based incentive arrangements recognized in the Firm s Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006, was $1.1 billion, $810 million and

$947 million, respectively.

The following table sets forth the cash received from the exercise of stock options under all stock-based incentive arrangements and the actual tax benefit realized related to the tax deduction from the exercise of stock options.

Year ended December 31, (in millions)	**2008**	2007	2006
Cash received for options exercised	**$ 1,026**	$ 2,023	$ 1,924
Tax benefit realized	**72**	238	211

Valuation assumptions

The following table presents the assumptions used to value employee stock options and SARs granted during the period under the Black-Scholes valuation model.

Year ended December 31,	**2008**	2007	2006
Weighted-average annualized valuation assumptions			
Risk-free interest rate	**3.90%**	4.78%	5.11%
Expected dividend yield	**3.57**	3.18	2.89
Expected common stock price volatility	**34**	33	23
Expected life (in years)	**6.8**	6.8	6.8

Table of Contents

Notes to consolidated financial statements

Prior to the adoption of SFAS 123R, the Firm used the historical volatility of its common stock price as the expected volatility assumption in valuing options. The Firm completed a review of its expected volatility assumption in 2006. Effective October 1, 2006, JPMorgan Chase began to value its employee stock options granted or modified after that date using an expected volatility assumption derived from the implied volatility of its publicly traded stock options. The expected life assumption is an estimate of the length of time that an employee might hold an option or SAR before it is exercised or canceled. The expected life assumption was developed using historic experience.

Note 11 Noninterest expense

Merger costs

Costs associated with the Bear Stearns merger and the Washington Mutual transaction in 2008, the 2004 merger with Bank One Corporation, and The Bank of New York, Inc. (The Bank of New York) transaction in 2006 are reflected in the merger costs caption of the Consolidated Statements of Income. For a further discussion of the Bear Stearns merger and the Washington Mutual transaction, see Note 2 on pages 123 128 of this Annual Report. A summary of merger-related costs is shown in the following table.

	2008				
Year ended December 31, (in millions)	Bear Stearns	Washington Mutual	Total	2007[b]	2006[b]
Expense category					
Compensation	**$ 181**	**$ 113**	**$ 294**	$ (19)	$ 26
Occupancy	**42**		**42**	17	25
Technology and communications and other	**85**	**11**	**96**	188	239
The Bank of New York transaction				23	15
Total[a]	**$ 308**	**$ 124**	**$ 432**	$ 209	$ 305

(a) With the exception of occupancy and technology-related write-offs, all of the costs in the table required the expenditure of cash.

(b) The 2007 and 2006 activity reflect the 2004 merger with Bank One Corporation and the Bank of New York transaction.

The table below shows the change in the merger reserve balance related to the costs associated with the transactions.

2008

Year ended December 31, (in millions)	Bear Stearns	Washington Mutual	Total	2007[a]	2006[a]
Merger reserve balance, beginning of period	**$**	**$**	**$**	$ 155	$ 311
Recorded as merger costs	**308**	**124**	**432**	186	290
Included in net assets acquired	**1,112**	**435**	**1,547**	(60)	
Utilization of merger reserve	**(1,093)**	**(118)**	**(1,211)**	(281)	(446)
Merger reserve balance, end of period	**$ 327**	**$ 441**	**$ 768**	$ [b]	$ 155[b]

(a) The 2007 and 2006 activity reflect the 2004 merger with Bank One Corporation.
(b) Excludes $10 million and $21 million at December 31, 2007 and 2006, respectively, related to the Bank of New York transaction.

Note 12 Securities

Securities are classified as AFS, held-to-maturity (HTM) or trading. Trading securities are discussed in Note 6 on pages 146 148 of this Annual Report. Securities are classified primarily as AFS when used to manage the Firm s exposure to interest rate movements, as well as to make strategic longer-term investments. AFS securities are carried at fair value on the Consolidated Balance Sheets. Unrealized gains and losses, after any applicable SFAS 133 hedge accounting adjustments, are reported as net increases or decreases to accumulated other comprehensive income (loss). The specific identification method is used to determine realized gains and losses on AFS securities, which are included in securities gains (losses) on the Consolidated Statements of Income. Securities that the Firm has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated Balance Sheets. The Firm has not classified new purchases of securities as HTM for the past several years.

The following table presents realized gains and losses from AFS securities.

Year ended December 31, (in millions)	2008	2007	2006
Realized gains	**$ 1,890**	$ 667	$ 399
Realized losses	**(330)**[b]	(503)	(942)

(a) Proceeds from securities sold were within approximately

2% of amortized cost.

(b) 2008 includes $76 million of losses due to the other-than-temporary impairment of subprime mortgage-backed securities.

Table of Contents

The amortized cost and estimated fair value of AFS and HTM securities were as follows for the dates indicated.

December 31, (in millions)	2008 Amortized cost	2008 Gross unrealized gains	2008 Gross unrealized losses	2008 Fair value	2007 Amortized cost	2007 Gross unrealized gains	2007 Gross unrealized losses	2007 Fair value
Available-for-sale securities								
U.S. government and federal agency obligations:								
U.S. treasuries	**$ 616**	**$ 2**	**$ 7**	**$ 611**	$ 2,470	$ 14	$ 2	$ 2,482
Mortgage-backed securities	**6,281**	**148**	**5**	**6,424**	8	1		9
Agency obligations	**69**	**13**		**82**	73	9		82
Collateralized mortgage obligations	**557**	**9**	**8**	**558**				
U.S. government-sponsored enterprise obligations:								
Mortgage-backed securities	**108,360**	**2,257**	**214**	**110,403**	62,505	641	55	63,091
Direct obligations[(a)]	**9,717**	**37**	**90**	**9,664**	6	2		8
Obligations of state and political subdivisions	**3,479**	**94**	**238**	**3,335**	92	1	2	91
Certificates of deposit	**17,226**	**64**	**8**	**17,282**	2,040			2,040
Debt securities issued by non-U.S. governments	**8,173**	**173**	**2**	**8,344**	6,804	18	28	6,794
Corporate debt securities	**9,358**	**257**	**61**	**9,554**	1,927	1	4	1,924
Equity securities	**3,073**	**2**	**7**	**3,068**	4,124	55	1	4,178
Mortgage-backed securities:								
Prime	**7,762**	**4**	**1,739**	**6,027**	3,551	7	5	3,553
Subprime	**213**		**19**	**194**	384	41	28	397
Alt-A	**1,064**		**196**	**868**				
Non-U.S. residential	**2,233**	**24**	**182**	**2,075**				
Commercial	**4,623**		**684**	**3,939**				
Asset-backed securities:								
Credit card receivables	**13,651**	**8**	**2,268**	**11,391**	775		47	728
Other consumer loans	**1,008**	**4**	**134**	**878**				
Commercial and industrial loans	**11,847**	**168**	**820**	**11,195**				
Other	**18**		**1**	**17**	29			29
Total available-for-sale securities	**$ 209,328**	**$ 3,264**	**$ 6,683**	**$ 205,909**	$ 84,788	$ 790	$ 172	$ 85,406
Held-to-maturity securities[(b)]	**$ 34**	**$ 1**	**$**	**$ 35**	$ 44	$ 1	$	$ 45

(a) Consists primarily of mortgage-related obligations.
(b) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored entities.

Notes to consolidated financial statements

The following table presents the fair value and gross unrealized losses for AFS securities by aging category at December 31.

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			
2008 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total Fair value	Total Gross unrealized losses
Available-for-sale securities						
U.S. government and federal agency obligations:						
U.S. treasuries	$ **249**	$ **7**	$	$	$ **249**	$ **7**
Mortgage-backed securities	**2,042**	**5**	**1**		**2,043**	**5**
Agency obligations						
Collateralized mortgage obligations	**427**	**8**			**427**	**8**
U.S. government-sponsored enterprise obligations:						
Mortgage-backed securities	**3,547**	**211**	**468**	**3**	**4,015**	**214**
Direct obligations	**7,410**	**90**			**7,410**	**90**
Obligations of state and political subdivisions	**1,129**	**232**	**16**	**6**	**1,145**	**238**
Certificates of deposit	**382**	**8**			**382**	**8**
Debt securities issued by non-U.S. governments	**308**	**1**	**74**	**1**	**382**	**2**
Corporate debt securities	**558**	**54**	**30**	**7**	**588**	**61**
Equity securities	**19**	**7**			**19**	**7**
Mortgage-backed securities:						
Prime	**5,386**	**1,642**	**333**	**97**	**5,719**	**1,739**
Subprime			**151**	**19**	**151**	**19**
Alt-A	**868**	**196**			**868**	**196**
Non-U.S. residential	**1,908**	**182**			**1,908**	**182**
Commercial	**3,939**	**684**			**3,939**	**684**
Asset-backed securities:						
Credit card receivables	**10,267**	**1,964**	**472**	**304**	**10,739**	**2,268**
Other consumer loans	**813**	**134**			**813**	**134**
Commercial and industrial loans	**9,059**	**820**			**9,059**	**820**
Other			**17**	**1**	**17**	**1**
Total securities with gross unrealized losses	**$ 48,311**	$ **6,245**	**$ 1,562**	$ **438**	$ **49,873**	$ **6,683**

Table of Contents

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			
2007 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total Fair value	Total Gross unrealized losses
Available-for-sale securities						
U.S. government and federal agency obligations:						
U.S. treasuries	$ 175	$ 2	$	$	$ 175	$ 2
Mortgage-backed securities						
Agency obligations						
Collateralized mortgage obligations						
U.S. government-sponsored enterprise obligations:						
Mortgage-backed securities			1,345	55	1,345	55
Direct obligations						
Obligations of state and political subdivisions	21	2			21	2
Certificates of deposit	1,102				1,102	
Debt securities issued by non-U.S. governments	335	3	1,928	25	2,263	28
Corporate debt securities	1,126	3	183	1	1,309	4
Equity securities			4	1	4	1
Mortgage-backed securities:						
Prime	1,313	5			1,313	5
Subprime	306	28			306	28
Alt-A						
Non-U.S. residential						
Commercial						
Asset-backed securities:						
Credit card receivables	443	31	285	16	728	47
Other consumer loans						
Commercial and industrial loans						
Other	29				29	
Total securities with gross unrealized losses	$ 4,850	$ 74	$ 3,745	$ 98	$ 8,595	$ 172

AFS securities in unrealized loss positions are analyzed in depth as part of the Firm s ongoing assessment of other-than-temporary impairment. Potential other-than-temporary impairment of AFS securities is considered using a variety of factors, including the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer or underlying collateral of a security; and the Firm s intent and ability to retain the security in order to allow for an anticipated recovery in fair value. Where applicable under EITF Issue 99-20, the Firm estimates the cash flows over the life of the security to determine if any adverse changes have occurred that require an other-than-temporary impairment charge. The Firm applies EITF Issue 99-20 to beneficial interests in securitizations that are rated below AA at acquisition or that can be contractually prepaid or otherwise settled in such a way that the Firm would not recover substantially all of its recorded investment. The Firm considers a decline in fair value to be other-than-temporary if it is probable that the Firm will not recover its recorded investment, including as applicable under EITF Issue 99-20, when an adverse change in cash flows has occurred.

