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

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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.

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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

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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

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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

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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.

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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

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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

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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.

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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.

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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

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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.

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-

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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 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

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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.

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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.

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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-

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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.

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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).

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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). *

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). *

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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.

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Pages 23 and 24 not used

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Financial:

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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.

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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

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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.

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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

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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

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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.

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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

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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.

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

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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.

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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.

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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	Credit card[(c)]	Fully tax-equivalent adjustments	Managed basis	2007 Reported results	Credit card[(c)]	Fully tax-equivalent adjustments	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.

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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.

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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.

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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.

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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.

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.

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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.

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(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%

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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**	$	$

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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.

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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.

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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.

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.

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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

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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.

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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
International electronic funds transfer volume (in thousands)[(d)]	**171,036**	168,605	145,325

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**		