J P MORGAN CHASE & CO
Form 10-Q
August 10, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2009 **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, New York	**10017**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (212) 270-6000

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.

þ **Yes** o **No**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

þ **Yes** o **No**

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):

Large accelerated filer þ	**Accelerated filer** o	**Non-accelerated filer** o	**Smaller reporting company** o

(Do not check if a 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** þ **No**

Number of shares of common stock outstanding as of July 31, 2009: 3,932,572,941

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JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

(unaudited) (in millions, except per share, headcount and ratios) As of or for the period ended,	**2Q09**	1Q09	4Q08	3Q08	2Q08	Six months ended June 30, **2009**	 2008
Selected income statement data							
Noninterest revenue	**$ 12,953**	$ 11,658	$ 3,394	$ 5,743	$ 10,105	**$ 24,611**	$ 19,336
Net interest income	**12,670**	13,367	13,832	8,994	8,294	**26,037**	15,953
Total net revenue	**25,623**	25,025	17,226	14,737	18,399	**50,648**	35,289
Noninterest expense	**13,520**	13,373	11,255	11,137	12,177	**26,893**	21,108
Pre-provision profit	**12,103**	11,652	5,971	3,600	6,222	**23,755**	14,181
Provision for credit losses	**8,031**	8,596	7,755	3,811	3,455	**16,627**	7,879
Provision for credit losses accounting conformity[(a)]			(442)	1,976			
Income (loss) before income tax expense and extraordinary gain	**4,072**	3,056	(1,342)	(2,187)	2,767	**7,128**	6,302
Income tax expense (benefit)[(b)]	**1,351**	915	(719)	(2,133)	764	**2,266**	1,926
Income (loss) before extraordinary gain	**2,721**	2,141	(623)	(54)	2,003	**4,862**	4,376
Extraordinary gain[(c)]			1,325	581			
Net income	**$ 2,721**	$ 2,141	$ 702	$ 527	$ 2,003	**$ 4,862**	$ 4,376
Per common share							
Basic earnings[(d)]							
Income (loss) before extraordinary gain	**$ 0.28**	$ 0.40	$ (0.29)	$ (0.08)	$ 0.54	**$ 0.68**	$ 1.21
Net income	**0.28**	0.40	0.06	0.09	0.54	**0.68**	1.21
Diluted earnings[(d)(e)]							
Income (loss) before extraordinary gain	**$ 0.28**	$ 0.40	$ (0.29)	$ (0.08)	$ 0.53	**$ 0.68**	$ 1.20
Net income	**0.28**	0.40	0.06	0.09	0.53	**0.68**	1.20
Cash dividends declared per share	**0.05**	0.05	0.38	0.38	0.38	**0.10**	0.76
Book value per share	**37.36**	36.78	36.15	36.95	37.02		
Common shares outstanding							
Weighted-average: Basic	**3,811.5**	3,755.7	3,737.5	3,444.6	3,426.2	**3,783.6**	3,411.1
Diluted[(d)]	**3,824.1**	3,758.7	3,737.5[(k)]	3,444.6[(k)]	3,453.1	**3,791.4**	3,438.2
Common shares at period end[(f)]	**3,924.1**	3,757.7	3,732.8	3,726.9	3,435.7		
Share price[(g)]							

High	**$ 38.94**	$ 31.64	$ 50.63	$ 49.00	$ 49.95	**$ 38.94**	$ 49.95
Low	**25.29**	14.96	19.69	29.24	33.96	**14.96**	33.96
Close	**34.11**	26.58	31.53	46.70	34.31		
Market capitalization	**133,852**	99,881	117,695	174,048	117,881		
Financial ratios							
Return on common equity (ROE[h])							
Income (loss) before extraordinary gain	**3%**	5%	(3)%	(1)%	6%	**4%**	7%
Net income	**3**	5	1	1	6	**4**	7
Return on assets (ROA)							
Income (loss) before extraordinary gain	**0.54**	0.42	(0.11)	(0.01)	0.48	**0.48**	0.54
Net income	**0.54**	0.42	0.13	0.12	0.48	**0.48**	0.54
Overhead ratio	**53**	53	65	76	66	**53**	60
Tier 1 common capital ratio	**7.7**	7.3	7.0	6.8	7.1		
Tier 1 capital ratio	**9.7**	11.4	10.9	8.9	9.2		
Total capital ratio	**13.3**	15.2	14.8	12.6	13.4		
Tier 1 leverage ratio	**6.2**	7.1	6.9	7.2	6.4		
Selected balance sheet data (period-end)							
Trading assets	**$ 395,626**	$ 429,700	$ 509,983	$ 520,257	$ 531,997		
Securities	**345,563**	333,861	205,943	150,779	119,173		
Loans	**680,601**	708,243	744,898	761,381	538,029		
Total assets	**2,026,642**	2,079,188	2,175,052	2,251,469	1,775,670		
Deposits	**866,477**	906,969	1,009,277	969,783	722,905		
Long-term debt	**254,226**	243,569	252,094	238,034	260,192		
Common stockholders equity	**146,614**	138,201	134,945	137,691	127,176		
Total stockholders equity	**154,766**	170,194	166,884	145,843	133,176		
Headcount	**220,255**	219,569	224,961	228,452	195,594		

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(unaudited)

(in millions, except ratios)						Six months ended June 30,	
As of or for the period ended,	**2Q09**	1Q09	4Q08	3Q08	2Q08	**2009**	2008
Credit quality metrics							
Allowance for credit losses	**$29,818**	$28,019	$23,823	$19,765	$13,932		
Allowance for loan losses to ending loans[(i)]	**5.01%**	4.53%	3.62%	2.87%	2.57%		
Nonperforming assets	**$17,517**	$14,654	$12,714	$ 9,520	$ 6,233		
Net charge-offs	**6,019**	4,396	3,315	2,484	2,130	**$10,415**	$4,036
Net charge-off rate	**3.52%**	2.51%	1.80%	1.91%	1.67%	**3.01%**	1.60%
Wholesale net charge-off rate	**1.19**	0.32	0.33	0.10	0.08	**0.75**	0.13
Consumer net charge-off rate	**4.69**	3.61	2.59	3.13	2.77	**4.15**	2.60
Managed Card net charge-off rate[(j)]	**10.03**	7.72	5.56	5.00	4.98	**8.85**	4.68

(a) The third and fourth quarters of 2008 included an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual Bank s banking operations.

(b) The income tax benefit in the third quarter of 2008 includes the realization of a benefit from the release of deferred tax liabilities associated with the undistributed earnings of certain non-U.S. subsidiaries that were deemed to

be reinvested indefinitely.

(c) 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.

(d) Effective January 1, 2009, the Firm implemented FSP EITF 03-6-1. Accordingly, prior-period amounts have been revised as required. For further discussion of

FSP EITF 03-6-1, see Note 21 on page 158 of this Form 10-Q.

(e) *The calculation of second quarter 2009 earnings per share includes a one-time, noncash reduction of $1.1 billion, or $0.27 per share, resulting from repayment of TARP preferred capital. For further discussion, see Impact on diluted earnings per share of redemption of TARP preferred stock issued to the U.S. Treasury on page 18 of this Form 10-Q.*

(f) *On June 5, 2009, the Firm issued 163 million shares of its common stock at $35.25 per share; and on September 30, 2008, the Firm issued 284 million shares of its common stock at $40.50 per share.*

(g)

JPMorgan Chase s common stock is listed and traded on the New York Stock Exchange, the London Stock Exchange 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.

(h) The calculation of second quarter 2009 net income applicable to common equity includes a one-time, noncash reduction of $1.1 billion resulting from repayment of TARP preferred capital. Excluding this reduction the adjusted ROE was 6% for the second quarter 2009. For further discussion of adjusted ROE, see Explanation and reconciliation of

the Firm s use of non-GAAP financial measures on pages 15-18 of this Form 10-Q.

(i) Excludes the impact of home lending purchased credit-impaired loans, loans from Washington Mutual Master Trust, loans held-for-sale and loans at fair value. For additional information, refer to Allowance for credit losses on pages 78-80 of this Form 10-Q.

(j) Beginning in the fourth quarter of 2008, Managed Card net charge-offs reflect the impact of purchase accounting adjustments related to the acquisition of Washington Mutual Bank s banking operations and the consolidation of the Washington Mutual Master Trust.

(k)

Common equivalent shares have been excluded from the computation of diluted earnings per share for the third and fourth quarters of 2008, as the effect on income (loss) before extraordinary gain would be antidilutive.

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

This section of the Form 10-Q provides management s discussion and analysis (MD&A) of the financial condition and results of operations for JPMorgan Chase. See the Glossary of Terms on pages 169-173 for definitions of terms used throughout this Form 10-Q. The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on 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. For a discussion of some of these risks and uncertainties, see Forward-looking Statements on pages 176-177 and Part II, Item 1A: Risk Factors on page 179 of this Form 10-Q, and JPMorgan Chase s Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the U.S. Securities and Exchange Commission (2008 Annual Report or 2008 Form 10-K), including Part I, Item 1A: Risk factors.

INTRODUCTION

JPMorgan Chase & Co. (JPMorgan Chase or the Firm), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America (U.S.), with $2.0 trillion in assets, $154.8 billion in stockholders equity and operations in more than 60 countries as of June 30, 2009. 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 U.S. national banking association with branches in 23 states; 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 (IB) 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.

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 5,200 bank branches (third-largest nationally) and 14,100 ATMs (second-largest nationally), as well as online and mobile banking around the clock. 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 16,100 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 151 million cards in circulation and more than $171 billion in managed loans. In the six months ended June 30, 2009, customers used

Chase cards to meet more than $158 billion worth of their spending needs. 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.

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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 holds, values, clears and services securities, cash and alternative investments for investors and broker-dealers, and it 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.

OTHER BUSINESS EVENTS

FDIC Special Assessment

On May 22, 2009, the Federal Deposit Insurance Corporation (FDIC) announced a five basis point special assessment on each insured depository institution s assets minus Tier 1 capital as of June 30, 2009. The maximum amount of the special assessment for any institution is 10 basis points times such institution s average U.S. deposits for the second quarter. The FDIC announced that the special assessment will be collected on September 30, 2009. As of June 30, 2009, the Firm had accrued $675 million for the special assessment, which is reported in the Corporate/Private Equity segment.

Issuance of common stock

On June 5, 2009, the Firm issued $5.8 billion, or 163 million shares, of common stock. The common stock was issued to satisfy a regulatory supervisory condition requiring the Firm to demonstrate it could access the equity capital markets in order to be eligible to redeem Series K preferred stock issued to the U.S. Treasury under the Troubled Asset Relief Program (TARP). Proceeds from this issuance were used for general corporate purposes.

TARP Repayment / EPS Impact

On June 17, 2009, the Firm redeemed all of the outstanding shares of Series K preferred stock issued to the U.S. Treasury pursuant to TARP and repaid the full $25.0 billion principal amount. As a result of this redemption, the Firm incurred a one-time, noncash reduction of approximately $1.1 billion in the calculation of earnings per share (EPS) (i.e., a reduction in net income applicable to common stockholders), reflecting the accelerated amortization of issuance discount on the Series K preferred stock. The effect of this adjustment was to reduce reported diluted earnings per common share for the second quarter of 2009 by $0.27 per share. Following discussions with the U.S. Treasury regarding the warrant issued in connection with its purchase of the Series K preferred stock, on July 7, 2009, JPMorgan Chase notified the U.S. Treasury that it had revoked its warrant repurchase notice. JPMorgan Chase understands, based on the U.S. Treasury s public statements, that the U.S. Treasury intends to pursue a public auction of the warrant. The U.S. Treasury has advised JPMorgan Chase that the Firm will be permitted to participate in any such auction.

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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 Form 10-Q. 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 Form 10-Q should be read in its entirety.

Financial performance of JPMorgan Chase

	Three months ended June 30,			Six months ended June 30,		
(in millions, except per share data and ratios)	**2009**	2008	Change	**2009**	2008	Change
Selected income statement data						
Total net revenue	**$25,623**	$18,399	39%	**$50,648**	$35,289	44%
Total noninterest expense	**13,520**	12,177	11	**26,893**	21,108	27
Pre-provision profit	**12,103**	6,222	95	**23,755**	14,181	68
Provision for credit losses	**8,031**	3,455	132	**16,627**	7,879	111
Net income	**2,721**	2,003	36	**4,862**	4,376	11
Diluted earnings per share[(a)(b)]	**$ 0.28**	$ 0.53	(47)	**$ 0.68**	$ 1.20	(43)
Return on common equity[(c)]	**3%**	6%		**4%**	7%	

(a) Effective January 1, 2009, the Firm implemented FSP EITF 03-6-1. Accordingly, prior-period amounts have been revised. For further discussion of FSP EITF 03-6-1, see Note 21 on page 158 of this Form 10-Q.

(b) The calculation of second quarter 2009 earnings per share includes a one-time, noncash reduction of $1.1 billion, or $0.27 per share, resulting from

repayment of TARP preferred capital. For further discussion, see Impact on diluted earnings per share of redemption of TARP preferred stock issued to the U.S. Treasury on page 18 of this Form 10-Q.

(c) The calculation of second quarter 2009 net income applicable to common equity includes a one-time, noncash reduction of $1.1 billion resulting from repayment of TARP preferred capital. Excluding this reduction, the adjusted ROE was 6% for the second quarter of 2009. For further discussion of adjusted ROE, see Explanation and reconciliation of the Firm s use of non-GAAP financial measures on pages 15-18 of this Form 10-Q.

Business overview

JPMorgan Chase reported second-quarter 2009 net income of $2.7 billion, or $0.28 per share, compared with net income of $2.0 billion, or $0.53 per share, in the second quarter of 2008. Current-quarter earnings per share reflected a one-time, noncash reduction in net income applicable to common stockholders of $1.1 billion, or $0.27 per share, resulting from repayment of TARP preferred capital. Return on common equity for the quarter was 3%, compared with 6% in the prior year.

The increase in earnings from the second quarter of 2008 was driven by record net revenue, predominantly offset by a higher provision for credit losses and increased noninterest expense. Both revenue and expense were higher due to the impact of the acquisition of the banking operations of Washington Mutual Bank (Washington Mutual) on September 25, 2008. In addition, record Fixed Income Markets revenue and investment banking fees in the Investment Bank contributed to revenue growth. Growth in noninterest expense predominantly reflected an accrual for the FDIC special assessment and higher ongoing FDIC insurance premiums. High levels of credit costs in Retail Financial Services and Card Services drove the increase in the provision for credit losses, as weak economic conditions and housing price declines continued to negatively affect these businesses.

Net income for the first six months of 2009 was $4.9 billion, or $0.68 per share, compared with $4.4 billion, or $1.20 per share, in the first half of 2008. Earnings per share for the first six months reflected the reduction in net income resulting from repayment of TARP preferred capital. The increase in earnings from the comparable 2008 six-month period was due to the same drivers as for the 2009 second quarter: the Washington Mutual acquisition and higher Fixed Income revenue and investment banking fees. The first half of 2009 also reflected higher net revenue from mortgage servicing rights (MSR) risk management results in Retail Financial Services, higher noninterest expense resulting from higher compensation expense in both the Investment Bank and Retail Financial Services, and higher FDIC insurance premiums and increased credit costs.

The global economy began to stabilize in the second quarter of 2009, with developing economies rebounding significantly and contraction in developed economies slowing. Credit conditions improved in the quarter, with most credit spreads falling from previous wide levels. The credit and asset-purchase programs implemented by the Board of Governors of the Federal Reserve System (Federal Reserve), which were modified and in some cases extended in the quarter, helped measurably. The Federal Reserve has announced it intends to have purchased up to $1,750 billion of Treasury, mortgage-backed and agency-debt securities by the spring of 2010; this and the results of the stress tests conducted as part of the Supervisory Capital Assessment Program (SCAP), which showed that most of the largest U.S. financial institutions had strong capital cushions, reinforced market confidence. Following release of the SCAP results, those banks that participated in the Capital Purchase Program (CPP) and met the requirements established by their primary federal banking supervisors for the repayment of funds provided by the TARP, were permitted to repay such funds; many, including JPMorgan Chase, did so. The narrowing of credit spreads enabled businesses to refinance outstanding debt and raise new capital, resulting in

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strong activity in capital markets that aided bank earnings, and recoveries in many stock markets bolstered consumer and business sentiment. Notwithstanding these favorable market developments, conditions remain fragile and are dependent on the approximately $2 trillion of credit provided by the Federal Reserve through its various market-supporting initiatives. In addition, economic activity was too slow to prevent deterioration in the labor markets: the U.S. unemployment rate rose to 9.5% in the second quarter, the highest level reached since the peak of the 1982 recession.

The improving sentiment amid a continued challenging economic environment was also reflected in JPMorgan Chase s line-of-business results in the second quarter of 2009. Four of the Firm s six main lines of business reported double-digit growth in net revenue, resulting in record firmwide net revenue. The Investment Bank reported record fees and Fixed Income Markets revenue and maintained its leadership positions across products; Commercial Banking continued to grow revenue and earnings; Asset Management maintained good global investment performance; Retail Financial Services reported favorable retail branch production metrics, and Treasury & Securities Services delivered another quarter of solid performance. Although each of the lines of business was negatively affected to some degree by the challenging environment, Card Services and Consumer Lending, a business segment in Retail Financial Services, were hit hardest, with continued high levels of credit costs contributing to a net loss in each business.

JPMorgan Chase maintained a strong balance sheet in the quarter. Even after the repayment in full of $25 billion of TARP preferred capital and the addition of $2 billion to credit reserves, the Firm ended the quarter with a Tier 1 capital ratio of 9.7% and a Tier 1 common capital ratio of 7.7%. The total allowance for credit losses at June 30, 2009, was $29.8 billion, and the firmwide loan loss coverage ratio was 5.0%. Management believes these strong capital and reserve levels, combined with the Firm s significant earnings power, will allow the Firm to continue to reinvest in its businesses over the long term.

The Firm remains committed to helping bring stability to the communities in which it operates and to the financial system overall. During the quarter, JPMorgan Chase extended approximately $150 billion in new credit to consumer and corporate customers and approved 138,000 trial mortgage modifications, bringing total foreclosures prevented since 2007 to 565,000.

The discussion that follows highlights the current-quarter performance of each business segment, compared with the prior-year quarter, 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 15-18 of this Form 10-Q .

Investment Bank net income increased, reflecting higher net revenue and lower noninterest expense, partially offset by a higher provision for credit losses. Record investment banking fees were driven by record equity underwriting fees. Fixed Income Markets revenue was also a record, driven by strong results across all products, as well as the absence of markdowns related to leveraged lending funded and unfunded commitments and mortgage-related exposure. The provision for credit losses increased due to higher charge-offs as well as a higher allowance, reflecting continued deterioration in the credit environment.

Retail Financial Services net income declined, as a higher provision for credit losses and higher noninterest expense were partially offset by higher net revenue, reflecting the impact of the Washington Mutual transaction, wider loan and deposit spreads, and higher deposit balances. The provision for credit losses included a significant addition to the allowance for loan losses, as weak economic conditions and housing price declines drove higher estimated losses for the home equity and mortgage loan portfolios. The increase in noninterest expense reflected the impact of the Washington Mutual transaction, higher servicing expense and higher FDIC insurance premiums.

Card Services reported a net loss, compared with net income in the prior year. The decrease was driven by a higher provision for credit losses, partially offset by higher net revenue. The increase in managed net revenue was driven by the impact of the Washington Mutual transaction, wider loan spreads and higher merchant servicing revenue related to the dissolution of the Chase Paymentech Solutions joint venture. These benefits were offset partially by the impact of the credit enhancement provided by the Firm for certain of its securitization trusts, lower securitization income, higher revenue reversals associated with higher charge-offs, and a decreased level of fees. The provision for credit losses reflected a higher level of charge-offs due to continued deterioration in the credit environment. Noninterest expense increased due to the dissolution of the Chase Paymentech Solutions joint venture and the impact of the Washington

Mutual transaction.

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Commercial Banking net income increased, driven by higher net revenue reflecting the impact of the Washington Mutual transaction, predominantly offset by a higher provision for credit losses and higher noninterest expense. Revenue increased due to wider loan spreads, record levels of lending- and deposit-related fees, a shift to higher-spread liability products and overall growth in liability balances. These benefits were offset predominantly by spread compression on liability products and lower loan balances. The increase in the provision for credit losses reflected continued deterioration in the credit environment. Noninterest expense rose due to the impact of the Washington Mutual transaction and higher FDIC insurance premiums, partially offset by lower headcount-related expense.

Treasury & Securities Services net income decreased, driven by lower net revenue offset partially by lower noninterest expense. Worldwide Securities Services revenue declined, driven by the effect of market depreciation on assets under custody and lower securities lending balances, primarily as a result of declines in asset valuations and demand. Revenue in Treasury Services increased, reflecting growth across cash management products and higher trade revenue driven by wider spreads, partially offset by spread compression on deposit products. Noninterest expense decreased, reflecting lower headcount-related expense offset partially by higher FDIC insurance premiums.

Asset Management net income declined, due to lower net revenue and a higher provision for credit losses offset partially by lower noninterest expense. The decline in net revenue was due to the effect of lower market levels and lower placement fees; these effects were offset partially by higher valuations of seed capital investments, wider loan and deposit spreads and higher deposit balances. The increase in the provision for credit losses reflected continued deterioration in the credit environment. Noninterest expense decreased due to lower performance-based compensation and lower headcount-related expense, largely offset by the impact of the Bear Stearns merger and higher FDIC insurance premiums.

Corporate/Private Equity reported net income, compared with a net loss in the prior year, reflecting higher levels of trading and investment income in the investment securities portfolio and a gain from the sale of MasterCard shares, partially offset by an accrual for the FDIC special assessment.

Firmwide, the managed provision for credit losses was $9.7 billion, up by $5.4 billion. The total consumer-managed provision for credit losses was $8.5 billion, compared with $3.8 billion in the prior year, reflecting higher net charge-offs and an increase in the allowance for credit losses, largely related to home lending. Consumer-managed net charge-offs were $7.0 billion (6.18% net charge-off rate), compared with $2.9 billion in the prior year (3.08% net charge-off rate). The wholesale provision for credit losses was $1.2 billion, compared with $505 million in the prior year, reflecting an increase in the allowance for credit losses, largely in the Investment Bank. Wholesale net charge-offs were $679 million (1.19% net charge-off rate), compared with net charge-offs of $41 million in the prior year (0.08% net charge-off rate). The Firm s nonperforming assets totaled $17.5 billion at June 30, 2009, up from the prior-year level of $6.2 billion. The allowance for credit losses increased by $1.8 billion during the quarter; this resulted in a loan loss coverage ratio at June 30, 2009 of 5.01%, compared with 4.53% at March 31, 2009. The above net charge-off rates and loan loss coverage ratio exclude purchased credit-impaired loans accounted for under SOP 03-3, loans held-for-sale and loans at fair value. Furthermore, the loan loss coverage ratio also excludes loans from the Washington Mutual Master Trust, which were consolidated on the Firm s balance sheet at fair value during the second quarter of 2009.

Business outlook

The following forward-looking statements are based on 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 the second half of 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. The Firm continues to monitor the global and U.S. economic environments. The outlook for capital markets remains uncertain and there continues to be a potential for further declines in U.S. housing prices and an increase in the unemployment rate. In addition, as a result of recent market conditions, the U.S. Congress and regulators have increased their focus on regulation of financial institutions; any legislation or regulations that may be adopted as a result 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. Given the potential stress on the consumer from rising unemployment and continued downward pressure on housing prices, management is still cautious with respect to the credit outlook for the consumer loan portfolios. Possible continued deterioration in credit trends could require additions to the consumer allowance for credit losses. Based on management s current economic outlook, quarterly net charge-offs could, over the next several quarters, reach $1.4

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billion for the home equity portfolio, $600 million for the prime mortgage portfolio and $500 million for the subprime mortgage portfolio. The managed net charge-off rate for Card Services (excluding the Washington Mutual credit card portfolio) could approach 10% in the third quarter of 2009, and thereafter will remain highly dependent on unemployment levels; the managed net charge-off rate for the Washington Mutual credit card portfolio is expected to approach 24% by the end of 2009. These charge-off rates could increase if the economic environment deteriorates even further than management s current expectations. Similarly, the wholesale provision for credit losses, nonperforming assets and charge-offs are likely to increase over the remainder of the year as a result of continued deterioration in the credit environment.

The Investment Bank is operating in an uncertain environment. Trading results could be volatile, particularly if there is further disruption in the credit or mortgage markets, or a significant decline in overall liquidity levels. In addition, if the Firm s own credit spreads tighten, as was the case in the second quarter of 2009, the change in the fair value of certain trading liabilities would also negatively affect trading results. Finally, the Investment Bank s results will be affected by the credit environment, as noted above.

Although management expects underlying growth in Retail Banking, results will be under pressure from the credit environment and ongoing lower consumer spending levels. In addition, there could be a decline in average retail deposits in the second half of the year due to anticipated downward repricing of certain legacy Washington Mutual deposits.

In Card Services, management expects, in addition to rising credit costs as noted above, continued pressure on both charge volumes and credit card receivables growth, reflecting continued lower levels of consumer spending.

Commercial Bank results could be negatively impacted by rising net charge-offs on real estate-related exposure, a decline in loan demand and reduced liability balances.

Earnings in Treasury & Securities Services and Asset Management will be affected by the impact of market levels on assets under management, supervision and custody. Additionally, earnings in Treasury & Securities Services could be affected by declines in liability balances.

Net interest income levels will be largely related to the size of the investment portfolio in Corporate, although the high level of trading gains in the second quarter of 2009 is not likely to be repeated. Private Equity results will depend on capital market activity and market levels, as well as the performance of the broader economy and investment-specific issues. Due to current economic conditions, there is the possibility of modest write-downs in Private Equity over the near term.

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CONSOLIDATED RESULTS OF OPERATIONS

This section provides a comparative discussion of JPMorgan Chase s Consolidated Results of Operations on a reported basis. 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 86-89 of this Form 10-Q and pages 107-111 of JPMorgan Chase s 2008 Annual Report.

Total net revenue

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2009**	2008	Change	**2009**	2008	Change
Investment banking fees	**$ 2,106**	$ 1,612	31%	**$ 3,492**	$ 2,828	23%
Principal transactions	**3,097**	752	312	**5,098**	(51)	NM
Lending & deposit-related fees	**1,766**	1,105	60	**3,454**	2,144	61
Asset management, administration and commissions	**3,124**	3,628	(14)	**6,021**	7,224	(17)
Securities gains	**347**	647	(46)	**545**	680	(20)
Mortgage fees and related income	**784**	696	13	**2,385**	1,221	95
Credit card income	**1,719**	1,803	(5)	**3,556**	3,599	(1)
Other income	**10**	(138)	NM	**60**	1,691	(96)
Noninterest revenue	**12,953**	10,105	28	**24,611**	19,336	27
Net interest income	**12,670**	8,294	53	**26,037**	15,953	63
Total net revenue	**$25,623**	$18,399	39	**$50,648**	$35,289	44

Total net revenue for the second quarter of 2009 was $25.6 billion, up by $7.2 billion, or 39%, from the second quarter of 2008, partially reflecting the impact of the Washington Mutual transaction. Revenue growth was also driven by record trading revenue, higher net interest income and record investment banking fees. These benefits were offset partially by reduced fees and commissions resulting from lower market levels. Total net revenue for the first six months of 2009 was $50.6 billion, up $15.4 billion, or 44%, from the prior year, largely reflecting the same drivers noted for the second quarter, and higher mortgage fees and related income resulting from positive MSR risk management results. The growth in revenue for the six months was offset partially by the absence of proceeds from the sale of Visa shares in its initial public offering in the first quarter of 2008, and by reduced fees and commissions resulting from lower market levels.

Investment banking fees increased to a record $2.1 billion in the quarter, reflecting record equity underwriting fees, and higher debt underwriting fees and advisory fees. Investment banking fees for the first six months of 2009 also increased from the comparable prior-year period, reflecting the same drivers noted for the second quarter of 2009. For a further discussion of investment banking fees, which are primarily recorded in IB, see IB segment results on pages 20-23 of this Form 10-Q.

Principal transactions revenue, which consists of revenue from the Firm s trading and private equity investing activities, rose from the second quarter and first six months of 2008. Trading revenue increased to a record level in the second quarter of 2009, driven by gains on trading positions in the Corporate/Private equity segment and strong results across all fixed-income products, as well as the absence of markdowns related to leveraged lending funded and unfunded commitments and mortgage-related exposures. The quarter also included modest gains on these exposures, compared with losses in the second quarter of 2008 on leveraged lending funded and unfunded commitments of $696 million and losses on mortgage-related exposures of $405 million. These benefits were offset partially by an

aggregate loss of $1.9 billion in the second quarter of 2009 from the tightening of the Firm s credit spreads on certain structured liabilities and derivatives, compared with a benefit of $414 million in the second quarter of 2008. In the first six months of 2009, trading revenue rose due to strong results across all fixed income products and lower markdowns related to leveraged lending funded and unfunded commitments and mortgage-related exposures. The increase was offset by a loss of $840 million from the tightening of the Firm s credit spreads on certain structured liabilities and derivatives, compared with a benefit of $1.8 billion in the first half of 2008. Private equity revenue declined in the second quarter and first six months of 2009, driven by investment losses compared with gains in the same periods of 2008. For a further discussion of principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 20-23 and 46-48 respectively, and Note 3 on pages 99-114 of this Form 10-Q.

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Lending- and deposit-related fees rose from the second quarter and first six months of 2008, predominantly reflecting the impact of the Washington Mutual transaction and organic growth in both lending- and deposit-related fees in RFS and CB, as well as in IB. For a further discussion of lending- and deposit-related fees, which are mostly recorded in RFS, CB and TSS, see the RFS segment results on pages 24-31, the CB segment results on pages 36-38, and the TSS segment results on pages 39-42 of this Form 10-Q.

The decline in asset management, administration and commissions revenue compared with the second quarter and first six months of 2008 reflected lower asset management fees in AM, resulting from lower market levels; lower administration fees in TSS, driven by the effect of market depreciation on assets under custody and lower securities lending balances; and lower brokerage commissions revenue in IB, predominantly related to lower transaction volume. For additional information on these fees and commissions, see the segment discussions for IB on pages 20-23, RFS on pages 24-31, TSS on pages 39-42, and AM on pages 42-46 of this Form 10-Q.

The decrease in securities gains compared with the corresponding 2008 periods was due to lower gains from the sale of MasterCard shares, which totaled $241 million in the second quarter of 2009, compared with $668 million in the prior-year quarter. This was offset partially by higher gains from the repositioning of the Corporate investment securities portfolio as a result of lower interest rates, and in connection with managing the Firm s structural interest rate risk. 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 46-48 of this Form 10-Q.

Mortgage fees and related income increased from the second quarter and first six months of 2008 as higher net mortgage servicing revenue was offset partially by lower production revenue. Mortgage production revenue declined as an increase in reserves for the repurchase of previously-sold loans and markdowns on the mortgage warehouse were largely offset by wider margins on new originations. The increase in net mortgage servicing revenue was driven by growth in third-party loans serviced, and, for the first six months of 2008, positive MSR risk management results. 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 27-31 of this Form 10-Q.

Credit card income decreased compared with the second quarter and first six months of 2008, driven by lower servicing fees earned in connection with CS securitization activities due to higher credit losses, offset partially by wider loan margins on securitized credit card loans. The decrease in credit card income was offset by higher merchant servicing revenue related to the dissolution of the Chase Paymentech Solutions joint venture, and higher interchange income. For a further discussion of credit card income, see the CS segment results on pages 32-35 of this Form 10-Q.

Other income increased in the second quarter of 2009 due to a $423 million loss incurred in the second quarter of 2008, reflecting the Firm s 49.4% ownership in Bear Stearns losses from April 8 to May 30, 2008, offset partially by lower securitization results at CS. For the first six months of 2009, other income decreased due predominantly to the absence of $1.5 billion in proceeds from the sale of Visa shares in its initial public offering in the first quarter of 2008, lower securitization results at CS, and the dissolution of the Chase Paymentech Solutions joint venture. These items were offset partially by the absence of the aforementioned $423 million loss and lower markdowns on certain investments.

Net interest income rose from the second quarter and first six months of 2008, due predominantly to the following: the impact of the Washington Mutual transaction, higher investment-related net interest income in Corporate/Private Equity, wider spreads on consumer loans and higher trading-related net interest income in IB. The increase in net interest income was offset partially by narrower spreads on liability and deposit balances in the wholesale businesses. The Firm s total average interest-earning assets for the second quarter of 2009 were $1.7 trillion, up 32% from the second quarter of 2008, driven by an increase in available-for-sale (AFS) securities and loans from the Washington Mutual transaction, and organic growth. The Firm s total average interest-bearing liabilities for the second quarter of 2009 were $1.5 trillion, up 22% from the second quarter of 2008, driven by higher federal funds purchased and securities loaned or sold under repurchase agreements, as well as the impact of the Washington Mutual transaction and Bear Stearns merger. The net interest yield on the Firm s interest-earning assets, on a fully taxable-equivalent basis, was 3.07%, an increase of 36 basis points from the second quarter of 2008, driven predominantly by an increase in higher-yielding assets associated with the Washington Mutual transaction and trading-related net interest income in IB. The Firm s total average interest-earning assets for the first six months of 2009 were $1.7 trillion, up 35% from the

first six months of 2008, and total average interest-bearing liabilities for the first six months of 2009 were $1.5 trillion, up 26% from the first half of 2008. The net interest yield on the Firm s interest-earning assets, on a fully taxable-equivalent basis, was 3.18%, an increase of 53 basis points from the first six months of 2008. The drivers of the year-to-date increases were similar to the drivers of the quarterly increases.

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Provision for credit losses	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2009**	2008	Change	**2009**	2008	Change
Wholesale	**$ 1,244**	$ 505	146%	**$ 2,774**	$ 1,252	122%
Consumer	**6,787**	2,950	130	**13,853**	6,627	109
Total provision for credit losses	**$ 8,031**	$ 3,455	132	**$ 16,627**	$ 7,879	111

Provision for credit losses

The provision for credit losses in the second quarter and first six months of 2009 rose compared with the equivalent periods of 2008 due to increases in both the consumer and wholesale provisions. The consumer provision reflected additions to the allowance for loan losses for the home equity, mortgage and credit card portfolios, as weak economic conditions and housing price declines continued to drive higher estimated losses for these portfolios. The increase in the wholesale provision was driven by a higher allowance for loan losses, reflecting continued deterioration in the credit environment. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 24-31, CS on pages 32-35, IB on pages 20-23 and CB on pages 36-38, and the Credit Risk Management section on pages 62-80 of this Form 10-Q.

Noninterest expense

The following table presents the components of noninterest expense.

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2009**	2008	Change	**2009**	2008	Change
Compensation expense	**$ 6,917**	$ 6,913	%	**$ 14,505**	$11,864	22%
Noncompensation expense:						
Occupancy expense	**914**	669	37	**1,799**	1,317	37
Technology, communications and equipment expense	**1,156**	1,028	12	**2,302**	1,996	15
Professional & outside services	**1,518**	1,450	5	**3,033**	2,783	9
Marketing	**417**	413	1	**801**	959	(16)
Other expense[(a)]	**2,190**	1,233	78	**3,565**	1,402	154
Amortization of intangibles	**265**	316	(16)	**540**	632	(15)
Total noncompensation expense	**6,460**	5,109	26	**12,040**	9,089	32
Merger costs	**143**	155	(8)	**348**	155	125
Total noninterest expense	**$13,520**	$12,177	11	**$ 26,893**	$21,108	27

(a) Includes $675 million accrued for an FDIC special

assessment.

Total noninterest expense for the second quarter of 2009 was $13.5 billion, up $1.3 billion, or 11%, from the second quarter of 2008. The increase was driven by the impact of the Washington Mutual transaction, the accrual of $0.7 billion for the FDIC special assessment, higher FDIC insurance premiums and increased mortgage-related servicing expense. For the first six months of 2009, total noninterest expense was $26.9 billion, up $5.8 billion, or 27% from the prior year due primarily to the aforementioned items, and higher performance-based compensation expense.