The Firm s analysis of the financial condition and near term prospects of the issuer or underlying collateral of a security noted above includes analysis of performance indicators relevant to the specific investment. For asset-backed investments, such relevant performance indicators may include ratings, valuation of subordinated positions in current and/or stress scenarios, excess spread or overcollateralization levels, and whether certain protective triggers have been reached. For mortgage-backed investments, such relevant performance indicators may include ratings, prepayment speeds, delinquencies, default rates, loss severities, geographic concentration, and forecasted performance under various home price decline stress scenarios.

As of December 31, 2008, approximately $438 million of the unrealized losses relate to securities that have been in an unrealized loss position for longer than 12 months, and primarily relate to prime mortgage-backed securities and credit card-related asset-backed securities. The prime mortgage-backed securities are primarily rated AAA , while the credit card-related asset-backed securities are rated BBB . Based upon the analyses described above, which have been applied to these securities, the Firm believes that the unrealized losses result from liquidity conditions in the current market environment and not from concerns regarding the credit of the issuers or underlying collateral. The Firm does not believe it is probable that it will not recover its investments, given the current levels of collateral and credit enhancements that exist to protect the investments. For securities analyzed for impairment under EITF 99-20, the collateral and credit enhancement features are at levels sufficient to ensure that an adverse change in expected future cash flows has not occurred.

As of December 31, 2008, approximately $6.2 billion of the unrealized losses relate to securities that have been in an unrealized loss position for less than 12 months; these losses largely relate to credit

Table of Contents

Notes to consolidated financial statements

card-related asset-backed securities, mortgage-backed securities issued by private issuers and commercial and industrial asset-backed securities. Of the $2.0 billion of unrealized losses related to credit card-related asset-backed securities, $1.7 billion relates to purchased credit card-related asset-backed securities, and $304 million relates to retained interests in the Firm s own credit card receivable securitizations. The credit card-related asset-backed securities include AAA , A and BBB ratings. Based on the levels of excess spread available to absorb credit losses, and based on the value of interests subordinate to the Firm s interests where applicable, the Firm does not believe it is probable that it will not recover its investments. Where applicable under EITF 99-20, the collateral and credit enhancement features are at levels sufficient to ensure that an adverse change in expected future cash flows has not occurred. Of the remaining unrealized losses as of December 31, 2008, related to securities that have been in an unrealized loss position for less than
12 months, $2.7 billion relates to mortgage-backed securities issued by private issuers and $820 million relates to commercial and industrial asset-backed securities. The mortgage-backed securities and commercial and industrial asset-backed securities are predominantly rated AAA . Based on an analysis of the performance indicators noted above for mortgage-backed securities and asset-backed securities, which have been applied to the loans underlying these securities, the Firm does not believe it is probable that it will not recover its investments in these securities.
The Firm intends to hold the securities in an unrealized loss position for a period of time sufficient to allow for an anticipated recovery in fair value or maturity. The Firm has sufficient capital and liquidity to hold these securities until recovery in fair value or maturity. Based on the Firm s evaluation of the factors and other objective evidence described above, the Firm believes that the securities are not other-than-temporarily impaired as of December 31, 2008.

The following table presents the amortized cost, estimated fair value and average yield at December 31, 2008, of JPMorgan Chase s AFS and HTM securities by contractual maturity.

By remaining maturity at	Available-for-sale securities			Held-to-maturity securities		
December 31, 2008	Amortized	Fair	Average	Amortized	Fair	Average
(in millions, except ratios)	cost	value	yield[b]	cost	value	yield[b]
Due in one year or less	$ 24,163	$ 24,056	2.80%	$	$	%
Due after one year through five years	26,115	25,075	2.46			
Due after five years through ten years	13,105	12,436	3.78	31	32	6.89
Due after ten years[a]	145,945	144,342	5.19	3	3	5.69
Total securities	$209,328	$205,909	4.49%	$34	$35	6.78%

(a) Includes securities with no stated maturity. Substantially all of the Firm s mortgage-backed securities and collateralized mortgage obligations are due in ten years or more based upon contractual maturity. The estimated duration, which reflects anticipated future prepayments based upon a consensus of dealers in the market, is approximately four years for mortgage-backed securities and collateralized mortgage obligations.

(b) The average yield is based upon amortized cost balances at year-end. Yields are derived by dividing interest income by total amortized cost. Taxable-equivalent yields are used where applicable.

Note 13 Securities financing activities

JPMorgan Chase enters into resale agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions, primarily to finance the Firm s inventory positions, acquire securities to cover short positions and settle other securities obligations. The Firm also enters into these transactions to accommodate customers needs. Resale agreements and repurchase agreements are generally treated as collateralized financing transactions carried on the Consolidated Balance Sheets at the amounts the securities will be subsequently sold or repurchased, plus accrued interest. On January 1, 2007, pursuant to the adoption of SFAS 159, the Firm elected fair value measurement for certain resale and repurchase agreements. In 2008, the Firm elected fair value measurement for certain newly transacted securities borrowed and securities lending agreements. For a further discussion of SFAS 159, see Note 5 on pages 144 146 of this Annual Report. The securities financing agreements for which the fair value option was elected continue to be reported within securities purchased under resale agreements; securities loaned or sold under repurchase agreements; securities borrowed; and other borrowed funds 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 SFAS 133, all changes in fair value, including any interest elements, are reported in principal transactions revenue. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41. JPMorgan Chase takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase monitors the market value of the underlying collateral, primarily U.S. and non-U.S. government and agency securities, that it

has received from its counterparties, and requests additional collateral when necessary.

Transactions similar to financing activities that do not meet the SFAS 140 definition of a repurchase agreement are accounted for as buys and sells rather than financing transactions. These transactions are accounted for as a purchase (sale) of the underlying securities with a forward obligation to sell (purchase) the securities. The forward purchase (sale) obligation, a derivative, is recorded on the Consolidated Balance Sheets at its fair value, with changes in fair value recorded in principal transactions revenue.

Table of Contents

Securities borrowed and securities lent are recorded at the amount of cash collateral advanced or received. Securities borrowed consist primarily of government and equity securities. JPMorgan Chase monitors the market value of the securities borrowed and lent on a daily basis and calls for additional collateral when appropriate. Fees received or paid in connection with securities borrowed and lent are recorded in interest income or interest expense.
The following table details the components of collateralized financings.

December 31, (in millions)	**2008**	2007
Securities purchased under resale agreements[a]	**$ 200,265**	$ 169,305
Securities borrowed[b]	**124,000**	84,184
Securities sold under repurchase agreements[c]	**$ 174,456**	$ 126,098
Securities loaned	**6,077**	10,922

(a) Includes resale agreements of $20.8 billion and $19.1 billion accounted for at fair value at December 31, 2008 and 2007, respectively.
(b) Includes securities borrowed of $3.4 billion accounted for at fair value at December 31, 2008.
(c) Includes repurchase agreements of $3.0 billion and $5.8 billion accounted for at fair value at December 31, 2008 and 2007, respectively.

JPMorgan Chase pledges certain financial instruments it owns to collateralize repurchase agreements and other securities financings. Pledged securities that can be sold or repledged by the secured party are identified as financial instruments owned (pledged to various parties) on the Consolidated Balance Sheets.
At December 31, 2008, the Firm received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately $511.9 billion. This collateral was generally obtained under resale or securities

borrowing agreements. Of these securities, approximately $456.6 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

Note 14 Loans

The accounting for a loan may differ based upon whether it is originated or purchased and as to whether the loan is used in an investing or trading strategy. For purchased loans held-for-investment, the accounting also differs depending on whether a loan is credit-impaired at the date of acquisition. Purchased loans with evidence of credit deterioration since the origination date and for which it is probable, at acquisition, that all contractually required payments receivable will not be collected are considered to be credit-impaired. The measurement framework for loans in the Consolidated Financial Statements is one of the following:

At the principal amount outstanding, net of the allowance for loan losses, unearned income and any net deferred loan fees or costs, for loans held for investment (other than purchased credit-impaired loans);

At the lower of cost or fair value, with valuation changes recorded in noninterest revenue, for loans that are classified as held-for-sale; or

At fair value, with changes in fair value recorded in noninterest revenue, for loans classified as trading assets or risk managed on a fair value basis;

Purchased credit-impaired loans held for investment are accounted for under SOP 03-3 and initially measured at fair value, which includes estimated future credit losses. Accordingly, an allowance for loan losses related to these loans is not recorded at the acquisition date.

See Note 5 on pages 144 146 of this Annual Report for further information on the Firm s elections of fair value accounting under SFAS 159. See Note 6 on pages 146 148 of this Annual Report for further information on loans carried at fair value and classified as trading assets.

For loans held for investment, other than purchased credit-impaired loans, interest income is recognized using the interest method or on a basis approximating a level rate of return over the term of the loan.

Loans within the held-for-investment portfolio that management decides to sell are transferred to the held-for-sale portfolio. Transfers to held-for-sale are recorded at the lower of cost or fair value on the date of transfer. Credit-related losses are charged off to the allowance for loan losses and losses due to changes in interest rates, or exchange rates, are recognized in noninterest revenue.

Loans within the held-for-sale portfolio that management decides to retain are transferred to the held-for-investment portfolio at the lower of cost or fair value. These loans are subsequently assessed for impairment based on the Firm s allowance methodology. For a further discussion of the methodologies used in establishing the Firm s allowance for loan losses, see Note 15 on pages 166 168 of this Annual Report.

Nonaccrual loans are those on which the accrual of interest is discontinued. Loans (other than certain consumer and purchased credit-impaired loans discussed below) are placed on nonaccrual status immediately if, in the opinion of management, full payment of principal or interest is in doubt, or when principal or interest is 90 days or more past due and collateral, if any, is insufficient to cover principal and interest. Loans are charged off to the allowance for loan losses when it is highly certain that a loss has been realized. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. In addition, the amortization of net deferred loan fees is suspended. Interest income on nonaccrual loans is recognized only to the extent it is received in cash. However, where there is doubt regarding the ultimate collectibility of loan principal, all cash thereafter received is applied to reduce the carrying value of such loans (i.e., the cost recovery method). Loans are restored to accrual status only when future payments of interest and principal are reasonably assured.

Consumer loans, other than purchased credit-impaired loans, are generally charged to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification of the filing of bankruptcy, whichever is earlier. Residential mortgage products are generally charged off to net realizable value at no later than 180 days past due. Other consumer

Table of Contents

Notes to consolidated financial statements

products, if collateralized, are generally charged off to net realizable value at 120 days past due. Accrued interest on residential mortgage products, automobile financings, student loans and certain other consumer loans are accounted for in accordance with the nonaccrual loan policy discussed in the preceding paragraph. Interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full. Accrued interest on all other consumer loans is generally reversed against interest income when the loan is charged off. A collateralized loan is reclassified to assets acquired in loan satisfactions, within other assets, only when JPMorgan Chase has taken physical possession of the collateral, regardless of whether formal foreclosure proceedings have taken place.

For purchased credit-impaired loans, the excess of the loan s cash flows expected to be collected over the initial fair value (i.e., the accretable yield) is accreted into interest income at a level rate of return over the term of the loan, provided that the timing and amount of future cash flows is reasonably estimable. On a periodic basis, the Firm updates the amount of cash flows expected to be collected for these loans, incorporating assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable and significant increases in cash flows previously expected to be collected would first be used to reverse any related valuation allowance; any remaining increases are recognized prospectively as interest income. Probable decreases in expected cash flows after the acquisition date, excluding decreases related to repricings of variable rate loans, are recognized through the allowance for loan losses. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, or foreclosure, result in removal of the loan from the SOP 03-3 portfolio.

With respect to purchased credit-impaired loans, when the timing and/or amounts of expected cash flows on such loans are not reasonably estimable, no interest is accreted and the loan is reported as a nonperforming loan; otherwise, if the timing and amounts of expected cash flows for purchased credit-impaired loans are reasonably estimable, then interest is accreted and the loans are reported as performing loans.

The composition of the Firm s aggregate loan portfolio at each of the dates indicated was as follows.

December 31, (in millions)	**2008**	2007
U.S. wholesale loans:		
Commercial and industrial	**$ 68,709**	$ 55,655
Real estate	**64,214**	16,748
Financial institutions	**20,615**	14,757
Government agencies	**5,918**	5,770
Other	**22,330**	25,883
Loans held-for-sale and at fair value	**4,990**	14,440
Total U.S. wholesale loans	**186,776**	133,253
Non-U.S. wholesale loans:		
Commercial and industrial	**27,941**	27,659
Real estate	**2,667**	3,527
Financial institutions	**16,381**	16,740
Government agencies	**603**	720
Other	**18,711**	21,968
Loans held-for-sale and at fair value	**8,965**	9,209
Total non-U.S. wholesale loans	**75,268**	79,823

Total wholesale loans:[(a)(b)]		
Commercial and industrial	**96,650**	83,314
Real estate[(c)]	**66,881**	20,275
Financial institutions	**36,996**	31,497
Government agencies	**6,521**	6,490
Other	**41,041**	47,851
Loans held-for-sale and at fair value[(d)]	**13,955**	23,649
Total wholesale loans	**262,044**	213,076
Total consumer loans:[(e)]		
Home equity	**114,335**	94,832
Prime mortgage	**72,266**	39,988
Subprime mortgage	**15,330**	15,473
Option ARMs	**9,018**	
Auto loans	**42,603**	42,350
Credit card[(f)]	**104,746**	84,352
Other	**33,715**	25,314
Loans held-for-sale[(g)]	**2,028**	3,989
Total consumer loans excluding purchased credit-impaired	**394,041**	306,298
Consumer loans purchased credit-impaired	**88,813**	NA
Total consumer loans	**482,854**	306,298
Total loans[(b)(h)]	**$ 744,898**	$ 519,374

(a) Includes Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management.

(b) Includes purchased credit-impaired loans of $224 million at December 31, 2008, acquired in the Washington

Mutual transaction.

(c) Represents credits extended for real estate-related purposes to borrowers who are primarily in the real estate development or investment businesses and which the repayment is predominantly from the sale, lease, management, operations or refinancing of the property.

(d) Includes loans for commercial & industrial, real estate, financial institutions and other of $11.0 billion, $428 million, $1.5 billion and $995 million at December 31, 2008, respectively, and $19.6 billion, $548 million, $862 million and $2.7 billion at December 31, 2007 respectively.

(e) Includes Retail Financial Services, Card Services and the Corporate/Private Equity segment.

(f) Includes billed finance charges and fees net of an allowance for uncollectible amounts.

(g) Includes loans for prime mortgage and other (largely student loans) of $206 million and $1.8 billion at December 31, 2008, respectively, and $570 million and $3.4 billion at December 31, 2007, respectively.

(h) Loans (other than purchased loans and those for which the SFAS 159 fair value option has been elected) are presented net of unearned income and net deferred loan fees of $694 million and $1.0 billion at December 31, 2008 and 2007, respectively.

Table of Contents

The following table reflects information about the Firm s loan sales.

Year ended December 31, (in millions)	**2008**	2007	2006
Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)[(a)]	**$ (2,508)**	$ 99	$ 672

(a) Excludes sales related to loans accounted for at fair value.

Purchased credit-impaired loans

In connection with the Washington Mutual transaction, JPMorgan Chase acquired certain loans that it deemed to be credit-impaired under SOP 03-3. Wholesale loans with a carrying amount of $224 million at December 31, 2008, were determined to be credit-impaired at the date of acquisition in accordance with SFAS 114. These wholesale loans are being accounted for individually (not on a pooled basis) and are reported as nonperforming loans since cash flows for each individual loan are not reasonably estimable. Such loans are excluded from the remainder of the following discussion, which relates solely to purchased credit-impaired consumer loans.

Purchased credit-impaired consumer loans were determined to be credit-impaired based upon specific risk characteristics of the loan, including product type, loan-to-value ratios, FICO scores, and past due status. SOP 03-3 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. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. With respect to the Washington Mutual transaction, all of the consumer loans were aggregated into pools of loans with common risk characteristics.

The table below sets forth information about these purchased credit-impaired consumer loans at the acquisition date.

(in millions)	September 25, 2008[(a)(b)]
Contractually required payments receivable (including interest)	$ 168,460
Less: Nonaccretable difference	(45,690)
Cash flows expected to be collected[(c)]	122,770
Less: Accretable yield[(d)]	(32,662)
Fair value of loans acquired	$ 90,108

(a) Date of the Washington Mutual transaction.

(b) The amounts in the table above were revised in the fourth quarter of 2008 due to the Firm s refinement of both estimates and its application of certain provisions of SOP 03-3.

(c) Represents undiscounted principal and interest cash flows expected at acquisition.

(d) This amount is recognized into interest income over the estimated life of the underlying loans.

The Firm determined the fair value of the purchased credit-impaired consumer loans by discounting the cash flows expected to be collected at a market observable discount rate, when available, adjusted for factors that a market participant would consider in determining fair value. In determining the cash flows expected to be collected, management incorporated assumptions regarding default rates, loss severities and the amounts and timing of prepayments. Contractually required payments were determined following the same process used to estimate cash flows expected to be collected, but without incorporating assumptions related to default rates and loss severities.
Purchased credit-impaired loans acquired in the Washington Mutual transaction are reported in loans on the Firm s Consolidated Balance Sheets. Following the initial acquisition date of these loans, the allowance for loan losses, if any is required, would be reported as a reduction of the carrying amount of the loans. No allowance has been recorded for these loans as of December 31, 2008. The outstanding balance and the carrying value of the purchased credit-impaired consumer loans were as follows.

December 31, (in millions)	2008
Outstanding balance[(a)]	$ 118,180
Carrying amount	88,813

(a) Represents the sum of principal and earned interest at the reporting date.

Interest income is being accreted on the purchased credit-impaired consumer loans based on the Firm s belief that both the timing and amount of cash flows expected to be collected is reasonably estimable. For variable rate loans, expected future cash flows are based on the current contractual rate of the underlying loans.
The table below sets forth the accretable yield activity for these loans for the year ended December 31, 2008.

Accretable Yield Activity
(in millions)

Balance, September 30, 2008	$ 32,662
Accretion into interest income	(1,292)
Changes in interest rates on variable rate loans	(4,877)
Balance, December 31, 2008	$ **26,493**

Impaired loans

A loan is considered impaired when, based upon current information and events, 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 loan agreement. Impaired loans include certain nonaccrual wholesale loans and loans for which a charge-off has been recorded based upon the fair value of the underlying collateral. Impaired loans also include loans that have been modified in troubled debt restructurings as a concession to borrowers experiencing financial difficulties. Troubled debt restructurings typically result from the Firm s loss mitigation activities and could include rate reductions, principal forgiveness, forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. When the Firm modifies home equity lines of credit in troubled debt restructurings, future lending commitments related to the modified loans are canceled as part of the terms of the modification. Accordingly, the Firm does not have future commitments to lend additional funds related to these modified loans. Purchased credit-impaired loans are not required to be reported as impaired loans as long as it is probable that the Firm expects to collect all cash flows expected at acquisition, plus additional cash flows expected to be collected arising from changes in estimates after acquisition. Accordingly, none of the credit-impaired loans acquired in the Washington Mutual transaction are reported in the following tables.