Compensation expense in the second quarter of 2009 was relatively flat compared with the second quarter of 2008 as the impact of the Washington Mutual transaction was offset by lower performance-based compensation expense in the Investment Bank. Compensation expense increased for the first six months of 2009 due to higher performance-based compensation expense in the Investment Bank, in addition to the impact of the Washington Mutual transaction.

Noncompensation expense increased from the second quarter of 2008 due predominantly to the accrual of $0.7 billion for the FDIC special assessment and higher FDIC insurance premiums, as well as the impact of the Washington Mutual transaction. Also contributing to the increase was higher mortgage servicing-related expense due to increased delinquencies and defaults, which included an increase in foreclosed property expense of $0.3 billion partially offset by lower litigation-related expense and the impact of the dissolution of the Chase Paymentech Solutions joint venture.

Noncompensation expense increased from the first six months of 2008 primarily due to the drivers discussed for the quarter, along with an increase in other expense reflecting a lower level of benefits from litigation-related items in the current year compared with the prior year. This was partially offset by lower credit card marketing expense.

For information on merger costs, refer to Note 10 on page 128 of this Form 10-Q.

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Income tax expense

The following table presents the Firm s income before income tax expense, income tax expense and effective tax rate.

	Three months ended June 30,		Six months ended June 30,	
(in millions, except rate)	**2009**	2008	**2009**	2008
Income before income tax expense	**$ 4,072**	$ 2,767	**$ 7,128**	$ 6,302
Income tax expense	**1,351**	764	**2,266**	1,926
Effective tax rate	**33.2%**	27.6%	**31.8%**	30.6%

The increase in the effective tax rate compared with the second quarter and first six months of 2008 was primarily the result of higher reported pretax income and changes in the proportion of income subject to federal, state and local taxes, partially offset by increased business tax credits. In addition, the second quarter of 2008 reflected a benefit from the release of deferred tax liabilities associated with earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely, offset by losses representing the Firm s 49.4% ownership 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 86-89 of this Form 10-Q.

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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 92-95 of this Form 10-Q. 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 it 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 on managed financial information. In addition, the same underwriting standards and ongoing risk monitoring 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 32-35 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 15 on pages 139-147 of this Form 10-Q.

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.

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The following summary table provides a reconciliation from the Firm s reported U.S. GAAP results to managed basis.

	Three months ended June 30, 2009			
(in millions, except per share and ratios)	Reported results	Credit card[c]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 2,106**	**$**	**$**	**$ 2,106**
Principal transactions	**3,097**			**3,097**
Lending & deposit related fees	**1,766**			**1,766**
Asset management, administration and commissions	**3,124**			**3,124**
Securities gains	**347**			**347**
Mortgage fees and related income	**784**			**784**
Credit card income	**1,719**	**(294)**		**1,425**
Other income	**10**		**335**	**345**
Noninterest revenue	**12,953**	**(294)**	**335**	**12,994**
Net interest income	**12,670**	**1,958**	**87**	**14,715**
Total net revenue	**25,623**	**1,664**	**422**	**27,709**
Noninterest expense	**13,520**			**13,520**
Pre-provision profit	**12,103**	**1,664**	**422**	**14,189**
Provision for credit losses	**8,031**	**1,664**		**9,695**
Income before income tax expense	**4,072**		**422**	**4,494**
Income tax expense	**1,351**		**422**	**1,773**
Net income	**$ 2,721**	**$**	**$**	**$ 2,721**
Diluted earnings per share[a][b]	**$ 0.28**	**$**	**$**	**$ 0.28**
Return on assets	**0.54%**	**NM**	**NM**	**0.51%**
Overhead ratio	**53**	**NM**	**NM**	**49**

	Three months ended June 30, 2008			
(in millions, except per share and ratios)	Reported results	Credit card[c]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 1,612	$	$	$ 1,612
Principal transactions	752			752
Lending & deposit related fees	1,105			1,105
Asset management, administration and commissions	3,628			3,628
Securities gains	647			647
Mortgage fees and related income	696			696
Credit card income	1,803	(843)		960

Other income	(138)		247	109
Noninterest revenue	10,105	(843)	247	9,509
Net interest income	8,294	1,673	202	10,169
Total net revenue	18,399	830	449	19,678
Noninterest expense	12,177			12,177
Pre-provision profit	6,222	830	449	7,501
Provision for credit losses	3,455	830		4,285
Income before income tax expense	2,767		449	3,216
Income tax expense	764		449	1,213
Net income	$ 2,003	$	$	$ 2,003
Diluted earnings per share[(a)]	$ 0.53	$	$	$ 0.53
Return on assets	0.48%	NM	NM	0.46%
Overhead ratio	66	NM	NM	62

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(in millions, except per share and ratios)	Six months ended June 30, 2009 Reported results	Credit card[c]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 3,492**	**$**	**$**	**$ 3,492**
Principal transactions	**5,098**			**5,098**
Lending & deposit related fees	**3,454**			**3,454**
Asset management, administration and commissions	**6,021**			**6,021**
Securities gains	**545**			**545**
Mortgage fees and related income	**2,385**			**2,385**
Credit card income	**3,556**	**(834)**		**2,722**
Other income	**60**		**672**	**732**
Noninterest revenue	**24,611**	**(834)**	**672**	**24,449**
Net interest income	**26,037**	**3,962**	**183**	**30,182**
Total net revenue	**50,648**	**3,128**	**855**	**54,631**
Noninterest expense	**26,893**			**26,893**
Pre-provision profit	**23,755**	**3,128**	**855**	**27,738**
Provision for credit losses	**16,627**	**3,128**		**19,755**
Income before income tax expense	**7,128**		**855**	**7,983**
Income tax expense	**2,266**		**855**	**3,121**
Net income	**$ 4,862**	**$**	**$**	**$ 4,862**
Diluted earnings per share[a][b]	**$ 0.68**	**$**	**$**	**$ 0.68**
Return on assets	**0.48%**	**NM**	**NM**	**0.46%**
Overhead ratio	**53**	**NM**	**NM**	**49**

(in millions, except per share and ratios)	Six months ended June 30, 2008 Reported results	Credit card[c]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 2,828	$	$	$ 2,828
Principal transactions	(51)			(51)
Lending & deposit related fees	2,144			2,144
Asset management, administration and commissions	7,224			7,224
Securities gains	680			680
Mortgage fees and related income	1,221			1,221
Credit card income	3,599	(1,780)		1,819
Other income	1,691		450	2,141

Noninterest revenue	19,336	(1,780)	450	18,006
Net interest income	15,953	3,291	326	19,570
Total net revenue	35,289	1,511	776	37,576
Noninterest expense	21,108			21,108
Pre-provision profit	14,181	1,511	776	16,468
Provision for credit losses	7,879	1,511		9,390
Income before income tax expense	6,302		776	7,078
Income tax expense	1,926		776	2,702
Net income	$ 4,376	$	$	$ 4,376
Diluted earnings per share[(a)]	$ 1.20	$	$	$ 1.20
Return on assets	0.54%	NM	NM	0.52%
Overhead ratio	60	NM	NM	56

Three months ended June 30,		**2009**			2008	
(in millions)	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans Period-end	**$ 680,601**	**$85,790**	**$ 766,391**	$ 538,029	$79,120	$ 617,149
Total assets average	**2,038,372**	**81,588**	**2,119,960**	1,668,699	74,580	1,743,279

Six months ended June 30,		**2009**			2008	
(in millions)	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans Period-end	**$ 680,601**	**$85,790**	**$ 766,391**	$ 538,029	$79,120	$ 617,149
Total assets average	**2,052,666**	**82,182**	**2,134,848**	1,619,248	73,084	1,692,332

(a) Effective January 1, 2009, the Firm implemented FSP EITF 03-6-1. Accordingly, prior-period amounts have been revised. For further discussion of FSP EITF 03-6-1, see Note 21 on page 158 of this Form 10-Q.

(b) The calculation of second quarter 2009 earnings per share includes a one-time, noncash reduction of $1.1 billion, or $0.27 per share, resulting from repayment of TARP preferred capital (see the table below).

(c) Credit card securitizations affect CS. See pages 32-35 of this Form 10-Q for further information.

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Impact on ROE of redemption of TARP preferred stock issued to the U.S. Treasury

The calculation of second quarter 2009 net income applicable to common equity includes a one-time, non-cash reduction of $1.1 billion resulting from the repayment of TARP preferred capital. Excluding this reduction ROE would have been 6% for the second quarter of 2009 as disclosed in the table below. The Firm views the adjusted ROE, a non-GAAP financial measure, as meaningful because it increases the comparability to prior periods.

	Three months ended June 30, 2009	
(in millions, except ratios)	**As reported**	Excluding the TARP redemption
Return on equity		
Net income	**$ 2,721**	$ 2,721
Less: Preferred stock dividends	**473**	473
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	**1,112**	
Net income applicable to common equity	**$ 1,136**	$ 2,248
Average common stockholders equity	**$140,865**	$ 140,865
ROE	**3%**	6%

Impact on diluted earnings per share of redemption of TARP preferred stock issued to the U.S. Treasury

Net income applicable to common equity for the second quarter of 2009 includes a one-time, noncash reduction of approximately $1.1 billion resulting from the repayment of TARP preferred capital. The following table presents the calculations of the effect on net income applicable to common stockholders and the $0.27 reduction to diluted earnings per share which resulted from this repayment.

	Three months ended June 30, 2009	
(in millions, except per share)	**As reported**	Effect of TARP redemption
Diluted earnings per share		
Net income	**$ 2,721**	$
Less: Preferred stock dividends	**473**	
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	**1,112**	1,112
Net income applicable to common equity	**$ 1,136**	$ (1,112)
Less: Dividends and undistributed earnings allocated to participating securities	**64**	(64)
Net income applicable to common stockholders	**$ 1,072**	$ (1,048)

Total weighted average diluted shares outstanding	**3,824.1**	3,824.1
Net income per share	**$ 0.28**	$ (0.27)

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 on the products and services provided, or the type of customer served, and reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis.

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. For a further discussion of those methodologies, see Business Segment Results Description of business segment reporting methodology on pages 40-41 of JPMorgan Chase s 2008 Annual Report. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

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Segment Results Managed Basis[a][b]

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

Three months ended June 30, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income (loss)			Return on equity	
	2009	2008	Change	**2009**	2008	Change	**2009**	2008	Change	**2009**	2008
Investment Bank[c]	**$ 7,301**	$ 5,500	33%	**$ 4,067**	$ 4,734	(14)%	**$ 1,471**	$ 394	273%	**18%**	7%
Retail Financial Services	**7,970**	5,110	56	**4,079**	2,680	52	**15**	503	(97)		12
Card Services	**4,868**	3,775	29	**1,333**	1,185	12	**(672)**	250	NM	**(18)**	7
Commercial Banking	**1,453**	1,106	31	**535**	476	12	**368**	355	4	**18**	20
Treasury & Securities Services	**1,900**	2,019	(6)	**1,288**	1,317	(2)	**379**	425	(11)	**30**	49
Asset Management	**1,982**	2,064	(4)	**1,354**	1,400	(3)	**352**	395	(11)	**20**	31
Corporate/Private Equity[c]	**2,235**	104	NM	**864**	385	124	**808**	(319)	NM	**NM**	NM
Total	**$ 27,709**	$ 19,678	41%	**$ 13,520**	$ 12,177	11%	**$ 2,721**	$ 2,003	36%	**3%**	6%

Six months ended June 30, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income (loss)			Return on equity	
	2009	2008	Change	**2009**	2008	Change	**2009**	2008	Change	**2009**	2008
Investment Bank[c]	**$ 15,672**	$ 8,541	83%	**$ 8,841**	$ 7,287	21%	**$ 3,077**	$ 307	NM	**19%**	3%
Retail Financial Services	**16,805**	9,873	70	**8,250**	5,252	57	**489**	192	155%	**4**	2
Card Services	**9,997**	7,679	30	**2,679**	2,457	9	**(1,219)**	859	NM	**(16)**	12
Commercial Banking	**2,855**	2,173	31	**1,088**	961	13	**706**	647	9	**18**	19
Treasury & Securities Services	**3,721**	3,932	(5)	**2,607**	2,545	2	**687**	828	(17)	**28**	48
Asset Management	**3,685**	3,965	(7)	**2,652**	2,723	(3)	**576**	751	(23)	**17**	30
Corporate/Private Equity[c]	**1,896**	1,413	34	**776**	(117)	NM	**546**	792	(31)	**NM**	NM
Total	**$ 54,631**	$ 37,576	45%	**$ 26,893**	$ 21,108	27%	**$ 4,862**	$ 4,376	11%	**4%**	7%

(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 123-127 of JPMorgan Chase s 2008 Annual Report and Note 2 on pages 96-99 of this Form 10-Q.

(c) In the second quarter of 2009, IB began reporting credit reimbursement from TSS as a component of total net revenue, whereas TSS continues to report its credit reimbursement to IB as a separate line item on its income statement (not part of total net revenue). Corporate/Private Equity includes an adjustment to offset IB s inclusion of the credit reimbursement in total net revenue.

Prior periods have been revised for IB and Corporate/Private Equity to reflect this presentation.

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INVESTMENT BANK

For a discussion of the business profile of IB, see pages 42-44 of JPMorgan Chase s 2008 Annual Report and page 5 of this Form 10-Q.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2009**	2008	Change	**2009**	2008	Change
Revenue						
Investment banking fees	**$2,239**	$1,735	29%	**$ 3,619**	$2,941	23%
Principal transactions	**1,841**	838	120	**5,356**	40	NM
Lending & deposit related fees	**167**	105	59	**305**	207	47
Asset management, administration and commissions	**717**	709	1	**1,409**	1,453	(3)
All other income[(a)]	**(108)**	(196)	45	**(164)**	(232)	29
Noninterest revenue	**4,856**	3,191	52	**10,525**	4,409	139
Net interest income[(b)]	**2,445**	2,309	6	**5,147**	4,132	25
Total net revenue[(c)]	**7,301**	5,500	33	**15,672**	8,541	83
Provision for credit losses	**871**	398	119	**2,081**	1,016	105
Noninterest expense						
Compensation expense	**2,677**	3,132	(15)	**6,007**	4,373	37
Noncompensation expense	**1,390**	1,602	(13)	**2,834**	2,914	(3)
Total noninterest expense	**4,067**	4,734	(14)	**8,841**	7,287	21
Income (loss) before income tax expense (benefit)	**2,363**	368	NM	**4,750**	238	NM
Income tax expense (benefit)	**892**	(26)	NM	**1,673**	(69)	NM
Net income (loss)	**$1,471**	$ 394	273	**$ 3,077**	$ 307	NM
Financial ratios						
ROE	**18%**	7%		**19%**	3%	
ROA	**0.83**	0.19		**0.86**	0.08	
Overhead ratio	**56**	86		**56**	85	
Compensation expense as a % of total net revenue	**37**	57		**38**	51	
Revenue by business						
Investment banking fees:						
Advisory	**$ 393**	$ 370	6	**$ 872**	$ 853	2
Equity underwriting	**1,103**	542	104	**1,411**	901	57
Debt underwriting	**743**	823	(10)	**1,336**	1,187	13

Total investment banking fees	**2,239**	1,735	29	**3,619**	2,941	23
Fixed income markets	**4,929**	2,347	110	**9,818**	2,813	249
Equity markets	**708**	1,079	(34)	**2,481**	2,055	21
Credit portfolio	**(575)**	339	NM	**(246)**	732	NM
Total net revenue	**$7,301**	$5,500	33	**$15,672**	$8,541	83
Revenue by region						
Americas	**$4,177**	$3,185	31	**$ 8,977**	$3,741	140
Europe/Middle East/Africa	**2,235**	1,519	47	**4,830**	3,167	53
Asia/Pacific	**889**	796	12	**1,865**	1,633	14
Total net revenue	**$7,301**	$5,500	33	**$15,672**	$8,541	83

(a) TSS was charged a credit reimbursement related to certain exposures managed within IB credit portfolio on behalf of clients shared with TSS. IB recognizes this credit reimbursement in its credit portfolio business in All other income. Prior periods have been revised to conform with the current presentation.

(b) The increase in net interest income is due primarily to higher spreads across several fixed income trading businesses as well as the

addition of the Bear Stearns Prime Services business.

(c) Total net revenue included tax-equivalent adjustments, predominantly due to income tax credits related to affordable housing and alternative energy investments, as well as tax-exempt income from municipal bond investments of $334 million and $404 million for the quarters ended June 30, 2009 and 2008, respectively, and $699 million and $693 million for year-to-date 2009 and 2008, respectively.

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Quarterly results

Net income was $1.5 billion, an increase of $1.1 billion from the prior year. The results reflected higher net revenue and lower noninterest expense, partially offset by a higher provision for credit losses.

Net revenue was $7.3 billion, an increase of $1.8 billion from the prior year. Investment banking fees were up 29% to a record $2.2 billion and comprised the following: advisory fees, up 6% to $393 million; equity underwriting fees, up by $561 million to a record $1.1 billion; and debt underwriting fees, down 10% to $743 million. Fixed Income Markets revenue was a record $4.9 billion, up by $2.6 billion from the prior year, driven by strong results across all products, as well as the absence of net markdowns related to leveraged lending funded and unfunded commitments and mortgage-related exposures. The current period had modest gains on those exposures, compared with losses totaling $1.1 billion in the prior year. Fixed Income Markets revenue was offset partially by losses of $773 million from the tightening of the Firm s credit spread on certain structured liabilities. Equity Markets revenue was $708 million, down by $371 million, or 34%, reflecting weak trading results and losses of $326 million from the tightening of the Firm s credit spread on certain structured liabilities, offset by strong client revenue, particularly in prime services. Credit Portfolio revenue was a loss of $575 million, down by $914 million, reflecting mark-to-market losses on hedges of retained loans, partially offset by the net impact of credit spreads on derivative assets and liabilities and net interest income on loans.

The provision for credit losses was $871 million, compared with $398 million in the prior year, due to higher charge-offs, as well as a higher allowance reflecting continued deterioration in the credit environment. Net charge-offs were $433 million, while the increase to the allowance for loan losses was $438 million. The resulting allowance for loan losses to end-of-period loans retained was 7.91%, compared with 3.44% in the prior year. Nonperforming loans were $3.5 billion, up by $3.2 billion from the prior year and $1.7 billion from the prior quarter.

Noninterest expense was $4.1 billion, compared with $4.7 billion in the prior year.

Return on equity was 18% on $33.0 billion of average allocated capital, compared with 7% on $23.3 billion of average allocated capital in the prior year.

Year-to-date results

Net income was a record $3.1 billion, an increase of $2.8 billion from the prior year. The results reflected higher net revenue, partially offset by a higher noninterest expense and a higher provision for credit losses.

Net revenue was a record $15.7 billion, an increase of $7.1 billion from the prior year. Investment banking fees were up 23% to $3.6 billion and comprised the following: advisory fees, up 2% to $872 million; equity underwriting fees, up 57% to a record $1.4 billion; and debt underwriting fees, up 13% to $1.3 billion. Fixed Income Markets revenue was a record $9.8 billion, up by $7.0 billion from the prior year, driven by strong results across all products, as well as lower net markdowns related to leveraged lending funded and unfunded commitments and mortgage-related exposures. Fixed Income Markets revenue was offset partially by losses of $351 million from the tightening of the Firm s credit spread on certain structured liabilities. Equity Markets revenue was $2.5 billion, up by $426 million, or 21%, reflecting strong trading results and client revenue, particularly in prime services, partially offset by losses of $110 million from the tightening of the Firm s credit spread on certain structured liabilities. Credit Portfolio revenue was a loss of $246 million, down by $978 million, reflecting mark-to-market losses on hedges of retained loans, partially offset by the net impact of credit spreads on derivative assets and liabilities and net interest income on loans.

The provision for credit losses was $2.1 billion, compared with $1.0 billion in the prior year, due primarily to a higher allowance reflecting continued deterioration in the credit environment. Net charge-offs were $469 million, compared with net charge-offs of $5 million in the prior year while the increase to the allowance for loan losses was $1.6 billion, compared with $1.0 billion in the prior year.

Noninterest expense was $8.8 billion, compared with $7.3 billion in the prior year driven by higher performance-based compensation expense.

Return on Equity was 19% on $33.0 billion of average allocated capital, compared with 3% on $22.7 billion of average allocated capital in the prior year.

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Selected metrics (in millions, except headcount and ratios)	Three months ended June 30, 2009	2008	Change	Six months ended June 30, 2009	2008	Change
Selected balance sheet data (period-end)						
Loans:						
Loans retained[(a)]	**$ 64,500**	$ 70,690	(9)%	**$ 64,500**	$ 70,690	(9)%
Loans held-for-sale and loans at fair value	**6,814**	19,699	(65)	**6,814**	19,699	(65)
Total loans	**71,314**	90,389	(21)	**71,314**	90,389	(21)
Equity	**33,000**	26,000	27	**33,000**	26,000	27
Selected balance sheet data (average)						
Total assets	$**710,825**	$814,860	(13)	$**721,934**	$785,344	(8)
Trading assets-debt and equity instruments	**265,336**	367,184	(28)	**269,146**	368,320	(27)
Trading assets-derivative receivables	**100,536**	99,395	1	**112,711**	94,814	19
Loans:						
Loans retained[(a)]	**68,224**	76,239	(11)	**69,128**	75,173	(8)
Loans held-for-sale and loans at fair value	**8,934**	20,440	(56)	**10,658**	20,026	(47)
Total loans	**77,158**	96,679	(20)	**79,786**	95,199	(16)
Adjusted assets[(b)]	**531,632**	676,777	(21)	**560,239**	669,598	(16)
Equity	**33,000**	23,319	42	**33,000**	22,659	46
Headcount	**25,783**	37,057	(30)	**25,783**	37,057	(30)
Credit data and quality statistics						
Net charge-offs (recoveries)	**$ 433**	$ (8)	NM	**$ 469**	$ 5	NM
Nonperforming assets:						
Loans[(c)]	**3,519**	313	NM	**3,519**	313	NM
Derivative receivables	**704**	76	NM	**704**	76	NM
Assets acquired in loan satisfactions	**311**	101	208	**311**	101	208
Total nonperforming assets	**4,534**	490	NM	**4,534**	490	NM
Allowance for credit losses:						
Allowance for loan losses	**5,101**	2,429	110	**5,101**	2,429	110
Allowance for lending-related commitments	**351**	469	(25)	**351**	469	(25)
Total allowance for credit losses	**5,452**	2,898	88	**5,452**	2,898	88
Net charge-off (recovery) rate[(a)(d)]	**2.55%**	(0.04)%		**1.37%**	0.01%	
Allowance for loan losses to period-end loans[(a)(d)]	**7.91**	3.44		**7.91**	3.44	
Allowance for loan losses to average loans[(a)(d)]	**7.48**	3.19[(i)]		**7.38**	3.23[(i)]	
Allowance for loan losses to nonperforming loans[(c)]	**150**	843		**150**	843	
Nonperforming loans to period-end loans	**4.93**	0.35		**4.93**	0.35	
Nonperforming loans to average loans	**4.56**	0.32		**4.41**	0.33	

Market risk-average trading and credit portfolio VaR - 99% confidence level[e]							
Trading activities:							
Fixed income	**$ 249**	$ 155	61%	**$ 234**	$ 137	71%	
Foreign exchange	**26**	26		**33**	30	10	
Equities	**77**	30	157	**119**	31	284	
Commodities and other	**34**	31	10	**31**	29	7	
Diversification[f]	**(136)**	(92)	(48)	**(148)**	(91)	(63)	
Total trading VaR[g]	**250**	150	67	**269**	136	98	
Credit portfolio VaR[h]	**133**	35	280	**157**	33	376	
Diversification[f]	**(116)**	(36)	(222)	**(125)**	(34)	(268)	
Total trading and credit portfolio VaR	**$ 267**	$ 149	79	**$ 301**	$ 135	123	

(a) Loans retained included credit portfolio loans, leveraged leases and other accrual loans, and excluded loans held-for-sale and loans accounted for at fair value.

(b) 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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(c) Nonperforming loans included loans held-for-sale and loans at fair value of $112 million and $25 million at June 30, 2009 and 2008, respectively, which were excluded from the allowance coverage ratios. Nonperforming loans excluded distressed loans held-for-sale that were purchased as part of IB s proprietary activities. Allowance for loan losses of $1.6 billion and $71 million was held against these nonperforming loans at June 30, 2009 and 2008, respectively.

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

(e) Results for second quarter of 2008 include one month of the combined Firm s results and two months of heritage JPMorgan Chase

& Co. results. For a more complete description of value-at-risk, see pages 80-86 of this Form 10-Q.

(f) 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.

(g) Trading VaR includes predominantly all trading activities in IB. 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 85 of this Form 10-Q 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.

(h) 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.

(i) Excluding the impact of a loan originated in March 2008 to Bear Stearns, the adjusted ratio would be 3.46% and 3.40% for the quarter ended June 30, 2008, and the six months ended June 30, 2008, respectively. The average

balance of the loan extended to Bear Stearns was $6.0 billion for the quarter ended June 30, 2008, and $3.8 billion for year-to-date 2008.

According to Thomson Reuters, for the first six months of 2009, the Firm was ranked #1 in Global Debt, Equity and Equity-Related; #1 in Global Equity and Equity-Related; #1 in Global Syndicated Loans; #1 in Global Long-Term Debt and #3 in Global Announced M&A based on volume.

According to Dealogic, the Firm was ranked #1 in Investment Banking fees generated for the first six months of 2009, based upon revenue.

	Six months ended June 30, 2009		Full Year 2008	
Market shares and rankings[(a)]	Market Share	Rankings	Market Share	Rankings
Global debt, equity and equity-related	**11%**	**#1**	10%	#1
Global syndicated loans	**10**	**#1**	12	#1
Global long-term debt[(b)]	**9**	**#1**	9	#3
Global equity and equity-related[(c)]	**16**	**#1**	10	#1
Global announced M&A[(d)]	**32**	**#3**	27	#2
U.S. debt, equity and equity-related	**15**	**#1**	15	#2
U.S. syndicated loans	**25**	**#1**	25	#1
U.S. long-term debt[(b)]	**15**	**#1**	15	#2
U.S. equity and equity-related[(c)]	**17**	**#1**	11	#1
U.S. announced M&A[(d)]	**48**	**#3**	33	#2

(a) *Source: Thomson Reuters. Full-year 2008 results are pro forma for the Bear Stearns merger.*

(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 on rank value; all other rankings are based on 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 2008 include transactions withdrawn since December 31, 2008. U.S. announced M&A represents any U.S. involvement ranking.

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RETAIL FINANCIAL SERVICES

For a discussion of the business profile of RFS, see pages 45-50 of JPMorgan Chase s 2008 Annual Report and page 5 of this Form 10-Q.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2009**	2008	Change	**2009**	2008	Change
Revenue						
Lending & deposit-related fees	**$1,003**	$ 497	102%	**$ 1,951**	$ 958	104%
Asset management, administration and commissions	**425**	375	13	**860**	752	14
Mortgage fees and related income	**807**	696	16	**2,440**	1,221	100
Credit card income	**411**	194	112	**778**	368	111
Other income	**294**	198	48	**508**	350	45
Noninterest revenue	**2,940**	1,960	50	**6,537**	3,649	79
Net interest income	**5,030**	3,150	60	**10,268**	6,224	65
Total net revenue	**7,970**	5,110	56	**16,805**	9,873	70
Provision for credit losses	**3,846**	1,585	143	**7,723**	4,273	81
Noninterest expense						
Compensation expense	**1,631**	1,184	38	**3,262**	2,344	39
Noncompensation expense	**2,365**	1,396	69	**4,822**	2,708	78
Amortization of intangibles	**83**	100	(17)	**166**	200	(17)
Total noninterest expense	**4,079**	2,680	52	**8,250**	5,252	57
Income (loss) before income tax expense	**45**	845	(95)	**832**	348	139
Income tax expense (benefit)	**30**	342	(91)	**343**	156	120
Net income (loss)	**$ 15**	$ 503	(97)	**$ 489**	$ 192	155
Financial ratios						
ROE	**%**	12%		**4%**	2%	
Overhead ratio	**51**	52		**49**	53	
Overhead ratio excluding core deposit intangibles[(a)]	**50**	51		**48**	51	

(a) 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 Banking s core deposit intangible amortization expense, related to the 2006 Bank of New York transaction and the 2004 Bank One merger, of $82 million and $99 million for the quarters ended June 30, 2009 and 2008, respectively, and $165 million and $198 million for year-to-date

June 30, 2009 and 2008, respectively.

Quarterly results

Net income was $15 million, a decrease of $488 million, or 97%, from the prior year. A higher provision for credit losses and higher noninterest expense were offset partially by higher net revenue, reflecting the impact of the Washington Mutual transaction.

Net revenue was $8.0 billion, an increase of $2.9 billion, or 56%, from the prior year. Net interest income was $5.0 billion, up by $1.9 billion, or 60%, reflecting the impact of the Washington Mutual transaction, wider loan spreads, wider deposit spreads and higher deposit balances offset partially by lower loan balances in the heritage Chase portfolio. Noninterest revenue was $2.9 billion, up by $980 million, or 50%, driven by the impact of the Washington Mutual transaction and higher deposit-related fees.

The provision for credit losses was $3.8 billion, an increase of $2.3 billion from the prior year. Weak economic conditions and housing price declines continued to drive higher estimated losses for the home equity and mortgage loan portfolios. The provision included a $1.2 billion addition to the allowance for loan losses, compared with an addition of $600 million in the prior year. Home equity net charge-offs were $1.3 billion (3.67% net charge-off rate; 4.61% excluding purchased credit-impaired loans), compared with $511 million (2.16% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $410 million (7.91% net charge-off rate; 11.50% excluding purchased credit-impaired loans), compared with $192 million (4.98% net charge-off rate) in the prior year. Prime mortgage net charge-offs were $481 million (2.30% net charge-off rate; 3.07% excluding purchased credit-impaired loans), compared with $104 million (1.08% net charge-off rate) in the prior year.

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Noninterest expense was $4.1 billion, an increase of $1.4 billion, or 52%, reflecting the impact of the Washington Mutual transaction, higher servicing expense and higher FDIC insurance premiums.

Year-to-date results

Net income was $489 million, an increase of $297 million, or 155%, from the prior year, as the impact of the Washington Mutual transaction was offset partially by a higher provision for credit losses and higher noninterest expense.

Net revenue was $16.8 billion, an increase of $6.9 billion, or 70%, from the prior year. Net interest income was $10.3 billion, up by $4.0 billion, or 65%, due to the impact of the Washington Mutual transaction, wider deposit spreads, wider loan spreads, and higher deposit balances. Noninterest revenue was $6.5 billion, up by $2.9 billion, or 79%, driven by the impact of the Washington Mutual transaction, higher mortgage fees and related income and higher deposit-related fees.

The provision for credit losses was $7.7 billion, an increase of $3.5 billion from the prior year. Weak economic conditions and housing price declines continued to drive higher estimated losses for the home equity and mortgage loan portfolios. The provision included $2.9 billion in additions to the allowance for loan losses, compared with additions of $2.4 billion in the prior year. Home equity net charge-offs were $2.4 billion (3.41% net charge-off rate; 4.27% excluding purchased credit-impaired loans), compared with $958 million (2.03% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $774 million (7.36% net charge-off rate; 10.69% excluding purchased credit-impaired loans), compared with $341 million (4.40% net charge-off rate) in the prior year. Prime mortgage net charge-offs were $793 million (1.88% net charge-off rate; 2.50% excluding purchased credit-impaired loans), compared with $154 million (0.83% net charge-off rate) in the prior year.

Noninterest expense was $8.3 billion, an increase of $3.0 billion, or 57%, from the prior year, reflecting the impact of the Washington Mutual transaction, higher servicing expense and higher FDIC insurance premiums.

Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in millions, except headcount and ratios)	**2009**	2008	Change	**2009**	2008	Change
Selected balance sheet data (period-end)						
Assets	**$399,916**	$265,845	50%	**$399,916**	$265,845	50%
Loans:						
Loans retained	**353,934**	223,047	59	**353,934**	223,047	59
Loans held-for-sale and loans at fair value[(a)]	**13,192**	16,282	(19)	**13,192**	16,282	(19)
Total loans	**367,126**	239,329	53	**367,126**	239,329	53
Deposits	**371,241**	223,121	66	**371,241**	223,121	66
Equity	**25,000**	17,000	47	**25,000**	17,000	47
Selected balance sheet data (average)						
Assets	**$410,228**	$267,808	53	**$416,813**	$263,911	58
Loans:						
Loans retained	**359,372**	221,132	63	**363,127**	217,859	67
Loans held-for-sale and loans at fair value[(a)]	**19,043**	20,492	(7)	**17,792**	19,167	(7)
Total loans	**378,415**	241,624	57	**380,919**	237,026	61
Deposits	**377,259**	226,487	67	**373,788**	226,021	65
Equity	**25,000**	17,000	47	**25,000**	17,000	47
Headcount	**103,733**	69,550	49	**103,733**	69,550	49
Credit data and quality statistics						

Net charge-offs	**$ 2,649**	$ 1,025	158	**$ 4,825**	$ 1,850	161
Nonperforming loans[(b)(c)(d)]	**8,995**	4,574	97	**8,995**	4,574	97
Nonperforming assets[(b)(c)(d)]	**10,554**	5,333	98	**10,554**	5,333	98
Allowance for loan losses	**11,832**	5,062	134	**11,832**	5,062	134
Net charge-off rate[(e)]	**2.96%**	1.86%		**2.68%**	1.71%	
Net charge-off rate excluding purchased credit-impaired loans[(e)(f)]	**3.89**	1.86		**3.53**	1.71	
Allowance for loan losses to ending loans[(e)]	**3.34**	2.27		**3.34**	2.27	
Allowance for loan losses to ending loans excluding purchased credit-impaired loans[(e)(f)]	**4.41**	2.27		**4.41**	2.27	
Allowance for loan losses to nonperforming loans[(b)(e)]	**135**	115		**135**	115	
Nonperforming loans to total loans	**2.45**	1.91		**2.45**	1.91	
Nonperforming loans to total loans excluding purchased credit-impaired loans[(b)]	**3.19**	1.91		**3.19**	1.91	

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(a) Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets. These loans totaled $11.3 billion and $14.1 billion at June 30, 2009 and 2008, respectively. Average balances of these loans totaled $16.2 billion and $16.9 billion for the quarters ended June 30, 2009 and 2008, respectively, and $14.9 billion and $15.2 billion for year-to-date June 30, 2009 and 2008, 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 are 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 $203 million and $180 million at June 30, 2009 and 2008, 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 Government National Mortgage Association (GNMA) pools that are insured by U.S.

government agencies, of $4.7 billion and $1.9 billion at June 30, 2009 and 2008, 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 $473 million and $394 million at June 30, 2009 and 2008, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.

(e) 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.

(f) Excludes the impact of 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 at fair value on the acquisition date, which incorporated management s estimate, as of that date, of credit losses over the remaining life of the portfolio. No allowance for loan losses has been recorded for these loans.

RETAIL BANKING

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2009**	2008	Change	**2009**	2008	Change
Noninterest revenue	**$1,803**	$1,062	70%	**$3,521**	$2,028	74%
Net interest income	**2,719**	1,671	63	**5,333**	3,216	66
Total net revenue	**4,522**	2,733	65	**8,854**	5,244	69
Provision for credit losses	**361**	62	482	**686**	111	NM
Noninterest expense	**2,557**	1,557	64	**5,137**	3,119	65
Income before income tax expense	**1,604**	1,114	44	**3,031**	2,014	50
Net income	**$ 970**	$ 674	44	**$1,833**	$1,219	50
Overhead ratio	**57%**	57%		**58%**	59%	
Overhead ratio excluding core deposit intangibles[(a)]	**55**	53		**56**	56	

(a) Retail Banking uses the overhead ratio (excluding the amortization of 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 Banking s CDI amortization expense related to the 2006 Bank of New York transaction and the 2004 Bank One merger of $82 million and $99 million for the quarters ended June 30, 2009 and 2008, respectively, and $165 million and $198 million for year-to-date 2009 and 2008, respectively.

Quarterly results

Retail Banking reported net income of $970 million, up by $296 million, or 44%, from the prior year.
Net revenue was $4.5 billion, up by $1.8 billion, or 65%, reflecting the impact of the Washington Mutual transaction, wider deposit spreads, higher deposit balances and higher deposit-related fees.
The provision for credit losses was $361 million, compared with $62 million in the prior year, reflecting higher estimated losses and an increase in the allowance for loan losses for Business Banking loans.
Noninterest expense was $2.6 billion, up by $1.0 billion, or 64%, due to the impact of the Washington Mutual transaction and higher FDIC insurance premiums.

Year-to-date results

Retail Banking reported net income of $1.8 billion, up by $614 million, or 50%, from the prior year.
Net revenue was $8.9 billion, up by $3.6 billion, or 69%, from the prior year, reflecting the impact of the Washington Mutual transaction, wider deposit spreads, higher deposit balances and higher deposit-related fees.
The provision for credit losses was $686 million, compared with $111 million in the prior year, reflecting higher estimated losses and an increase in the allowance for loan losses for Business Banking loans.
Noninterest expense was $5.1 billion, up by $2.0 billion, or 65%, from the prior year, due to the impact of the Washington Mutual transaction and higher FDIC insurance premiums.

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Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended June 30, 2009	2008	Change	Six months ended June 30, 2009	2008	Change
Business metrics						
Selected ending balances						
Business banking origination volume	**$ 0.6**	$ 1.7	(65)%	**$ 1.1**	$ 3.5	(69)%
End-of-period loans owned	**17.8**	16.5	8	**17.8**	16.5	8
End-of-period deposits:						
Checking	**$ 114.1**	$ 69.1	65	**$ 114.1**	$ 69.1	65
Savings	**150.4**	105.8	42	**150.4**	105.8	42
Time and other	**78.9**	37.0	113	**78.9**	37.0	113
Total end-of-period deposits	**343.4**	211.9	62	**343.4**	211.9	62
Average loans owned	**$ 18.0**	$ 16.2	11	**$ 18.2**	$ 16.0	14
Average deposits:						
Checking	**$ 114.2**	$ 68.4	67	**$ 111.8**	$ 67.3	66
Savings	**151.2**	105.9	43	**149.6**	103.1	45
Time and other	**82.7**	39.6	109	**85.6**	43.6	96
Total average deposits	**348.1**	213.9	63	**347.0**	214.0	62
Deposit margin	**2.92%**	2.88%		**2.89%**	2.76%	
Average assets	**$ 29.1**	$ 25.7	13	**$ 29.6**	$ 25.5	16
Credit data and quality statistics						
(in millions, except ratio)						
Net charge-offs	**$ 211**	$ 61	246	**$ 386**	$ 110	251
Net charge-off rate	**4.70%**	1.51%		**4.28%**	1.38%	
Nonperforming assets	**$ 686**	$ 337	104	**$ 686**	$ 337	104

Retail branch business metrics	Three months ended June 30, 2009	2008	Change	Six months ended June 30, 2009	2008	Change
Investment sales volume (in millions)	**$ 5,292**	$ 5,211	2%	**$ 9,690**	$ 9,295	4%
Number of:						
Branches	**5,203**	3,157	65	**5,203**	3,157	65
ATMs	**14,144**	9,310	52	**14,144**	9,310	52
Personal bankers	**15,959**	9,995	60	**15,959**	9,995	60
Sales specialists	**5,485**	4,116	33	**5,485**	4,116	33
Active online customers (in thousands)	**13,930**	7,180	94	**13,930**	7,180	94
Checking accounts (in thousands)	**25,252**	11,336	123	**25,252**	11,336	123

CONSUMER LENDING

Selected income statement data (in millions, except ratio)	Three months ended June 30, 2009	2008	Change	Six months ended June 30, 2009	2008	Change

Noninterest revenue	**$ 1,137**	$ 898	27%	**$ 3,016**	$ 1,621	86%
Net interest income	**2,311**	1,479	56	**4,935**	3,008	64
Total net revenue	**3,448**	2,377	45	**7,951**	4,629	72
Provision for credit losses	**3,485**	1,523	129	**7,037**	4,162	69
Noninterest expense	**1,522**	1,123	36	**3,113**	2,133	46
Income (loss) before income tax expense	**(1,559)**	(269)	(480)	**(2,199)**	(1,666)	(32)
Net income (loss)	**$ (955)**	$ (171)	(458)	**$ (1,344)**	$ (1,027)	(31)
Overhead ratio	**44%**	47%		**39%**	46%	

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Quarterly results

Consumer Lending reported a net loss of $955 million, compared with a net loss of $171 million in the prior year. Net revenue was $3.4 billion, up by $1.1 billion, or 45%, from the prior year. The increase was driven by the impact of the Washington Mutual transaction and wider loan spreads, largely offset by lower loan balances in the heritage Chase portfolio. Mortgage fees and related income increased due to higher net mortgage servicing revenue, partially offset by a decline in mortgage production revenue. Mortgage production revenue was $284 million, down $110 million from the prior year, as an increase in reserves for the repurchase of previously-sold loans and markdowns on the mortgage warehouse were offset partially by wider margins on new originations. Net mortgage servicing revenue (which includes loan servicing revenue, other changes in fair value and MSR risk management results) was $523 million, an increase of $221 million from the prior year. Loan servicing revenue, net of other changes in fair value of the MSR asset, was up $191 million, reflecting a 70% growth in third-party loans serviced. MSR risk management results were $81 million, compared with $51 million in the prior year.

The provision for credit losses was $3.5 billion, compared with $1.5 billion in the prior year, reflecting weakness in the home equity, mortgage and student loan portfolios (see Retail Financial Services discussion of the provision for credit losses, above, for further detail).

Noninterest expense was $1.5 billion, up by $399 million, or 36%, from the prior year, reflecting higher servicing expense due to increased delinquencies and defaults and the impact of the Washington Mutual transaction.

Year-to-date results

Consumer Lending reported a net loss of $1.3 billion, compared with a net loss of $1.0 billion in the prior year. Net revenue was $8.0 billion, up by $3.3 billion, or 72%, from the prior year. The increase was driven by the impact of the Washington Mutual transaction, higher mortgage fees and related income, and wider loan spreads offset partially by lower loan balances in the heritage Chase portfolio. Mortgage fees and related income increased due to higher net mortgage servicing revenue. Mortgage production revenue was $765 million, down $5 million from the prior year, as an increase in reserves for the repurchase of previously-sold loans and markdowns on the mortgage warehouse were largely offset by wider margins on new originations. Net mortgage servicing revenue (which includes loan servicing revenue, other changes in fair value and MSR risk management results) was $1.7 billion, an increase of $1.2 billion from the prior year. Loan servicing revenue, net of other changes in fair value of the MSR, was up $172 million, reflecting a 70% growth in third-party loans serviced. MSR risk management results were $1.1 billion, compared with $32 million in the prior year, reflecting the positive impact of a decrease in estimated future mortgage prepayments and positive hedging results.

The provision for credit losses was $7.0 billion, compared with $4.2 billion in the prior year, reflecting weakness in the home equity, mortgage and student loan portfolios (see Retail Financial Services discussion of the provision for credit losses, above, for further detail).

Noninterest expense was $3.1 billion, up by $980 million, or 46%, from the prior year, reflecting higher servicing expense due to increased delinquencies and defaults and the impact of the Washington Mutual transaction.

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Selected metrics (in billions)	Three months ended June 30, **2009**	2008	Change	Six months ended June 30, **2009**	2008	Change
Business metrics						
Selected ending balances						
Loans excluding purchased credit-impaired loans[(a)]						
End-of-period loans owned:						
Home equity	**$108.2**	$ 95.1	14%	**$108.2**	$ 95.1	14%
Prime mortgage	**62.1**	40.1	55	**62.1**	40.1	55
Subprime mortgage	**13.8**	14.8	(7)	**13.8**	14.8	(7)
Option ARMs	**9.0**		NM	**9.0**		NM
Student loans	**15.6**	13.0	20	**15.6**	13.0	20
Auto loans	**42.9**	44.9	(4)	**42.9**	44.9	(4)
Other	**1.0**	0.9	11	**1.0**	0.9	11
Total end-of-period loans	**$252.6**	$208.8	21	**$252.6**	$208.8	21
Average loans owned:						
Home equity	**$110.1**	$ 95.1	16	**$111.7**	$ 95.0	18
Prime mortgage	**63.3**	39.3	61	**64.4**	37.7	71
Subprime mortgage	**14.3**	15.5	(8)	**14.6**	15.6	(6)
Option ARMs	**9.1**		NM	**9.0**		NM
Student loans	**16.7**	12.7	31	**16.8**	12.4	35
Auto loans	**43.1**	44.9	(4)	**42.8**	44.1	(3)
Other	**1.0**	1.0		**1.3**	1.1	18
Total average loans	**$257.6**	$208.5	24	**$260.6**	$205.9	27
Purchased credit-impaired loans[(a)]						
End-of-period loans owned:						
Home equity	**$ 27.7**	$	NM	**$ 27.7**	$	NM
Prime mortgage	**20.8**		NM	**20.8**		NM
Subprime mortgage	**6.4**		NM	**6.4**		NM
Option ARMs	**30.5**		NM	**30.5**		NM
Total end-of-period loans	**$ 85.4**	$	NM	**$ 85.4**	$	NM
Average loans owned:						
Home equity	**$ 28.0**	$	NM	**$ 28.2**	$	NM
Prime mortgage	**21.0**		NM	**21.3**		NM
Subprime mortgage	**6.5**		NM	**6.6**		NM
Option ARMs	**31.0**		NM	**31.2**		NM
Total average loans	**$ 86.5**	$	NM	**$ 87.3**	$	NM

Total consumer lending portfolio						
End-of-period loans owned:						
Home equity	**$135.9**	$ 95.1	43	**$135.9**	$ 95.1	43
Prime mortgage	**82.9**	40.1	107	**82.9**	40.1	107
Subprime mortgage	**20.2**	14.8	36	**20.2**	14.8	36
Option ARMs	**39.5**		NM	**39.5**		NM
Student loans	**15.6**	13.0	20	**15.6**	13.0	20
Auto loans	**42.9**	44.9	(4)	**42.9**	44.9	(4)
Other	**1.0**	0.9	11	**1.0**	0.9	11
Total end-of-period loans	**$338.0**	$208.8	62	**$338.0**	$208.8	62
Average loans owned:						
Home equity	**$138.1**	$ 95.1	45	**$139.9**	$ 95.0	47
Prime mortgage	**84.3**	39.3	115	**85.7**	37.7	127
Subprime mortgage	**20.8**	15.5	34	**21.2**	15.6	36
Option ARMs	**40.1**		NM	**40.2**		NM
Student loans	**16.7**	12.7	31	**16.8**	12.4	35
Auto loans	**43.1**	44.9	(4)	**42.8**	44.1	(3)
Other	**1.0**	1.0		**1.3**	1.1	18
Total average loans owned[(b)]	**$344.1**	$208.5	65	**$347.9**	$205.9	69

(a) Purchased credit-impaired loans accounted for under SOP 03-3 represent loans acquired in the Washington Mutual transaction for which a deterioration in credit quality occurred between the origination date and JPMorgan Chase s acquisition date. Under SOP 03-3, these loans were initially recorded at fair value and accrete interest

income over the estimated life of the loan when cash flows are reasonably estimable, even if the underlying loans are contractually past due.

(b) Total average loans owned include loans held-for-sale of $2.8 billion and $3.6 billion for the quarters ended June 30, 2009 and 2008, respectively, and $2.9 billion and $4.0 billion for year-to-date 2009 and 2008, respectively.

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Credit data and quality statistics (in millions, except ratios)	Three months ended June 30, **2009**	2008	Change	Six months ended June 30, **2009**	2008	Change
Net charge-offs excluding purchased credit-impaired loans[(a)]:						
Home equity	**$1,265**	$ 511	148%	**$2,363**	$ 958	147%
Prime mortgage	**481**	104	363	**793**	154	415
Subprime mortgage	**410**	192	114	**774**	341	127
Option ARMs	**15**		NM	**19**		NM
Auto loans	**146**	119	23	**320**	237	35
Other	**121**	38	218	**170**	50	240
Total net charge-offs	**$2,438**	$ 964	153	**$4,439**	$1,740	155
Net charge-off rate excluding purchased credit-impaired loans[(a)]:						
Home equity	**4.61%**	2.16%		**4.27%**	2.03%	
Prime mortgage	**3.07**	1.08		**2.50**	0.83	
Subprime mortgage	**11.50**	4.98		**10.69**	4.40	
Option ARMs	**0.66**			**0.43**		
Auto loans	**1.36**	1.07		**1.51**	1.08	
Other	**3.15**	1.44		**2.18**	1.01	
Total net charge-off rate excluding purchased credit-impaired loans[(b)]	**3.84**	1.89		**3.47**	1.73	
Net charge-off rate reported:						
Home equity	**3.67%**	2.16%		**3.41%**	2.03%	
Prime mortgage	**2.30**	1.08		**1.88**	0.83	
Subprime mortgage	**7.91**	4.98		**7.36**	4.40	
Option ARMs	**0.15**			**0.10**		
Auto loans	**1.36**	1.07		**1.51**	1.08	
Other	**3.15**	1.44		**2.18**	1.01	
Total net charge-off rate reported[(b)]	**2.87**	1.89		**2.59**	1.73	
30+ day delinquency rate excluding purchased credit-impaired loans[(c)(d)(e)]	**5.22%**	3.88%		**5.22%**	3.88%	
Nonperforming assets[(f)(g)]	**$9,868**	$4,996	98	**$9,868**	$4,996	98
Allowance for loan losses to ending loans	**3.23%**	2.33%		**3.23%**	2.33%	
Allowance for loan losses to ending loans excluding purchased credit-impaired loans[(a)]	**4.34**	2.33		**4.34**	2.33	

(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. These loans were accounted for at fair value on the acquisition date, which incorporated management s estimate, as of that date, of credit losses over the remaining life of the portfolio. No allowance for loan losses and no charge-offs have been recorded for these loans.

(b) Average loans held-for-sale of $2.8 billion and $3.6 billion for the quarters ended June 30, 2009 and 2008, respectively, and $2.9 billion and $4.0 billion for year-to-date 2009 and 2008, respectively, 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 $4.6 billion and $1.5 billion at June 30, 2009 and 2008, respectively. These amounts are 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 $854 million and $735 million at June 30, 2009 and 2008, respectively. These amounts are excluded, as reimbursement is proceeding normally.

(e) The delinquency rate for purchased credit-impaired loans accounted for under SOP 03-3 was 23.37% at June 30, 2009. There were no

purchased credit-impaired loans at June 30, 2008.

(f) Nonperforming assets excluded: (1) loans eligible for repurchase, as well as loans repurchased from GNMA pools that are insured by U.S. government agencies, of $4.7 billion and $1.9 billion at June 30, 2009 and 2008, 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 $473 million and $394 million at June 30, 2009 and 2008, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.

(g) Excludes purchased credit-impaired

loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis, and the pools are considered to be performing under SOP 03-3.

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Consumer Lending (continued) (in billions, except where otherwise noted)	Three months ended June 30, 2009	2008	Change	Six months ended June 30, 2009	2008	Change
Origination volume:						
Mortgage origination volume by channel						
Retail	**$ 14.7**	$ 12.5	18%	**$ 28.3**	$ 25.1	13%
Wholesale	**2.4**	9.1	(74)	**5.0**	19.7	(75)
Correspondent	**20.2**	17.0	19	**37.2**	29.0	28
CNT (negotiated transactions)	**3.8**	17.5	(78)	**8.3**	29.4	(72)
Total mortgage origination volume	**41.1**	56.1	(27)	**78.8**	103.2	(24)
Home equity	**0.6**	5.3	(89)	**1.5**	12.0	(88)
Student loans	**0.4**	1.3	(69)	**2.1**	3.3	(36)
Auto loans	**5.3**	5.6	(5)	**10.9**	12.8	(15)
Average mortgage loans held-for-sale and loans at fair value[(a)]	**16.7**	17.4	(4)	**15.3**	15.6	(2)
Average assets	**381.1**	242.1	57	**387.2**	238.4	62
Third-party mortgage loans serviced (ending)	**1,117.5**	659.1	70	**1,117.5**	659.1	70
MSR net carrying value (ending)	**14.6**	10.9	34	**14.6**	10.9	34
Supplemental mortgage fees and related income details (in millions)						
Production revenue	**$ 284**	$ 394	(28)	**$ 765**	$ 770	(1)
Net mortgage servicing revenue:						
Loan servicing revenue	**1,279**	645	98	**2,501**	1,238	102
Changes in MSR asset fair value:						
Due to inputs or assumptions in model	**3,831**	1,519	152	**5,141**	887	480
Other changes in fair value	**(837)**	(394)	(112)	**(1,910)**	(819)	(133)
Total changes in MSR asset fair value	**2,994**	1,125	166	**3,231**	68	NM
Derivative valuation adjustments and other	**(3,750)**	(1,468)	(155)	**(4,057)**	(855)	(375)
Total net mortgage servicing revenue	**523**	302	73	**1,675**	451	271
Mortgage fees and related income	**807**	696	16	**2,440**	1,221	100

(a) Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at

fair value and classified as trading assets on the Consolidated Balance Sheets. Average balances of these loans totaled $16.2 billion and $16.9 billion for the quarters ended June 30, 2009 and 2008, respectively, and $14.9 billion and $15.2 billion for year-to-date 2009 and 2008, respectively.

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CARD SERVICES

For a discussion of the business profile of CS, see pages 51-53 of JPMorgan Chase s 2008 Annual Report and page 5 of this Form 10-Q.

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 15 18 of this Form 10-Q. 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.

Selected income statement data managed basis (in millions, except ratios)	Three months ended June 30, **2009**	2008	Change	Six months ended June 30, **2009**	2008	Change
Revenue						
Credit card income	**$ 921**	$ 673	37%	**$ 1,765**	$1,273	39%
All other income	**(364)**	91	NM	**(561)**	210	NM
Noninterest revenue	**557**	764	(27)	**1,204**	1,483	(19)
Net interest income	**4,311**	3,011	43	**8,793**	6,196	42
Total net revenue	**4,868**	3,775	29	**9,997**	7,679	30
Provision for credit losses	**4,603**	2,194	110	**9,256**	3,864	140
Noninterest expense						
Compensation expense	**329**	258	28	**686**	525	31
Noncompensation expense	**873**	763	14	**1,723**	1,604	7
Amortization of intangibles	**131**	164	(20)	**270**	328	(18)
Total noninterest expense	**1,333**	1,185	12	**2,679**	2,457	9
Income (loss) before income tax expense	**(1,068)**	396	NM	**(1,938)**	1,358	NM
Income tax expense (benefit)	**(396)**	146	NM	**(719)**	499	NM
Net income (loss)	**$ (672)**	$ 250	NM	**$(1,219)**	$ 859	NM
Memo: Net securitization income (loss)	**$ (268)**	$ 36	NM	**$ (448)**	$ 106	NM
Financial ratios						
ROE	**(18)%**	7%		**(16)%**	12%	
Overhead ratio	**27**	31		**27**	32	

Quarterly results

Net loss was $672 million, a decline of $922 million from the prior year. The decrease was driven by a higher provision for credit losses, partially offset by higher net revenue.

End-of-period managed loans were $171.5 billion, an increase of $16.1 billion, or 10%, from the prior year. Average managed loans were $174.1 billion, an increase of $21.3 billion, or 14%, from the prior year. The increases from the

prior year in both end-of-period and average managed loans were predominantly due to the impact of the Washington Mutual transaction, partially offset by lower charge volume and a higher level of charge-offs. Excluding the impact of the Washington Mutual transaction, end-of-period and average managed loans were $148.4 billion and $149.7 billion, respectively.

Managed net revenue was $4.9 billion, an increase of $1.1 billion, or 29%, from the prior year. Net interest income was $4.3 billion, up by $1.3 billion, or 43%, from the prior year, driven by the impact of the Washington Mutual transaction and wider loan spreads. These benefits were offset partially by higher revenue reversals associated with higher charge-offs and a decreased level of fees. Noninterest revenue was $557 million, a decrease of $207 million, or 27%, from the prior year. The decline was driven by an increase in the credit enhancement for securitization trusts combined with lower securitization income, partially offset by higher merchant servicing revenue related to the dissolution of the Chase Paymentech Solutions joint venture.

The managed provision for credit losses was $4.6 billion, an increase of $2.4 billion from the prior year, reflecting a higher level of charge-offs due to continued deterioration in the credit environment. The managed net charge-off rate for the quarter was 10.03%, up from 4.98% in the prior year. The 30-day managed delinquency rate was 5.86%, up from 3.46% in the prior year. Excluding Washington Mutual, the managed net charge-off rate for the second quarter was 8.97% and the 30-day delinquency rate was 5.27%.

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Noninterest expense was $1.3 billion, an increase of $148 million, or 12%, from the prior year, due to the dissolution of the Chase Paymentech Solutions joint venture and the impact of the Washington Mutual transaction.

Year-to-date results

Net loss was $1.2 billion, a decline of $2.1 billion from the prior year. The decrease was driven by a higher provision for credit losses, partially offset by higher net revenue.

Average managed loans were $178.7 billion, an increase of $25.5 billion, or 17%, from the prior year. The increase from the prior year was predominantly due to the impact of the Washington Mutual transaction. Excluding the impact of the Washington Mutual transaction, average managed loans were $152.7 billion.

Managed net revenue was $10.0 billion, an increase of $2.3 billion, or 30%, from the prior year. Net interest income was $8.8 billion, up by $2.6 billion, or 42%, from the prior year, driven by the impact of the Washington Mutual transaction and wider loan spreads. These benefits were offset partially by higher revenue reversals associated with higher charge-offs and a decreased level of fees. Noninterest revenue was $1.2 billion, a decrease of $279 million, or 19%, from the prior year. The decline was driven by lower securitization income combined with an increase in the credit enhancement for securitization trusts, partially offset by higher merchant servicing revenue related to the dissolution of the Chase Paymentech Solutions joint venture and the impact of the Washington Mutual transaction.

The managed provision for credit losses was $9.3 billion, an increase of $5.4 billion from the prior year. The provision reflected a higher level of charge-offs, due to continued deterioration in the credit environment, and an increase of $1.1 billion in the allowance for loan losses. The managed net charge-off rate was 8.85%, up from 4.68% in the prior year. Excluding Washington Mutual, the managed net charge-off rate was 7.90%.

Noninterest expense was $2.7 billion, an increase of $222 million, or 9%, from the prior year, due to the impact of the Washington Mutual transaction and the dissolution of the Chase Paymentech Solutions joint venture, partially offset by lower marketing expense.

Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in millions, except headcount, ratios and where otherwise noted)	**2009**	2008	Change	**2009**	2008	Change
Financial metrics						
% of average managed outstandings:						
Net interest income	**9.93%**	7.92%		**9.92%**	8.13%	
Provision for credit losses	**10.60**	5.77		**10.44**	5.07	
Noninterest revenue	**1.28**	2.01		**1.36**	1.95	
Risk adjusted margin[(a)]	**0.61**	4.16		**0.84**	5.01	
Noninterest expense	**3.07**	3.12		**3.02**	3.23	
Pretax income (loss) (ROO)[(b)]	**(2.46)**	1.04		**(2.19)**	1.78	
Net income (loss)	**(1.55)**	0.66		**(1.38)**	1.13	
Business metrics						
Charge volume (in billions)	**$ 82.8**	$ 93.6	(12)%	**$ 158.8**	$ 179.0	(11)%
Net accounts opened (in millions)	**2.4**	3.6	(33)	**4.6**	7.0	(34)
Credit cards issued (in millions)	**151.9**	157.6	(4)	**151.9**	157.6	(4)
Number of registered internet customers (in millions)	**30.5**	28.0	9	**30.5**	28.0	9
Merchant acquiring business[(c)]						
Bank card volume (in billions)	**$ 101.4**	$ 199.3	(49)	**$ 195.8**	$ 381.7	(49)
Total transactions (in billions)	**4.5**	5.6	(20)	**8.6**	10.8	(20)
Selected balance sheet data (period-end)						
Loans:						
Loans on balance sheets	**$ 85,736**	$ 76,278	12	**$ 85,736**	$ 76,278	12
Securitized loans	**85,790**	79,120	8	**85,790**	79,120	8

Managed loans	**$171,526**	$155,398	10	**$171,526**	$155,398	10
Equity	**$ 15,000**	$ 14,100	6	**$ 15,000**	$ 14,100	6
Selected balance sheet data (average)						
Managed assets	**$193,310**	$161,601	20	**$197,234**	$160,601	23
Loans:						
Loans on balance sheets	**$ 89,692**	$ 75,630	19	**$ 93,715**	$ 77,537	21
Securitized loans	**84,417**	77,195	9	**85,015**	75,652	12
Managed average loans	**$174,109**	$152,825	14	**$178,730**	$153,189	17
Equity	**$ 15,000**	$ 14,100	6	**$ 15,000**	$ 14,100	6
Headcount	**22,897**	19,570	17	**22,897**	19,570	17

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Selected metrics (in millions, except ratios and where otherwise noted)	Three months ended June 30, 2009	2008	Change	Six months ended June 30, 2009	2008	Change
Managed credit quality statistics						
Net charge-offs	**$ 4,353**	$ 1,894	130%	**$ 7,846**	$ 3,564	120%
Net charge-off rate[(d)]	**10.03%**	4.98%		**8.85%**	4.68%	
Managed delinquency rates						
30+ day[(d)]	**5.86%**	3.46%		**5.86%**	3.46%	
90+ day[(d)]	**3.25**	1.76		**3.25**	1.76	
Allowance for loan losses[(e)]	**$ 8,839**	$ 3,705	139	**$ 8,839**	$ 3,705	139
Allowance for loan losses to period-end loans[(e)(f)]	**10.31%**	4.86%		**10.31%**	4.86%	
Key stats Washington Mutual only[(g)]						
Managed loans	**$ 23,093**			**$ 23,093**		
Managed average loans	**24,418**			**25,990**		
Net interest income[(h)]	**17.90%**			**17.14%**		
Risk adjusted margin[(a)(h)]	**(3.89)**			**0.49**		
Net charge-off rate[(i)]	**19.17**			**16.75**		
30+ day delinquency rate[(i)]	**11.98**			**11.98**		
90+ day delinquency rate[(i)]	**6.85**			**6.85**		
Key stats excluding Washington Mutual						
Managed loans	**$148,433**	$155,398	(4)	**$148,433**	$155,398	(4)
Managed average loans	**149,691**	152,825	(2)	**152,740**	153,189	
Net interest income[(h)]	**8.63%**	7.92%		**8.69%**	8.13%	
Risk adjusted margin[(a)(h)]	**1.34**	4.16		**0.89**	5.01	
Net charge-off rate	**8.97**	4.98		**7.90**	4.68	
30+ day delinquency rate	**5.27**	3.46		**5.27**	3.46	
90+ day delinquency rate	**2.90**	1.76		**2.90**	1.76	

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

(b) Pretax return on average managed outstandings.

(c) The Chase Paymentech Solutions joint venture was dissolved effective

November 1, 2008. JPMorgan Chase retained approximately 51% of the business and operates the business under the name Chase Paymentech Solutions. For the three and six months ended June 30, 2008, the data presented represents activity for the Chase Paymentech Solutions joint venture, and for the three and six months ended June 30, 2009, the data presented represents activity for Chase Paymentech Solutions.

(d) *Results for 2009 reflect the impact of purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the Washington Mutual Master Trust.*

(e)

Based on loans on balance sheets (reported basis).

(f) Includes $5.0 billion of loans at June 30, 2009, from the Washington Mutual Master Trust, which were consolidated onto the Card Services balance sheet at fair value during the second quarter of 2009. No allowance for loan losses was recorded for these loans as of June 30, 2009. Excluding these loans, the allowance for loan losses to period-end loans was 10.95%.

(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) *Excludes the impact of purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the Washington Mutual Master Trust.*

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Reconciliation from reported basis to managed basis

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

(in millions)	Three months ended June 30, 2009	2008	Change	Six months ended June 30, 2009	2008	Change
Income statement data[(a)]						
Credit card income						
Reported	**$ 1,215**	$ 1,516	(20)%	**$ 2,599**	$ 3,053	(15)%
Securitization adjustments	**(294)**	(843)	65	**(834)**	(1,780)	53
Managed credit card income	**$ 921**	$ 673	37	**$ 1,765**	$ 1,273	39
Net interest income						
Reported	**$ 2,353**	$ 1,338	76	**$ 4,831**	$ 2,905	66
Securitization adjustments	**1,958**	1,673	17	**3,962**	3,291	20
Managed net interest income	**$ 4,311**	$ 3,011	43	**$ 8,793**	$ 6,196	42
Total net revenue						
Reported	**$ 3,204**	$ 2,945	9	**$ 6,869**	$ 6,168	11
Securitization adjustments	**1,664**	830	100	**3,128**	1,511	107
Managed total net revenue	**$ 4,868**	$ 3,775	29	**$ 9,997**	$ 7,679	30
Provision for credit losses						
Reported	**$ 2,939**	$ 1,364	115	**$ 6,128**	$ 2,353	160
Securitization adjustments	**1,664**	830	100	**3,128**	1,511	107
Managed provision for credit losses	**$ 4,603**	$ 2,194	110	**$ 9,256**	$ 3,864	140
Balance sheet average balances[(a)]						
Total average assets						

Reported	**$111,722**	$ 87,021	28	**$115,052**	$ 87,517	31
Securitization adjustments	**81,588**	74,580	9	**82,182**	73,084	12
Managed average assets	**$193,310**	$161,601	20	**$197,234**	$160,601	23
Credit quality statistics[(a)]						
Net charge-offs						
Reported	**$ 2,689**	$ 1,064	153	**$ 4,718**	$ 2,053	130
Securitization adjustments	**1,664**	830	100	**3,128**	1,511	107
Managed net charge-offs	**$ 4,353**	$ 1,894	130	**$ 7,846**	$ 3,564	120

(a) JPMorgan Chase uses the concept of managed basis to evaluate the credit performance and overall performance of the underlying credit card loans, both sold and not sold; as the same borrower is continuing to use the credit card for ongoing charges, a borrower s credit performance will affect both the receivables sold under SFAS 140 and those not sold. Thus, in its disclosures regarding

managed receivables, JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in order to disclose the credit performance (such as net charge-off rates) of the entire managed credit card portfolio. 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 versus managed earnings; however, it does affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets. For further information, see Explanation and Reconciliation of the Firm s Use of

Non-GAAP Financial Measures on pages 15 18 of this Form 10-Q.

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COMMERCIAL BANKING

For a discussion of the business profile of CB, see pages 54 55 of JPMorgan Chase s 2008 Annual Report and page 6 of this Form 10-Q.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2009**	2008	Change	**2009**	2008	Change
Revenue						
Lending & deposit related fees	**$ 270**	$ 207	30%	**$ 533**	$ 400	33%
Asset management, administration and commissions	**36**	26	38	**70**	52	35
All other income[(a)]	**152**	150	1	**277**	265	5
Noninterest revenue	**458**	383	20	**880**	717	23
Net interest income	**995**	723	38	**1,975**	1,456	36
Total net revenue	**1,453**	1,106	31	**2,855**	2,173	31
Provision for credit losses	**312**	47	NM	**605**	148	309
Noninterest expense						
Compensation expense	**197**	173	14	**397**	351	13
Noncompensation expense	**327**	290	13	**669**	584	15
Amortization of intangibles	**11**	13	(15)	**22**	26	(15)
Total noninterest expense	**535**	476	12	**1,088**	961	13
Income before income tax expense	**606**	583	4	**1,162**	1,064	9
Income tax expense	**238**	228	4	**456**	417	9
Net income	**$ 368**	$ 355	4	**$ 706**	$ 647	9
Revenue by product:						
Lending	**$ 684**	$ 376	82	**$1,349**	$ 755	79
Treasury services	**679**	630	8	**1,325**	1,246	6
Investment banking	**114**	91	25	**187**	159	18
Other	**(24)**	9	NM	**(6)**	13	NM
Total Commercial Banking revenue	**$1,453**	$1,106	31	**$2,855**	$2,173	31
IB revenue, gross[(b)]	**$ 328**	$ 270	21	**$ 534**	$ 473	13
Revenue by business:						
Middle Market Banking	**$ 772**	$ 708	9	**$1,524**	$1,414	8
Commercial Term Lending[(c)]	**224**		NM	**452**		NM
Mid-Corporate Banking	**305**	235	30	**547**	442	24

Real Estate Banking[(c)]	**120**	94	28	**240**	191	26
Other[(c)]	**32**	69	(54)	**92**	126	(27)
Total Commercial Banking revenue	**$1,453**	$1,106	31	**$2,855**	$2,173	31
Financial ratios						
ROE	**18%**	20%		**18%**	19%	
Overhead ratio	**37**	43		**38**	44	

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

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

(c) Results for 2009 include total net revenue on net assets acquired in the Washington Mutual transaction.

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Quarterly results

Net income was $368 million, an increase of $13 million, or 4%, from the prior year. Higher net revenue, reflecting the impact of the Washington Mutual transaction, was predominantly offset by a higher provision for credit losses and higher noninterest expense.

Net revenue was $1.5 billion, an increase of $347 million, or 31%, from the prior year. Net interest income was $995 million, up by $272 million, or 38%, driven by the impact of the Washington Mutual transaction. Excluding Washington Mutual, net interest income was flat compared with the prior year, as wider loan spreads, a shift to higher-spread liability products and overall growth in liability balances were offset predominantly by spread compression on liability products and lower loan balances. Noninterest revenue was $458 million, an increase of $75 million, or 20%, reflecting the second straight quarter of record levels of lending- and deposit-related fees.

Revenue from Middle Market Banking was $772 million, an increase of $64 million, or 9%, from the prior year. Revenue from Commercial Term Lending (a new business resulting from the Washington Mutual transaction) was $224 million. Record revenue from Mid-Corporate Banking was $305 million, an increase of $70 million, or 30%, from the prior year. Revenue from Real Estate Banking was $120 million, an increase of $26 million, or 28%, from the prior year, due to the impact of the Washington Mutual transaction.

The provision for credit losses was $312 million, compared with $47 million in the prior year, reflecting continued deterioration in the credit environment. The allowance for loan losses to end-of-period loans retained was 2.87%, up from 2.59% in the prior year. Nonperforming loans were $2.1 billion, up by $1.6 billion from the prior year, reflecting the impact of the Washington Mutual transaction and higher levels of such loans in each business segment. Net charge-offs were $181 million (0.67% net charge-off rate), compared with $49 million (0.28% net charge-off rate) in the prior year.

Noninterest expense was $535 million, an increase of $59 million, or 12%, from the prior year, due to the impact of the Washington Mutual transaction and higher FDIC insurance premiums offset partially by lower headcount-related expense.

Year-to-date results

Net income was $706 million, an increase of $59 million, or 9%, from the prior year, as higher net revenue, reflecting the impact of the Washington Mutual transaction, was predominantly offset by a higher provision for credit losses and higher noninterest expense.

Net revenue was $2.9 billion, an increase of $682 million, or 31%, from the prior year. Net interest income of $2.0 billion increased by $519 million, or 36%, driven by the impact of the Washington Mutual transaction. Noninterest revenue was $880 million, an increase of $163 million, or 23%, from the prior year, reflecting the second straight quarter of record lending- and deposit-related fees and higher investment banking fees.

Revenue from Middle Market Banking was $1.5 billion, an increase of $110 million, or 8%, from the prior year. Revenue from Commercial Term Lending (a new business resulting from the Washington Mutual transaction) was $452 million. Mid-Corporate Banking revenue was $547 million, an increase of $105 million, or 24%. Real Estate Banking revenue was $240 million, an increase of $49 million, or 26%, due to the impact of the Washington Mutual transaction.

The provision for credit losses was $605 million, compared with $148 million in the prior year, reflecting deterioration in the credit environment. The allowance for loan losses to end-of-period loans retained was 2.87%, up from 2.59% in the prior year. Nonperforming loans were $2.1 billion, an increase of $1.6 billion from the prior year reflecting the impact of the Washington Mutual transaction and continuing credit deterioration across all business segments. Net charge-offs were $315 million (0.57% net charge-off rate), compared with $130 million (0.38% net charge-off rate) in the prior year.

Noninterest expense was $1.1 billion, an increase of $127 million, or 13%, from the prior year, due to the impact of the Washington Mutual transaction and higher FDIC insurance premiums, offset partially by lower headcount-related expense.