Interest income on impaired loans is recognized based on the Firm s policy for recognizing interest on accrual and nonaccrual loans. Certain loans that have been modified through troubled debt restructurings accrue interest under this policy.

Table of Contents

Notes to consolidated financial statements

The tables below set forth information about JPMorgan Chase s impaired loans, excluding credit card loans which are discussed below. The Firm primarily uses the discounted cash flow method for valuing impaired loans.

December 31, (in millions)	**2008**	2007
Impaired loans with an allowance:		
Wholesale	**$ 2,026**	$ 429
Consumer[(a)]	**2,252**	322
Total impaired loans with an allowance[(b)]	**4,278**	751
Impaired loans without an allowance:[(c)]		
Wholesale	**62**	28
Consumer[(a)]		
Total impaired loans without an allowance	**62**	28
Total impaired loans[(b)]	**$ 4,340**	$ 779
Allowance for impaired loans under SFAS 114:		
Wholesale	**$ 712**	$ 108
Consumer[(a)]	**379**	116
Total allowance for impaired loans under SFAS 114[(d)]	**$ 1,091**	$ 224

Year ended December 31, (in millions)	**2008**	2007	2006
Average balance of impaired loans during the period:			
Wholesale	**$ 896**	$ 316	$ 697
Consumer[(a)]	**1,211**	317	300
Total impaired loans[(b)]	**$ 2,107**	$ 633	$ 997
Interest income recognized on impaired loans during the period:			
Wholesale	**$**	$	$ 2
Consumer[(a)]	**57**		
Total interest income recognized on impaired loans during the period	**$ 57**	$	$ 2

(a) Excludes credit card loans.

(b) In 2008, methodologies for calculating impaired loans have changed.

Prior periods have been revised to conform to current presentation.

(c) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under SFAS 114.

(d) The allowance for impaired loans under SFAS 114 is included in JPMorgan Chase s allowance for loan losses. The allowance for certain consumer impaired loans has been categorized in the allowance for loan losses as formula-based.

During 2008, loss mitigation efforts related to delinquent mortgage and home equity loans increased substantially, resulting in a significant increase in consumer troubled debt restructurings. In the fourth quarter of 2008, the Firm announced plans to further expand loss mitigation efforts related to these portfolios, including plans to open regional counseling centers, hire additional loan counselors, introduce new financing alternatives, proactively reach out to borrowers to offer pre-qualified modifications, and commence a new process to independently review each loan before moving it into the foreclosure process. These loss mitigation efforts, which generally represent various forms of term extensions, rate reductions and forbearances, are expected to result in additional increases in the balance of modified loans carried on the Firm s balance sheet, including loans accounted for as troubled debt restructurings, while minimizing the economic loss to the Firm and providing alternatives to foreclosure.

JPMorgan Chase may modify the terms of its credit card loan agreements with borrowers who have experienced financial difficulty. Such modifications may include canceling the customer s available line of credit on the credit card, reducing the interest rate on the card, and placing the customer on a fixed payment plan not exceeding 60 months. If the cardholder does not comply with the modified terms, then the credit card loan agreement will revert back to its original terms, with the amount of any loan outstanding reflected in the appropriate delinquency bucket and the loan amounts then charged-off in accordance with the Firm s standard charge-off policy. Under these procedures, $2.4 billion and $1.4 billion of on-balance sheet credit card loan outstandings have been modified at December 31, 2008 and 2007, respectively. In accordance with the Firm s methodology for determining its consumer allowance for loan losses, the Firm had already provisioned for these credit card loans; the modifications to these credit card loans had no incremental impact on the Firm s allowance for loan losses.

Note 15 Allowance for credit losses

During 2008, in connection with the Washington Mutual transaction, the Firm recorded adjustments to its provision for credit losses in the aggregate amount of $1.5 billion to conform the Washington Mutual loan loss reserve methodologies to the appropriate JPMorgan Chase methodology, based upon the nature and characteristics of the underlying loans. This amount included an adjustment of $646 million to the wholesale provision for credit losses and an adjustment of $888 million to the consumer provision for credit losses. The Firm s methodologies for determining its allowance for credit losses, which have been applied to the Washington Mutual loans, are described more fully below.

JPMorgan Chase s allowance for loan losses covers the wholesale (risk-rated) and consumer (scored) loan portfolios and represents management s estimate of probable credit losses inherent in the Firm s loan portfolio. Management also computes an allowance for wholesale lending-related commitments using a methodology similar to that used for the wholesale loans.

The allowance for loan losses includes an asset-specific component and a formula-based component. The asset-specific component relates to provisions for losses on loans considered impaired and measured pursuant to SFAS 114. An allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than the carrying value of that loan. To compute the asset-specific component of the allowance, larger impaired loans are evaluated individually, and smaller impaired loans are evaluated as a pool using historical loss experience for the respective class of assets. An allowance for loan losses will also be recorded for purchased credit-impaired loans accounted for in accordance with SOP 03-3 if there are probable decreases in expected future cash flows other than decreases related to repricing of variable rate loans. Any required allowance would be measured based on the present value of expected cash flows discounted at the loan s (or pool s) effective interest rate. For additional information on purchased credit-impaired loans, see Note 14 on pages 165 - 166 of this Annual Report.

The formula-based component covers performing wholesale and consumer loans. For risk-rated loans (generally loans originated by the wholesale lines of business), it is based on a statistical calculation, which is adjusted to take into consideration model imprecision, external factors and current economic events that have occurred but are not yet reflected in the factors used to derive the statistical calculation. The statistical calculation is the product of probability of default (PD) and loss given default (LGD). These factors are differentiated by risk rating and expected maturity. PD estimates are based on observable external data, primarily credit-rating agency default statistics. LGD estimates are based on a study of actual credit losses over more than one credit cycle. For scored loans (generally loans originated by the consumer lines of business), loss is primarily determined by applying statistical loss factors, including loss frequency and severity factors, to pools of loans by asset type. In developing loss frequency and severity assumptions, known and anticipated changes in the economic environment, including changes in housing prices, unemployment rates and other risk indicators, are considered. Multiple forecasting methods are used to estimate statistical losses, including credit loss forecasting models and vintage-based loss forecasting.

Management applies its judgment within specified ranges to adjust the statistical calculation. Where adjustments are made to the statistical calculation for the risk-rated portfolios, the determination of the appropriate point within the range are based upon management s quantitative and qualitative assessment of the quality of underwriting standards; relevant internal factors affecting the credit quality of the current portfolio; and external factors such as current macroeconomic and political conditions that have occurred but are not yet reflected in the loss factors. Factors related to concentrated and deteriorating industries are also incorporated into the calculation, where relevant. Adjustments to the statistical calculation for the scored loan portfolios are accomplished in part by analyzing the historical loss experience for each major product segment. The specific ranges and the determination of the appropriate point within the range are based upon management s view of uncertainties that relate to current macroeconomic and political conditions, the quality of underwriting standards, and other relevant internal and external factors affecting the credit quality of the portfolio.

The allowance for lending-related commitments represents management s estimate of probable credit losses inherent in the Firm s process of extending credit. Management establishes an asset-specific allowance for lending-related commitments that are considered impaired and computes a formula-based allowance for performing wholesale lending-related commitments. These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowances for loan losses and lending-related commitments in future periods.

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 Risk Policy and Audit Committees of the Board of Directors of the Firm. As of December 31, 2008, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including those not yet identifiable).

The table below summarizes the changes in the allowance for loan losses.

Year ended December 31, (in millions)	**2008**	2007	2006
Allowance for loan losses at January 1	**$ 9,234**	$ 7,279	$ 7,090
Cumulative effect of change in accounting principles[(a)]		(56)	
Allowance for loan losses at January 1, adjusted	**9,234**	7,223	7,090
Gross charge-offs	**10,764**	5,367	3,884
Gross (recoveries)	**(929)**	(829)	(842)
Net charge-offs	**9,835**	4,538	3,042
Provision for loan losses			

Provision excluding accounting conformity	**19,660**	6,538	3,153
Provision for loan losses accounting conformity[b]	**1,577**		
Total provision for loan losses	**21,237**	6,538	3,153
Addition resulting from Washington Mutual transaction	**2,535**		
Other[c]	**(7)**	11	78
Allowance for loan losses at December 31	**$ 23,164**	$ 9,234	$ 7,279
Components:			
Asset-specific	**$ 786**	$ 188	$ 118
Formula-based	**22,378**	9,046	7,161
Total Allowance for loan losses	**$ 23,164**	$ 9,234	$ 7,279

(a) Reflects the effect of the adoption of SFAS 159 at January 1, 2007. For a further discussion of SFAS 159, see Note 5 on pages 144 146 of this Annual Report.

(b) Relates to the Washington Mutual transaction in 2008.

(c) The 2008 amount represents foreign-exchange translation. The 2007 amount represents assets acquired of $5 million and $5 million of foreign-exchange translation. The 2006 amount represents the Bank of New York transaction.

Notes to consolidated financial statements

The table below summarizes the changes in the allowance for lending-related commitments.

Year ended December 31, (in millions)	**2008**	2007	2006
Allowance for lending-related commitments at January 1	**$ 850**	$ 524	$ 400
Provision for lending-related commitments			
Provision excluding accounting conformity	**(215)**	326	117
Provision for lending-related commitments accounting conformity[(a)]	**(43)**		
Total provision for lending-related commitments	**(258)**	326	117
Addition resulting from Washington Mutual	**66**		
Other[(b)]	**1**		7
Allowance for lending-related commitments at December 31	**$ 659**	$ 850	$ 524
Components:			
Asset-specific	**$ 29**	$ 28	$ 33
Formula-based	**630**	822	491
Total allowance for lending- related commitments	**$ 659**	$ 850	$ 524

(a) Related to the Washington Mutual transaction.