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Selected metrics (in millions, except headcount and ratios)	Three months ended June 30, 2009	2008	Change	Six months ended June 30, 2009	2008	Change
Selected balance sheet data (period-end):						
Loans:						
Loans retained	**$105,556**	$ 71,105	48%	**$105,556**	$ 71,105	48%
Loans held-for-sale and loans at fair value	**296**	306	(3)	**296**	306	(3)
Total loans	**105,852**	71,411	48	**105,852**	71,411	48
Equity	**8,000**	7,000	14	**8,000**	7,000	14
Selected balance sheet data (average):						
Total assets	**$137,283**	$103,469	33	**$140,771**	$102,724	37
Loans:						
Loans retained	**108,750**	70,682	54	**111,146**	69,096	61
Loans held-for-sale and loans at fair value	**288**	379	(24)	**292**	450	(35)
Total loans	**109,038**	71,061	53	**111,438**	69,546	60
Liability balances[(a)]	**105,829**	99,404	6	**110,377**	99,441	11
Equity	**8,000**	7,000	14	**8,000**	7,000	14
Average loans by business:						
Middle Market Banking	**$ 38,193**	$ 42,879	(11)	**$ 39,453**	$ 41,495	(5)
Commercial Term Lending[(b)]	**36,963**		NM	**36,889**		NM
Mid-Corporate Banking	**17,012**	15,357	11	**17,710**	15,253	16
Real Estate Banking[(b)]	**12,347**	7,500	65	**12,803**	7,479	71
Other[(b)]	**4,523**	5,325	(15)	**4,583**	5,319	(14)
Total Commercial Banking loans	**$109,038**	$ 71,061	53	**$111,438**	$ 69,546	60
Headcount	**4,228**	4,028	5	**4,228**	4,028	5
Credit data and quality statistics:						
Net charge-offs	**$ 181**	$ 49	269	**$ 315**	$ 130	142
Nonperforming loans[(c)]	**2,111**	486	334	**2,111**	486	334
Nonperforming assets	**2,255**	510	342	**2,255**	510	342
Allowance for credit losses:						
Allowance for loan losses	**3,034**	1,843	65	**3,034**	1,843	65
Allowance for lending-related commitments	**272**	170	60	**272**	170	60
Total allowance for credit losses	**3,306**	2,013	64	**3,306**	2,013	64
Net charge-off rate[(d)]	**0.67%**	0.28%		**0.57%**	0.38%	
Allowance for loan losses to period-end loans[(d)]	**2.87**	2.59		**2.87**	2.59	
Allowance for loan losses to average loans[(d)]	**2.79**	2.61		**2.73**	2.67	
Allowance for loan losses to nonperforming loans[(c)]	**145**	401		**145**	401	
Nonperforming loans to period-end loans	**1.99**	0.68		**1.99**	0.68	

Nonperforming loans to average loans	**1.94**	0.68	**1.89**	0.70

(a) 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.

(b) Results for 2009 include loans acquired in the Washington Mutual transaction.

(c) Nonperforming loans included loans held-for-sale and loans at fair value of $21 million and $26 million at June 30, 2009 and 2008, respectively. These amounts are excluded when calculating the allowance for loan losses to nonperforming loans ratio. Allowance for loan losses of $460 million and $85 million were held

against nonperforming loans at June 30, 2009 and 2008, respectively.

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

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TREASURY & SECURITIES SERVICES

For a discussion of the business profile of TSS, see pages 56 57 of JPMorgan Chase s 2008 Annual Report and page 6 of this Form 10-Q.

Selected income statement data (in millions, except headcount and ratios)	Three months ended June 30, **2009**	2008	Change	Six months ended June 30, **2009**	2008	Change
Revenue						
Lending & deposit-related fees	**$ 314**	$ 283	11%	**$ 639**	$ 552	16%
Asset management, administration and commissions	**710**	846	(16)	**1,336**	1,666	(20)
All other income	**221**	228	(3)	**418**	428	(2)
Noninterest revenue	**1,245**	1,357	(8)	**2,393**	2,646	(10)
Net interest income	**655**	662	(1)	**1,328**	1,286	3
Total net revenue	**1,900**	2,019	(6)	**3,721**	3,932	(5)
Provision for credit losses	**(5)**	7	NM	**(11)**	19	NM
Credit reimbursement to IB[(a)]	**(30)**	(30)		**(60)**	(60)	
Noninterest expense						
Compensation expense	**618**	669	(8)	**1,247**	1,310	(5)
Noncompensation expense	**650**	632	3	**1,321**	1,203	10
Amortization of intangibles	**20**	16	25	**39**	32	22
Total noninterest expense	**1,288**	1,317	(2)	**2,607**	2,545	2
Income before income tax expense	**587**	665	(12)	**1,065**	1,308	(19)
Income tax expense	**208**	240	(13)	**378**	480	(21)
Net income	**$ 379**	$ 425	(11)	**$ 687**	$ 828	(17)
Revenue by business						
Treasury Services[(b)]	**$ 934**	$ 905	3	**$ 1,865**	$ 1,765	6
Worldwide Securities Services[(b)]	**966**	1,114	(13)	**1,856**	2,167	(14)
Total net revenue	**$ 1,900**	$ 2,019	(6)	**$ 3,721**	$ 3,932	(5)
Financial ratios						
ROE	**30%**	49%		**28%**	48%	
Overhead ratio	**68**	65		**70**	65	
Pretax margin ratio[(c)]	**31**	33		**29**	33	
Selected balance sheet data (period-end)						
Loans	**$ 17,929**	$ 26,348	(32)	**$ 17,929**	$ 26,348	(32)
Equity	**5,000**	3,500	43	**5,000**	3,500	43

Selected balance sheet data (average)						
Total assets	**$ 35,520**	$ 56,192	(37)	**$ 37,092**	$ 56,698	(35)
Loans[(d)]	**17,524**	23,822	(26)	**18,825**	23,454	(20)
Liability balances[(e)]	**234,163**	268,293	(13)	**255,208**	261,331	(2)
Equity	**5,000**	3,500	43	**5,000**	3,500	43
Headcount	**27,252**	27,232		**27,252**	27,232	

(a) The Investment Bank credit portfolio group manages certain exposures on behalf of clients shared with TSS. TSS reimburses IB for a portion of the total cost of managing the credit portfolio. IB recognizes this credit reimbursement as a component of noninterest revenue.

(b) Reflects an internal reorganization for escrow products from Worldwide Securities Services to Treasury Services revenue of $46 million and $52 million for the three months ended June 30, 2009 and 2008, respectively, and $91 million and $99 million for the six months ended June 30, 2009

and 2008, respectively.

(c) 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.

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

(e) 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.

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Quarterly results

Net income was $379 million, a decrease of $46 million, or 11%, from the prior year, driven by lower net revenue offset partially by lower noninterest expense.

Net revenue was $1.9 billion, a decrease of $119 million, or 6%, from the prior year. Worldwide Securities Services net revenue was $966 million, a decrease of $148 million, or 13%, from the prior year. The decrease was driven by the effect of market depreciation on assets under custody and lower securities lending balances, primarily as a result of declines in asset valuations and demand. Treasury Services net revenue was $934 million, an increase of $29 million, or 3%, reflecting growth across cash management products and higher trade revenue driven by wider spreads, partially offset by spread compression on deposit products. TSS firmwide net revenue, which includes net revenue recorded in other lines of business, was $2.6 billion, a decrease of $79 million, or 3%, compared with the prior year, primarily due to declines in Worldwide Securities Services. Treasury Services firmwide net revenue grew to $1.7 billion, an increase of $69 million, or 4%, from the prior year.

The provision for credit losses was a benefit of $5 million, compared with an expense of $7 million in the prior year.

Noninterest expense was $1.3 billion, a decrease of $29 million, reflecting lower headcount-related expense, partially offset by higher FDIC insurance premiums.

Year-to-date results

Net income was $687 million, a decrease of $141 million, or 17%, from the prior year, driven by lower net revenue offset partially by lower noninterest expense.

Net revenue was $3.7 billion, a decrease of $211 million, or 5%, from the prior year. Worldwide Securities Services net revenue was $1.9 billion, a decrease of $311 million, or 14%, from the prior year. The decrease was driven by the effect of market depreciation on assets under custody and lower securities lending balances, primarily as a result of declines in asset valuations and demand. Treasury Services net revenue was $1.9 billion, an increase of $100 million, or 6%, reflecting growth across cash management products and higher trade revenue driven by wider spreads, partially offset by spread compression on deposit products. TSS firmwide net revenue, which includes net revenue recorded in other lines of business, was $5.2 billion, a decrease of $148 million, or 3%, compared with the prior year; primarily due to declines in Worldwide Securities Services. Treasury Services firmwide net revenue grew to $3.3 billion, an increase of $163 million, or 5%, from the prior year.

The provision for credit losses was a benefit of $11 million, compared with an expense of $19 million in the prior year.

Noninterest expense was $2.6 billion, an increase of $62 million, reflecting higher FDIC insurance premiums, partially offset by lower headcount-related expense.

TSS firmwide metrics

TSS 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.

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Selected metrics (in millions, except ratios and where otherwise noted)	Three months ended June 30, 2009	2008	Change	Six months ended June 30, 2009	2008	Change
TSS firmwide disclosures						
Treasury Services revenue reported[a]	**$ 934**	$ 905	3%	**$ 1,865**	$ 1,765	6%
Treasury Services revenue reported in Commercial Banking	**679**	630	8	**1,325**	1,246	6
Treasury Services revenue reported in other lines of business	**63**	72	(13)	**125**	141	(11)
Treasury Services firmwide revenue[a][b]	**1,676**	1,607	4	**3,315**	3,152	5
Worldwide Securities Services revenue[a]	**966**	1,114	(13)	**1,856**	2,167	(14)
Treasury & Securities Services firmwide revenue[b]	**$ 2,642**	$ 2,721	(3)	**$ 5,171**	$ 5,319	(3)
Treasury Services firmwide liability balances (average)[c][d]	**$258,312**	$252,625	2	**$273,892**	$247,897	10
Treasury & Securities Services firmwide liability balances (average)[c]	**339,992**	367,670	(8)	**365,584**	360,758	1
TSS firmwide financial ratios						
Treasury Services firmwide overhead ratio[e]	**51%**	53%		**52%**	53%	
Treasury & Securities Services firmwide overhead ratio[e]	**59**	58		**61**	58	
Firmwide business metrics						
Assets under custody (in billions)	**$ 13,748**	$ 15,476	(11)	**$ 13,748**	$ 15,476	(11)
Number of:						
U.S.$ ACH transactions originated (in millions)	**978**	993	(2)	**1,956**	1,997	(2)
Total U.S.$ clearing volume (in thousands)	**28,193**	29,063	(3)	**55,379**	57,119	(3)
International electronic funds transfer volume (in thousands)[f]	**47,096**	41,432	14	**91,461**	81,471	12
Wholesale check volume (in millions)	**572**	618	(7)	**1,140**	1,241	(8)
Wholesale cards issued (in thousands)[g]	**23,744**	19,917	19	**23,744**	19,917	19
Credit data and quality statistics						
Net charge-offs (recoveries)	**$ 17**	$ (2)	NM	**$ 19**	$ (2)	NM
Nonperforming loans	**14**		NM	**14**		NM
Allowance for credit losses:						
Allowance for loan losses	**15**	40	(63)	**15**	40	(63)
Allowance for lending-related commitments	**92**	33	179	**92**	33	179
Total allowance for credit losses	**107**	73	47	**107**	73	47
Net charge-off (recovery) rate	**0.39%**	(0.03)%		**0.20%**	(0.02)%	

Allowance for loan losses to period-end loans	**0.08**	0.15	**0.08**	0.15
Allowance for loan losses to average loans	**0.09**	0.17	**0.08**	0.17
Allowance for loan losses to nonperforming loans	**107**	NM	**107**	NM
Nonperforming loans to period-end loans	**0.08**		**0.08**	
Nonperforming loans to average loans	**0.08**		**0.07**	

(a) Reflects an internal reorganization for escrow products, from Worldwide Securities Services to Treasury Services revenue, of $46 million and $52 million for the three months ended June 30, 2009 and 2008, respectively, and $91 million and $99 million for the six months ended June 30, 2009 and 2008, respectively.

(b) TSS firmwide FX revenue includes FX revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of IB. However, some of the FX revenue associated with TSS customers who are FX customers of IB is not included in TS and TSS firmwide

revenue. These amounts were $191 million and $222 million, for the three months ended June 30, 2009 and 2008, respectively, and $345 million and $413 million for the six months ended June 30, 2009 and 2008, respectively.

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(c) Firmwide liability balances include liability balances recorded in Commercial Banking.

(d) Reflects an internal reorganization for escrow products, from Worldwide Securities Services to Treasury Services liability balances, of $14.9 billion and $21.9 billion for the three months ended June 30, 2009 and 2008, respectively, and $16.5 billion and $21.7 billion for the six months ended June 30, 2009 and 2008, respectively.

(e) Overhead ratios have been calculated based on firmwide revenue and TSS and TS expense, respectively, including those allocated to certain other lines of

business. FX revenue and expense recorded in IB for TSS-related FX activity are not included in this ratio.

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

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

ASSET MANAGEMENT

For a discussion of the business profile of AM, see pages 58-60 of JPMorgan Chase s 2008 Annual Report and on page 6 of this Form 10-Q.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2009**	2008	Change	**2009**	2008	Change
Revenue						
Asset management, administration and commissions	**$1,315**	$1,573	(16)%	**$2,546**	$3,104	(18)%
All other income	**253**	130	95	**322**	189	70
Noninterest revenue	**1,568**	1,703	(8)	**2,868**	3,293	(13)
Net interest income	**414**	361	15	**817**	672	22
Total net revenue	**1,982**	2,064	(4)	**3,685**	3,965	(7)
Provision for credit losses	**59**	17	247	**92**	33	179
Noninterest expense						
Compensation expense	**810**	886	(9)	**1,610**	1,711	(6)
Noncompensation expense	**525**	494	6	**1,004**	971	3
Amortization of intangibles	**19**	20	(5)	**38**	41	(7)

Total noninterest expense	**1,354**	1,400	(3)	**2,652**	2,723	(3)
Income before income tax expense	**569**	647	(12)	**941**	1,209	(22)
Income tax expense	**217**	252	(14)	**365**	458	(20)
Net income	**$ 352**	$ 395	(11)	**$ 576**	$ 751	(23)
Revenue by client segment						
Private Bank[(a)]	**$ 640**	$ 708	(10)	**$1,223**	$1,304	(6)
Institutional	**487**	472	3	**947**	962	(2)
Retail	**411**	490	(16)	**664**	956	(31)
Private Wealth Management[(a)]	**334**	356	(6)	**646**	705	(8)
Bear Stearns Private Client Services	**110**	38	189	**205**	38	439
Total net revenue	**$1,982**	$2,064	(4)	**$3,685**	$3,965	(7)
Financial ratios						
ROE	**20%**	31%		**17%**	30%	
Overhead ratio	**68**	68		**72**	69	
Pretax margin ratio[(b)]	**29**	31		**26**	30	

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

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

management evaluates its performance and that of its competitors.

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Quarterly results

Net income was $352 million, a decrease of $43 million, or 11%, from the prior year, due to lower net revenue and higher provision for credit losses offset partially by lower noninterest expense

Net revenue was $2.0 billion, a decrease of $82 million, or 4%, from the prior year. Noninterest revenue was $1.6 billion, a decrease of $135 million, or 8%, due to the effect of lower market levels and lower placement fees; these effects were offset partially by higher valuations of seed capital investments. Net interest income was $414 million, up by $53 million, or 15%, from the prior year, predominantly due to wider loan and deposit spreads and higher deposit balances.

Private Bank revenue decreased by 10% to $640 million due to the effect of lower market levels and lower placement fees, largely offset by wider loan and deposit spreads. Institutional revenue increased by 3% to $487 million, due to higher valuations of seed capital investments, largely offset by the effect of lower market levels. Retail revenue decreased by 16% to $411 million, due to the effect of lower market levels and net equity outflows, partially offset by higher valuations of seed capital investments. Private Wealth Management revenue decreased by 6% to $334 million, due to the effect of lower market levels and narrower deposit spreads. Bear Stearns Private Client Services contributed $110 million to revenue.

The provision for credit losses was $59 million, an increase of $42 million from the prior year, reflecting continued deterioration in the credit environment.

Noninterest expense was $1.4 billion, a decrease of $46 million, or 3%, from the prior year, due to lower performance-based compensation and lower headcount-related expense, largely offset by the impact of the Bear Stearns merger and higher FDIC insurance premiums.

Year-to-date results

Net income was $576 million, a decrease of $175 million, or 23%, from the prior year, due to lower net revenue and higher provision for credit losses offset partially by lower noninterest expense.

Net revenue was $3.7 billion, a decrease of $280 million, or 7%, from the prior year. Noninterest revenue was $2.9 billion, a decrease of $425 million, or 13%, due to the effect of lower market levels, lower performance fees and lower placement fees; these effects were offset partially by higher valuations of seed capital investments. Net interest income was $817 million, up by $145 million, or 22%, from the prior year, predominantly due to wider deposit and loan spreads and higher deposit balances.

Private Bank revenue decreased 6% to $1.2 billion due to the effect of lower market levels and lower placement fees, predominantly offset by wider deposit and loan spreads. Institutional revenue decreased 2% to $947 million due to the effect of lower market levels offset by higher valuations of seed capital investments. Retail revenue decreased by 31% to $664 million due to the effect of lower market levels and net equity outflows, partially offset by higher valuations of seed capital investments. Private Wealth Management revenue decreased 8% to $646 million due to the effect of lower market levels and net equity outflows. Bear Stearns Private Client Services contributed $205 million to revenue.

The provision for credit losses was $92 million, an increase of $59 million from the prior year, reflecting continued deterioration in the credit environment.

Noninterest expense was $2.7 billion, a decrease of $71 million, or 3%, from the prior year due to lower performance-based compensation and lower headcount-related expense, largely offset by the impact of the Bear Stearns merger and higher FDIC insurance premiums.

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Business metrics

(in millions, except headcount, ratios and ranking data, and where otherwise noted)	Three months ended June 30, **2009**	2008	Change	Six months ended June 30, **2009**	2008	Change
Number of:						
Client advisors[(a)]	**1,785**	1,801	(1)%	**1,785**	1,801	(1)%
Retirement planning services participants	**1,595,000**	1,505,000	6	**1,595,000**	1,505,000	6
Bear Stearns brokers	**362**	326	11	**362**	326	11
% of customer assets in 4 & 5 Star Funds[(b)]	**45%**	40%	13	**45%**	40%	13
% of AUM in 1st and 2nd quartiles:[(c)]						
1 year	**62%**	51%	22	**62%**	51%	22
3 years	**69%**	70%	(1)	**69%**	70%	(1)
5 years	**80%**	76%	5	**80%**	76%	5
Selected balance sheet data (period-end)						
Loans	**$ 35,474**	$ 41,536	(15)	**$ 35,474**	$ 41,536	(15)
Equity	**7,000**	5,200	35	**7,000**	5,200	35
Selected balance sheet data (average)						
Total assets	**$ 59,334**	$ 65,015	(9)	**$ 58,783**	$ 62,651	(6)
Loans	**34,292**	39,264	(13)	**34,438**	37,946	(9)
Deposits	**75,355**	69,975	8	**78,534**	69,079	14
Equity	**7,000**	5,066	38	**7,000**	5,033	39
Headcount	**14,840**	15,840	(6)	**14,840**	15,840	(6)
Credit data and quality statistics						
Net charge-offs (recoveries)	**$ 46**	$ 2	NM	**$ 65**	$	NM
Nonperforming loans	**313**	68	360	**313**	68	360
Allowance for loan losses	**226**	147	54	**226**	147	54
Allowance for lending-related commitments	**4**	5	(20)	**4**	5	(20)
Net charge-off (recovery) rate	**0.54%**	0.02%		**0.38%**	%	
Allowance for loan losses to period-end loans	**0.64**	0.35		**0.64**	0.35	
Allowance for loan losses to average loans	**0.66**	0.37		**0.66**	0.39	
Allowance for loan losses to nonperforming loans	**72**	216		**72**	216	
Nonperforming loans to period-end loans	**0.88**	0.16		**0.88**	0.16	
Nonperforming loans to average loans	**0.91**	0.17		**0.91**	0.18	

(a) *Prior periods have been restated to conform with current methodologies.*

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

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

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Assets under supervision

Assets under supervision were $1.5 trillion, a decrease of $68 billion, or 4%, from the prior year. Assets under management were $1.2 trillion, a decrease of $14 billion, or 1%, from the prior year. The decreases were due to the effect of lower market levels and outflows from non-liquidity products, predominantly offset by liquidity product inflows. Custody, brokerage, administration and deposit balances were $372 billion, down $54 billion, due to the effect of lower market levels on brokerage and custody balances, partially offset by brokerage inflows in the Private Bank.

ASSETS UNDER SUPERVISION[(a)] (in billions)

As of June 30,	**2009**	2008
Assets by asset class		
Liquidity	**$ 617**	$ 478
Fixed income	**194**	199
Equities & balanced	**264**	378
Alternatives	**96**	130
Total assets under management	**1,171**	1,185
Custody/brokerage/administration/deposits	**372**	426
Total assets under supervision	**$1,543**	$1,611
Assets by client segment		
Institutional	**$ 697**	$ 645
Private Bank[(b)]	**179**	181
Retail	**216**	276
Private Wealth Management[(b)]	**67**	75
Bear Stearns Private Client Services	**12**	8
Total assets under management	**$1,171**	$1,185
Institutional	**$ 697**	$ 646
Private Bank[(b)]	**390**	415
Retail	**289**	357
Private Wealth Management[(b)]	**123**	133
Bear Stearns Private Client Services	**44**	60
Total assets under supervision	**$1,543**	$1,611
Assets by geographic region		
U.S./Canada	**$ 814**	$ 771
International	**357**	414

Total assets under management	**$1,171**	$1,185
U.S./Canada	**$1,103**	$1,093
International	**440**	518
Total assets under supervision	**$1,543**	$1,611
Mutual fund assets by asset class		
Liquidity	**$ 569**	$ 416
Fixed income	**48**	47
Equities	**111**	171
Alternatives	**9**	8
Total mutual fund assets	**$ 737**	$ 642

(a) Excludes assets under management of American Century Companies, Inc., in which the Firm had a 42% and 43% ownership at June 30, 2009 and 2008, respectively.

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

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	Three months ended June 30,		Six months ended June 30,	
	2009	2008	**2009**	2008
Assets under management rollforward				
Beginning balance	**$1,115**	$1,187	**$1,133**	$1,193
Net asset flows:				
Liquidity	**(7)**	1	**12**	69
Fixed income	**8**	(1)	**9**	(1)
Equities, balanced and alternatives	**2**	(3)	**(3)**	(24)
Market/performance/other impacts[(a)]	**53**	1	**20**	(52)
Total assets under management	**$1,171**	$1,185	**$1,171**	$1,185
Assets under supervision rollforward				
Beginning balance	**$1,464**	$1,569	**$1,496**	$1,572
Net asset flows	**(9)**	(5)	**16**	47
Market/performance/other impacts[(a)]	**88**	47	**31**	(8)
Total assets under supervision	**$1,543**	$1,611	**$1,543**	$1,611

(a) Second quarter 2008 reflects $15 billion for assets under management and $68 billion for assets under supervision from the Bear Stearns merger on May 30, 2008.

CORPORATE / PRIVATE EQUITY

For a discussion of the business profile of Corporate/Private Equity, see pages 61-63 of JPMorgan Chase s 2008 Annual Report.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except headcount)	**2009**	2008	Change	**2009**	2008	Change
Revenue						
Principal transactions	**$ 1,243**	$ (97)	NM	**$ (250)**	$ (92)	(172)%
Securities gains	**366**	656	(44)%	**580**	698	(17)
All other income[(a)]	**(209)**	(378)	45	**(228)**	1,263	NM
Noninterest revenue	**1,400**	181	NM	**102**	1,869	(95)

Net interest income (expense)	**865**	(47)	NM	**1,854**	(396)	NM
Total net revenue	**2,265**	134	NM	**1,956**	1,473	33
Provision for credit losses	**9**	37	(76)	**9**	37	(76)
Noninterest expense						
Compensation expense	**655**	611	7	**1,296**	1,250	4
Noncompensation expense[(b)]	**1,319**	689	91	**1,664**	605	175
Merger costs	**143**	155	(8)	**348**	155	125
Subtotal	**2,117**	1,455	45	**3,308**	2,010	65
Net expense allocated to other businesses	**(1,253)**	(1,070)	(17)	**(2,532)**	(2,127)	(19)
Total noninterest expense	**864**	385	124	**776**	(117)	NM
Income (loss) before income tax expense	**1,392**	(288)	NM	**1,171**	1,553	(25)
Income tax expense	**584**	31	NM	**625**	761	(18)
Net income (loss)	**$ 808**	$ (319)	NM	**$ 546**	$ 792	(31)
Total net revenue						
Private equity	**$ (1)**	$ 197	NM	**$ (450)**	$ 360	NM
Corporate	**2,266**	(63)	NM	**2,406**	1,113	116
Total net revenue	**$ 2,265**	$ 134	NM	**$ 1,956**	$ 1,473	33
Net income (loss)						
Private equity	**$ (27)**	$ 99	NM	**$ (307)**	$ 156	NM
Corporate	**993**	122	NM	**1,245**	1,176	6
Merger-related items[(c)]	**(158)**	(540)	71	**(392)**	(540)	27
Total net income (loss)	**$ 808**	$ (319)	NM	**$ 546**	$ 792	(31)
Headcount	**21,522**	22,317	(4)	**21,522**	22,317	(4)

(a) Included $423 million representing the Firm s share of Bear Stearns losses from April 8, to May 30, 2008, in the second quarter of 2008, and proceeds of

$1.5 billion from the sale of Visa shares in its initial public offering in the first quarter of 2008.

(b) Second quarter of 2009 included an accrual of $675 million for the FDIC special assessment. First quarter of 2008 included a release of credit card litigation reserves.

(c) Included merger costs related to the Washington Mutual transaction, as well as items related to the Bear Stearns merger.

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Quarterly results

Net income was $808 million, compared with a net loss of $319 million in the prior year.

Private Equity reported a net loss of $27 million, compared with net income of $99 million in the prior year. Net revenue was negative $1 million, a decrease of $198 million, reflecting Private Equity losses of $20 million, compared with gains of $220 million in the prior year. Noninterest expense was $42 million, a decrease of $2 million.

Net income for Corporate was $993 million, compared with net income of $122 million in the prior year. These results reflect higher levels of trading gains and investment securities income and a gain of $150 million (after tax) from the sale of MasterCard shares, partially offset by an accrual of $419 million (after tax) for the FDIC special assessment.

Year-to-date results

Net income was $546 million, compared with $792 million in the prior year.

Net loss for Private Equity was $307 million, compared with net income of $156 million in the prior year. Net revenue was negative $450 million, a decrease of $810 million, reflecting Private Equity losses of $482 million, compared with gains of $409 million. Noninterest expense was $31 million, a decrease of $88 million.

Net income for Corporate was $1.2 billion, unchanged from the prior year. Current year results reflect higher levels of trading gains and investment securities income and a gain of $150 million (after tax) from the sale of MasterCard shares, partially offset by an accrual of $419 million (after tax) for the FDIC special assessment. Prior year results included proceeds from the sale of Visa shares in its initial public offering.

Merger-related items were a net loss of $392 million, compared with a net loss of $540 million in the prior year. Bear Stearns net merger-related costs were $178 million, compared with $540 million. The prior year included a net loss of $423 million, which represented JPMorgan Chase s 49.4% ownership in Bear Stearns losses from April 8 to May 30, 2008. Washington Mutual net merger-related costs were $214 million.

Selected income statement and balance sheet data	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2009**	2008	Change	**2009**	2008	Change
Treasury						
Securities gains[a]	**$ 374**	$ 656	(43)%	**$ 588**	$ 698	(16)%
Investment securities portfolio (average)[b]	**336,263**	100,481	235	**301,219**	91,821	228
Investment securities portfolio (ending)[b]	**326,414**	106,604	206	**326,414**	106,604	206
Mortgage loans (average)	**7,228**	7,004	3	**7,219**	6,867	5
Mortgage loans (ending)	**7,368**	7,150	3	**7,368**	7,150	3
Private equity						
Realized gains	**$ 25**	$ 540	(95)	**$ 40**	$ 1,653	(98)
Unrealized gains (losses)[c]	**16**	(326)	NM	**(393)**	(1,207)	67
Total direct investments	**41**	214	(81)	**(353)**	446	NM
Third-party fund investments	**(61)**	6	NM	**(129)**	(37)	(249)
Total private equity gains (losses)[d]	**$ (20)**	$ 220	NM	**$ (482)**	$ 409	NM

Private equity portfolio information[e]

Direct investments

(in millions)	**June 30, 2009**	December 31, 2008	Change
Publicly held securities			
Carrying value	**$ 431**	$ 483	(11)%

Cost		**778**	792	(2)
Quoted public value		**477**	543	(12)
Privately held direct securities				
Carrying value		**4,709**	5,564	(15)
Cost		**5,627**	6,296	(11)
Third-party fund investments[(f)]				
Carrying value		**1,420**	805	76
Cost		**2,055**	1,169	76
Total private equity portfolio	**Carrying value**	**$ 6,560**	$ 6,852	(4)
Total private equity portfolio	**Cost**	**$ 8,460**	$ 8,257	2

(a) Included a $668 million gain on the sale of MasterCard shares in the second quarter of 2008. All periods reflect repositioning of the Corporate investment securities portfolio, and exclude gains/losses on securities used to manage risk associated with MSRs.

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(b) For further discussion, see Securities on page 49 of this Form 10-Q.

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

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

(e) For more information on the Firm s policies regarding the valuation of the private equity portfolio, see Note 3 on pages 99 114 of this Form 10-Q.

(f) Unfunded commitments to third-party private equity funds were $1.5 billion and $1.4 billion at June 30, 2009, and December 31, 2008, respectively.

The carrying value of the private equity portfolio at June 30, 2009, was $6.6 billion, down from $6.9 billion at December 31, 2008. The portfolio represented 6.2% of the Firm s stockholders equity less goodwill at June 30, 2009, up from 5.8% at December 31, 2008.

BALANCE SHEET ANALYSIS

Selected balance sheet data (in millions)	**June 30, 2009**	December 31, 2008
Assets		
Cash and due from banks	**$ 25,133**	$ 26,895
Deposits with banks	**61,882**	138,139
Federal funds sold and securities purchased under resale agreements	**159,170**	203,115
Securities borrowed	**129,263**	124,000
Trading assets:		
Debt and equity instruments	**298,135**	347,357
Derivative receivables	**97,491**	162,626
Securities	**345,563**	205,943
Loans	**680,601**	744,898
Allowance for loan losses	**(29,072)**	(23,164)
Loans, net of allowance for loan losses	**651,529**	721,734
Accrued interest and accounts receivable	**61,302**	60,987
Goodwill	**48,288**	48,027
Other intangible assets	**19,682**	14,984
Other assets	**129,204**	121,245
Total assets	**$ 2,026,642**	$ 2,175,052
Liabilities		
Deposits	**$ 866,477**	$ 1,009,277
Federal funds purchased and securities loaned or sold under repurchase agreements	**300,931**	192,546
Commercial paper and other borrowed funds	**116,681**	170,245
Trading liabilities:		
Debt and equity instruments	**56,021**	45,274
Derivative payables	**67,197**	121,604
Accounts payable and other liabilities	**171,685**	187,978
Beneficial interests issued by consolidated VIEs	**20,945**	10,561
Long-term debt and trust preferred capital debt securities	**271,939**	270,683
Total liabilities	**1,871,876**	2,008,168
Stockholders equity	**154,766**	166,884
Total liabilities and stockholders equity	**$ 2,026,642**	$ 2,175,052

Consolidated Balance Sheets overview

The following is a discussion of the significant changes in the Consolidated Balance Sheets from December 31, 2008.

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

The Firm utilizes deposits with banks, federal funds sold and securities purchased under resale agreements, securities borrowed, and federal funds purchased and securities loaned or sold under repurchase agreements as part of its liquidity management activities to manage the Firm s cash positions and risk-based capital requirements and to support the Firm s trading and risk management activities. In particular, the Firm uses securities purchased under resale agreements and securities borrowed to provide funding or liquidity to clients by purchasing and borrowing clients securities for the short-term. Federal funds purchased and securities loaned or sold under repurchase agreements are used as short-term funding sources for the Firm and to make securities available to clients for their short-term purposes. The decrease in deposits with banks primarily reflected lower demand for interbank lending and lower deposits with the Federal Reserve Bank relative to the elevated levels at the end of 2008. The decrease in securities purchased under resale agreements was largely due to a lower volume of excess funds available for short-term investments. The increase in securities sold under

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repurchase agreements was partly attributable to favorable pricing and the financing of the increase in the AFS securities portfolio. For additional information on the Firm s Liquidity Risk Management, see pages 58-62 of this Form 10-Q.

Trading assets and liabilities debt and equity instruments

The Firm uses debt and equity trading instruments for both market-making and proprietary risk-taking activities. These instruments consist predominantly of fixed-income securities, including government and corporate debt; equity securities, including convertible securities; loans, including prime mortgage and other loans warehoused by RFS and IB for sale or securitization purposes and accounted for at fair value under SFAS 159; and physical commodities inventories. The decrease in trading assets - debt and equity instruments reflected continued balance sheet management during the period as well as the effect of the challenging capital markets environment. For additional information, refer to Note 3 and Note 5 on pages 99-114 and 116-124, respectively, of this Form 10-Q.

Trading assets and liabilities derivative receivables and payables

Derivative instruments enable end-users to transform or mitigate exposure to credit or market risks. The value of a derivative is derived from its reference to an underlying variable or combination of variables such as interest rate, credit, foreign exchange, equity or commodity prices or indices. JPMorgan Chase makes markets in derivatives for customers and also uses derivatives to hedge or manage risks of market exposures and to make investments. The majority of the Firm s derivatives are entered into for market-making purposes. The decrease in derivative receivables and payables was primarily related to tightening credit spreads, the increase in interest rates, and volatile FX rates reflected in credit, interest rate, and foreign exchange derivatives, respectively. For additional information, refer to derivative contracts, on pages 68-70, Note 3 and Note 5 on pages 99-114 and 116-124, respectively, of this Form 10-Q.

Securities

Almost all of the securities portfolio is classified as AFS and is used predominantly to manage the Firm s exposure to interest rate movements, as well as to make strategic longer-term investments. The Firm purchased a significant amount of residential mortgage-backed securities, a majority of which are guaranteed by the U.S. Federal Government, to position the Firm for the declining interest rate environment. The increase in securities was partially offset by sales of higher coupon instruments as part of this positioning as well as prepayments and maturities. For additional information related to securities, refer to the Corporate/Private Equity segment on pages 46-48, Note 3 and Note 11 on pages 99-114 and 129-134, respectively, of this Form 10-Q.

Loans and allowance for loan losses

The Firm provides loans to a variety of customers, from large corporate and institutional clients to individual consumers. Loans decreased largely as a result of declines across all the lines of business, reflecting lower customer demand in the wholesale businesses, the seasonal decline in credit card receivables, credit card securitization activities, and paydowns and charge-offs across all major loan portfolios.

Both the consumer and wholesale components of the allowance for loan losses increased, as weak economic conditions and housing price declines continued to drive an increase in estimated losses for most of the Firm s loan portfolios. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 62-80, and Notes 3, 4, 13 and 14 on pages 99-114, 114-116, 135-138 and 139, respectively, of this Form 10-Q.

Accrued interest and accounts receivable; accounts payable and other liabilities

The Firm s accrued interest and accounts receivable consist of accrued interest receivables from interest-earning assets; receivables from customers (primarily from activities related to IB s Prime Services business); receivables from brokers, dealers and clearing organizations; and receivables from failed securities sales. The Firm s accounts payable and other liabilities consist of accounts payable to customers (primarily from activities related to IB s Prime Services business), payables to brokers, dealers and clearing organizations; payables from failed securities purchases; accrued expense, including for interest-bearing liabilities; and all other liabilities, including obligations to return securities received as collateral. The decrease in accounts payable and other liabilities partly reflected lower customer payables in IB s Prime Services business and slight declines in accounts payable and payables related to unsettled trades.

Goodwill

Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed. The increase in goodwill was largely due to purchase accounting adjustments related to the Bear Stearns merger as well as an acquisition of a commodities business by IB. For additional information, see Note 17 on pages 153-156 of this Form 10-Q.

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Other intangible assets

The Firm s other intangible assets consist of MSRs, purchased credit card relationships, other credit card-related intangibles, core deposit intangibles, and other intangibles. MSRs increased due to markups in the fair value of the MSR asset due primarily to market interest rate and other changes impacting the Firm s estimate of future prepayments, as well as sales in RFS of originated loans for which servicing rights were retained. These increases were offset partially by servicing portfolio run-off. The decrease in the other intangible assets primarily reflects amortization expense associated with credit card-related intangibles, core deposit intangibles, and other intangibles. For additional information on MSRs and other intangible assets, see Note 17 on pages 153-156 of this Form 10-Q.

Deposits

The Firm s deposits represent a liability to customers, both retail and wholesale, related to non-brokerage funds held on their behalf. Deposits are classified by location (U.S. and non-U.S.), whether they are interest- or noninterest-bearing, and by type (i.e., demand, money market, savings, time or negotiable order of withdrawal accounts). Deposits help provide a stable and consistent source of funding for the Firm. Wholesale deposits declined in TSS from the elevated levels at December 31, 2008, reflecting the continued normalization of deposit levels following the strong inflows as a result of the heightened volatility and credit concerns affecting the markets during the latter part of 2008. For more information on deposits, refer to the RFS, TSS and AM segment discussions on pages 24-31, 39-42 and 42-46, respectively; the Liquidity Risk Management discussion on pages 58-62; and Note 18 on page 156 of this Form 10-Q. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 36-38 and 39-42, respectively, of this Form 10-Q.

Commercial paper and other borrowed funds

The Firm utilizes commercial paper and other borrowed funds as part of its liquidity management activities to meet short-term funding needs, and in connection with a TSS liquidity management product whereby excess client funds, are transferred into commercial paper overnight sweep accounts. The decrease in other borrowed funds was predominantly due to the absence of borrowings from the Federal Reserve under the Term Auction Facility program and lower advances from Federal Home Loan Banks. For additional information on the Firm s Liquidity Risk Management and other borrowed funds, see pages 58-62, and Note 19 on page 156 of this Form 10-Q.

Beneficial interests issued by consolidated VIEs

JPMorgan Chase utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner and to issue guaranteed capital debt securities. The Firm consolidates the VIEs if the Firm will absorb a majority of the expected losses of the VIEs, receive the majority of the expected residual returns of the VIEs, or both. Included in the caption beneficial interests issued by consolidated VIEs are the interest-bearing beneficial interest liabilities issued by the consolidated VIEs. During the second quarter of 2009, the Firm consolidated a multi-seller conduit and a credit card loan securitization trust (Washington Mutual Master Trust). As a result the beneficial interests issued by consolidated VIEs increased. For additional information on the Firm-sponsored VIEs and loan securitization trusts, see Off-Balance Sheet Arrangements and Contractual Cash Obligations on pages 51-53, and Note 15 and Note 16 on pages 139-147 and pages 148-153 respectively, of this Form 10-Q.

Long-term debt and trust preferred capital debt securities

The Firm utilizes long-term debt and trust preferred capital debt securities to provide cost-effective and diversified sources of funds and as critical components of the Firm s liquidity and capital management. Long-term debt increased slightly, predominantly due to new issuances. The Firm also issued 2.0 billion ($2.6 billion) and $5.5 billion of non-FDIC guaranteed debt in the European and U.S. markets, respectively. Issuing non-FDIC guaranteed debt was a prerequisite to be eligible to redeem the $25.0 billion of Series K preferred stock. For additional information on the Firm s long-term debt activities, see the Liquidity Risk Management discussion on pages 58-62 of this Form 10-Q.

Stockholders equity

The decrease in total stockholders equity was largely due to the redemption of the $25.0 billion Series K preferred stock issued to the U.S. Treasury pursuant to TARP and the declaration of cash dividends on preferred and common stock. The decrease was offset partially by the $5.8 billion of common equity raised to satisfy a supervisory condition requiring the Firm to demonstrate it could access the equity capital markets in order to be eligible to redeem the

Series K preferred stock; net issuances under the Firm s employee stock-based compensation plans; net income for the first six months of 2009; and net unrealized gains recorded within accumulated other comprehensive income related to AFS securities. For a further discussion, see the Capital Management section on pages 53-57, Note 20 on page 157 and Note 22 on page 159 of this Form 10-Q.

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OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

JPMorgan Chase has several types of off balance sheet arrangements, including arrangements with special-purpose entities (SPEs) and the issuance of lending-related financial instruments (e.g., commitments and guarantees). For further discussion of contractual cash obligations, see Off Balance Sheet Arrangements and Contractual Cash Obligations on page 68 of JPMorgan Chase s 2008 Annual Report.

Special-purpose entities

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

JPMorgan Chase uses SPEs as a source of liquidity for itself and its clients by securitizing financial assets, and by creating investment products for clients. The Firm is involved with SPEs through multi-seller conduits and investor intermediation activities, and as a result of its loan securitizations through qualifying special-purpose entities (QSPEs). For a detailed discussion of all SPEs with which the Firm is involved, and the related accounting, see Note 1 on page 122, Note 16 on pages 168-176 and Note 17 on pages 177-186 of JPMorgan Chase s 2008 Annual Report.

During the quarter ended June 30, 2009, the overall performance of the Firm s credit card securitization trusts declined primarily due to the increase in credit losses incurred on the underlying credit card receivables. As a result, the Firm took certain actions related to both the Chase Issuance Trust (the Trust) and the Washington Mutual Master Trust (the WMM Trust). These actions and their impact on the Firm s Consolidated Balance Sheets and results of operations are further discussed in Note 15 on pages 139-147 of this Form 10-Q.

The Firm does not currently expect to take any additional actions that would require it to consolidate any of the Firm s remaining nonconsolidated securitization QSPEs or SPEs through December 31, 2009. Upon the Firm s adoption of SFAS 166 and 167 effective January 1, 2010, the Firm will be required to evaluate all sponsored securitization QSPEs and other SPEs for consolidation. For additional information about the potential impact of SFAS 166 and 167, see Accounting and Reporting Developments on pages 90-91 of this Form 10-Q.

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

Certain mortgage loans that were sold to off-balance sheet SPEs in which the Firm continues to service the loans are modified. These modifications have been made in conjunction with the U.S. Treasury s Making Home Affordable Plan as well as to a lesser extent the American Securitization Forum s Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans . See Consumer Credit Portfolio on pages 72-73 for more details on the loan modifications.

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

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A., were downgraded below specific levels, primarily P-1 , A-1 and F1 for Moody s, Standard & Poor s and Fitch, respectively. The amount of these liquidity commitments was $44.0 billion and $61.0 billion at June 30, 2009, and December 31, 2008, respectively. Alternatively, if JPMorgan Chase Bank, N.A., were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitments; or, in certain circumstances, the Firm could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity. The Firm s commitments to SPEs are included in other unfunded commitments to extend credit and asset purchase agreements, as shown in the Off-balance sheet lending-related financial instruments and guarantees table on page 53 of this Form 10-Q.

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Special-purpose entities revenue

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

Revenue from VIEs and QSPEs (in millions)	Three months ended June 30, **2009**	2008	Six months ended June 30, **2009**	2008
VIEs[(a)]				
Multi-seller conduits	**$ 136**	$ 67	**$ 256**	$ 124
Investor intermediation	**20**	8	**40**	5
Total VIEs	**156**	75	**296**	129
QSPEs[(b)]	**587**	357	**1,210**	682
Total	**$ 743**	$ 432	**$ 1,506**	$ 811

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

(b) Excludes servicing revenue from loans sold to and securitized by third parties. The prior-period amount has been revised to conform to the current-period presentation.

Off balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments) and guarantees to meet customer financing needs. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and the counterparty subsequently fail to perform according to the terms of the contract. These commitments and guarantees historically expire without being drawn, and an even higher proportion expire without a default. As a result, the total contractual amount of these instruments is not, in the Firm s view, representative of its actual future credit exposure or funding requirements. Further, certain commitments, primarily related to consumer

financings, are cancelable, upon notice, at the option of the Firm. For further discussion of lending-related commitments and guarantees and the Firm s accounting for them, see Note 5 and Note 24 on pages 116-124 and 160-163, respectively, of this Form 10-Q, and Credit Risk Management on page 90 and Note 32 and Note 33 on pages 202-210 of JPMorgan Chase s 2008 Annual Report.

The following table presents the contractual amounts of off-balance sheet lending-related financial instruments and guarantees for the periods indicated. The amounts in the table below for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. The Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law. Asset purchase agreements are agreements to the Firm s administered multi-seller, asset-backed commercial paper conduits. It includes asset purchase agreements to other third-party entities of $95 million at June 30, 2009, and $96 million at December 31, 2008. It excludes $9.8 billion at June 30, 2009, related to the consolidation of a multi-seller conduit in accordance with FIN 46R, as the underlying assets are reported in the Firm s consolidated balance sheet. The maturity is based upon the weighted-average life of the underlying assets in the SPE, which are based upon the remainder of each conduit transaction s committed liquidity plus either the expected weighted average life of the assets should the committed liquidity expire without renewal, or the expected time to sell the underlying assets in the securitization market.

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	June 30, 2009					Dec. 31, 2008
By remaining maturity (in millions)	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total	Total
Lending-related						
Consumer:						
Credit card	**$607,949**	**$**	**$**	**$**	**$ 607,949**	$ 623,702
Home equity	**854**	**3,501**	**11,943**	**54,344**	**70,642**	95,743
Other	**19,001**	**475**	**157**	**1,058**	**20,691**	22,062
Total consumer	**$627,804**	**$ 3,976**	**$12,100**	**$55,402**	**$ 699,282**	$ 741,507
Wholesale:						
Other unfunded commitments to extend credit[(a)(b)]	**62,012**	**82,704**	**34,964**	**5,320**	**185,000**	189,563
Asset purchase agreements	**9,962**	**16,607**	**3,155**	**286**	**30,010**	53,729
Standby letters of credit and other financial guarantees[(a)(c)(d)]	**25,103**	**41,398**	**20,285**	**2,667**	**89,453**	95,352
Unused advised lines of credit	**28,495**	**5,828**	**168**	**646**	**35,137**	36,300
Other letters of credit[(a)(c)]	**3,496**	**575**	**290**	**30**	**4,391**	4,927
Total wholesale	**129,068**	**147,112**	**58,862**	**8,949**	**343,991**	379,871
Total lending-related	**$756,872**	**$151,088**	**$70,962**	**$64,351**	**$1,043,273**	$1,121,378
Other guarantees						
Securities lending guarantees[(e)]	**$153,940**	**$**	**$**	**$**	**$ 153,940**	$ 169,281
Residual value guarantees		**670**			**670**	670
Derivatives qualifying as guarantees[(f)]	**9,896**	**11,067**	**33,117**	**31,635**	**85,715**	83,835

(a) Represents the contractual amount net of risk participations totaling $27.1 billion and $28.3 billion at June 30, 2009,

and December 31, 2008, respectively. In regulatory filings with the Federal Reserve Board, these commitments are shown gross of risk participations.

(b) Excludes unfunded commitments to third-party private equity funds of $1.5 billion and $1.4 billion at June 30, 2009, and December 31, 2008, respectively. Also excludes unfunded commitments for other equity investments of $921 million and $1.0 billion at June 30, 2009, and December 31, 2008, respectively.

(c) JPMorgan Chase held collateral relating to $29.2 billion and $31.0 billion of standby letters of credit and $1.3 billion and $1.0 billion of other letters of

credit at June 30, 2009, and December 31, 2008, respectively.

(d) Includes unissued standby letters-of-credit commitments of $37.5 billion and $39.5 billion at June 30, 2009, and December 31, 2008, respectively.

(e) Collateral held by the Firm in support of securities lending indemnification agreements was $157.0 billion and $170.1 billion at June 30, 2009, and December 31, 2008, respectively. Securities lending collateral is comprised primarily of cash, securities issued by governments that are members of the Organisation for Economic Co-operation and Development

(OECD) and U.S. government agencies.

(f) Represents notional amounts of derivatives qualifying as guarantees. For further discussion of guarantees, see Note 32 and Note 33 on pages 202 210 of JPMorgan Chase s 2008 Annual Report, and Note 24 on pages 160-163 of this Form 10-Q.

CAPITAL MANAGEMENT

The following discussion of JPMorgan Chase s capital management highlights developments since December 31, 2008, and should be read in conjunction with Capital Management on pages 70 73 of JPMorgan Chase s 2008 Annual Report.

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

Line of business equity

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

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In accordance with SFAS 142, the lines of business perform the required goodwill impairment testing. For a further discussion of goodwill and impairment testing, see Critical Accounting Estimates Used by the Firm and Note 18 on pages 110 111 and 186 187, respectively, of JPMorgan Chase s 2008 Annual Report, and Note 17 on pages 153 156 of this Form 10-Q.

Line of business equity

(in billions)	**June 30, 2009**	December 31, 2008
Investment Bank	**$ 33.0**	$ 33.0
Retail Financial Services	**25.0**	25.0
Card Services	**15.0**	15.0
Commercial Banking	**8.0**	8.0
Treasury & Securities Services	**5.0**	4.5
Asset Management	**7.0**	7.0
Corporate/Private Equity	**53.6**	42.4
Total common stockholders equity	**$ 146.6**	$ 134.9

Line of business equity	Average for the period		
(in billions)	**2Q09**	4Q08	2Q08
Investment Bank	**$ 33.0**	$ 33.0	$ 23.3
Retail Financial Services	**25.0**	25.0	17.0
Card Services	**15.0**	15.0	14.1
Commercial Banking	**8.0**	8.0	7.0
Treasury & Securities Services	**5.0**	4.5	3.5
Asset Management	**7.0**	7.0	5.1
Corporate/Private Equity	**47.9**	46.3	56.4
Total common stockholders equity	**$140.9**	$138.8	$126.4

Economic risk capital

JPMorgan Chase assesses its capital adequacy relative to the risks underlying the Firm s business activities, utilizing internal risk-assessment methodologies. The Firm assigns economic capital primarily based on four risk factors: credit, market, operational and private equity risk. In the first half of 2009, the growth in economic risk capital was driven by higher credit risk capital, which increased predominantly due to continued deterioration in the credit environment, partially offset by lower derivative exposure.

Economic risk capital	Quarterly Averages		
(in billions)	**2Q09**	4Q08	2Q08
Credit risk	**$ 51.9**	$ 46.3	$ 34.8
Market risk	**15.7**	14.0	8.5
Operational risk	**8.4**	7.5	5.8
Private equity risk	**4.5**	5.6	5.0
Economic risk capital	**80.5**	73.4	54.1

Goodwill	**48.3**	46.8	45.8
Other[(a)]	**12.1**	18.6	26.5
Total common stockholders equity	**$ 140.9**	$ 138.8	$ 126.4

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

Regulatory capital

The Federal Reserve establishes capital requirements, including well-capitalized standards for the consolidated financial holding company. The Office of the Comptroller of the Currency (OCC) establishes similar capital requirements and standards for the Firm s national banks, including JPMorgan Chase Bank, N.A., and Chase Bank USA, N.A.

The well capitalized and minimum capital and leverage ratios applicable to a bank holding company under U.S. banking regulatory agency definitions are listed in the table below. In connection with the U.S Government s recent Supervisory Capital Assessment Program, U.S. banking regulators have developed a new measure of capital called Tier 1 common, which is defined as Tier 1 capital less elements of capital not in the form of common equity, including qualifying perpetual preferred stock, qualifying minority interest in subsidiaries and qualifying trust preferred capital debt securities.

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The following table presents the capital ratios for JPMorgan Chase and its significant banking subsidiaries at June 30, 2009, and December 31, 2008. The Firm and its significant banking subsidiaries exceeded all well-capitalized regulatory thresholds for all periods presented.

(in millions, except ratios)	Tier 1 common capital	Tier 1 capital	Total capital	Risk-weighted assets[f]	Adjusted average assets[g]	Tier 1 common ratio	Tier 1 capital ratio	Total capital ratio	Tier 1 leverage ratio
June 30, 2009[a]									
JPMorgan Chase & Co.	**$ 96,850**	**$122,174**[c][d][e]	**$167,767**	**$1,260,237**	**$1,969,339**	**7.7%**	**9.7%**	**13.3%**	**6.2%**
JPMorgan Chase Bank, N.A.	**100,643**	**101,598**	**142,825**	**1,091,658**	**1,645,827**	**9.2**	**9.3**	**13.1**	**6.2**
Chase Bank USA, N.A.	**11,107**	**11,107**	**13,895**	**117,250**	**80,020**	**9.5**	**9.5**	**11.9**	**13.9**
December 31, 2008[a]									
JPMorgan Chase & Co.	$ 86,908	$136,104	$184,720	$1,244,659	$1,966,895	7.0%	10.9%	14.8%	6.9%
JPMorgan Chase Bank, N.A.	99,571	100,594	143,854	1,153,039	1,705,750	8.6	8.7	12.5	5.9
Chase Bank USA, N.A.	11,190	11,190	12,901	101,472	87,286	11.0	11.0	12.7	12.8
Well-capitalized ratios[b]						NA	6.0%	10.0%	5.0%[h]
Minimum capital ratios[b]						NA	4.0	8.0	3.0[i]

(a) Asset and capital amounts for JPMorgan Chase s banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.

(b) As defined by the regulations issued by the Federal Reserve, OCC and FDIC.

(c) *The Federal Reserve granted the Firm, for a period of 18 months following the Bear Stearns merger, relief up to a certain specified amount and subject to certain conditions from the Federal Reserve s risk-based capital and leverage requirements with respect to Bear Stearns risk-weighted assets and other exposures acquired. The OCC granted JPMorgan Chase Bank, N.A. similar relief from its risk-based capital and leverage requirements. The relief ends September 30, 2009. Commencing in the second quarter of 2009, the Firm no longer adjusts its risk-based capital ratios to take into account the relief in the calculation of its risk-based capital ratios as*

of June 30, 2009.

(d) *On May 12, 2009, the Firm increased the required enhancement level underlying each tranche of outstanding notes issued by the Chase Issuance Trust (the Trust). On June 1, 2009, the Firm began designating as discount receivables a percentage of new card receivables for inclusion in the Trust, which is expected to increase the yield in the Trust. The impact of these actions added $40 billion of risk-weighted assets for regulatory purposes, which decreased the Tier 1 capital ratio by approximately 40 basis points in the second quarter of 2009; this impact is included in the table above. Therefore, the consolidation of the Trust upon the*

implementation of SFAS 167 on January 1, 2010, will not have an additional impact on risk-weighted assets, but it will have an incremental impact on Tier 1 capital due to the effect of consolidating the assets and liabilities for GAAP at their assumed carrying values, including the establishment of loan loss reserves, at the adoption date. This incremental impact to the Tier 1 capital ratio expected as a result of the consolidation of the Trust in accordance with SFAS 166 and SFAS 167 is included in the consolidation analysis discussed in footnote (e) below. For further discussion of the Trust, see Note 15 on pages 139 147 of this Form 10-Q.

(e) *The FASB issued SFAS 166*

and SFAS 167, which amend both SFAS 140 and FIN 46R and impacts the accounting for transactions that involve QSPEs and VIEs. Based on the provisions of SFAS 166 and SFAS 167 and the Firm s interpretation of the new requirements, the Firm estimates that the impact of consolidation of the Firm s QSPEs and VIEs upon implementation in the first quarter of 2010, in accordance with those amendments, could be up to $130.0 billion of assets and liabilities and an increase to risk-weighted assets of up to $30 billion; the resulting decrease in the Tier 1 capital ratio could be approximately 40 basis points. The ultimate impact could differ significantly due to ongoing interpretations of the final rules

and market conditions.

(f) *Includes off balance sheet risk-weighted assets at June 30, 2009, of $370.0 billion, $315.1 billion and $49.3 billion, and at December 31, 2008, of $357.5 billion, $332.2 billion and $18.6 billion, for JPMorgan Chase, JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., respectively.*

(g) *Adjusted average assets, for purposes of calculating the leverage ratio, include total average assets adjusted for unrealized gains/losses on securities, less deductions for disallowed goodwill and other intangible assets, investments in certain subsidiaries, and the total adjusted carrying value of nonfinancial*

equity investments that are subject to deductions from Tier 1 capital.

(h) *Represents requirements for banking subsidiaries pursuant to regulations issued under the FDIC Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.*

(i) *The minimum Tier 1 leverage ratio for bank holding companies and banks is 3% or 4%, depending on factors specified in regulations issued by the Federal Reserve and OCC.*

Note: *Rating agencies allow measures of capital to be adjusted upward for deferred tax liabilities, which have resulted from both nontaxable business combinations and from tax-deductible*

goodwill. The Firm had deferred tax liabilities resulting from nontaxable business combinations totaling $920 million at June 30, 2009, and $1.1 billion at December 31, 2008. Additionally, the Firm had deferred tax liabilities resulting from tax-deductible goodwill of $1.6 billion at both June 30, 2009, and December 31, 2008.

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The following table presents the components of the Firm s Tier 1 common capital, Tier 1 capital and Total capital.

(in millions)	**June 30, 2009**	December 31, 2008
Tier 1 capital		
Tier 1 common capital:		
Common stockholders equity	**$146,614**	$134,945
Effect of certain items in accumulated other comprehensive income (loss) excluded from Tier 1 common equity	**3,332**	5,084
Adjusted common stockholders equity	**149,946**	140,029
Less: Goodwill[(a)]	**46,673**	46,417
SFAS 157 DVA	**1,838**	2,358
Investments in certain subsidiaries	**693**	679
Other intangible assets	**3,892**	3,667
Tier 1 common capital	**96,850**	86,908
Preferred stock	**8,152**	31,939
Qualifying hybrid securities and minority interest[(b)]	**17,172**	17,257
Total Tier 1 capital	**122,174**	136,104
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**29,759**	31,659
Qualifying allowance for credit losses	**16,035**	17,187
Adjustment for investments in certain subsidiaries and other	**(201)**	(230)
Tier 2 capital	**45,593**	48,616
Total qualifying capital	**$167,767**	$184,720

(a) The goodwill balance is net of any associated deferred tax liability. The prior period has been revised to conform with the current presentation.

(b) Primarily includes trust preferred capital debt securities of

certain business trusts.

The Firm s Tier 1 common capital was $96.9 billion at June 30, 2009, compared with $86.9 billion at December 31, 2008, an increase of $10.0 billion. The increase was due to a $5.8 billion issuance of common stock, net income of $4.9 billion and net issuances of common stock under the Firm s employee stock-based compensation plans of $1.3 billion, partially offset by $1.4 billion of dividends and the $1.1 billion one-time noncash adjustment to common stockholders equity related to the redemption of the $25.0 billion of Series K preferred stock issued to the U.S. Treasury under the Capital Purchase Program. On June 5, 2009, the Firm issued $5.8 billion, or 163 million shares of common stock to satisfy a regulatory supervisory condition requiring the Firm to demonstrate it could access the equity capital markets in order to be eligible to redeem the Series K preferred stock that was issued to the U.S. Treasury. The proceeds from this issuance were used for general corporate purposes. The Firm s Tier 1 capital was $122.2 billion at June 30, 2009, compared with $136.1 billion at December 31, 2008, a decrease of $13.9 billion. The decrease in Tier 1 capital reflects the aforementioned redemption of the Series K preferred stock, partially offset by the increase in Tier 1 common capital. Additional information regarding the Firm s capital ratios and the federal regulatory capital standards to which it is subject is presented in Note 30 on pages 200-201 of JPMorgan Chase s 2008 Annual Report.

Capital Purchase Program

Pursuant to the Capital Purchase Program, on October 28, 2008, the Firm issued to the U.S. Treasury, for total proceeds of $25.0 billion, (i) 2.5 million shares of Series K preferred stock, and (ii) a warrant to purchase up to 88,401,697 shares of the Firm s common stock, at the exercise price of $42.42 per share, subject to certain antidilution and other adjustments. On June 17, 2009, the Firm redeemed all of the outstanding shares of Series K preferred stock, and repaid the full $25.0 billion principal amount together with accrued dividends. Following discussions with the U.S. Treasury regarding the warrant, on July 7, 2009, JPMorgan Chase notified the U.S. Treasury that it had revoked its warrant repurchase notice. JPMorgan Chase understands, based on the U.S. Treasury s public statements, that the U.S. Treasury intends to pursue a public auction of the warrant. The U.S. Treasury has advised JPMorgan Chase that the Firm will be permitted to participate in any such auction.

Basel II

The minimum risk-based capital requirements adopted by the U.S. federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. In 2004, the Basel Committee published a revision to the Accord (Basel II), and in December 2007, U.S. banking regulators published a final Basel II rule. The final U.S. rule will require JPMorgan Chase to implement Basel II at the holding company level, as well as at certain key U.S. bank subsidiaries. The U.S. implementation timetable consists of a qualification period, starting any time between April 1, 2008, and April 1, 2010, followed by a minimum transition period of three years. During the transition period, Basel II risk-based capital requirements cannot fall below certain floors based on current (Basel I) regulations. JPMorgan Chase expects to be in compliance with all relevant Basel II rules within the established timelines. In addition, the Firm has adopted, and will continue to adopt, based on various established timelines, Basel II rules in certain non-U.S. jurisdictions, as required. Equity requirements calculated in accordance with Basel II are expected to be more dynamic over time than equity requirements

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calculated under Basel I, because the drivers of such equity requirements are intended to be a more dynamic reflection of the Firm s risk profile and balance sheet composition. For additional information, see Basel II, on page 72 of JPMorgan Chase s 2008 Annual Report.

Broker-dealer regulatory capital

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

JPMorgan Securities and J.P. Morgan Clearing Corp. have elected to compute their minimum net capital requirements in accordance with the Alternative Net Capital Requirements of the Net Capital Rule. At June 30, 2009, JPMorgan Securities net capital, as defined by the Net Capital Rule, of $7.3 billion exceeded the minimum requirement by $6.7 billion. In addition to its net capital requirements, JPMorgan Securities is required to hold tentative net capital in excess of $1.0 billion and is also required to notify the Securities and Exchange Commission (SEC) in the event that tentative net capital is less than $5.0 billion as determined, in accordance with the market and credit risk standards of Appendix E of the Net Capital Rule. As of June 30, 2009, JPMorgan Securities had tentative net capital in excess of the minimum and notification requirements. At June 30, 2009, J.P. Morgan Clearing Corp. s net capital, as defined by the Net Capital Rule, of $4.7 billion exceeded the minimum requirement by $3.2 billion.

Dividends

On February 23, 2009, the Board of Directors reduced the Firm s quarterly common stock dividend from $0.38 to $0.05 per share, effective with the dividend paid on April 30, 2009, to shareholders of record on April 6, 2009. The action will enable the Firm to retain approximately $5 billion in common equity per year and was taken in order to help ensure that the Firm s balance sheet retained the capital strength necessary should economic conditions further deteriorate. The Firm intends to return to a more normalized dividend payout ratio as soon as feasible after the environment has stabilized. JPMorgan Chase declared quarterly cash dividends on its common stock in the amount of $0.38 per share for each quarter of 2008.

During the period that shares of the Series K preferred stock were outstanding, no dividends could be declared or paid on stock ranking junior or equally with the Series K preferred stock, unless all accrued and unpaid dividends for all past dividend periods on the Series K preferred stock were fully paid. Also, the U.S. Treasury s consent was required until October 28, 2011, for any increase in dividends on the Firm s common stock above $0.38 per share. As a result of the redemption of the Series K preferred stock, JPMorgan Chase is no longer subject to these restrictions. The Firm s ability to pay dividends is subject to other regulatory restrictions. For information regarding these restrictions on the payment of dividends, see Note 29 on page 199 of JPMorgan Chase s 2008 Annual Report.

Stock repurchases

The Firm has a stock repurchase program pursuant to which it is authorized to repurchase shares of its stock. During the period that shares of the Series K preferred stock were outstanding, the Firm could not repurchase or redeem any common stock or other equity securities of the Firm, or any trust preferred capital debt securities issued by the Firm or any of its affiliates, without the prior consent of the U.S. Treasury (other than (i) repurchases of the Series K preferred stock and (ii) repurchases of junior preferred shares or common stock in connection with any employee benefit plan in the ordinary course of business consistent with past practice) until October 28, 2011. As a result of the redemption of the Series K preferred stock, JPMorgan Chase is no longer subject to this restriction. During the three and six months ended June 30, 2009 and 2008, the Firm did not repurchase any shares other than the redemption of the Series K preferred stock. As of June 30, 2009, $6.2 billion of authorized repurchase capacity remained under the current $10.0 billion stock repurchase program. For additional information regarding repurchases of the Firm s equity securities, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, on pages 179-180 of this Form 10-Q.

The authorization to repurchase stock will be utilized at management s discretion, and the timing of purchases and the exact number of shares purchased will depend on any limitations on the Firm s ability to repurchase its stock, market

conditions and alternative investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases, privately negotiated transactions or utilizing Rule 10b5-1 programs; and may be suspended at any time.

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RISK MANAGEMENT

Risk is an inherent part of JPMorgan Chase s business activities. The Firm s risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. In addition, this framework recognizes the diversity among the Firm s core businesses, which helps reduce the impact of volatility in any particular area on the Firm s operating results as a whole. There are eight major risk types identified in the business activities of the Firm: liquidity, credit, market, interest rate, operational, legal and reputation, fiduciary, and private equity risk.

For further discussion of these risks, see pages 74 106 of JPMorgan Chase s 2008 Annual Report and the information below.

LIQUIDITY RISK MANAGEMENT

The following discussion of JPMorgan Chase s liquidity risk management framework highlights developments since December 31, 2008, and should be read in conjunction with pages 76 80 of JPMorgan Chase s 2008 Annual Report.

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

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

Recent events

On February 23, 2009, JPMorgan Chase announced a reduction in the Firm s quarterly common stock dividend from $0.38 to $0.05 per share, effective with the dividend paid on April 30, 2009, to shareholders of record on April 6, 2009. This action will enable the Firm to retain approximately $5 billion in common equity per year. For additional information, see Capital Management Dividends, on page 57 of this Form 10-Q.

On March 30, 2009, the Federal Reserve announced that effective April 27, 2009, it will reduce the amount it will lend against certain loans pledged as collateral to the Federal Reserve Banks for discount window or payment system risk purposes, to reflect recent trends in the values of those types of loans. JPMorgan Chase maintains sufficient levels of eligible collateral to pledge to the Federal Reserve to replace the announced reduction in collateral value and, accordingly, this change by the Federal Reserve did not have a material impact on the Firm s aggregate funding capacity.

The Firm believes its liquidity position is strong, based on its liquidity metrics as of June 30, 2009. The Firm believes that its unsecured and secured funding capacity is sufficient to meet its on- and off-balance sheet obligations. JPMorgan Chase s long-dated funding, including core liabilities, exceeded illiquid assets. In addition, during the first half of 2009, the Firm raised funds at the parent holding company in excess of its minimum threshold to cover its obligations and those of its unfunded subsidiaries maturing over the next 12 months. The redemption of the $25.0 billion of Series K preferred stock did not have a significant impact on the liquidity of the Firm, as the Firm had previously raised excess liquidity in the capital markets in anticipation of such redemption.

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Funding

Sources of funds

The deposits held by the RFS, CB, TSS and AM lines of business are generally a consistent source of funding for JPMorgan Chase Bank, N.A. As of June 30, 2009, total deposits for the Firm were $866.5 billion. During the latter half of 2008, the Firm s deposits increased due in part to heightened volatility and credit concerns in the markets. As some of those credit concerns mitigated in the first quarter of 2009, the Firm s deposit levels, predominantly its wholesale deposit levels, continued to normalize, resulting in a decrease in deposits of $142.8 billion, from $1.0 trillion at December 31, 2008.

A significant portion of the Firm s deposits are retail deposits, which are less sensitive to interest rate changes or market volatility and therefore are considered more stable than market-based (i.e., wholesale) liability balances. In addition, through the normal course of business, the Firm benefits from substantial liability balances originated by RFS, CB, TSS and AM. These franchise-generated liability balances include deposits as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased, and securities loaned or sold under repurchase agreements), a significant portion of which are considered to be stable and consistent sources of funding due to the nature of the businesses from which they are generated. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm s business segments and the Balance Sheet Analysis on pages 20-46 and 48-50 respectively, of this Form 10-Q.

Additional sources of funding include a variety of unsecured short- and long-term instruments, including federal funds purchased, certificates of deposit, time deposits, bank notes, commercial paper, long-term debt, trust preferred capital debt securities, preferred stock and common stock. Secured sources of funding include securities loaned or sold under repurchase agreements, asset securitizations, borrowings from the Federal Reserve (including discount window borrowings, the Primary Dealer Credit Facility and the Term Auction Facility) and borrowings from Federal Home Loan Banks. However, the Firm does not view borrowings from the Federal Reserve as a primary means of funding. The Firm is evaluating how its January 1, 2010, implementation of SFAS 166 and SFAS 167, which the Firm estimates will require it to consolidate up to $130.0 billion of assets of Firm-sponsored QSPEs and VIEs, may affect its use of asset securitizations as a funding source in the future.

Issuance

During the second quarter and first half of 2009, the Firm issued approximately $5.9 billion and $19.7 billion, respectively, of FDIC-guaranteed long-term debt for general corporate purposes under the FDIC s Temporary Liquidity Guarantee Program (the TLG Program), which became effective in October 2008. During the second, quarter of 2009, the Firm also issued 2.0 billion ($2.6 billion) and $5.5 billion of non-FDIC guaranteed debt in the European and U.S. markets, respectively. Issuing non-FDIC guaranteed debt was a prerequisite to be eligible to redeem the $25.0 billion of Series K preferred stock. In addition, during the second quarter and first half of 2009, JPMorgan Chase issued $6.3 billion and $10.3 billion, respectively, of IB structured notes that are included within long-term debt. During the second quarter and first half of 2009, $16.2 billion and $34.9 billion, respectively, of long-term debt matured or was redeemed including $8.2 billion and $17.0 billion, respectively, of IB structured notes. Furthermore, during the second quarter and first half of 2009, the Firm securitized $12.5 billion and $16.4 billion, respectively, of credit card loans. For further discussion of loan securitizations, see Note 15 on pages 139-147 of this Form 10-Q.

Replacement capital covenants

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

Commission under cover of Forms 8-K.

Cash flows

Cash and due from banks was $25.1 billion and $32.3 billion at June 30, 2009 and 2008, respectively. These balances decreased by $1.8 billion and $7.9 billion from December 31, 2008 and 2007, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase s cash flows during the first six months of 2009 and 2008.

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Cash flows from operating activities

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

For the six months ended June 30, 2009, net cash provided by operating activities was $103.3 billion, largely due to a decline in trading assets reflecting continued balance sheet management during the period as well as the effect of the challenging capital markets environment. In addition, net cash generated from operating activities was higher than net income; this was partially the result of noncash adjustments for operating items such as the provision for credit losses, stock-based compensation, and depreciation and amortization. Proceeds from sales, securitizations and paydowns of loans originated or purchased with an initial intent to sell were higher than cash used to acquire such loans, but the cash flows from these loan activities remained at a reduced level as a result of the continued volatility and stress in the markets.

For the six months ended June 30, 2008, net cash provided by operating activities was $24.0 billion. Net cash generated from operating activities was higher than net income, largely as a result of adjustments for operating items such as the provision for credit losses, depreciation and amortization, stock-based compensation, certain other expenses and gains or losses from sales of investment securities. In addition, proceeds from sales of loans originated or purchased with an initial intent to sell were slightly higher than cash used to acquire such loans, but the cash flows from these loan sales activities were at a much lower level in the first six months of 2008, as a result of the volatility and credit concerns in the markets since the second half of 2007.