(b) The 2006 amount represents the Bank of New York transaction.

Note 16 Loan securitizations

JPMorgan Chase securitizes and sells a variety of loans, including residential mortgage, credit card, automobile, student, and commercial loans (primarily related to real estate). JPMorgan Chase-sponsored securitizations utilize SPEs as part of the securitization process. These SPEs are structured to meet the definition of a QSPE (as discussed in Note 1 on page 122 of this Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected on the Firm s Consolidated Balance Sheets (except for retained interests, as described below). The primary purpose of these securitization vehicles is to meet investor needs and to generate liquidity for the Firm through the sale of loans to the QSPEs. These QSPEs are financed through the issuance of fixed, or floating-rate asset-backed securities.

The Firm records a loan securitization as a sale when the accounting criteria for a sale are met. Those criteria are: (1) the transferred assets are legally isolated from the Firm s creditors; (2) the entity can pledge or exchange the financial assets, or if the entity is a QSPE, its investors can pledge or exchange their interests; and (3) the Firm does not maintain effective control to repurchase the transferred assets before their maturity or have the ability to unilaterally cause the holder to return the transferred assets.

For loan securitizations that meet the accounting sales criteria, the gains or losses recorded depend, in part, on the carrying amount of the loans sold except for servicing assets which are initially recorded at fair value. At the time of sale, any retained servicing asset is initially recognized at fair value. The remaining carrying amount of the loans sold is allocated between the loans sold and the other interests retained, based upon their relative fair values on the date of sale. Gains on securitizations are reported in noninterest revenue.

When quoted market prices are not available, the Firm estimates the fair value for these retained interests by calculating the present value of future expected cash flows using modeling techniques. Such models incorporate management s best estimates of key variables, such as expected credit losses, prepayment speeds and the discount rates appropriate for the risks involved. See Note 4 on page 132 of this Annual Report for further information on the valuation of retained interests.

The Firm may retain interests in the securitized loans in the form of undivided seller s interest, senior or subordinated interest-only strips, debt and equity tranches, escrow accounts and servicing rights. The classification of retained interests is dependent upon several factors, including the type of interest, whether or not the retained interest is represented by a security certificate and when it was retained. Interests retained by IB are classified as trading assets. See credit card securitizations and mortgage securitizations sections of the note for further information on the classification of their related retained interests. Retained interests classified as AFS that are rated below AA by an external rating agency are subject to the impairment provisions of EITF 99-20, as discussed in Note 12 on page 162 of this Annual Report.

The following table presents the total unpaid principal amount of assets held in JPMorgan Chase-sponsored securitization entities, for which sale accounting was achieved and to which the Firm has continuing involvement, at December 31, 2008 and 2007. Continuing involvement includes servicing the loans, holding senior or subordinated interests, recourse or guarantee arrangements and derivative transactions. In certain instances, the Firm s only continuing involvement is servicing the loans. Certain of the Firm s retained interests (trading assets, AFS securities and other assets) are reflected at their fair value.

Table of Contents

December 31, 2008 (in billions)	Principal amount outstanding: Total assets held by Firm-sponsored QSPEs	Principal amount outstanding: Assets held in QSPEs with continuing involvement	JPMorgan Chase interest in securitized assets[f][g][h][i]: Trading assets	AFS securities	Loans	Other assets	Total interests held by JPMorgan Chase
Securitized related:							
Credit card	$ 121.6	$ 121.6[e]	$ 0.5	$ 5.6	$ 33.3	$ 5.6	$ 45.0
Residential mortgage:							
Prime[a]	233.9	212.3	1.7	0.7			2.4
Subprime	61.0	58.6		0.1			0.1
Option ARMs	48.3	48.3	0.1	0.3			0.4
Commercial and other[b]	174.1	45.7	2.0	0.5			2.5
Student loans	1.1	1.1				0.1	0.1
Auto	0.8	0.8					
Total[c][d]	$ 640.8	$ 488.4	$ 4.3	$ 7.2	$ 33.3	$ 5.7	$ 50.5

December 31, 2007 (in billions)	Principal amount outstanding: Total assets held by Firm-sponsored QSPEs	Principal amount outstanding: Assets held in QSPEs with continuing involvement	JPMorgan Chase interest in securitized assets[f][i][j]: Trading assets	AFS securities	Loans	Other assets	Total interests held by JPMorgan Chase
Securitized related:							
Credit card	$ 92.7	$ 92.7[e]	$	$ 0.3	$ 18.6	$ 4.6	$ 23.5
Residential mortgage:							
Prime[a]	78.3	77.7	0.4				0.4
Subprime	23.7	22.7	0.3	0.1			0.4
Option ARMs							
Commercial and other[b]	109.6	3.4					
Student loans	1.1	1.1				0.1	0.1
Auto	2.3	2.3				0.1	0.1
Total[c]	$ 307.7	$ 199.9	$ 0.7	$ 0.4	$ 18.6	$ 4.8	$ 24.5

(a) Includes Alt-A loans.
(b)

Includes co-sponsored commercial securitizations and, therefore, includes non-JPMorgan Chase originated commercial mortgage loans. Commercial and other 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 the Firm s sponsored commercial mortgage securitization transactions.

(c) Includes securitized loans where the Firm owns less than a majority of the subordinated or residual interests in the securitizations.

(d) Includes securitization-related QSPEs sponsored by heritage Bear Stearns and heritage Washington Mutual at December 31, 2008.

(e) Includes credit card loans, accrued interest and fees, and cash amounts on deposit.

(f) Excludes retained servicing (for a discussion of MSRs, see Note 18 on pages 187 188 of this Annual Report).

(g) Excludes senior and subordinated securities of $974 million at December 31, 2008, that the Firm purchased in connection with IB s secondary market-making activities.

(h) Includes investments acquired in the secondary market, but predominantly held-for-investment purposes of $1.8 billion as of December 31, 2008. This is comprised of $1.4 billion of investments classified as available-for-sale, including $172 million in credit cards, $693 million of residential mortgages and $495 million of commercial and other; and $452 million of investments classified as trading, including $112 million of credit cards, $303 million of residential mortgages, and $37 million of commercial and other.

(i) Excludes interest rate and foreign exchange derivatives that are primarily used to manage the interest rate and foreign exchange risks of the securitization entities.

See Note 6 and Note 32 on pages 146 147 and 202 205, respectively, of this Annual Report for further information on derivatives.

(j) Excludes senior and subordinated securities of $9.8 billion at December 31, 2007, that were retained at the time of securitization in connection with IB s underwriting activity or that are purchased in connection with IB s secondary market-making activities.

Securitization activity by major product type

The following discussion describes the nature of the Firm s securitization activities by major product type.

Credit Card Securitizations

The Card Services (CS) business securitizes originated and purchased credit card loans. The Firm s primary continuing involvement includes servicing the receivables, retaining an undivided seller s interest in the receivables, retaining certain senior and subordinated securities and the maintenance of escrow accounts.

CS maintains servicing responsibilities for all credit card securitizations that it sponsors. As servicer and transferor, the Firm receives contractual servicing fees based upon the securitized loan balance plus excess servicing fees, which are recorded in credit card income as discussed in Note 7 on pages 148 149 of this Annual Report.

The agreements with the credit card securitization trusts require the Firm to maintain a minimum undivided interest in the trusts (which generally ranges from 4% to 12%). At December 31, 2008 and 2007, the Firm had $33.3 billion and $18.6 billion, respectively, related to its undivided interests in the trusts. The Firm maintained an average undivided interest in principal receivables in the trusts of approximately 22% and 19% for the years ended December 31, 2008 and 2007, respectively. These undivided interests in the trusts represent the Firm s undivided interests in the receivables transferred to the trust that have not been securitized; these undivided interests are not represented by security certificates, are carried at historical cost, and are classified within loans.

Notes to consolidated financial statements

Additionally, the Firm retained subordinated interest in accrued interest and fees on the securitized receivables totaling $3.0 billion and $2.7 billion (net of an allowance for uncollectible amounts) as of December 31, 2008 and 2007, respectively, which are classified in other assets.

The Firm retained subordinated securities in credit card securitization trusts totaling $2.3 billion and $284 million at December 31, 2008 and 2007, respectively, and senior securities totaling $3.5 billion at December 31, 2008. Of the securities retained, $5.4 billion and $284 million were classified as AFS securities at December 31, 2008 and 2007, respectively. Securities of $389 million that were acquired in the Washington Mutual Bank transaction were classified as trading assets at December 31, 2008. The senior AFS securities were used by the Firm as collateral for a secured financing transaction.

The Firm also maintains escrow accounts up to predetermined limits for some credit card securitizations to cover deficiencies in cash flows owed to investors. The amounts available in such escrow accounts related to credit cards are recorded in other assets and amounted to $74 million and $97 million as of December 31, 2008 and 2007, respectively.

Mortgage Securitizations

The Firm securitizes originated and purchased residential mortgages and originated commercial mortgages.

RFS securitizes residential mortgage loans that it originates and purchases and it typically retains servicing for all of its originated and purchased residential mortgage loans. Additionally, RFS may retain servicing for certain mortgage loans purchased by IB. As servicer, the Firm receives servicing fees based upon the securitized loan balance plus ancillary fees. The Firm also retains the right to service the residential mortgage loans it sells to the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac) in accordance with their servicing guidelines and standards. For a discussion of MSRs, see Note 18 on pages 187 188 of this Annual Report. In a limited number of securitizations, RFS may retain an interest in addition to servicing rights. The amount of interest retained related to these securitizations totaled $939 million and $221 million at December 31, 2008 and 2007, respectively. These retained interests are accounted for as trading or AFS securities; the classification depends on whether the retained interest is represented by a security certificate, has an embedded derivative, and when it was retained (i.e., prior to the adoption of SFAS 155).

IB securitizes residential mortgage loans (including those that it purchased and certain mortgage loans originated by RFS) and commercial mortgage loans that it originated. Upon securitization, IB may engage in underwriting and trading activities of the securities issued by the securitization trust. IB may retain unsold senior and/or subordinated interests (including residual interests) in both residential and commercial mortgage securitizations at the time of securitization. These retained interests are accounted for at fair value and classified as trading assets. The amount of residual interests retained was $155 million and $547 million at December 31, 2008 and 2007, respectively. Additionally, IB retained $2.8 billion of senior and subordinated interests as of December 31, 2008; these securities were retained at securitization in connection with the Firm s underwriting activity.

In addition to the amounts reported in the securitization activity tables below, the Firm sold residential mortgage loans totaling $122.0 billion, $81.8 billion and $53.7 billion during the years ended December 31, 2008, 2007 and 2006, respectively. The majority of these loan sales were for securitization by the GNMA, Fannie Mae and Freddie Mac. These sales resulted in pretax gains of $32 million, $47 million and $251 million, respectively.

The Firm s mortgage loan sales are primarily nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the loans. However, for a limited number of loan sales, the Firm is obligated to share up to 100% of the credit risk associated with the sold loans with the purchaser. See Note 33 on page 209 of this Annual Report for additional information on loans sold with recourse.

Table of Contents

Other Securitizations

The Firm also securitizes automobile and student loans originated by RFS and purchased consumer loans (including automobile and student loans). The Firm retains servicing responsibilities for all originated and certain purchased student and automobile loans. It may also hold a retained interest in these securitizations; such residual interests are classified as other assets. At December 31, 2008 and 2007, the Firm held $37 million and $85 million, respectively, of retained interests in securitized automobile loans and $52 million and $55 million, respectively, of retained interests in securitized student loans.

The Firm also maintains escrow accounts up to predetermined limits for some automobile and student loan securitizations to cover deficiencies in cash flows owed to investors. These escrow accounts are classified within other assets and carried at fair value. The amounts available in such escrow accounts as of December 31, 2008, were $3 million for both automobile and student loan securitizations; as of December 31, 2007, these amounts were $21 million and $3 million for automobile and student loan securitizations, respectively.

Securitization activity

The following tables provide information related to the Firm s securitization activities for the years ended December 31, 2008, 2007 and 2006. For the periods presented there were no cash flows from the Firm to the QSPEs related to recourse or guarantee arrangements.

Year ended December 31, 2008 (in millions, except for ratios and where otherwise noted)	Credit card	Residential mortgage[g] Prime[f]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	**$ 21,390**	**$**	**$**	**$**	**$ 1,023**	**$**	**$**
Pretax gains	**151**						
All cash flows during the period:							
Proceeds from new securitizations	**$ 21,389**[f]	**$**	**$**	**$**	**$ 989**	**$**	**$**
Servicing fees collected	**1,162**	**279**	**146**	**129**	**11**	**4**	**15**
Other cash flows received[a]	**4,985**	**23**	**16**				
Proceeds from collections reinvested in revolving securitizations	**152,399**						
Purchases of previously transferred financial assets (or the underlying collateral)[b][c]		**217**	**13**	**6**			**359**
Cash flows received on the interests that continue to be held by the Firm[d]	**117**	**267**	**23**	**53**	**455**		**43**
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[e]	**17.9-20.0% PPR**				**1.5% CPR**		
Weighted-average life (in years)	**0.4-0.5**				**2.1**		
Expected credit losses	**4.2-4.8%**				**1.5%**		
Discount rate	**12.0-13.0%**				**25.0%**		

Notes to consolidated financial statements

Year ended December 31, 2007 (in millions, except for ratios and where otherwise noted)	Credit card	Residential mortgage Prime[h]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	$ 21,160	$ 32,084	$ 6,763	$	$ 12,797	$ 1,168	$
Pretax gains	177	28[i]	43			51	
All cash flows during the period:							
Proceeds from new securitizations	$ 21,160	$ 31,791	$ 6,844	$	$ 13,038	$ 1,168	$
Servicing fees collected	1,005	124	246		7	2	36
Other cash flows received[a]	4,963						
Proceeds from collections reinvested in revolving securitizations	148,946						
Purchases of previously transferred financial assets (or the underlying collateral)[b]		58	598				431
Cash flows received on the interests that continue to be held by the Firm[d]	18	140	278		256		89
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[e]	20.4% PPR	13.7-37.2% CPR	30.0-48.0% CPR		0.0-8.0% CPR	1.0-8.0% CPR	
Weighted-average life (in years)	0.4	1.3-5.4	2.3-2.8		1.3-10.2	9.3	
Expected credit losses	3.5-3.9%	0.0-1.6%[j]	1.2-2.2%		0.0-1.0%[j]	%[j]	
Discount rate	12.0%	5.8-20.0%	12.1-26.7%		10.0-14.0%	9.0%	

Year ended December 31, 2006 (in millions, except for ratios and where otherwise noted)	Credit card	Residential mortgage Prime[h]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	$ 9,735	$ 30,254	$ 17,359	$	$ 13,858	$	$ 2,405
Pretax gains	67	53	193		129		
All cash flows during the period:							
Proceeds from new securitizations	$ 9,735	$ 30,167	$ 17,635	$	$ 14,248	$	$ 1,745
Servicing fees collected	973	76	29		1		52
Other cash flows received[a]	5,281	35			95		
Proceeds from collections reinvested in revolving securitizations	151,186						
Purchases of previously transferred financial assets (or the underlying collateral)[b]		31	31				138
Cash flows received on the interests that continue to be held by the Firm[d]	76	48	258		73		96

Key assumptions used to measure retained interests originated during the year (rates per annum):

Prepayment rate[e]	20.0-22.2% PPR	10.0-41.3% CPR	36.0-45.0% CPR	0.0-36.2% CPR	1.4-1.5% ABS
Weighted-average life (in years)	0.4	1.7-4.0	1.5-2.4	1.5-6.1	1.4-1.9
Expected credit losses	3.3-4.2%	0.1-3.3%[j]	1.1-2.1%	0.0-0.9%[j]	0.3-0.7%
Discount rate	12.0%	8.4-26.2%	15.1-22.0%	3.8-14.0%	7.6-7.8%

(a) Other cash flows received include excess servicing fees and other ancillary fees received.

(b) Includes cash paid by the Firm to reacquire assets from the QSPEs, for example, servicer clean-up calls.

(c) Excludes a random removal of $6.2 billion of credit card loans from a securitization trust previously established by Washington Mutual and an account addition of $5.8 billion of higher quality credit card loans from the legacy Chase portfolio to the legacy Washington Mutual trust in November 2008. These are noncash transactions that are permitted by the trust documents in order to maintain the appropriate level of undivided seller s interest.

(d) Includes cash flows received on retained interests including, for example, principal repayments, and interest payments.

(e) PPR: principal payment rate; CPR: constant prepayment rate; ABS: absolute prepayment speed.

(f) Includes $5.5 billion of securities retained by the Firm.

(g) Includes securitizations sponsored by Bear Stearns and Washington Mutual as of their respective acquisition dates.

(h) Includes Alt-A loans.

(i) As of January 1, 2007, the Firm adopted the fair value election for IB warehouse and the RFS prime mortgage warehouse. The carrying value of these loans accounted for at fair value approximates the proceeds received from securitization.

(j) Expected credit losses for consumer prime residential mortgage, and student and certain other securitizations are minimal and are incorporated into other assumptions.

Table of Contents

Retained securitization interests

The following table summarizes the Firm s retained securitization interests, which are carried at fair value on the Firm s Consolidated Balance Sheets at December 31, 2008. As of December 31, 2008, 55% of the Firm s retained securitization interests, which are carried at fair value, were risk rated A or better.

	Ratings profile of retained interests[c][d]		
	2008		
December 31, (in billions)	Investment Grade	Noninvestment grade	Retained interest
Asset types:			
Credit card[a]	**$ 5.5**	**$ 3.8**	**$ 9.3**
Residential mortgage:			
Prime[b]	**1.1**	**0.3**	**1.4**
Subprime		**0.1**	**0.1**
Option ARMs	**0.4**		**0.4**
Commercial and other	**1.7**	**0.3**	**2.0**
Student loans		**0.1**	**0.1**
Auto			
Total	**$ 8.7**	**$ 4.6**	**$ 13.3**

(a) Includes retained subordinated interests carried at fair value, including CS accrued interests and fees, escrow accounts, and other residual interests. Excludes undivided seller interest in the trusts of $33.3 billion at December 31, 2008, which is carried at historical cost, and unencumbered cash amounts on deposit of $2.1 billion at December 31, 2008.

(b) Includes Alt-A loans.

(c) The ratings scale is presented on an S&P-equivalent basis.

(d) Excludes $1.8 billion of investments acquired in the secondary market, but predominantly held for investment purposes. Of this amount $1.7 billion is classified as investment grade.