Cash flows from investing activities

The Firm s investing activities predominantly include originating loans to be held for investment, other receivables, the AFS securities portfolio and other short-term investment vehicles. For the six months ended June 30, 2009, net cash of $34.4 billion was provided by investing activities. This derived primarily from a decrease in deposits with banks, as interbank lending and deposits with the Federal Reserve Bank declined relative to the elevated level at the end of 2008; a net decrease in the loan portfolio, reflecting declines across all businesses, including lower customer demand in the wholesale businesses, the seasonal decline in credit card receivables, credit card securitization activities, and paydowns; and a decrease in securities purchased under resale agreements, reflecting a lower volume of excess cash available for short-term investments. Largely offsetting these cash proceeds were net purchases of AFS securities to manage the Firm s exposure to a declining interest rate environment.

For the six months ended June 30, 2008, net cash of $54.1 billion was used in investing activities, primarily for net purchases of AFS securities to manage the Firm s exposure to interest rates; net additions to the wholesale loan portfolio, primarily from increased lending activities across all the wholesale businesses; additions to the consumer prime mortgage portfolio as a result of the decision to retain, rather than sell, new originations of nonconforming prime mortgage loans; and an increase in securities purchased under resale agreements; reflecting growth in demand from clients for liquidity. Partially offsetting these uses of cash were proceeds from sales and maturities of AFS securities; credit card securitization activities; the seasonal decline in consumer credit card receivables; and cash received from the sale of an investment net of cash used for acquisitions. Additionally, in June 2008, in connection with the merger with Bear Stearns, the Firm sold assets acquired from Bear Stearns to the Federal Reserve Bank of New York and received cash proceeds of $28.85 billion.

Cash flows from financing activities

The Firm s financing activities primarily reflect cash flows related to customer deposits, issuance of long-term debt and trust preferred capital debt securities, and issuance of preferred and common stock. In the first six months of 2009, net cash used in financing activities was $139.4 billion; this reflected a decline in wholesale deposits in TSS, driven by the continued normalization of wholesale deposit levels due to mitigation of credit concerns, compared with the heightened market volatility and credit concerns in the latter part of 2008; a decline in other borrowings due to the absence of borrowings from the Federal Reserve under the Term Auction Facility program and net repayments of

advances from Federal Home Loan Banks; the June 17, 2009, repayment in full of the $25.0 billion principal amount of Series K preferred stock; and the payment of cash dividends. Cash proceeds resulted from an increase in securities loaned or sold under repurchase agreements, partly attributable to favorable pricing and to financing the Firm s increased AFS securities portfolio; the issuance of $5.8 billion of common stock; and a slight net increase in long-term debt, as issuances of FDIC-guaranteed debt as well as non-FDIC guaranteed debt in both the European and U.S. markets were offset by redemptions. There were no open-market stock repurchases during the first half of 2009.

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In the first six months of 2008, net cash provided by financing activities was $22.0 billion, due to increases in federal funds purchased and securities loaned or sold under repurchase agreements in connection with higher short-term requirements to fulfill clients demand for liquidity and to finance the Firm s AFS securities inventory levels; net new issuances of long-term debt and trust preferred capital debt securities; and the issuance of noncumulative, perpetual preferred stock. Partially offsetting these cash proceeds was a decline in commercial paper and other borrowed funds, due to lower short-term requirements to fund trading positions offset partially by growth in the volume of liability balances in sweep accounts; a decrease in U.S. interest-bearing deposits in Corporate/Private Equity, offset partially by an increase in non-U.S. interest-bearing deposits in TSS from growth in business volume; and the payment of cash dividends. There were no open-market stock repurchases during the first six months of 2008.

Credit ratings

The cost and availability of financing are influenced by credit ratings. Reductions in these ratings could have an adverse effect on the Firm s access to liquidity sources, increase the cost of funds, trigger additional collateral or funding requirements, and decrease the number of investors and counterparties willing to lend to the Firm. Additionally, the Firm s funding requirements for VIEs and other third-party commitments may be adversely affected. For additional information on the impact of a credit-rating downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on pages 51-52 and Ratings profile of derivative receivables marked to market (MTM) on page 69 and Note 5 on pages 116-124 of this Form 10-Q.

Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources, and disciplined liquidity monitoring procedures.

The credit ratings of the parent holding company and each of the Firm s significant banking subsidiaries as of June 30, 2009, were as follows.

	Short-term debt			Senior long-term debt		
	Moody s	S&P	Fitch	Moody s	S&P	Fitch
JPMorgan Chase & Co.	P-1	A-1	F1+	Aa3	A+	AA-
JPMorgan Chase Bank, N.A.	P-1	A-1+	F1+	Aa1	AA-	AA-
Chase Bank USA, N.A.	P-1	A-1+	F1+	Aa1	AA-	AA-

Ratings actions affecting the Firm

On March 4, 2009, Moody s revised the outlook on the Firm to negative from stable. This action was the result of Moody s view that the Firm s capital generation would be adversely affected by higher credit costs due to the global recession. The rating action by Moody s in the first quarter of 2009 did not have a material impact on the cost or availability of the Firm s funding.

Ratings from S&P and Fitch on JPMorgan Chase and its principal bank subsidiaries remained unchanged at June 30, 2009, from December 31, 2008. At June 30, 2009, S&P s current outlook remained negative, while Fitch s outlook remained stable.

If the Firm s senior long-term debt ratings were downgraded by one additional notch, the Firm believes the incremental cost of funds or loss of funding would be manageable, within the context of current market conditions and the Firm s liquidity resources. JPMorgan Chase s unsecured debt other than, in certain cases, IB structured notes does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, nor contain collateral provisions for the creation of an additional financial obligation, based on unfavorable changes in the Firm s credit ratings, financial ratios, earnings, cash flows or stock price. To the extent that any IB structured notes do contain such provisions, the Firm believes that, in the event of an acceleration of payments or maturities or provision of collateral, the securities used by the Firm to manage the risk of such structured notes, together with other liquidity resources, would generate funds sufficient to satisfy the Firm s obligations.

On February 24, 2009, S&P lowered the ratings on the trust preferred debt capital securities and other hybrid securities of 45 U.S. financial institutions, including those of JPMorgan Chase & Co. The Firm s ratings on trust

preferred capital debt and noncumulative perpetual preferred securities were lowered from A- to BBB+. This action was the result of S&P s general view that there is an increased likelihood of issuers suspending interest and dividend payments in the current environment. This action by S&P did not have a material impact on the cost or availability of the Firm s funding.

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Ratings actions affecting Firm-sponsored securitization trusts

On April 2, 2009, S&P placed $2.8 billion of certain subordinated and mezzanine credit card asset-backed securities of the Chase Issuance Trust and the Chase Credit Card Master Trust on negative credit watch. The action was the result of S&P s view that the ratings on certain subordinated securities would come under stress as trust losses continue to accelerate in the current economic environment. On April 20, 2009, Moody s placed $6.4 billion of subordinated credit card asset-backed securities of the Chase Issuance Trust and the Chase Credit Card Master Trust on review for possible downgrade. The action was the result of Moody s view that several of the trusts collateral performance measures had deteriorated and would continue to deteriorate due to a worsening economic environment. On May 11, 2009, Fitch placed certain credit card asset-backed securities of certain issuers, including issuer trusts sponsored by the Firm, on negative rating outlook and negative credit watch. The mezzanine securities for the Chase Credit Card Master Trust and the subordinated securities for the Chase Issuance Trust were placed on negative rating outlook. The subordinated securities for the Chase Credit Card Master Trust were placed on negative credit watch. The action was the result of increasing levels of delinquency and losses and Fitch s view that such increases will likely continue through 2009.

On May 12, 2009, the Firm took certain actions to increase the credit enhancement underlying certain credit card asset-backed securities of the Chase Issuance Trust. As a result, Moody s affirmed the ratings of, and removed from review for possible downgrade status, $6.3 billion of subordinated credit card asset-backed securities of the Chase Issuance Trust. Additionally, on June 18, 2009, S&P affirmed the ratings of, and removed from negative credit watch status, $2.6 billion of subordinated credit card asset-backed securities of the Chase Issuance Trust.

On July 10, 2009, Moody s downgraded $116 million of subordinated credit card asset-backed securities of the Chase Credit Card Master Trust that Moody s had, on April 20, 2009, placed on review for possible downgrade.

On May 21, 2009, Moody s placed $6.8 billion of credit card asset-backed securities of the Washington Mutual Master Note Trust on review for possible upgrade. The action was the result of Moody s view that trust collateral performance would improve following JPMorgan Chase s removal on May 19, 2009, of all remaining credit card receivables originated by Washington Mutual.

The ratings on the Firm s asset-backed securities programs are independent of the Firm s own ratings. The above ratings actions with respect to the Firm-sponsored securitization trusts did not have a material impact on the liquidity of the Firm. For additional information regarding the actions taken by JPMorgan Chase regarding the Chase Issuance Trust and the Washington Mutual Master Note Trust, see Note 15 on pages 139-147 of this Form 10-Q.

CREDIT RISK MANAGEMENT

The following pages include a discussion of JPMorgan Chase s credit portfolio as of June 30, 2009, highlighting developments since December 31, 2008. This section should be read in conjunction with pages 80-99 and pages 107-108 and Notes 14, 15, 33, and 34 of JPMorgan Chase s 2008 Annual Report.

The Firm assesses its consumer credit exposure on a managed basis, which includes credit card receivables that have been securitized. For a reconciliation of the provision for credit losses on a reported basis to managed basis, see pages 15-18 of this Form 10-Q.

CREDIT PORTFOLIO

The following table presents JPMorgan Chase s credit portfolio as of June 30, 2009, and December 31, 2008. Total credit exposure at June 30, 2009, decreased by $207.5 billion from December 31, 2008, reflecting decreases of $131.6 billion in the wholesale portfolio and $75.9 billion in the consumer portfolio. During the first half of 2009, lending-related commitments decreased $78.1 billion, derivative receivables decreased $65.1 billion, managed loans decreased $64.1 billion and receivables from customers decreased $3.2 billion.

While overall portfolio exposure declined, the Firm provided over $150 billion in new loans and lines of credit to retail and wholesale clients in the second quarter of 2009, and over $300 billion for the year-to-date, including individual consumers, small businesses, large corporations, not-for-profit organizations, states and municipalities, and other financial institutions.

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In the table below, reported loans include loans retained; loans held-for-sale (which are carried at the lower of cost or fair value with changes in value recorded in noninterest revenue); and loans accounted for at fair value. These loans are presented net of unearned income and deferred loan costs, for additional information, see Note 13 on pages 135-138 of this Form 10-Q. Average retained loan balances are used for the net charge-off rate calculations.

	Credit exposure		Nonperforming assets[c][d]		90 days past due and still accruing	
(in millions)	**June 30, 2009**	Dec. 31, 2008	**June 30, 2009**	Dec. 31, 2008	**June 30, 2009**	Dec. 31, 2008
Total credit portfolio						
Loans retained	**$ 671,116**	$ 728,915	**$14,652**	$ 8,921	**$4,210**	$3,275
Loans held-for-sale	**6,412**	8,287	**83**	12		
Loans at fair value	**3,073**	7,696	**50**	20		
Loans reported	**$ 680,601**	$ 744,898	**$14,785**	$ 8,953	**$4,210**	$3,275
Loans securitized[a]	**85,790**	85,571			**2,066**	1,802
Total managed loans	**766,391**	830,469	**14,785**	8,953	**6,276**	5,077
Derivative receivables	**97,491**	162,626	**704**	1,079		
Receivables from customers	**12,977**	16,141				
Interests in purchased receivables	**2,972**					
Total managed credit-related assets	**879,831**	1,009,236	**15,489**	10,032	**6,276**	5,077
Lending-related commitments	**1,043,273**	1,121,378	**NA**	NA	**NA**	NA
Assets acquired in loan satisfactions						
Real estate owned	**NA**	NA	**1,899**	2,533	**NA**	NA
Other	**NA**	NA	**129**	149	**NA**	NA
Total assets acquired in loan satisfactions	**NA**	NA	**2,028**	2,682	**NA**	NA
Total credit portfolio	**$1,923,104**	$2,130,614	**$17,517**	$12,714	**$6,276**	$5,077
Net credit derivative hedges notional[b]	**$ (74,367)**	$ (91,451)	**$ (163)**	$	**NA**	NA
Liquid securities collateral held against derivatives	**(13,796)**	(19,816)	**NA**	NA	**NA**	NA

	Three months ended June 30,				Six months ended June 30,			
	Net charge-offs		Average annual net charge-off rate		Net charge-offs		Average annual net charge-off rate	
(in millions, except ratios)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Total credit portfolio								
Loans reported	**$6,019**	$2,130	**3.52%**	1.67%	**$10,415**	$4,036	**3.01%**	1.60%
Loans securitized[a]	**1,664**	830	**7.91**	4.32	**3,128**	1,511	**7.42**	4.02

Total managed loans	**$7,683**	$2,960	**4.00%**	2.02%	**$13,543**	$5,547	**3.49%**	1.91%

(a) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Note 15 on pages 139-147 of this Form 10-Q.

(b) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and nonperforming credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. For additional information, see pages 70 and 123-124 of this Form 10-Q.

(c) Excludes nonperforming loans and assets related to: (1) loans eligible for repurchase, as well as loans repurchased from GNMA

pools that are insured by U.S. government agencies, of $4.7 billion and $3.3 billion at June 30, 2009, and December 31, 2008, 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 $473 million and $437 million at June 30, 2009, and December 31, 2008, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

(d) Excludes home lending 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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WHOLESALE CREDIT PORTFOLIO

As of June 30, 2009, wholesale exposure (IB, CB, TSS and AM) decreased by $131.6 billion from December 31, 2008. The $131.6 billion decrease was driven by decreases of $65.1 billion of derivative receivables, $35.9 billion of lending-related commitments, $30.4 billion of loans, and $3.2 billion of receivables from customers. The decrease in derivative receivables primarily related to tightening credit spreads, the increase in interest rates and volatile foreign exchange rates, reflected in credit, interest rate and foreign exchange derivatives, respectively. Loans and lending-related commitments decreased across all wholesale lines of business, as lower customer demand continued to affect the level of lending activity.

	Credit exposure		Nonperforming assets[(b)]		90 days past due and still accruing	
(in millions)	**June 30, 2009**	Dec. 31, 2008	**June 30, 2009**	Dec. 31, 2008	**June 30, 2009**	Dec. 31, 2008
Loans retained	**$224,080**	$248,089	**$5,829**	$2,350	**$234**	$163
Loans held-for-sale	**4,472**	6,259	**83**	12		
Loans at fair value	**3,073**	7,696	**50**	20		
Loans reported	**$231,625**	$262,044	**$5,962**	$2,382	**$234**	$163
Derivative receivables	**97,491**	162,626	**704**	1,079		
Receivables from customers	**12,977**	16,141				
Interests in purchased receivables	**2,972**					
Total wholesale credit-related assets	**345,065**	440,811	**6,666**	3,461	**234**	163
Lending-related commitments	**343,991**	379,871	**NA**	NA	**NA**	NA
Total wholesale credit exposure	**$689,056**	$820,682	**$6,666**	$3,461	**$234**	$163
Net credit derivative hedges notional[(a)]	**$ (74,367)**	$ (91,451)	**$ (163)**	$	**NA**	NA
Liquid securities collateral held against derivatives	**(13,796)**	(19,816)	**NA**	NA	**NA**	NA

(a) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and nonperforming credit exposures; these derivatives do not qualify for

hedge accounting under SFAS 133. For additional information, see pages 70 and 123-124 of this Form 10-Q.

(b) Excludes assets acquired in loan satisfactions. For additional information, see the wholesale nonperforming assets by line of business segment table on page 67 of this Form 10-Q.

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The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of June 30, 2009, and December 31, 2008. The ratings scale is based on the Firm s internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody s.

Wholesale credit exposure maturity and ratings profile

	Maturity profile[c]				Ratings profile			
At June 30, 2009 (in billions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Investment-grade (IG) AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans	**31%**	**42%**	**27%**	**100%**	**$132**	**$ 92**	**$224**	**59%**
Derivative receivables	**15**	**38**	**47**	**100**	**77**	**20**	**97**	**79**
Lending-related commitments	**37**	**60**	**3**	**100**	**281**	**63**	**344**	**82**
Total excluding loans held-for-sale and loans at fair value	**32%**	**51%**	**17%**	**100%**	**$490**	**$ 175**	**$665**	**74%**
Loans held-for-sale and loans at fair value[a]							**8**	
Receivables from customers							**13**	
Interests in purchased receivables							**3**	
Total exposure							**689**	
Net credit derivative hedges notional[b]	**49%**	**43%**	**8%**	**100%**	**$ (65)**	**$ (9)**	**$ (74)**	**88%**

	Maturity profile[c]				Ratings profile			
At December 31, 2008 (in billions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Investment-grade (IG) AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans	32%	43%	25%	100%	$161	$ 87	$248	65%
Derivative receivables	31	36	33	100	127	36	163	78
Lending-related commitments	37	59	4	100	317	63	380	83

Total excluding loans held-for-sale and loans at fair value	34%	50%	16%	100%	$605	$ 186	$791	77%
Loans held-for-sale and loans at fair value[(a)]							14	
Receivables from customers							16	
Total exposure							$821	
Net credit derivative hedges notional[(b)]	47%	47%	6%	100%	$ (82)	$ (9)	$ (91)	90%

(a) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.

(b) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133.

(c) The maturity profile of loans and lending-related commitments is based on the remaining contractual

maturity. The maturity profile of derivative receivables is based on the maturity profile of average exposure. See page 87 of JPMorgan Chase s 2008 Annual Report for further discussion of average exposure.

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Wholesale credit and criticized exposure selected industry concentration

The Firm focuses on the management and diversification of its industry concentrations, with particular attention paid to industries with actual or potential credit concerns.

Exposures deemed criticized generally represent a ratings profile similar to a rating of CCC+ / Caa1 and lower, as defined by S&P and Moody s. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, increased to $33.0 billion at June 30, 2009, from $26.0 billion at year-end 2008. The increase was primarily related to downgrades within the portfolio.

	June 30, 2009				December 31, 2008			
	Total credit exposure		Criticized exposure		Total credit exposure		Criticized exposure	
(in millions, except ratios)	Credit exposure[(d)]	% of portfolio	Credit exposure[(d)]	% of portfolio	Credit exposure[(d)]	% of portfolio	Credit exposure[(d)]	% of portfolio
Exposure by industry[(a)]								
Real estate	**$ 78,642**	**12%**	**$11,479**	**35%**	$ 83,799	11%	$ 7,737	30%
Banks and finance companies	**55,326**	**8**	**2,530**	**8**	75,577	10	2,849	11
Healthcare	**35,601**	**5**	**214**	**1**	38,032	5	436	2
State and municipal governments	**33,417**	**5**	**96**		35,954	5	847	3
Utilities	**31,587**	**5**	**2,173**	**7**	34,246	4	114	
Retail and consumer services	**30,336**	**5**	**996**	**3**	32,714	4	1,311	5
Asset managers	**29,412**	**4**	**860**	**3**	49,256	6	819	3
Consumer products	**27,222**	**4**	**483**	**1**	29,766	4	792	3
Oil and gas	**23,709**	**4**	**460**	**1**	24,746	3	231	1
Securities firms and exchanges	**16,433**	**3**	**138**		25,590	3	138	1
Media	**15,181**	**2**	**1,991**	**6**	17,254	2	1,674	6
Technology	**14,851**	**2**	**1,170**	**4**	17,555	2	230	1
Insurance	**14,555**	**2**	**556**	**2**	17,744	2	712	3
Metals/mining	**14,428**	**2**	**640**	**2**	14,980	2	262	1
Central government	**12,352**	**2**			15,259	2		
Building materials/ construction	**11,855**	**2**	**1,710**	**5**	12,904	2	1,363	5
Machinery and equipment manufacturing	**11,495**	**2**	**299**	**1**	12,504	2	82	
Business services	**10,827**	**2**	**275**	**1**	11,247	1	145	1
Holding companies	**10,823**	**2**	**376**	**1**	14,466	2	116	
Chemicals/plastics	**10,480**	**2**	**576**	**2**	11,719	1	591	2
Automotive	**9,798**	**1**	**1,843**	**6**	11,448	1	1,775	7
Transportation	**9,573**	**1**	**546**	**2**	10,253	1	319	1
Telecom services	**8,827**	**1**	**76**		9,160	1	130	1
Agriculture/paper manufacturing	**6,981**	**1**	**501**	**2**	7,548	1	726	3
Aerospace/defense	**5,367**	**1**	**49**		6,126	1	31	
All other[(b)]	**136,484**	**20**	**2,949**	**7**	170,739	22	2,567	10
Subtotal	**$665,562**	**100%**	**32,986**	**100%**	$790,586	100%	$25,997	100%

Loans held-for-sale and loans at fair value	**7,545**	**1,574**	13,955	2,258
Receivables from customers	**12,977**		16,141	
Interests in purchased receivables[(c)]	**2,972**			
Total	**$689,056**	**34,560**	$820,682	$28,255

(a) Rankings are based on exposure at June 30, 2009. The industries presented in the December 31, 2008, table reflect the same rankings of the exposure at June 30, 2009.

(b) For more information on exposures to SPEs included in all other, see Note 16 on pages 148-153 of this Form 10-Q.

(c) Represents undivided interests in pools of receivables and similar types of assets due to the consolidation of one of the Firm-administered multi-seller conduits.

(d) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against derivative receivables or loans.

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Loans

The following table presents wholesale loans and nonperforming assets by business segment as of June 30, 2009, and December 31, 2008.

	June 30, 2009							
	Loans			Nonperforming		Assets acquired in loan satisfactions		
(in millions)	Retained	Held-for-sale and fair value	Total	Loans	Derivatives	Real estate owned	Other	Nonperforming assets
Investment Bank	**$ 64,500**	**$ 6,814**	**$ 71,314**	**$ 3,519**	**$ 704**[(b)]	**$ 311**	**$**	**$ 4,534**
Commercial Banking	**105,556**	**296**	**105,852**	**2,111**		**134**	**10**	**2,255**
Treasury & Securities Services	**17,929**		**17,929**	**14**				**14**
Asset Management	**35,474**		**35,474**	**313**		**2**	**11**	**326**
Corporate/Private Equity	**621**	**435**	**1,056**	**5**				**5**
Total	**$ 224,080**	**$ 7,545**	**$ 231,625**	**$ 5,962**[(a)]	**$ 704**	**$ 447**	**$ 21**	**$ 7,134**

	December 31, 2008							
	Loans			Nonperforming		Assets acquired in loan satisfactions		
(in millions)	Retained	Held-for-sale and fair value	Total	Loans	Derivatives	Real estate owned	Other	Nonperforming assets
Investment Bank	$ 71,357	$ 13,660	$ 85,017	$ 1,175	$ 1,079[(b)]	$ 247	$	$ 2,501
Commercial Banking	115,130	295	115,425	1,026		102	14	1,142
Treasury & Securities Services	24,508		24,508	30				30
Asset Management	36,188		36,188	147			25	172
Corporate/Private Equity	906		906	4				4
Total	$ 248,089	$ 13,955	$ 262,044	$ 2,382[(a)]	$ 1,079	$ 349	$ 39	$ 3,849

(a) At June 30, 2009, and December 31, 2008, the Firm

holds an allowance for loan losses of $2.1 billion and $712 million, respectively, related to these nonperforming loans resulting in allowance coverage ratios of 35% and 30%, respectively. Wholesale nonperforming loans represent 2.57% and 0.91% of total wholesale loans at June 30, 2009, and December 31, 2008, respectively.

(b) Nonperforming derivatives represent less than 1.0% of the total derivative receivables net of cash collateral at both June 30, 2009, and December 31, 2008.

In the normal course of business, the Firm provides loans to a variety of customers, from large corporate and institutional clients to high-net-worth individuals. Total loans include retained loans, lease financing receivables, bank acceptances, overdrafts, as well as loans held-for-sale and loans carried at fair value.

Retained wholesale loans were $224.1 billion at June 30, 2009, compared with $248.1 billion at December 31, 2008. The $24.0 billion decrease, across all wholesale lines of business, reflected lower customer demand. Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio. Held-for-sale loans were $4.5 billion and $6.3 billion, and loans carried at fair value were $3.0 billion and $7.7 billion, at June 30, 2009, and December 31, 2008, respectively. The decreases in both held-for-sale loans and loans at fair value reflect sales, reduced carrying values and lower volumes in the syndication market.

The Firm actively manages wholesale credit exposure through loan and commitment sales. During the first six months of 2009 and 2008, the Firm sold $879 million and $2.2 billion of loans and commitments, respectively, recognizing losses of $23 million and $17 million, respectively. These results include gains or losses on sales of nonperforming loans, if any, as discussed on page 68 of this Form 10-Q. These activities are not related to the Firm s securitization

activities, which are undertaken for liquidity and balance sheet management purposes. For further discussion of securitization activity, see Liquidity Risk Management and Note 15 on pages 58 62 and 139 147 respectively, of this Form 10-Q.

A loan is considered nonperforming when it is probable that the Firm will be unable to collect all principal and interest according to the contractual terms of the agreement. Nonperforming loans were $6.0 billion at June 30, 2009, an increase of $3.6 billion from December 31, 2008, reflecting continued deterioration in the credit environment, predominantly related to loans in the real estate, bank and finance companies and automotive industries.

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The following table presents the change in the nonperforming loan portfolio for the six months ended June 30, 2009 and 2008.

Nonperforming loan activity

Wholesale	Six months ended June 30,	
(in millions)	**2009**	2008
Beginning balance at January 1	**$2,382**	$514
Additions	**6,063**	997
Reductions:		
Paydowns and other	**1,510**	393
Gross charge-offs	**903**	212
Returned to performing	**70**	22
Sales		14
Total reductions	**2,483**	641
Net additions	**3,580**	356
Ending balance	**$5,962**	$870

The following table presents net charge-offs, which are defined as gross charge-offs less recoveries, for the three and six months ended June 30, 2009 and 2008. The amounts in the table below do not include gains from the sales of nonperforming loans.

Net charge-offs	Three months ended June 30,			
Wholesale			Six months ended June 30,	
(in millions, except ratios)	**2009**	2008	**2009**	2008
Loans reported				
Net charge-offs	**$ 679**	$ 41	**$ 870**	$ 133
Average annual net charge-off rate[(a)]	**1.19%**	0.08%	**0.75%**	0.13%

(a) Excludes average wholesale loans held-for-sale and loans at fair value of $9.7 billion and $20.8 billion for the quarters ended June 30, 2009 and 2008 respectively, and $11.5 billion and

$20.5 billion for year-to-date 2009 and 2008, respectively.

Derivatives

Derivative contracts

In the normal course of business, the Firm uses derivative instruments to meet the needs of customers; to generate revenue through trading activities; to manage exposure to fluctuations in interest rates, currencies and other markets; and to manage the Firm s credit exposure. For further discussion of these contracts (including notional amounts), see Note 5 on pages 116 124 of this Form 10-Q, and Derivative contracts on pages 87 90 (including notional amounts) and Note 32 and Note 34 on pages 202 205 and 206 210 of JPMorgan Chase s 2008 Annual Report.

The following table summarizes the net derivative receivables MTM for the periods presented.

Derivative receivables MTM

	Derivative receivables MTM	
(in millions)	**June 30, 2009**	December 31, 2008
Interest rate[(a)]	**$ 33,956**	$ 49,996
Credit derivatives	**25,413**	44,695
Foreign exchange[(a)]	**18,851**	38,820
Equity	**6,496**	14,285
Commodity	**12,775**	14,830
Total, net of cash collateral	**97,491**	162,626
Liquid securities collateral held against derivative receivables	**(13,796)**	(19,816)
Total, net of all collateral	**$ 83,695**	$ 142,810

(a) In 2009, cross-currency interest rate swaps previously reported in interest rate contracts were reclassified to foreign exchange contracts to be more consistent with industry practice. The effect of this change resulted in a reclassification of $14.1 billion of cross-currency

interest rate swaps to foreign exchange contracts as of December 31, 2008.

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The following table summarizes the ratings profile of the Firm s derivative receivables MTM, net of other liquid securities collateral, for the dates indicated.

Ratings profile of derivative receivables MTM

	June 30, 2009		December 31, 2008	
Rating equivalent	Exposure net of all	% of exposure net of all	Exposure net of	% of exposure net of all
(in millions, except ratios)	collateral	collateral	all collateral	collateral
AAA/Aaa to AA-/Aa3	**$39,996**	**48%**	$ 68,708	48%
A+/A1 to A-/A3	**14,078**	**17**	24,748	17
BBB+/Baa1 to BBB-/Baa3	**10,451**	**12**	15,747	11
BB+/Ba1 to B-/B3	**16,551**	**20**	28,186	20
CCC+/Caa1 and below	**2,619**	**3**	5,421	4
Total	**$83,695**	**100%**	$142,810	100%

The amount of derivative receivables reported on the Consolidated Balance Sheets of $97.5 billion and $162.6 billion at June 30, 2009, and December 31, 2008, respectively, are the amount of the MTM or fair value of the derivative contracts after giving effect to legally enforceable master netting agreements, cash collateral held by the Firm and CVA. These amounts on the Consolidated Balance Sheets represent the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in management s view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of $13.8 billion and $19.8 billion at June 30, 2009, and December 31, 2008, respectively, resulting in total exposure, net of all collateral, of $83.7 billion and $142.8 billion at June 30, 2009, and December 31, 2008, respectively. The decrease of $59.1 billion in derivative receivables MTM, net of collateral, from December 31, 2008, was primarily related to tightening credit spreads, the increase in interest rates and volatile foreign exchange rates, reflected in credit, interest rate and foreign exchange derivatives, respectively.

The Firm also holds additional collateral delivered by clients at the initiation of transactions. Though this collateral does not reduce the balances noted in the table above, it is available as security against potential exposure that could arise should the MTM of the client s derivative transactions move in the Firm s favor. As of June 30, 2009, and December 31, 2008, the Firm held $18.5 billion and $22.2 billion of this additional collateral, respectively. The derivative receivables MTM, net of all collateral, also do not include other credit enhancements in the form of letters of credit.

The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm s derivatives transactions subject to collateral agreements, excluding foreign exchange spot trades which are not typically covered by collateral agreements due to their short maturity, was 89% as of June 30, 2009, and remained largely unchanged from 88% at December 31, 2008.

The Firm posted $67.7 billion and $99.1 billion of collateral at June 30, 2009, and December 31, 2008, respectively. Certain derivative and collateral agreements include provisions that require the counterparty and/or the Firm, upon specified downgrades in the respective credit ratings of their legal entities, to post collateral for the benefit of the other party. At June 30, 2009, the impact of a single-notch and six-notch ratings downgrade to JPMorgan Chase & Co., and its subsidiaries, primarily JPMorgan Chase Bank, N.A., would have required $1.2 billion and $4.0 billion, respectively, of additional collateral to be posted by the Firm. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade to a specified rating of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

For further detailed discussion of credit derivatives, including the types of credit derivatives, see Credit derivatives on pages 89 90 and Note 32 on pages 202 205, respectively, of JPMorgan Chase s 2008 Annual Report. The following table presents the Firm s notional amounts of credit derivatives protection purchased and sold as of June 30, 2009, and December 31, 2008.

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Credit derivative positions

	Notional amount				
	Dealer/client		Credit portfolio		
(in billions)	Protection purchased[(b)]	Protection sold[(b)]	Protection purchased[(b)(c)]	Protection sold[(b)]	**Total**
June 30, 2009	**$3,412**	**$3,325**	**$75**	**$ 1**	**$6,813**
December 31, 2008[(a)]	4,193	4,102	92	1	8,388

(a) The dealer/client amounts of protection purchased and protection sold have been revised for the prior period.

(b) Included $3.3 trillion and $4.0 trillion at June 30, 2009, and December 31, 2008, respectively, of notional exposure within protection purchased and protection sold where the underlying reference instrument is identical. For a further discussion on credit derivatives, see Note 5 on pages 116 124 of this Form 10-Q.

(c) Included $24.1 billion and

$34.9 billion at June 30, 2009, and December 31, 2008, respectively, that represented the notional amount for structured portfolio protection; the Firm retains the first risk of loss on this portfolio.

Dealer/client

For a further discussion on dealer/client business related to credit protection, see Dealer/client business on page 89 of JPMorgan Chase s 2008 Annual Report. At June 30, 2009, the total notional amount of protection purchased and sold in the dealer/client business decreased by $1.6 trillion from year-end 2008, primarily as a result of industry efforts to reduce offsetting trade activity.

Credit portfolio activities

Use of single-name and portfolio credit derivatives	Notional amount of protection purchased and sold	
(in millions)	**June 30, 2009**	December 31, 2008
Credit derivatives used to manage:		
Loans and lending-related commitments	**$ 63,277**	$ 81,227
Derivative receivables	**12,148**	10,861
Total protection purchased[(a)]	**$ 75,425**	$ 92,088
Total protection sold	**1,058**	637
Credit derivatives hedges notional	**$ 74,367**	$ 91,451

(a) Included $24.1 billion and $34.9 billion at June 30, 2009, and December 31, 2008, respectively, that represented the notional amount for structured portfolio protection; the

Firm retains the first risk of loss on this portfolio.

The credit derivatives used by JPMorgan Chase for credit portfolio management activities do not qualify for hedge accounting under SFAS 133; these derivatives are reported at fair value, with gains and losses recognized in principal transactions revenue. In contrast, the loans and lending-related commitments being risk-managed are accounted for on an accrual basis. This asymmetry in accounting treatment, between loans and lending-related commitments and the credit derivatives used in credit portfolio management activities, causes earnings volatility that is not representative, in the Firm s view, of the true changes in value of the Firm s overall credit exposure. The MTM related to the Firm s credit derivatives used for managing credit exposure, as well as the MTM related to the CVA (which reflects the credit quality of derivatives counterparty exposure) are included in the gains and losses realized on credit derivatives disclosed in the table below. These results can vary from year to year due to market conditions that impact specific positions in the portfolio. For a discussion of CVA related to derivative contracts, see Derivative receivables MTM on page 139 of JPMorgan Chase s 2008 Annual Report and page 68 of this Form 10-Q.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Hedges of lending-related commitments[(a)]	**$(1,512)**	$(209)	**$(2,064)**	$ 178
CVA and hedges of CVA[(a)]	**1,196**	151	**1,319**	(583)
Net gains (losses)[(b)]	**$ (316)**	$ (58)	**$ (745)**	$(405)

(a) These hedges do not qualify for hedge accounting under SFAS 133.

(b) Excluded losses of $1.7 billion and gains of $237 million for the quarters ended June 30, 2009 and 2008, respectively, and losses of $806 million and gains of $1.5 billion for six months ended 2009 and 2008, respectively, of other principal transaction revenue that are not associated

with hedging activities.

Lending-related commitments

JPMorgan Chase utilizes lending-related financial instruments, such as commitments and guarantees, to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparties draw down on these commitments or the Firm fulfills its obligation under these guarantees, and the counterparties subsequently fail to perform according to the terms of these contracts.

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Wholesale lending-related commitments were $344.0 billion at June 30, 2009, compared with $379.9 billion at December 31, 2008. The $35.9 billion decrease reflects lower customer demand. In the Firm s view, the total contractual amount of these wholesale lending-related instruments is not representative of the Firm s actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these instruments, the Firm has established a loan-equivalent amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based on average portfolio historical experience, to become drawn upon in an event of a default by an obligor. The loan-equivalent amount of the Firm s lending-related commitments was $181.6 billion and $204.3 billion as of June 30, 2009, and December 31, 2008, respectively.

Emerging markets country exposure

The Firm has a comprehensive internal process for measuring and managing exposures to emerging markets countries. There is no common definition of emerging markets, but the Firm generally includes in its definition those countries whose sovereign debt ratings are equivalent to A+ or lower. Exposures to a country include all credit-related lending, trading and investment activities, whether cross-border or locally funded. In addition to monitoring country exposures, the Firm uses stress tests to measure and manage the risk of extreme loss associated with sovereign crises.

The table below presents the Firm s exposure to its top ten emerging markets countries. The selection of countries is based solely on the Firm s largest total exposures by country and not the Firm s view of any actual or potentially adverse credit conditions. Exposure is reported based on the country where the assets of the obligor, counterparty or guarantor are located. Exposure amounts are adjusted for collateral and for credit enhancements (e.g., guarantees and letters of credit) provided by third parties; outstandings supported by a guarantor located outside the country or backed by collateral held outside the country are assigned to the country of the enhancement provider. In addition, the effect of credit derivative hedges and other short credit or equity trading positions are reflected in the table below. Total exposure includes exposure to both government and private-sector entities in a country.