The table below outlines the key economic assumptions used at December 31, 2008 and 2007, to determine the fair value as of December 31, 2008 and 2007, respectively, of the Firm s retained interests, other than MSRs, that are valued using modeling techniques; it excludes securities that are valued using quoted market prices. The table below also outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in assumptions used to determine fair value. For a discussion of residential MSRs, see Note 18 on pages 187 188 of this Annual Report.

ecember 31, 2008 n millions, except rates and where therwise noted)	Credit card	Residential mortgage Prime[c]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
etained interests	**$ 3,463**(b)	**$ 1,420**	**$ 68**	**$ 436**	**$ 1,966**	**$ 55**	**$ 40**
Veighted-average life (in years)	**0.5**	**5.3**	**1.5**	**7.3**	**3.5**	**8.2**	**0.7**
repayment rates[a]	**15.4-16.7%**	**0.0-50.6%**[d]	**1.0-53.1%**	**5.0-15.0%**	**0.0-100.0%**[g]	**5.0%**	**1.2-1.4**
Veighted-average prepayment rate	**16.6 PPR**	**17.7 CPR**	**25.1 CPR**	**7.6 CPR**	**0.7 CPR**	**5.0 CPR**	**1.3 ABS**
npact of 10% adverse change	**$ (42)**	**$ (31)**	**$ (5)**	**$ (4)**	**$ (1)**	**$ (1)**	**$**
npact of 20% adverse change	**(85)**	**(57)**	**(6)**	**(11)**	**(1)**	**(2)**	**(1)**
oss assumptions	**4.7-7.6%**	**0.0-78.1%**[d]	**0.0-78.1%**[f]	**0.0-26.3%**	**0.0-5.0%**	**%**[e]	**0.4-0.7**
Veighted-average loss assumption	**7.0**	**4.4**	**3.4**	**0.3**	**0.3**		**0.5**
npact of 10% adverse change	**$ (235)**	**$ (25)**	**$ (7)**	**$**	**$ (12)**	**$**	**$**
npact of 20% adverse change	**(426)**	**(49)**	**(13)**	**(1)**	**(24)**		**(1)**
iscount rates	**18.0%**	**9.9-67.7%**[d]	**10.6-30.0%**	**3.6-71.7%**	**3.3-47.8%**[g]	**9.0%**	**4.1-4.2**
Veighted-average discount rate	**18.0**	**14.5**	**21.5**	**17.3**	**12.4**	**9.0**	**4.1**
npact of 10% adverse change	**$ (10)**	**$ (52)**	**$ (3)**	**$ (16)**	**$ (26)**	**$ (2)**	**$**

npact of 20% adverse change	**(20)**	**(102)**	**(5)**	**(28)**	**(49)**	**(4)**

Table of Contents

Notes to consolidated financial statements

December 31, 2007 (in millions, except rates and where otherwise noted)	Credit card	Residential mortgage Prime(c)	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Retained interests	$ 3,324	$ 381	$ 387	$	$ 42	$ 58	$ 106
Weighted-average life (in years)	0.4-0.5	2.9-4.9	2.9		0.3-11.0	8.8	0.9
Prepayment rates(a)	15.6-18.9% PPR	19.0-25.3% CPR	25.7% CPR	%	0.0-50.0% CPR	1.0-8.0% CPR	1.4% ABS
Impact of 10% adverse change	$ (59)	$ (14)	$ (30)	$	$ (1)	$ (1)	$ (1)
Impact of 20% adverse change	(118)	(25)	(54)		(2)	(2)	(1)
Loss assumptions	3.3-4.6%	0.0-3.0%(e)	3.3%	%	0.0-0.9%	%(e)	0.6%
Impact of 10% adverse change	$ (117)	$ (13)	$ (68)	$	$ (1)	$	$ (2)
Impact of 20% adverse change	(234)	(25)	(120)		(1)		(3)
Discount rates	12.0%	11.0-23.9%	15.0-30.0%	%	1.0-18.0%	9.0%	6.8%
Impact of 10% adverse change	$ (2)	$ (18)	$ (16)	$	$	$ (3)	$
Impact of 20% adverse change	(4)	(36)	(31)		(1)	(5)	(1)

(a) PPR: principal payment rate; ABS: absolute prepayment speed; CPR: constant prepayment rate.
(b) Excludes certain interests that are not valued using modeling techniques.
(c) Includes Alt-A loans.
(d) Including the valuation assumptions used to determine the fair value for a limited amount of retained interests resulted in a

wider range than those used for the majority of the portfolio. Excluding these retained interests, the range of assumptions used to value the prime/Alt A mortgage retained interests would have been 0.0-29.4% for prepayment rates; 0.0-25.0% for loss assumptions; and 9.9%-21.4% for the discount rates.

(e) Expected losses for prime residential mortgage, student loans and certain wholesale securitizations are minimal and are incorporated into other assumptions.

(f) Including the loss assumptions used to determine the fair value for a limited amount of retained interests resulted in a wider range than those used for the majority of the portfolio. Excluding these retained interests, the range of loss assumption used to value the subprime mortgage retained interests would have been 0.2-43.5%.

(g) The valuation assumptions used to determine the fair value for a limited amount of retained interests were higher than the majority of the portfolio. Excluding these retained interests, the range of assumptions used to value the commercial and other retained interests would have been 0.0% to 22.0% for prepayment rates and 3.3%-30.4% for the discount rates.

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based upon a 10% or 20% variation in assumptions generally cannot be extrapolated easily because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in the 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 might counteract or magnify the sensitivities. The above sensitivities also do not reflect the Firm s risk management practices that may be undertaken to mitigate such risks.

Table of Contents

The table below includes information about delinquencies, net charge-offs and components of reported and securitized financial assets at December 31, 2008 and 2007.

December 31, (in millions)	Total Loans 2008	Total Loans 2007	90 days past due and still accruing 2008	90 days past due and still accruing 2007	Nonaccrual assets[g][h] 2008	Nonaccrual assets[g][h] 2007	Net loan charge-offs Year ended 2008	Net loan charge-offs Year ended 2007
Home Equity	**$ 114,335**	$ 94,832	**$**	$	**$ 1,394**	$ 786	**$ 2,391**	$ 564
Prime mortgage[a]	**72,266**	39,988			**1,895**	501	**526**	33
Subprime mortgage	**15,330**	15,473			**2,690**	1,017	**933**	157
Option ARMs	**9,018**				**10**			
Auto loans	**42,603**	42,350			**148**	116	**568**	354
Credit card	**104,746**	84,352	**2,649**	1,547	**4**	7	**4,556**	3,116
All other loans	**33,715**	25,314	**463**	421	**430**	341	**459**	242
Loans held-for-sale[b]	**2,028**	3,989					**NA**	NA
Total consumer loans excluding purchased credit-impaired	**394,041**	306,298	**3,112**	1,968	**6,571**	2,768	**9,433**	4,466
Consumer loans purchased credit-impaired[c]	**88,813**							
Total consumer loans	**482,854**	306,298	**3,112**	1,968	**6,571**	2,768	**9,433**	4,466
Total wholesale loans	**262,044**	213,076	**163**	75	**2,382**(i)	514(i)	**402**	72
Total loans reported	**744,898**	519,374	**3,275**	2,043	**8,953**	3,282	**9,835**	4,538
Securitized loans:								
Residential mortgage:								
Prime mortgages[a]	**212,274**	77,582			**21,130**	1,215	**5,645**	7
Subprime mortgage	**58,607**	22,692			**13,301**	3,238	**4,797**	413
Option ARMs	**48,328**				**6,440**		**270**	
Automobile	**791**	2,276			**2**	6	**15**	13
Credit card	**85,571**	72,701	**1,802**	1,050			**3,612**	2,380
Student	**1,074**	1,141	**66**				**1**	
Commercial and other	**45,677**	3,419	**28**		**166**		**8**	11
Total loans securitized[d]	**$ 452,322**	$179,811	**$1,896**	$1,050	**$41,039**	$4,459	**$14,348**	$2,824
Total loans reported and securitized[e]	**$1,197,220**(f)	$699,185(f)	**$5,171**	$3,093	**$49,992**	$7,741	**$24,183**	$7,362

(a) Includes Alt-A loans.
(b) Includes loans for prime mortgage and other (largely student

loans) of $206 million and $1.8 billion at December 31, 2008, respectively, and $570 million and $3.4 billion at December 31, 2007, respectively.

(c) Purchased credit-impaired loans represent loans acquired in the Washington Mutual acquisition that were considered credit-impaired under SOP 03-3, and include $6.4 billion of loans that were nonperforming immediately prior to the acquisition. Under SOP 03-3, these loans are considered to be performing loans as of the acquisition date; they accrete interest income over the estimated life of the loan when cash flows are reasonably estimable, even if the underlying loans are contractually past due. For additional information, see Note 14 on pages 163 166 of this Annual Report.

(d) Total assets held in securitization-related SPEs were $640.8 billion and $307.7 billion at December 31, 2008 and 2007, respectively. The $452.3 billion and $179.8 billion of loans securitized at December 31, 2008 and 2007, respectively, excludes $152.4 billion and $107.8 billion of securitized loans, respectively, in which the Firm has no continuing involvement; $33.3 billion and $18.6 billion of seller s interests in credit card master trusts, respectively; and $2.8 billion and $1.5 billion of cash amounts on deposit and escrow accounts.

(e) Represents both loans on the Consolidated Balance Sheets and loans that have been securitized.

(f) Includes securitized loans that were previously recorded at fair value and classified as trading assets.

(g) During the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all other home lending products. Amounts for 2007 have been revised to reflect this change.

(h) Excludes nonperforming assets related to (i) loans eligible for repurchase, as well as loans repurchased from GNMA pools that are insured by U.S. government agencies, of $3.3 billion and $1.5 billion at December 31, 2008 and 2007, respectively, and (ii) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $437 million and $417 million at December 31, 2008 and 2007, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.

(i) Includes nonperforming loans held-for-sale and loans at fair value of $32 million and $50 million at December 31, 2008 and 2007, respectively.

Table of Contents

Notes to consolidated financial statements

Subprime adjustable-rate mortgage loan modifications

See the Glossary of Terms on page 220 of this Annual Report for the Firm s definition of subprime loans. Within the confines of the limited decision-making abilities of a QSPE under SFAS 140, the operating documents that govern existing subprime securitizations generally authorize the servicer to modify loans for which default is reasonably foreseeable, provided that the modification is in the best interests of the QSPE s beneficial interest holders and would not result in a REMIC violation.

In December 2007, the American Securitization Forum (ASF) issued the Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans (the Framework). The Framework provides guidance for servicers to streamline evaluation procedures for borrowers with certain subprime adjustable rate mortgage (ARM) loans to more efficiently provide modifications of such loans with terms that are more appropriate for the individual needs of such borrowers. The Framework applies to all first-lien subprime ARM loans that have a fixed rate of interest for an initial period of 36 months or less, are included in securitized pools, were originated between January 1, 2005, and July 31, 2007, and have an initial interest rate reset date between January 1, 2008, and July 31, 2010 (ASF Framework Loans).