Top 10 emerging markets country exposure

At June 30, 2009		Cross-border				**Total**
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Local[(d)]	**exposure**
South Korea	$2.5	$ 1.0	$1.1	$4.6	$2.4	$7.0
Brazil	2.6	(0.4)	1.0	3.2	2.3	5.5
India	1.1	2.0	1.0	4.1	1.1	5.2
Mexico	1.9	0.6	0.4	2.9		2.9
Hong Kong	1.1	0.4	1.1	2.6		2.6
China	1.2	0.6	0.5	2.3	0.2	2.5
Taiwan	0.1	0.6	0.3	1.0	1.4	2.4
Malaysia	0.2	1.4	0.2	1.8	0.6	2.4
United Arab Emirates	1.5	0.4		1.9		1.9
South Africa	0.5	0.8	0.6	1.9		1.9

At December 31, 2008		Cross-border				**Total**
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Local[(d)]	**exposure**
South Korea	$2.9	$1.6	$0.9	$5.4	$2.3	$7.7
India	2.2	2.8	0.9	5.9	0.6	6.5
China	1.8	1.6	0.3	3.7	0.8	4.5
Brazil	1.8		0.5	2.3	1.3	3.6
Taiwan	0.1	0.2	0.3	0.6	2.5	3.1
Hong Kong	1.3	0.3	1.2	2.8		2.8

United Arab Emirates	1.8	0.7		2.5	2.5
Mexico	1.9	0.3	0.3	2.5	2.5
South Africa	0.9	0.5	0.4	1.8	1.8
Russia	1.3	0.2	0.3	1.8	1.8

(a) Lending includes loans and accrued interest receivable, interest-bearing deposits with banks, acceptances, other monetary assets, issued letters of credit net of participations, and undrawn commitments to extend credit.

(b) Trading includes: (1) issuer exposure on cross-border debt and equity instruments, held both in trading and investment accounts and adjusted for the impact of issuer hedges, including credit derivatives; and (2) counterparty exposure on derivative and foreign exchange contracts as well as security financing trades (resale agreements and securities borrowed).

(c) Other represents mainly local

exposure funded cross-border including capital investments in local entities.

(d) Local exposure is defined as exposure to a country denominated in local currency, booked and funded locally. Any exposure not meeting these criteria is defined as cross-border exposure.

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CONSUMER CREDIT PORTFOLIO

JPMorgan Chase s consumer portfolio consists primarily of residential mortgages, home equity loans, credit cards, auto loans, student loans and business banking loans, with a primary focus on serving the prime consumer credit market. The consumer credit portfolio also includes certain loans acquired in the Washington Mutual transaction, primarily mortgage, home equity and credit card loans. The RFS portfolio includes home equity lines of credit and mortgage loans with interest-only payment options to predominantly prime borrowers, as well as certain payment-option loans acquired in the Washington Mutual transaction that may result in negative amortization.

A substantial portion of the consumer loans acquired in the Washington Mutual transaction were identified as credit-impaired based on an analysis of high-risk characteristics, including product type, loan-to-value ratios, FICO scores and delinquency status. These purchased credit-impaired loans are accounted for under SOP 03-3 on a pool basis, and the pools are considered to be performing under SOP 03-3. At the time of the acquisition, these loans were recorded at fair value, including an estimate of losses that are expected to be incurred over the estimated remaining lives of the loan pools. Therefore, no allowance for loan losses was recorded as of the transaction date. For additional information, see Note 13 on pages 135-138 of this Form 10-Q.

The credit performance of the consumer portfolio across the entire product spectrum continues to be negatively affected by the economic environment. Higher unemployment and weaker overall economic conditions have led to a significant increase in the number of loans charged off, while continued weak housing prices have driven a significant increase in the amount of loss recognized when the loans are charged off. Delinquencies and nonperforming loans and assets continued to increase in the second quarter of 2009, particularly for the prime mortgage portfolio. The increases in these credit quality metrics were due, in part, to foreclosure moratorium programs in late 2008 and early 2009. These moratoriums halted stages of the foreclosure process while foreclosure prevention programs were enhanced. Losses related to these loans continued to be recognized in accordance with the Firm s normal charge-off practices, but some delinquent loans that would have otherwise been transferred to Real Estate Owned remain in the mortgage and home equity loan portfolios. Additional deterioration in the overall economic environment, including continued deterioration in the labor market, could cause delinquencies and losses to increase beyond the Firm s current expectations.

Since mid-2007, the Firm has taken actions to reduce risk exposure by tightening both underwriting and loan qualification standards for real estate lending, as well as for consumer lending for non-real estate products. Tighter income verification, more conservative collateral valuation, reduced loan-to-value maximums and higher FICO and custom risk score requirements are just some of the actions taken to date to mitigate risk related to new originations. New originations of subprime mortgage loans, and broker-originated mortgage and home equity loans have been eliminated entirely. The Firm believes that these actions have better aligned loan pricing with the underlying credit risk of the loan, while resulting in significant reductions in new originations of loans with high risk characteristics.

During the first half of 2009, the Firm performed systematic reviews of its real estate portfolio to identify homeowners most in need of assistance, opened new regional counseling centers, hired additional loan counselors, introduced new financing alternatives, proactively reached out to borrowers to offer prequalified modifications, and commenced a new process to independently review each loan before moving it into the foreclosure process. In addition, during the first quarter of 2009, the U.S. Treasury introduced the Making Home Affordable Plan (MHA), which includes programs designed to assist eligible homeowners by modifying the terms of their mortgages. The Firm is participating in MHA while continuing to expand its other loss-mitigation efforts for financially stressed borrowers who do not qualify for the MHA programs. MHA and the Firm s other loss mitigation programs generally represent various forms of term extensions, rate reductions and forbearances provided to financially troubled borrowers. Under these programs, borrowers must make three payments during a 90 day trial modification period and be successfully re-underwritten with income verification, before their loan is officially deemed to be modified. Upon formal modification, the loan is generally accounted for as a troubled debt restructuring. For purchased credit-impaired loans, the impact of the modification is incorporated into the Firm s quarterly assessment of whether a probable and/or significant change in estimated future cash flows has occurred and the loans continue to be reported as purchased credit-impaired loans. As of June 30, 2009, approximately 138,000 approved trial mortgage modifications were outstanding, of which approximately 26,000 loans with an unpaid principal balance of $8.3 billion were included on the Firm s balance sheet.

Approximately $4.6 billion of these loans were included in the Firm s purchased credit-impaired loan portfolio.

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The Firm s loss-mitigation programs are intended to minimize the economic loss to the Firm, while providing alternatives to foreclosure. The success of these programs is highly dependent on borrowers ongoing ability and willingness to repay in accordance with the modified terms, and could be adversely affected by additional deterioration in the economic environment or shifts in borrower behavior.

The following table presents managed consumer credit-related information (including RFS, CS and residential mortgage loans reported in the Corporate/Private Equity segment) for the dates indicated.

	Credit exposure		Nonperforming loans[e]		90 days past due and still accruing	
(in millions, except ratios)	**June 30, 2009**	December 31, 2008	**June 30, 2009**	December 31, 2008	**June 30, 2009**	December 31, 2008
Consumer loans excluding purchased credit-impaired loans and loans held-for-sale						
Home equity	**$ 108,229**	$ 114,335	**$1,487**	$ 1,394	**$**	$
Prime mortgage	**68,878**	72,266	**3,501**	1,895		
Subprime mortgage	**13,825**	15,330	**2,773**	2,690		
Option ARMs	**9,034**	9,018	**182**	10		
Auto loans[a]	**42,887**	42,603	**154**	148		
Credit card reported[b]	**85,736**	104,746	**4**	4	**3,503**	2,649
All other loans	**33,041**	33,715	**722**	430	**473**	463
Total	**361,630**	392,013	**8,823**	6,571	**3,976**	3,112
Consumer loans purchased credit-impaired						
Home equity	**27,729**	28,555	**NA**	NA		
Prime mortgage	**20,807**	21,855	**NA**	NA		
Subprime mortgage	**6,341**	6,760	**NA**	NA		
Option ARMs	**30,529**	31,643	**NA**	NA		
Total consumer loans purchased credit-impaired	**85,406**	88,813	**NA**	NA		
Total consumer loans retained	**447,036**	480,826	**8,823**	6,571	**3,976**	3,112
Loans held-for-sale	**1,940**	2,028				
Total consumer loans reported	**448,976**	482,854	**8,823**	6,571	**3,976**	3,112
Credit card securitized[d]	**85,790**	85,571			**2,066**	1,802
Total consumer loans managed	**534,766**	568,425	**8,823**	6,571	**6,042**	4,914

Consumer lending-related commitments:								
Home equity[(d)]	**70,642**	95,743						
Prime mortgage	**3,712**	5,079						
Subprime mortgage								
Option ARMs								
Auto loans	**6,008**	4,726						
Credit card[(d)]	**607,949**	623,702						
All other loans	**10,971**	12,257						
Total lending-related commitments	**699,282**	741,507						
Total consumer credit portfolio	**$1,234,048**	$1,309,932						
Memo: Credit card managed	**$ 171,526**	$ 190,317	**$**	**4**	$	4	**$5,569**	$4,451

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	Three months ended June 30,				Six months ended June 30,			
	Net charge-offs		Average annual net charge-off rate[f]		Net charge-offs		Average annual net charge-off rate[f]	
(in millions, except ratios)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Consumer loans excluding purchased credit-impaired loans								
Home equity	**$1,265**	$ 511	**4.61%**	2.16%	**$ 2,363**	$ 958	**4.27%**	2.03%
Prime mortgage	**483**	104	**2.76**	0.91	**795**	154	**2.26**	0.70
Subprime mortgage	**410**	192	**11.50**	4.98	**774**	341	**10.69**	4.40
Option ARMs	**15**		**0.66**		**19**		**0.43**	
Auto loans	**146**	119	**1.36**	1.07	**320**	237	**1.51**	1.08
Credit card reported	**2,689**	1,064	**12.03**	5.66	**4,718**	2,053	**10.15**	5.35
All other loans	**332**	99	**3.99**	1.49	**556**	160	**3.30**	1.24
Total consumer loans excluding purchased credit-impaired loans	**5,340**	2,089	**5.79**	2.77	**9,545**	3,903	**5.11**	2.60
Total consumer loans reported	**5,340**	2,089	**4.69**	2.77	**9,545**	3,903	**4.15**	2.60
Credit card securitized[a]	**1,664**	830	**7.91**	4.32	**3,128**	1,511	**7.42**	4.02
Total consumer loans managed	**7,004**	2,919	**5.20**	3.08	**12,673**	5,414	**4.65**	2.88
Total consumer loans managed excluding purchased credit-impaired loans	**7,004**	2,919	**6.18**	3.08	**12,673**	5,414	**5.53**	2.88
Memo: Credit card managed	**$4,353**	$1,894	**10.03%**	4.98%	**$ 7,846**	$3,564	**8.85%**	4.68%

(a) Excluded operating lease-related assets of $2.6 billion and $2.2 billion for June 30, 2009, and December 31, 2008, respectively.

(b) Includes $5.0 billion of loans at June 30, 2009, from the Washington Mutual Master Trust, which were consolidated onto the Firm s balance sheet at fair value during the second quarter of 2009.

(c) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see CS on pages 32-35 of this Form 10-Q.

(d) The credit card and home equity lending-related commitments represent the total available lines of credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit will be utilized at the same time. For credit card commitments and home equity commitments (if

certain conditions are met), the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(e) Nonperforming loans excluded: (1) loans eligible for repurchase, as well as loans repurchased from GNMA pools that are insured by U.S. government agencies, of $4.2 billion and $3.0 billion for June 30, 2009, and December 31, 2008, 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 $473 million and $437 million as of June 30, 2009, and December 31,

2008, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally .

(f) Average consumer loans held-for-sale and loans at fair value were $2.8 billion and $3.6 billion for the quarters ended June 30, 2009 and 2008, respectively, and $2.9 billion and $4.0 billion for year-to-date 2009 and 2008, respectively. These amounts were excluded when calculating the net charge-off rates.

The following table presents consumer nonperforming assets by business segment as of June 30, 2009, and December 31, 2008.

	June 30, 2009				December 31, 2008			
		Assets acquired in loan satisfactions				Assets acquired in loan satisfactions		
(in millions)	Nonperforming loans	Real estate owned	Other	Nonperforming assets	Nonperforming loans	Real estate owned	Other	Nonperforming assets
Retail Financial Services[(a)]	**$8,792**	**$1,451**	**$108**	**$10,351**	$6,548	$2,183	$110	$8,841
Card Services	**4**			**4**	4			4
Corporate/Private Equity	**27**	**1**		**28**	19	1		20
Total	**$8,823**	**$1,452**	**$108**	**$10,383**	$6,571	$2,184	$110	$8,865

(a) Excludes nonperforming loans and assets

related to: (1) loans eligible for repurchase, as well as loans repurchased from GNMA pools that are insured by U.S. government agencies, of $4.7 billion and $3.3 billion for June 30, 2009, and December 31, 2008, 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 $473 million and $437 million as of June 30, 2009, and December 31, 2008, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally .

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The following discussion relates to the specific loan and lending-related categories within the consumer portfolio.

Home equity: Home equity loans at June 30, 2009, were $108.2 billion, excluding purchased credit-impaired loans, a decrease of $6.1 billion from year-end 2008, primarily reflecting slower loan origination growth coupled with loan paydowns and charge-offs. The year-to-date 2009 provision for credit losses for the home equity portfolio includes net increases of $1.5 billion to the allowance for loan losses, reflecting the impact of the weak economic environment noted above. The Firm estimates that loans with effective combined loan-to-value (CLTVs) ratios in excess of 100% represented approximately 28% of the home equity portfolio. Since mid-2007, the maximum effective CLTVs for new originations have been reduced significantly (currently 50% to 70%, based on Metropolitan Statistical Area) and new originations of stated income and broker-originated loans have been eliminated entirely. Additional restrictions on new originations have been implemented in geographic areas experiencing the greatest housing price depreciation and highest unemployment. Loss-mitigation strategies include the reduction or closure of outstanding credit lines for borrowers who have experienced significant increases in CLTVs or decreases in creditworthiness (e.g. declines in FICO scores), and modifications of loan terms for borrowers experiencing financial difficulties.

Mortgage: Mortgage loans at June 30, 2009, which include prime mortgages, subprime mortgages, option adjustable rate mortgages (ARMs) and mortgage loans held-for-sale, were $92.3 billion, excluding purchased credit-impaired loans, reflecting a $4.5 billion decrease from year-end 2008, primarily reflecting lower prime mortgage loans retained in the portfolio, as well as run-off of the subprime mortgage portfolio.

Prime mortgages of $69.5 billion decreased $3.0 billion from December 31, 2008. The year-to-date 2009 provision for credit losses includes a net increase of $760 million to the allowance for loan losses, reflecting the impact of the weak economic environment noted above. The Firm estimates that loans with effective loan-to-value (LTVs) ratios in excess of 100% represented approximately 30% of the prime mortgage portfolio at June 30, 2009. Since mid-2007, the Firm has tightened underwriting standards for nonconforming prime mortgages, including the elimination of stated income products, reductions in LTV maximums, and elimination of broker-originations of residential real estate products.

Subprime mortgages of $13.8 billion, excluding purchased credit-impaired loans, decreased $1.5 billion from December 31, 2008, as a result of the discontinuation of new originations, charge-offs and foreclosures on delinquent loans. The Firm estimates that loans with effective LTVs in excess of 100% represented approximately 38% of the subprime mortgage portfolio at June 30, 2009.

Option ARMs of $9.0 billion, excluding purchased credit-impaired loans were flat compared with December 31, 2008. New originations of option ARMs were discontinued by Washington Mutual prior to the date of the Washington Mutual transaction. This portfolio is primarily comprised of loans with low LTVs and high borrower FICOs and for which the Firm currently expects substantially lower losses in comparison with the purchased credit-impaired portfolio. The Firm has not originated, and does not originate, option ARMs.

Auto loans: As of June 30, 2009, auto loans of $42.9 billion increased $284 million from year-end 2008. The auto loan portfolio reflects a high concentration of prime quality credits. In response to recent increases in loan delinquencies and credit losses, particularly in Metropolitan Statistical Areas (MSAs) experiencing the greatest housing price depreciation and highest unemployment, credit underwriting criteria have been tightened, which has resulted in the reduction of both extended-term and high LTV financing.

Credit card: JPMorgan Chase analyzes its credit card portfolio on a managed basis, which includes credit card receivables on the Consolidated Balance Sheets and those receivables sold to investors through securitization. Managed credit card receivables were $171.5 billion at June 30, 2009, a decrease of $18.8 billion from year-end 2008, reflecting lower charge volume and a higher level of charge-offs. Excluding the Washington Mutual portfolio, managed credit card receivables were $148.4 billion at June 30, 2009.

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The managed credit card net charge-off rate increased to 10.03% for the second quarter of 2009, from 4.98% in the second quarter of 2008. The year-to-date managed credit card net charge-off rate increased to 8.85% in 2009, from 4.68% in 2008. These increases were due primarily to higher charge-offs as a result of the credit performance of loans acquired in the Washington Mutual transaction, as well as the result of the current economic environment, especially in MSAs experiencing the greatest housing price depreciation and highest unemployment. Excluding the Washington Mutual portfolio, the managed credit card net charge-off rate was 8.97% for the second quarter of 2009 and 7.90% for the year-to-date 2009. The 30-day managed delinquency rate increased to 5.86% at June 30, 2009, from 4.97% at December 31, 2008, as a result of deterioration in the current economic environment. Excluding the Washington Mutual portfolio, the 30-day managed delinquency rate was 5.27%, up from 4.36% at December 31, 2008. The allowance for loan losses was increased by $1.4 billion, reflecting continued deterioration in the credit environment. As a result of continued weakness in housing markets, account acquisition credit criteria and account management credit practices have been tightened, particularly in MSAs experiencing significant home-price declines. The managed credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification.

All other loans: All other loans primarily include business banking loans (which are highly collateralized loans, often with personal loan guarantees), student loans, and other secured and unsecured consumer loans. As of June 30, 2009, other loans, including loans held-for-sale, of $34.5 billion were down $1.1 billion from year-end 2008, primarily as a result of lower business banking and student loans. The 2009 provision for credit losses included a net increase of $580 million to the allowance for loan losses, reflecting the impact of the weak economic environment.

Purchased credit-impaired loans: Purchased credit-impaired loans of $85.4 billion in the home lending portfolio represent loans acquired in the Washington Mutual transaction that were recorded at fair value at the time of acquisition under SOP 03-3. At the acquisition date, the fair value of these loans included an estimate of losses that are expected to be incurred over the estimated remaining lives of the loans, and therefore no allowance for loan losses was recorded for these loans as of the acquisition date. Through the second quarter of 2009, the credit performance of these loans has generally been consistent with the assumptions used in determining the initial fair value of these loans, and a probable change in the amounts and timing of future cash flows related to these loans has not occurred. A probable decrease in management s expectation of future cash collections related to these loans could result in the need to record an allowance for credit losses related to these loans in the future. A significant and probable increase in expected cash flows would generally result in an increase in interest income recognized over the remaining life of the underlying pool of loans.

Real estate owned: As part of the residential real estate foreclosure process, loans are written down to the fair value of the underlying real estate asset, less costs to sell. In those instances where the Firm gains title, ownership and possession of individual properties at the completion of the foreclosure process, these Real Estate Owned (REO) assets are managed for prompt sale and disposition at the best possible economic value. Any further gains or losses on REO assets are recorded as part of other income. Operating expenses, such as real estate taxes and maintenance, are charged to other expense.

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The following tables present the geographic distribution of consumer credit outstandings by product as of June 30, 2009, and December 31, 2008, excluding purchased credit-impaired loans acquired in the Washington Mutual transaction.

Consumer loans by geographic region

June 30, 2009 (in billions)	Home equity	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans-reported	Card securitized	Total consumer loans-managed
Excluding purchased credit-impaired loans											
California	**$ 22.0**	**$21.3**	**$ 1.9**	**$4.0**	**$ 49.2**	**$ 4.5**	**$ 12.1**	**$ 1.9**	**$ 67.7**	**$11.9**	**$ 79.6**
New York	**16.3**	**9.9**	**1.6**	**0.9**	**28.7**	**3.5**	**6.7**	**4.7**	**43.6**	**6.5**	**50.1**
Texas	**7.5**	**2.3**	**0.4**	**0.2**	**10.4**	**4.0**	**6.2**	**3.9**	**24.5**	**6.4**	**30.9**
Florida	**5.8**	**6.0**	**2.1**	**0.9**	**14.8**	**1.6**	**5.7**	**1.0**	**23.1**	**5.0**	**28.1**
Illinois	**7.0**	**3.2**	**0.7**	**0.3**	**11.2**	**2.3**	**4.3**	**2.3**	**20.1**	**4.7**	**24.8**
Ohio	**4.5**	**0.7**	**0.3**		**5.5**	**3.2**	**3.3**	**3.2**	**15.2**	**3.4**	**18.6**
New Jersey	**4.8**	**2.4**	**0.7**	**0.3**	**8.2**	**1.6**	**3.3**	**1.0**	**14.1**	**3.6**	**17.7**
Michigan	**3.4**	**1.3**	**0.4**		**5.1**	**1.8**	**2.7**	**2.5**	**12.1**	**2.8**	**14.9**
Arizona	**5.6**	**1.6**	**0.3**	**0.1**	**7.6**	**1.5**	**1.9**	**1.8**	**12.8**	**2.0**	**14.8**
Pennsylvania	**1.5**	**0.6**	**0.5**	**0.1**	**2.7**	**1.8**	**3.0**	**0.8**	**8.3**	**3.3**	**11.6**
Washington	**3.5**	**2.1**	**0.3**	**0.4**	**6.3**	**0.6**	**1.7**	**0.3**	**8.9**	**1.6**	**10.5**
Colorado	**2.2**	**1.8**	**0.2**	**0.2**	**4.4**	**0.9**	**1.7**	**1.0**	**8.0**	**2.2**	**10.2**
All other	**24.1**	**16.3**	**4.4**	**1.6**	**46.4**	**15.6**	**33.1**	**10.1**	**105.2**	**32.4**	**137.6**
Total excluding purchased credit-impaired loans	**$108.2**	**$69.5**	**$13.8**	**$9.0**	**$200.5**	**$42.9**	**$ 85.7**	**$34.5**	**$363.6**	**$85.8**	**$449.4**

December 31, 2008 (in billions)	Home equity	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans-reported	Card securitized	Total consumer loans-managed
Excluding purchased credit-impaired loans											
California	$ 23.2	$22.8	$ 2.2	$3.8	$ 52.0	$ 4.7	$ 14.8	$ 2.0	$ 73.5	$12.5	$ 86.0
New York	16.3	10.4	1.7	0.9	29.3	3.7	8.3	4.7	46.0	6.6	52.6
Texas	8.1	2.7	0.4	0.2	11.4	3.8	7.4	4.1	26.7	6.1	32.8
Florida	6.3	6.0	2.3	0.9	15.5	1.5	6.8	0.9	24.7	5.2	29.9
Illinois	7.2	3.3	0.7	0.3	11.5	2.2	5.3	2.5	21.5	4.6	26.1
Ohio	4.6	0.7	0.4		5.7	3.3	4.1	3.3	16.4	3.4	19.8

New Jersey	5.0	2.5	0.8	0.3	8.6	1.6	4.2	0.9	15.3	3.6	18.9
Michigan	3.6	1.3	0.4		5.3	1.5	3.4	2.8	13.0	2.8	15.8
Arizona	5.9	1.6	0.4	0.2	8.1	1.6	2.3	1.9	13.9	1.8	15.7
Pennsylvania	1.6	0.7	0.5	0.1	2.9	1.7	3.9	0.7	9.2	3.2	12.4
Washington	3.8	2.3	0.3	0.5	6.9	0.6	2.0	0.4	9.9	1.6	11.5
Colorado	2.4	1.9	0.3	0.3	4.9	0.9	2.1	0.9	8.8	2.1	10.9
All other	26.3	16.3	4.9	1.5	49.0	15.5	40.1	10.5	115.1	32.1	147.2
Total excluding purchased credit-impaired loans	$114.3	$72.5	$15.3	$9.0	$211.1	$42.6	$104.7	$35.6	$394.0	$85.6	$479.6

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ALLOWANCE FOR CREDIT LOSSES

For a further discussion of the components of the allowance for credit losses, see Critical Accounting Estimates Used by the Firm on page 87 and Note 14 on page 139 of this Form 10-Q, and pages 107-108 and Note 15 on pages 166-168 of JPMorgan Chase s 2008 Annual Report. At June 30, 2009, management deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including losses that are not specifically identified or for which the size of the loss has not yet been fully determined).

The credit ratios in the table below are based on retained loan balances, which exclude loans held-for-sale and loans at fair value. Wholesale retained loans for the periods ended June 30, 2009 and 2008, were $224.1 billion and $209.4 billion, respectively; and consumer retained loans for the periods ended June 30, 2009 and 2008, were $447.0 billion and $306.5 billion, respectively. Average wholesale retained loans for the six months ended June 30, 2009 and 2008, were $233.9 billion and $205.5 billion, respectively; and average consumer retained loans for the six months ended June 30, 2009 and 2008 were $464.1 billion and $302.3 billion, respectively. Also provided are credit ratios excluding both home lending purchased credit-impaired loans acquired in the Washington Mutual transaction and credit card loans from the Washington Mutual Master Trust. For more information on home lending purchased credit-impaired loans, see page 76 of this Form 10-Q. For more information on the consolidation of assets from the Washington Mutual Master Trust see Note 15 on pages 139-147 of this Form 10-Q.

Summary of changes in the allowance for credit losses

Six months ended June 30,	**2009**			2008		
(in millions)	Wholesale	Consumer	Total	Wholesale	Consumer	Total
Allowance for loan losses:						
Beginning balance at January 1,	**$6,545**	**$16,619**	**$23,164**	$3,154	$6,080	$ 9,234
Gross charge-offs	**903**	**10,034**	**10,937**	212	4,312	4,524
Gross recoveries	**(33)**	**(489)**	**(522)**	(79)	(409)	(488)
Net charge-offs	**870**	**9,545**	**10,415**	133	3,903	4,036
Provision for loan losses	**2,692**	**13,848**	**16,540**	1,417	6,626	8,043
Other[(a)]	**25**	**(242)**	**(217)**	31	(26)	5
Ending balance at June 30	**$8,392**	**$20,680**	**$29,072**	$4,469	$8,777	$13,246
Components:						
Asset-specific	**$2,108**	**$ 132**	**$ 2,240**	$ 174	$ 61	$ 235
Formula-based	**6,284**	**20,548**	**26,832**	4,295	8,716	13,011
Total allowance for loan losses	**$8,392**	**$20,680**	**$29,072**	$4,469	$8,777	$13,246
Allowance for lending-related commitments:						
Beginning balance at January 1,	**$ 634**	**$ 25**	**$ 659**	$ 835	$ 15	$ 850
Provision for lending-related commitments	**82**	**5**	**87**	(165)	1	(164)
Other[(a)]	**3**	**(3)**		7	(7)	
Ending balance at June 30	**$ 719**	**$ 27**	**$ 746**	$ 677	$ 9	$ 686
Components:						
Asset-specific	**$ 111**	**$**	**$ 111**	$ 16	$	$ 16

Formula-based	**608**	**27**	**635**	661	9	670
Total allowance for lending-related commitments	**$ 719**	**$ 27**	**$ 746**	$ 677	$ 9	$ 686
Total allowance for credit losses	**$9,111**	**$20,707**	**$29,818**	$5,146	$8,786	$13,932
Credit ratios:						
Allowance for loan losses to loans	**3.75%**	**4.63%**	**4.33%**	2.13%	2.86%	2.57%
Net charge-off rates	**0.75**	**4.15**	**3.01**	0.13	2.60	1.60
Credit ratios excluding home lending purchased credit-impaired loans and loans from the Washington Mutual Master Trust						
Allowance for loan losses to loans [(b)(c)]	**3.75**	**5.80**	**5.01**	2.13	2.86	2.57

(a) Other predominantly includes a reclassification in 2009 related to the issuance and retention of securities from the Chase Issuance Trust as well as reclassifications of allowance balances related to business transfers between wholesale and consumer businesses in the first quarter of 2008.

(b) Excludes the impact of 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 at fair value on the acquisition date, which incorporated management s estimate, as of that date, of credit losses over the remaining life of the portfolio. No allowance for loan losses has been recorded for these loans as of June 30, 2009.

(c) *Excludes loans from the Washington Mutual Master Trust, which were consolidated onto the Firm s balance sheet at fair value during the second quarter of 2009. No allowance for loan losses was recorded for these loans as of June 30, 2009.*

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The allowance for credit losses increased by $6.0 billion from December 31, 2008, to $29.8 billion, reflecting increases of $4.1 billion and $1.9 billion in the consumer and wholesale portfolios, respectively. Excluding held-for-sale loans, loans carried at fair value, purchased credit-impaired loans and loans from the Washington Mutual Master Trust, the allowance for loan losses represented 5.01% of loans at June 30, 2009, compared with 3.62% at December 31, 2008. The consumer allowance increased $2.9 billion for the consumer lending and business banking portfolios, as weak economic conditions and housing price declines continued to drive higher estimated losses for these portfolios. The consumer allowance for loan losses also increased $1.1 billion for Card Services due to the weakening credit environment. The increase in wholesale allowance for loan losses reflected the effect of the continued deterioration in the credit environment.

The allowance for lending-related commitments, which is reported in other liabilities, was $746 million and $659 million at June 30, 2009, and December 31, 2008, respectively. The increase reflects the continued deterioration in the credit environment.

The following table presents the allowance for loan losses and net charge-offs (recoveries) by business segment at June 30, 2009 and 2008.

	Allowance for loan losses		Net charge-offs (recoveries) six months ended	
June 30, (in millions)	**2009**	2008	**2009**	2008
Investment Bank	**$ 5,101**	$ 2,429	**$ 469**	$ 5
Commercial Banking	**3,034**	1,843	**315**	130
Treasury & Securities Services	**15**	40	**19**	(2)
Asset Management	**226**	147	**65**	
Corporate/Private Equity	**16**	10	**2**	
Total Wholesale	**8,392**	4,469	**870**	133
Retail Financial Services	**11,832**	5,062	**4,825**	1,850
Card Services reported	**8,839**	3,705	**4,718**	2,053
Corporate/Private Equity	**9**	10	**2**	
Total Consumer reported	**20,680**	8,777	**9,545**	3,903
Credit card securitized			**3,128**	1,511
Total Consumer managed	**20,680**	8,777	**12,673**	5,414
Total	**$ 29,072**	$ 13,246	**$ 13,543**	$ 5,547

Provision for credit losses

For a discussion of the reported provision for credit losses, see Provision for credit losses on page 13 of this Form 10-Q. The managed provision for credit losses was $9.7 billion for the three months ended June 30, 2009, up by $5.4 billion, or 126%, from the prior year. The total consumer managed provision for credit losses was $8.5 billion in the current quarter, compared with $3.8 billion in the prior year. The increase in the consumer provision reflected increases in estimated losses across most of the portfolios. The wholesale provision for credit losses was $1.2 billion for the second quarter of 2009, compared with a provision of $505 million in the prior year, predominantly reflecting the continued deterioration in the credit environment. The year-to-date increase from the prior period in both the consumer and wholesale provision for credit losses reflect the continued deterioration in the credit environment.

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Three months ended June 30, (in millions)	Provision for loan losses 2009	Provision for loan losses 2008	Provision for lending-related commitments 2009	Provision for lending-related commitments 2008	Total provision for credit losses 2009	Total provision for credit losses 2008
Investment Bank	**$ 815**	$ 538	**$ 56**	$(140)	**$ 871**	$ 398
Commercial Banking	**280**	77	**32**	(30)	**312**	47
Treasury & Securities Services	**(20)**	7	**15**		**(5)**	7
Asset Management	**59**	17			**59**	17
Corporate/Private Equity	**7**	36			**7**	36
Total wholesale	**1,141**	675	**103**	(170)	**1,244**	505
Retail Financial Services	**3,841**	1,584	**5**	1	**3,846**	1,585
Card Services reported	**2,939**	1,364			**2,939**	1,364
Corporate/Private Equity	**2**	1			**2**	1
Total consumer	**6,782**	2,949	**5**	1	**6,787**	2,950
Total provision for credit losses reported	**7,923**	3,624	**108**	(169)	**8,031**	3,455
Credit card securitized	**1,664**	830			**1,664**	830
Total provision for credit losses managed	**$ 9,587**	$ 4,454	**$ 108**	$(169)	**$ 9,695**	$ 4,285

Six months ended June 30, (in millions)	Provision for loan losses 2009	Provision for loan losses 2008	Provision for lending-related commitments 2009	Provision for lending-related commitments 2008	Total provision for credit losses 2009	Total provision for credit losses 2008
Investment Bank	**$ 2,089**	$ 1,109	**$ (8)**	$ (93)	**$ 2,081**	$ 1,016
Commercial Banking	**543**	220	**62**	(72)	**605**	148
Treasury & Securities Services	**(40)**	18	**29**	1	**(11)**	19
Asset Management	**93**	34	**(1)**	(1)	**92**	33
Corporate/Private Equity	**7**	36			**7**	36
Total wholesale	**2,692**	1,417	**82**	(165)	**2,774**	1,252
Retail Financial Services	**7,718**	4,272	**5**	1	**7,723**	4,273
Card Services reported	**6,128**	2,353			**6,128**	2,353
Corporate/Private Equity	**2**	1			**2**	1
Total consumer	**13,848**	6,626	**5**	1	**13,853**	6,627
Total provision for credit losses reported	**16,540**	8,043	**87**	(164)	**16,627**	7,879

Credit card	securitized	**3,128**	1,511			**3,128**	1,511
Total provision for credit losses managed		**$ 19,668**	$ 9,554	**$ 87**	$(164)	**$ 19,755**	$ 9,390

MARKET RISK MANAGEMENT

For discussion of the Firm s market risk management organization, see pages 99-104 of JPMorgan Chase s 2008 Annual Report.

Value-at-risk (VaR)

JPMorgan Chase s primary statistical risk measure, VaR, estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VaR is used for comparing risks across businesses, monitoring limits, and as an input to economic capital calculations. Each business day the Firm undertakes a comprehensive VaR calculation that includes both its trading and its nontrading risks. VaR for nontrading risk measures the amount of potential change in the fair values of the exposures related to these risks; however, for such risks, VaR is not a measure of reported revenue, since nontrading activities are generally not marked to market through net income. Hedges of nontrading activities may be included in trading VaR, since they are marked to market. Credit portfolio VaR includes VaR on derivative credit valuation adjustments, hedges of the credit valuation adjustment and mark-to-market hedges of the retained loan portfolio, which are all reported in principal transactions revenue. For a discussion of credit valuation adjustments, see Note 4 on pages 129-143 of JPMorgan Chase s 2008 Annual Report and Note 3 on pages 99-114 of this Form 10-Q. Credit portfolio VaR does not include the retained loan portfolio, which is not marked to market.

To calculate VaR, the Firm uses historical simulation, based on a one-day time horizon and an expected tail-loss methodology, which measures risk across instruments and portfolios in a consistent and comparable way. The simulation is based on data for the previous 12 months. This approach assumes that historical changes in market values are representative of future changes; this is an assumption that may not always be accurate, particularly given the volatility in the current market environment. For certain products, such as lending facilities and some mortgage-related securities for which price-based time series are not readily available, market-based data are used in conjunction with sensitivity factors to estimate the

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risk. It is likely that using an actual price time series for these products, if available, would impact the VaR results presented. In addition, certain risk parameters, such as correlation risk among certain IB trading instruments, are not fully captured in VaR.

In the third quarter of 2008, the Firm revised its VaR measurement to include additional risk positions previously excluded from VaR, thus creating, in the Firm s view, a more comprehensive view of its market risks. In addition, the Firm moved to calculating VaR using a 95% confidence level to provide a more stable measure of the VaR for day-to-day risk management. The following sections describe JPMorgan Chase s VaR measures under both the legacy 99% confidence level as well as the new 95% confidence level. The Firm intends to solely present VaR at the 95% confidence level once information for two complete year-to-date periods is available. For a further discussion of the Firm s VaR methodology, see Market Risk Management Value-at-risk, on pages 100-103 of JPMorgan Chase s 2008 Annual Report.