The Framework categorizes the population of ASF Framework Loans into three segments: Segment 1 includes loans where the borrower is current and is likely to be able to refinance into any readily available mortgage product; Segment 2 includes loans where the borrower is current, is unlikely to be able to refinance into any readily available mortgage industry product and meets certain defined criteria; and Segment 3 includes loans where the borrower is not current, as defined, and does not meet the criteria for Segments 1 or 2.

ASF Framework Loans in Segment 2 of the Framework are eligible for fast-track modification under which the interest rate will be kept at the existing initial rate, generally for five years following the interest rate reset date. The Framework indicates that for Segment 2 loans, JPMorgan Chase, as servicer, may presume that the borrower will be unable to make payments pursuant to the original terms of the borrower s loan after the initial interest rate reset date. Thus, the Firm may presume that a default on that loan by the borrower is reasonably foreseeable unless the terms of the loan are modified. JPMorgan Chase has adopted the loss mitigation approaches under the Framework for securitized subprime ARM loans that meet the specific Segment 2 criteria and began modifying Segment 2 loans during the first quarter of 2008. The adoption of the Framework did not affect the off-balance sheet accounting treatment of JPMorgan Chase-sponsored QSPEs that hold Segment 2 subprime loans.

The total dollar amount of assets owned by Firm-sponsored QSPEs that hold subprime adjustable rate mortgage loans as of December 31, 2008 and 2007, was $30.8 billion and $20.0 billion, respectively. Of these amounts, $12.7 billion and $9.7 billion, respectively, are related to ASF Framework Loans serviced by the Firm. Included within the assets owned by Firm-sponsored QSPEs was foreclosure-related real estate owned, for which JPMorgan Chase is the servicer, in
the amount of $3.5 billion and $637 million at December 31, 2008 and 2007, respectively. The growth in real estate owned in 2008 is attributable to the Washington Mutual transaction and increased foreclosures resulting from current housing market conditions. The following table presents the principal amounts of ASF Framework Loans, serviced by the Firm, that are owned by Firm-sponsored QSPEs that fell within Segments 1, 2 and 3 as of December 31, 2008 and 2007, respectively.

December 31,	**2008**		2007	
(in millions, except ratios)	Amount	%	Amount	%
Segment 1	**$ 1,940**	**15%**	$ 1,940	20%
Segment 2	**2,930**	**23**	970	10
Segment 3	**7,806**	**62**	6,790	70
Total	**$ 12,676**	**100%**	$ 9,700	100%

The estimates of segment classification could change substantially in the future as a result of future changes in housing values, economic conditions, borrower/investor behavior and other factors.
The total principal amount of beneficial interests issued by the Firm-sponsored securitizations that hold ASF Framework Loans as of December 31, 2008 and 2007, was as follows.

December 31, (in millions)	**2008**	2007
Third-party	**$ 44,401**	$ 19,636
Retained interest	**99**	412
Total	**$ 44,500**	$ 20,048

For those ASF Framework Loans serviced by the Firm and owned by Firm-sponsored QSPEs, the Firm modified principal amounts of $1.7 billion of Segment 2 subprime mortgages during the year ended December 31, 2008. There were no Segment 2 subprime mortgages modified during the year ended December 31, 2007. For Segment 3 loans, the Firm has adopted a loss mitigation approach, without employing the fast-track modifications prescribed for Segment 2 subprime mortgages, that is intended to maximize the recoveries of the securitization trust. The loss mitigation approach chosen by JPMorgan Chase is consistent with the applicable servicing agreements and could include rate reductions, principal forgiveness, forbearance and other actions intended to minimize economic loss and avoid foreclosure. The table below presents selected information relating to the principal amount of Segment 3 loans for the year ended December 31, 2008, including those that have been modified, subjected to other loss mitigation activities or have been prepaid by the borrower.

For the year ended December 31, (in millions)	2008
Loan modifications	$ 2,384
Other loss mitigation activities	865
Prepayments	219

The impact of loss mitigation efforts on the fair value of the Firm s retained interests in ASF Framework loans was not material at December 31, 2008.

Table of Contents

Note 17 Variable interest entities

Refer to Note 1 on page 122 of this Annual Report for a further description of JPMorgan Chase s policies regarding consolidation of variable interest entities.

JPMorgan Chase s principal involvement with VIEs occurs in the following business segments:

Investment Bank: Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. IB is involved with VIEs through multi-seller conduits and for investor intermediation purposes, as discussed below. IB also securitizes loans through QSPEs, to create asset-backed securities, as further discussed in Note 16 on pages 168 176 of this Annual Report.

Asset Management (AM): Provides investment management services to a limited number of the Firm s funds deemed VIEs. AM earns a fixed fee based upon assets managed; the fee varies with each fund s investment objective and is competitively priced. For the limited number of funds that qualify as VIEs, AM s relationships with such funds are not considered significant variable interests under FIN 46(R).

Treasury & Securities Services: Provides services to a number of VIEs that are similar to those provided to non-VIEs. TSS earns market-based fees for the services it provides. The relationships resulting from TSS services are not considered to be significant variable interests under FIN 46(R).

Commercial Banking (CB): Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. This is often accomplished through the use of products similar to those offered in IB. CB may assist in the structuring and/or ongoing administration of these VIEs and may provide liquidity, letters of credit and/or derivative instruments in support of the VIE. The relationships resulting from CB s services are not considered to be significant variable interests under FIN 46(R).

Corporate/Private Equity: Corporate utilizes VIEs to issue guaranteed capital debt securities. See Note 23 on page 191 for further information. The Private Equity business, also included in Corporate, may be involved with entities that could be deemed VIEs. Private equity activities are accounted for in accordance with the AICPA Audit and Accounting Guide *Investment Companies* (the Guide). In June 2007, the AICPA issued SOP 07-1, which provides guidance for determining whether an entity is within the scope of the Guide, and therefore qualifies to use the Guide s specialized accounting principles (referred to as investment company accounting). In May 2007, the FASB issued FSP FIN 46(R)-7, which amends FIN 46(R) to permanently exempt entities within the scope of the Guide from applying the provisions of FIN 46(R) to their investments. In February 2008, the FASB agreed to an indefinite delay of the effective date of SOP 07-1 in order to address implementation issues, which effectively delays FSP FIN 46(R)-7 as well for those companies, such as the Firm, that have not adopted SOP 07-1. Had FIN 46(R) been applied to VIEs subject to this deferral, the impact would have been immaterial to the Firm s consolidated financial statements as of December 31, 2008.

As noted above, IB is predominantly involved with multi-seller conduits and VIEs associated with investor intermediation activities. These nonconsolidated VIEs that are sponsored by JPMorgan Chase are discussed below. The Firm considers a sponsored VIE to include any entity where: (1) JPMorgan Chase is the principal beneficiary of the structure; (2) the VIE is used by JPMorgan Chase to securitize Firm assets; (3) the VIE issues financial instruments associated with the JPMorgan Chase brand name; or (4) the entity is a JPMorgan Chase administered asset-backed commercial paper (ABCP) conduit.

Multi-seller conduits

Funding and liquidity

The Firm is an active participant in the asset-backed securities business, and it helps customers meet their financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. Multi-seller conduit entities are separate bankruptcy-remote entities that purchase interests in, and make loans secured by, pools of receivables and other financial assets pursuant to agreements with customers of the Firm. The conduits fund their purchases and loans through the issuance of highly rated commercial paper to third-party investors. The primary source of repayment of the commercial paper is the cash flow from the pools of assets. In most instances, the assets are structured with deal-specific credit enhancements provided by the customers (i.e., sellers) to the conduits or other third parties. Deal-specific credit enhancements are generally structured to cover a multiple of historical losses expected on the pool of assets, and are typically in the form of overcollateralization provided by the seller, but also may include any combination of the following: recourse to the seller or originator, cash collateral accounts, letters of credit, excess spread, retention of subordinated interests or third-party guarantees. The deal-specific credit enhancements mitigate the Firm s potential losses on its agreements with the conduits.

JPMorgan Chase receives fees related to the structuring of multi-seller conduit transactions and compensation from the multi-seller conduits for its role as administrative agent, liquidity provider, and provider of program-wide credit enhancement.

As a means of ensuring timely repayment of the commercial paper, each asset pool financed by the conduits has a minimum 100% deal-specific liquidity facility associated with it. Deal-specific liquidity facilities are the primary source of liquidity support for the conduits. The deal-specific liquidity facilities are typically in the form of asset purchase agreements and generally structured so the liquidity that will be provided by the Firm as liquidity provider will be effected by the Firm purchasing, or lending against, a pool of nondefaulted, performing assets.

The conduit s administrative agent can require the liquidity provider to perform under its asset purchase agreement with the conduit at any time. These agreements may cause the liquidity provider, including the Firm, to purchase an asset from the conduit at an amount above the asset s then current fair value in effect providing a guarantee of the initial value of the reference asset as of the date of the agreement. In limited circumstances, the Firm may provide unconditional liquidity.

Notes to consolidated financial statements

The Firm also provides the multi-seller conduit vehicles with program-wide liquidity facilities in the form of uncommitted short-term revolving facilities that can be accessed by the conduits to handle funding increments too small to be funded by commercial paper and in the form of uncommitted liquidity facilities that can be accessed by the conduits only in the event of short-term disruptions in the commercial paper market.

Because the majority of the deal-specific liquidity facilities will only fund nondefaulted assets, program-wide credit enhancement is required to absorb losses on defaulted receivables in excess of losses absorbed by any deal-specific credit enhancement. Program-wide credit enhancement may be provided by JPMorgan Chase in the form of standby letters of credit or by third-party surety bond providers. The amount of program-wide credit enhancement required varies by conduit and ranges between 5% and 10% of applicable commercial paper outstanding.

The following table summarizes the Firm s involvement with non-consolidated Firm-administered multi-seller conduits. There were no consolidated Firm-administered multi-seller conduits as of December 31, 2008 or 2007.