99% Confidence Level VaR

IB trading VaR by risk type and credit portfolio VaR

	Three months ended June 30,						At June 30,		Six months ended June 30,[c] Average	
	2009			2008[c]						
(in millions)	Avg.	Min	Max	Avg.	Min	Max	**2009**	2008	**2009**	2008
By risk type:										
Fixed income	**$ 249**	**$ 211**	**$ 281**	$155	$ 110	$ 210	**$ 255**	$168	**$ 234**	$137
Foreign exchange	**26**	**17**	**49**	26	14	45	**20**	17	**33**	30
Equities	**77**	**19**	**222**	30	19	48	**49**	27	**119**	31
Commodities and other	**34**	**23**	**47**	31	25	37	**29**	34	**31**	29
Diversification	**(136)**[a]	NM[b]	NM[b]	(92)[a]	NM[b]	NM[b]	**(120)**[a]	(84)[a]	**(148)**[a]	(91)[a]
Trading VaR	**$ 250**	**$ 213**	**$ 335**	$150	$ 98	$ 187	**$ 233**	$162	**$ 269**	$136
Credit portfolio VaR	**133**	**60**	**199**	35	29	42	**61**	41	**157**	33
Diversification	**(116)**[a]	NM[b]	NM[b]	(36)[a]	NM[b]	NM[b]	**(63)**[a]	(43)[a]	**(125)**[a]	(34)[a]
Total trading and credit portfolio VaR	**$ 267**	**$ 198**	**$ 339**	$149	$ 101	$ 193	**$ 231**	$160	**$ 301**	$135

(a) Average and period-end VaRs were less than the sum of the VaRs of their market risk components, which is due to risk offsets resulting from portfolio

diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.

(b) Designated as not meaningful (NM), because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio diversification effect.

(c) The results for the three months ended June 30, 2008 include two months of heritage JPMorgan Chase & Co. results and one month of results for the combined JPMorgan Chase & Co. and Bear Stearns. The

results for the six months ended June 30, 2008 includes five months of heritage JPMorgan Chase & Co. only results and one month of combined JPMorgan Chase & Co. and Bear Stearns.

The 99% confidence level trading VaR includes substantially all trading activities in IB. Trading VaR does not include: held-for-sale funded loan and unfunded commitments positions (however, it does include hedges of those positions); the DVA taken on derivative and structured liabilities to reflect the credit quality of the Firm; the MSR portfolio; and securities and instruments held by corporate functions, such as Corporate/Private Equity. See the DVA Sensitivity table on page 85 of this Form 10-Q for further details. For a discussion of MSRs and the corporate functions, see Note 3 on pages 99-114, Note 17 on pages 153-156 and Corporate/Private Equity on pages 46-48 of this Form 10-Q, and Note 4 on pages 129-143, Note 18 on pages 186-189 and Corporate/ Private Equity on pages 61-63 of JPMorgan Chase s 2008 Annual Report.

Second quarter 2009 VaR results (99% Confidence Level VaR)

IB s average total trading and credit portfolio VaR for the second quarter and first half of 2009 was $267 million and $301 million, respectively, compared with $149 million in the second quarter and $135 million in the first half of 2008, and includes the positions from the Bear Stearns merger as of May 31, 2008. The increase in VaR in the year-over-year quarters and six-month period was primarily due to the increased volatility throughout 2008 across virtually all asset classes. The increase in the VaR measure also reflected increased hedges of positions: for example, macro hedge strategies that have been deployed to mitigate the consequences of systemic risk events that are not specifically captured in VaR. It also reflects the Firm s increased counterparty exposure profile, reflecting the significant market moves over the course of the year as well as positions acquired from the Bear Stearns merger.

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For the second quarter and first half of 2009, average trading VaR diversification increased to $136 million from $92 million and to $148 million from $91 million, respectively, reflecting the increase in VaR for both fixed income and equities risks. In general, over the course of the year, VaR exposures can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR backtesting (99% Confidence Level VaR)

To evaluate the soundness of its VaR model, the Firm conducts daily backtesting of VaR against daily IB market risk-related revenue, which is defined as the change in value of principal transactions revenue (less Private Equity gains/losses) plus any IB trading-related net interest income, IB brokerage commissions, underwriting fees or other revenue. The daily IB market risk-related revenue excludes gains and losses on held-for-sale funded loans and unfunded commitments and from DVA. The following histogram illustrates the daily market risk-related gains and losses for IB trading businesses for the first half of 2009. The chart shows that IB posted market risk-related gains on 99 out of 129 days in this period, with 41 days exceeding $160 million. The inset graph looks at those days on which IB experienced losses and depicts the amount by which 99% confidence level VaR exceeded the actual loss on each of those days. Losses were sustained on 30 days during the six months ended June 30, 2009, and with no loss exceeding the VaR measure. For the first half of 2008, losses had exceeded the VaR measure on two days, both in the first quarter of 2008, due to high market volatility experienced during that period. The Firm would expect to incur losses greater than those predicted by the 99% confidence level VaR estimates once in every 100 trading days, or about two to three times a year.

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95% Confidence Level VaR

The table below shows the results of the Firm s VaR measure using a 95% confidence level.

Total IB trading VaR by risk type, credit portfolio VaR and other VaR

	Three months ended June 30,[a]				Six months ended June 30,[a]
	2009			At June 30,	
(in millions)	Avg.	Min	Max	2009	Average 2009
IB VaR by risk type:					
Fixed income	$ 179	$ 144	$ 207	$ 186	$ 168
Foreign exchange	16	10	27	12	19
Equities	50	13	132	36	73
Commodities and other	22	15	30	17	21
Diversification benefit to IB trading VaR	(97)[b]	NM[c]	NM[c]	(87)[b]	(101)[b]
IB Trading VaR	$ 170	$ 149	$ 213	$ 164	$ 180
Credit portfolio VaR	68	36	99	38	77
Diversification benefit to IB trading and credit portfolio VaR	(60)[b]	NM[c]	NM[c]	(44)[b]	(62)[b]
Total IB trading and credit portfolio VaR	$ 178	$ 139	$ 231	$ 158	$ 195
Consumer Lending VaR	43	31	66	40	75
Corporate Risk Management VaR	111	98	125	102	116
Diversification benefit to total other VaR	(29)[b]	NM[c]	NM[c]	(26)[b]	(45)[b]
Total other VaR	$ 125	$ 110	$ 144	$ 116	$ 146
Diversification benefit to total IB and other VaR	(89)[b]	NM[c]	NM[c]	(92)[b]	(91)[b]
Total IB and other VaR	$ 214	$ 172	$ 263	$ 182	$ 250

(a) Results for the three and six months ended June 30, 2008, are not available.

(b) Average and period-end

VaRs were less than the sum of the VaRs of its market risk components, which is due to risk offsets resulting from portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.

(c) Designated as not meaningful (NM), because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio diversification effect.

VaR Measurement

The Firm s new 95% VaR measure includes all of the risk positions taken into account under the 99% confidence level VaR measure, as well as syndicated lending facilities that the Firm intends to distribute. In addition, the new VaR measure includes certain actively managed positions utilized as part of the Firm s risk management function within Corporate Risk Management and in the Consumer Lending businesses to provide a Total IB and other VaR measure. Corporate Risk Management VaR includes trading positions primarily in debt securities and credit products, used to manage structural risk and to take opportunistic views based on economic and market conditions. The Consumer Lending VaR includes the Firm s mortgage pipeline and warehouse loans, MSRs and all related hedges. In the Firm s

view, including these items in VaR produces a more complete perspective of the Firm s risk profile for items with market risk that can impact the income statement.

The revised VaR measure continues to exclude the DVA taken on derivative and structured liabilities to reflect the credit quality of the Firm. It also excludes certain nontrading activity such as Private Equity, principal investing (e.g., mezzanine financing, tax-oriented investments, etc.), and Corporate balance sheet and capital management positions as well as longer-term corporate investments. These Corporate investments are managed through the Firm s earnings-at-risk and other cash flow-monitoring processes rather than by using a VaR measure. Nontrading principal investing activities and Private Equity positions are managed using stress and scenario analyses.

Changing to the 95% confidence interval caused the average VaR to drop by $85 million in the third quarter of 2008 when the new measure was implemented. Under the 95% confidence interval, the Firm would expect to incur daily losses greater than those predicted by VaR estimates about 12 times a year.

Second quarter 2009 VaR results (95% Confidence Level VaR)

Total IB and other VaR was $182 million at June 30, 2009, compared with $286 million at December 31, 2008. The decrease in spot VaR was driven primarily by a decrease in both IB trading and credit portfolio VaR, and Consumer Lending VaR. IB trading and credit portfolio VaR was $158 million at June 30, 2009, compared with $194 million at December 31, 2008. The decrease was driven primarily by lower exposures in the credit portfolio as well as reduced foreign exchange VaR. Consumer Lending VaR was $40 million at June 30, 2009, compared with $112 million at December 31, 2008. The decrease was driven primarily by reduced volatility in the mortgage markets as well as

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refinements to the MSR VaR methodology to more accurately reflect current market conditions. For further details on the 95% confidence level VaR measure reported at December 31, 2008, see Market Risk Management, on page 102 of JPMorgan Chase s 2008 Annual Report.

VaR backtesting (95% Confidence Level VaR)

To evaluate the soundness of its VaR model, the Firm conducts daily backtesting of VaR against the Firm s daily market risk-related revenue, which is defined as follows: change in value of principal transactions revenue for IB and Corporate Risk Management (less gains/losses for Private Equity and trading-related revenue from longer-term corporate investments); trading-related net interest income for IB, RFS and Corporate Risk Management (excludes longer-term corporate investments); IB brokerage commissions, underwriting fees or other revenue, and revenue from syndicated lending facilities that the Firm intends to distribute; and mortgage fees and related income for the Firm s mortgage pipeline and warehouse loans, MSRs and all related hedges. The daily firmwide market risk-related revenue excludes gains and losses from DVA.

The following histogram illustrates the daily market risk-related gains and losses for IB and Consumer/Corporate Risk Management positions for the first half of 2009. The chart shows that the Firm posted market risk-related gains on 104 out of 129 days in this period, with 45 days exceeding $160 million. The inset graph looks at those days on which the Firm experienced losses and depicts the amount by which the 95% confidence level VaR exceeded the actual loss on each of those days. Losses were sustained on 25 days during the six months ended June 30, 2009, and exceeded the VaR measure on one day, in the first quarter of 2009, due to high market volatility.

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The following table provides information about the gross sensitivity of DVA to a one basis-point increase in JPMorgan Chase s credit spreads. The sensitivity represents the impact from a one basis-point parallel shift in JPMorgan Chase s entire credit curve. As credit curves do not typically move in a parallel fashion, the sensitivity multiplied by the change in spreads at a single point along the curve may not be representative of the actual revenue recognized.

Debit valuation adjustment sensitivity

(in millions)	1 basis-point increase in JPMorgan Chase credit spread
June 30, 2009	**$ 36**
December 31, 2008	37

Economic value stress testing

While VaR reflects the risk of loss due to adverse changes in normal markets, stress testing captures the Firm s exposure to unlikely but plausible events in abnormal markets. The Firm conducts economic value stress tests for both its trading and certain nontrading activities using multiple scenarios that assume credit spreads widen significantly, equity prices decline and interest rates rise in the major currencies. Scenarios are updated regularly. Additional scenarios focus on the risks predominant in individual business segments and include scenarios that focus on the potential for adverse moves in complex portfolios. Periodically, scenarios are reviewed and updated to reflect changes in the Firm s risk profile and economic events. Along with VaR, stress testing is important in measuring and controlling risk. Stress testing enhances the understanding of the Firm s risk profile and loss potential, and stress losses are monitored against limits. Stress testing is also utilized in one-off approvals and cross-business risk measurement, as well as an input to economic capital allocation. Stress-test results, trends and explanations based on current market risk positions are reported to the Firm s senior management and to the lines of business to help them better measure and manage risks and to understand event risk-sensitive positions.

Earnings-at-risk stress testing

The VaR and stress-test measures described above illustrate the total economic sensitivity of the Firm s balance sheet to changes in market variables. The effect of interest rate exposure on reported net income is also important. Interest rate risk exposure in the Firm s core nontrading business activities (i.e., asset/liability management positions) results from on- and off-balance sheet positions and can occur due to a variety of factors, including:

- Differences in the timing among the maturity or repricing of assets, liabilities and off-balance sheet instruments. For example, if liabilities reprice quicker than assets and funding interest rates are declining, earnings will increase initially.
- Differences in the amounts of assets, liabilities and off-balance sheet instruments that are repricing at the same time. For example, if more deposit liabilities are repricing than assets when general interest rates are declining, earnings will increase initially.
- Differences in the amounts by which short-term and long-term market interest rates change (for example, changes in the slope of the yield curve because the Firm has the ability to lend at long-term fixed rates and borrow at variable or short-term fixed rates). Based on these scenarios, the Firm s earnings would be affected negatively by a sudden and unanticipated increase in short-term rates paid on its liabilities (e.g., deposits) without a corresponding increase in long-term rates received on its assets (e.g., loans). Conversely, higher long-term rates received on assets generally are beneficial to earnings, particularly when the increase is not accompanied by rising short-term rates paid on liabilities.
- The impact of changes in the maturity of various assets, liabilities or off-balance sheet instruments as interest rates change. For example, if more borrowers than forecasted pay down higher rate loan balances when general interest rates are declining, earnings may decrease initially.

The Firm manages interest rate exposure related to its assets and liabilities on a consolidated, corporate-wide basis. Business units transfer their interest rate risk to Treasury through a transfer-pricing system, which takes into account

the elements of interest rate exposure that can be risk managed in financial markets. These elements include asset and liability balances and contractual rates of interest, contractual principal payment schedules, expected prepayment experience, interest rate reset dates and maturities, rate indices used for re-pricing, and any interest rate ceilings or floors for adjustable rate products. All transfer pricing assumptions are dynamically reviewed.

The Firm conducts simulations of changes in net interest income from its nontrading activities under a variety of interest rate scenarios. Earnings-at-risk tests measure the potential change in the Firm s net interest income and the corresponding impact to pretax earnings over the following 12 months. These tests highlight exposures to various rate-sensitive factors, such as the rates themselves (e.g., the prime lending rate), pricing strategies on deposits, optionality and changes in product mix. The tests include forecasted balance sheet changes, such as asset sales and securitizations, as well as prepayment and reinvestment behavior.

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Immediate changes in interest rates present a limited view of risk, and so a number of alternative scenarios are also reviewed. These scenarios include the implied forward curve, nonparallel rate shifts and severe interest rate shocks on selected key rates. These scenarios are intended to provide a comprehensive view of JPMorgan Chase s earnings at risk over a wide range of outcomes. JPMorgan Chase s 12-month pretax earnings sensitivity profiles as of June 30, 2009, and December 31, 2008, were as follows.

	Immediate change in rates			
(in millions)	+200bp	+100bp	-100bp	-200bp
June 30, 2009	**$(2,520)**	**$(892)**	$NM[(a)]	$NM[(a)]
December 31, 2008	$ 336	$ 672	$NM[(a)]	$NM[(a)]

(a) Down 100 and 200 basis-point parallel shocks result in a Fed Funds target rate of zero and negative three- and six-month treasury rates. The earnings-at-risk results of such a low-probability scenario are not meaningful (NM).

The change in earnings at risk from December 31, 2008, results from a higher level of AFS securities and an updated baseline scenario that uses higher short-term interest rates. The Firm s risk to rising rates is largely the result of increased funding costs on assets, partially offset by widening deposit margins, which are currently compressed due to very low short-term interest rates.

Additionally, another interest rate scenario involving a steeper yield curve, with long-term rates rising 100 basis points and short-term rates staying at current levels, results in a 12-month pretax earnings benefit of $575 million. The increase in earnings is due to reinvestment of maturing assets at the higher long-term rates with funding costs remaining unchanged.

PRIVATE EQUITY RISK MANAGEMENT

For a discussion of Private Equity Risk Management, see page 105 of JPMorgan Chase s 2008 Annual Report. At June 30, 2009, and December 31, 2008, the carrying value of the Private Equity portfolio was $6.6 billion and $6.9 billion, respectively, of which $431 million and $483 million, respectively, represented positions traded in the public markets.

OPERATIONAL RISK MANAGEMENT

For a discussion of JPMorgan Chase s Operational Risk Management, refer to pages 105-106 of JPMorgan Chase s 2008 Annual Report.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

For a discussion of the Firm s Reputation and Fiduciary Risk Management, see page 106 of JPMorgan Chase s 2008 Annual Report.

SUPERVISION AND REGULATION

The following discussion should be read in conjunction with the Supervision and Regulation section on pages 1-4 of JPMorgan Chase s 2008 Form 10-K.

Dividends

At June 30, 2009, JPMorgan Chase s bank subsidiaries could pay, in the aggregate, $16.8 billion in dividends to their respective bank holding companies without prior approval of their relevant banking regulators.

CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

JPMorgan Chase s accounting policies and use of estimates are integral to understanding its reported results. The Firm s most complex accounting estimates require management s judgment to ascertain the value of assets and liabilities. The Firm has established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well-controlled, independently reviewed and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Firm believes its estimates for determining the value of its assets and liabilities are appropriate. The following is a brief description of the Firm s critical accounting estimates involving significant valuation judgments.

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Allowance for credit losses

JPMorgan Chase s allowance for credit losses covers the retained wholesale and consumer loan portfolios, as well as the Firm s portfolio of wholesale and consumer lending-related commitments. The allowance for loan losses is intended to adjust the value of the Firm s loan assets to reflect probable credit losses as of the balance sheet date. For a further discussion of the methodologies used in establishing the Firm s allowance for credit losses, see Note 14 on page 139 of JPMorgan Chase s 2008 Annual Report. The methodology for calculating the allowance for loan losses and the allowance for lending-related commitments involves significant judgment. For a further description of these judgments, see Allowance for Credit Losses on pages 107-108 of JPMorgan Chase s 2008 Annual Report; for amounts recorded as of June 30, 2009 and 2008, see Allowance for Credit Losses on page 78 and Note 14 on page 139 of this Form 10-Q.

As noted on page 107 of JPMorgan Chase s 2008 Annual Report, many factors can affect estimates of loss, including volatility of loss given default, probability of default and rating migrations. The Firm uses a risk-rating system to determine the credit quality of its wholesale loans. The Firm s wholesale allowance is sensitive to the risk rating assigned to a loan. Assuming a one-notch downgrade in the Firm s internal risk ratings for its entire wholesale portfolio, the allowance for loan losses for the wholesale portfolio would increase by approximately $1.9 billion as of June 30, 2009. This sensitivity analysis is hypothetical. In the Firm s view, the likelihood of a one-notch downgrade for all wholesale loans within a short timeframe is remote. The purpose of this analysis is to provide an indication of the impact of risk ratings on the estimate of the allowance for loan losses for wholesale loans. It is not intended to imply management s expectation of future deterioration in risk ratings. Given the process the Firm follows in determining the risk ratings of its loans, management believes the risk ratings currently assigned to wholesale loans are appropriate.

The allowance for credit losses for the consumer portfolio is sensitive to changes in the economic environment, delinquency status, credit bureau scores, the realizable value of collateral, borrower behavior and other risk factors, and is intended to represent management s best estimate of incurred losses as of the balance sheet date. The credit performance of the consumer portfolio across the entire consumer credit product spectrum continues to be negatively affected by the economic environment, as the weak labor market and overall economic conditions have resulted in increased delinquencies, while continued weak housing prices have driven a significant increase in loss severity. Significant judgment is required to estimate the duration and severity of the current economic downturn, as well as its potential impact on housing prices and the labor market. While the allowance for credit losses is highly sensitive to both home prices and unemployment rates, in the current market it is difficult to estimate how potential changes in one or both of these factors might impact the allowance for credit losses. For example, while both factors are important determinants of overall allowance levels, changes in one factor or the other may not occur at the same rate, or changes may be directionally inconsistent such that improvement in one factor may offset deterioration in the other. In addition, changes in these factors would not necessarily be consistent across geographies or product types. Finally, it is difficult to predict the extent to which changes in both or either of these factors will ultimately impact the frequency of losses, the severity of losses, or both; and overall loss rates are a function of both the frequency and severity of individual loan losses.

Fair value of financial instruments, MSRs and commodities inventory

JPMorgan Chase carries a portion of its assets and liabilities at fair value. The majority of such assets and liabilities are carried at fair value on a recurring basis. In addition, certain assets are carried at fair value on a nonrecurring basis, including loans accounted for at the lower of cost or fair value that are only subject to fair value adjustments under certain circumstances.

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Assets carried at fair value

The following table includes the Firm s assets carried at fair value and the portion of such assets that are classified within level 3 of the valuation hierarchy.

	June 30, 2009		December 31, 2008	
(in billions)	Total at fair value	Level 3 total	Total at fair value	Level 3 total
Trading debt and equity securities[(a)]	**$ 298.1**	**$ 39.2**	$ 347.4	$ 41.4
Derivative receivables gross	**1,797.5**	**57.9**	2,741.7	53.0
Netting adjustment -	**(1,700.0)**		(2,579.1)	
Derivative receivables net	**97.5**	**57.9**[(d)]	162.6	53.0[(d)]
AFS securities	**345.5**	**13.6**	205.9	12.4
Loans	**3.1**	**1.8**	7.7	2.7
MSRs	**14.6**	**14.6**	9.4	9.4
Private equity investments	**6.6**	**6.1**	6.9	6.4
Other[(b)]	**48.0**	**4.5**	46.5	5.0
Total assets carried at fair value on a recurring basis	**813.4**	**137.7**	786.4	130.3
Total assets carried at fair value on a nonrecurring basis[(c)]	**8.8**	**4.0**	11.0	4.3
Total assets carried at fair value	**$ 822.2**	**$141.7**[(e)]	$ 797.4	$134.6[(e)]
Less: level 3 assets for which the Firm does not bear economic exposure		**2.5**		21.2
Total level 3 assets for which the Firm bears economic exposure		**$139.2**		$113.4
Total Firm assets	**$ 2,026.6**		$ 2,175.1	
Level 3 assets as a percentage of total Firm assets		**7%**		6%
Level 3 assets for which the Firm bears economic exposure as a percentage of total Firm assets		**7**		5
Level 3 assets as a percentage of total Firm assets at fair value		**17**		17
Level 3 assets for which the Firm bears economic exposure as a percentage of total assets at fair value		**17**		14

(a) *Includes physical commodities carried at the*

lower of cost or fair value.

(b) Includes certain securities purchased under resale agreements, securities borrowed and other investments.

(c) Predominantly consists of debt financing and other loan warehouses held-for-sale and other assets.

(d) The Firm does not reduce derivative receivables and derivative payables balances for the FIN 39 netting adjustment, either within or across the levels of the fair value hierarchy, as such an adjustment is not relevant to a presentation that is based on the transparency of inputs to the valuation of an asset or liability. Therefore, the derivative balances reported in the fair value

hierarchy levels are gross of any netting adjustments. However, if the Firm were to net such balances, the reduction in the level 3 derivative receivables and derivative payables balances would be $20.2 billion at June 30, 2009.

(e) Included in the table above are $96.5 billion and $95.1 billion of level 3 assets, consisting of recurring and nonrecurring assets, carried by IB at June 30, 2009, and December 31, 2008, respectively. This includes $2.5 billion and $21.2 billion, respectively, of assets for which the Firm serves as an intermediary between two parties and does not bear economic exposure.

Valuation

For instruments classified within level 3 of the hierarchy, judgments used to estimate fair value may be significant. In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, due to the lack of observability of significant inputs, management must assess all relevant

empirical data in deriving valuation inputs including, but not limited to, yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Finally, management judgment must be applied to assess the appropriate level of valuation adjustments to reflect counterparty credit quality, the Firm s creditworthiness, constraints on liquidity and unobservable parameters, where relevant. The judgments made are typically affected by the type of product and its specific contractual terms, and the level of liquidity for the product or within the market as a whole. For further discussion of changes in level 3 assets, see Note 3 on pages 99-114 of this Form 10-Q.

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Imprecision in estimating unobservable market inputs can impact the amount of revenue or loss recorded for a particular position. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value for individual financial instruments, see Note 4 on pages 129-133 of JPMorgan Chase s 2008 Annual Report. In addition, for a further discussion of the significant judgments and estimates involved in the determination of the Firm s mortgage-related exposures, see Mortgage-related exposures carried at fair value in Note 4 on pages 139-141 of JPMorgan Chase s 2008 Annual Report.

Purchased credit-impaired loans

In connection with the Washington Mutual transaction, JPMorgan Chase acquired certain loans with evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that the Firm would be unable to collect all contractually required payments receivable. These purchased credit-impaired loans are accounted for in accordance with SOP 03-3. Many of the assumptions and estimates underlying the estimation of the initial fair value and the ongoing updates to management s expectation of future cash flows are both significant and judgmental, particularly considering the current economic environment. The level of future home price declines, the duration and severity of the current economic downturn, and the lack of market liquidity and transparency are factors that have influenced and may continue to affect these assumptions and estimates.

Under SOP 03-3, decreases in expected future cash payments may result in an impairment that would be recognized in the current period, while increases in expected future cash payments would typically result in increased interest income over the remaining lives of the loans. As of June 30, 2009, a 1% decrease in expected future principal cash payments for these loans would result in the recognition of an allowance for loan losses for these loans of approximately $900 million. For additional information on purchased credit-impaired loans, see page 110 of JPMorgan Chase s 2008 Annual Report.

Goodwill impairment

Management applies significant judgment when testing goodwill for impairment. For a description of the significant valuation judgments associated with goodwill impairment, see Goodwill impairment on pages 110-111 of JPMorgan Chase s 2008 Annual Report. During the second quarter, the Firm reviewed its most recent reporting unit valuations and updated discounted cash flow models for certain of its reporting units. The Firm concluded that goodwill allocated to all of its reporting units was not impaired at June 30, 2009.

Income taxes

For a description of the significant assumptions, judgments and interpretations associated with the accounting for income taxes, see Income taxes on page 111 of JPMorgan Chase s 2008 Annual Report.

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ACCOUNTING AND REPORTING DEVELOPMENTS

Business combinations/noncontrolling interests in consolidated financial statements

In December 2007, the FASB issued SFAS 141R and SFAS 160, which amend the accounting and reporting of business combinations, as well as noncontrolling (i.e., minority) interests. For JPMorgan Chase, SFAS 141R became effective for business combinations that close on or after January 1, 2009. SFAS 160 became effective for JPMorgan Chase for fiscal periods beginning January 1, 2009. In April 2009, the FASB issued FSP FAS 141(R)-1, which amends the accounting for contingencies acquired in a business combination.

SFAS 141R, as amended, will generally only impact the accounting for future business combinations and will impact certain aspects of business combination accounting, such as transaction costs and certain merger-related restructuring reserves, as well as the accounting for partial acquisitions where control is obtained by JPMorgan Chase. One exception to the prospective application of SFAS 141R relates to accounting for income taxes associated with business combinations that closed prior to January 1, 2009. Once the purchase accounting measurement period closes for these acquisitions, any further adjustments to income taxes recorded as part of these business combinations will impact income tax expense. Previously, further adjustments were predominantly recorded as adjustments to goodwill.

SFAS 160 requires that noncontrolling interests be accounted for and presented as equity if material, rather than as a liability or mezzanine equity. SFAS 160 s presentation and disclosure requirements are to be applied retrospectively. The adoption of the reporting requirements of this pronouncement was not material to the Firm s Consolidated Balance Sheets or results of operations.

Accounting for transfers of financial assets and repurchase financing transactions

In February 2008, the FASB issued FSP FAS 140-3, which requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer to be evaluated together as a linked transaction under SFAS 140, unless certain criteria are met. The Firm adopted FSP FAS 140-3 on January 1, 2009, for new transactions entered into after the date of adoption. The adoption of FSP FAS 140-3 did not have a material impact on the Consolidated Balance Sheets or results of operations.

Disclosures about derivative instruments and hedging activities FASB Statement No. 161

In March 2008, the FASB issued SFAS 161, which amends the disclosure requirements of SFAS 133. SFAS 161 requires increased disclosures about derivative instruments and hedging activities and their effects on an entity s financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The Firm adopted SFAS 161 on January 1, 2009. SFAS 161 only affected JPMorgan Chase s disclosures of derivative instruments and related hedging activities, and not its Consolidated Balance Sheets, results of operations or Consolidated Statements of Cash Flows.

Determining whether instruments granted in share-based payment transactions are participating securities

In June 2008, the FASB issued FSP EITF 03-6-1, which clarifies that unvested stock-based compensation awards containing nonforfeitable rights to dividends or dividend equivalents (collectively, dividends), are considered participating securities and therefore are included in the two-class method calculation of EPS. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The Firm adopted the FSP retrospectively effective January 1, 2009, and EPS data for all prior periods has been revised. Adoption of the FSP did not affect the Firm s results of operations, but basic and diluted EPS were reduced as disclosed in Note 21 on page 158 of this Form 10-Q.

Determining whether an instrument (or embedded feature) is indexed to an entity s own stock

In September 2008, the EITF issued EITF 07-5, which establishes a two-step process for evaluating whether equity-linked financial instruments and embedded features are indexed to a company s own stock for purposes of determining whether the derivative scope exception in SFAS 133 should be applied. EITF 07-5 is effective for fiscal years beginning after December 2008. The adoption of this EITF on January 1, 2009, did not have an impact on the Firm s Consolidated Balance Sheets or results of operations.

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The recognition and presentation of other-than-temporary impairment

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, which amends the other-than-temporary impairment model for debt securities. Under the FSP, an other-than-temporary-impairment must be recognized if an investor has the intent to sell the debt security or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. In addition, the FSP changes the amount of impairment to be recognized in current-period earnings when an investor does not have the intent to sell or if it is more likely than not that it will not be required to sell the debt security, as in these cases only the amount of the impairment associated with credit losses is recognized in income. The FSP also requires additional disclosures regarding the calculation of credit losses, as well as factors considered in reaching a conclusion that an investment is not other-than-temporarily impaired. The FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Firm elected to early adopt the FSP as of January 1, 2009. For additional information regarding the impact on the Firm of the adoption of the FSP, see Note 11 on pages 129 134 of this Form 10-Q.

Determining fair value when the volume and level of activity for the asset or liability have significantly decreased, and identifying transactions that are not orderly

In April 2009, the FASB issued FSP FAS 157-4. The FSP provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly declined. The FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. The FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted. The Firm elected to early adopt the FSP in the first quarter of 2009. The application of the FSP did not have an impact on the Firm s Consolidated Balance Sheets or results of operations.

Interim disclosures about fair value of financial instruments

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1. The FSP requires the SFAS 107 disclosures about the fair value of financial instruments to be presented in interim financial statements in addition to annual financial statements. The FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Firm adopted the additional disclosure requirements for second quarter reporting.

Employers disclosures about postretirement benefit plan assets

In December 2008, the FASB issued FSP FAS 132(R)-1, which requires more detailed disclosures about employers plan assets, including investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. This FSP is effective for fiscal years ending after December 15, 2009. The Firm intends to adopt these additional disclosure requirements on the effective date.

Accounting for transfers of financial assets and consolidation of variable interest entities

In June 2009, the FASB issued two new standards (SFAS 166 and SFAS 167), which amend the guidance of accounting for the transfers of financial assets and the consolidation of variable interest entities. SFAS 166 eliminates the concept of QSPEs and provides additional guidance with regard to accounting for transfers of financial assets. SFAS 167 changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and reward model to a qualitative model, based on control and economics. Both standards are effective for annual reporting periods beginning after November 15, 2009, including all interim periods within the first annual reporting period. Upon adoption, all existing QSPEs must be evaluated for consolidation. Entities expected to be impacted include revolving securitization entities, bank-administered asset-backed commercial paper conduits and certain mortgage securitization entities. Based on the provisions of SFAS 166, SFAS 167 and the Firm s interpretation of the new requirements, the Firm estimates that the impact of consolidation of Firm-sponsored QSPEs and VIEs, upon the implementation for SFAS 166 and SFAS 167 on January 1, 2010, could be up to $130.0 billion of assets; the resulting decrease in the Tier 1 capital ratio could be approximately 40 basis points. The ultimate impact could differ significantly, due to ongoing interpretations of the final rules and market conditions. Based on the current beliefs and expectations of JPMorgan Chase s management, the Firm does not expect to take additional actions in the third and fourth quarters of 2009 that would result in the consolidation of these vehicles prior to the implementation date of the new standards. Refer to Note 15 of this Form 10-Q for additional information about the Firm s consolidation of the

Washington Mutual Master Trust.

Subsequent events

In May 2009, the FASB issued SFAS 165, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The statement is effective for interim or annual financial periods ending after June 15, 2009. The Firm adopted the statement in the second quarter of 2009. The application of the statement did not have any impact on the Firm s Consolidated Balance Sheets or results of operations.

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JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per share data)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenue				
Investment banking fees	**$ 2,106**	$ 1,612	**$ 3,492**	$ 2,828
Principal transactions	**3,097**	752	**5,098**	(51)
Lending & deposit-related fees	**1,766**	1,105	**3,454**	2,144
Asset management, administration and commissions	**3,124**	3,628	**6,021**	7,224
Securities gains[(a)]	**347**	647	**545**	680
Mortgage fees and related income	**784**	696	**2,385**	1,221
Credit card income	**1,719**	1,803	**3,556**	3,599
Other income	**10**	(138)	**60**	1,691
Noninterest revenue	**12,953**	10,105	**24,611**	19,336
Interest income	**16,549**	16,529	**34,475**	34,061
Interest expense	**3,879**	8,235	**8,438**	18,108
Net interest income	**12,670**	8,294	**26,037**	15,953
Total net revenue	**25,623**	18,399	**50,648**	35,289
Provision for credit losses	**8,031**	3,455	**16,627**	7,879
Noninterest expense				
Compensation expense	**6,917**	6,913	**14,505**	11,864
Occupancy expense	**914**	669	**1,799**	1,317
Technology, communications and equipment expense	**1,156**	1,028	**2,302**	1,996
Professional & outside services	**1,518**	1,450	**3,033**	2,783
Marketing	**417**	413	**801**	959
Other expense	**2,190**	1,233	**3,565**	1,402
Amortization of intangibles	**265**	316	**540**	632
Merger costs	**143**	155	**348**	155
Total noninterest expense	**13,520**	12,177	**26,893**	21,108
Income before income tax expense	**4,072**	2,767	**7,128**	6,302
Income tax expense	**1,351**	764	**2,266**	1,926
Net income	**$ 2,721**	$ 2,003	**$ 4,862**	$ 4,376
Net income applicable to common stockholders	**$ 1,072**	$ 1,843	**$ 2,591**	$ 4,133

Net income per common share data				
Basic earnings per share	**$ 0.28**	$ 0.54	**$ 0.68**	$ 1.21
Diluted earnings per share	**0.28**	0.53	**0.68**	1.20
Weighted-average basic shares	**3,811.5**	3,426.2	**3,783.6**	3,411.1
Weighted-average diluted shares	**3,824.1**	3,453.1	**3,791.4**	3,438.2
Cash dividends declared per common share	**$ 0.05**	$ 0.38	**$ 0.10**	$ 0.76

(a) Securities gains for the three and six months ended June 30, 2009, respectively, included credit losses of $186 million and $191 million, consisting of $882 million and $887 million of gross unrealized losses, net of $696 million and $696 million recognized in other comprehensive income.

The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

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JPMORGAN CHASE & CO.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data)	June 30, 2009	December 31, 2008
Assets		
Cash and due from banks	**$ 25,133**	$ 26,895
Deposits with banks	**61,882**	138,139
Federal funds sold and securities purchased under resale agreements (included $18,996 and $20,843 at fair value at June 30, 2009, and December 31, 2008, respectively)	**159,170**	203,115
Securities borrowed (included $3,360 and $3,381 at fair value at June 30, 2009, and December 31, 2008, respectively)	**129,263**	124,000
Trading assets (included assets pledged of $82,702 and $75,063 at June 30, 2009, and December 31, 2008, respectively)	**395,626**	509,983
Securities (included $345,534 and $205,909 at fair value at June 30, 2009, and December 31, 2008, respectively, and assets pledged of $95,932 and $25,942 at June 30, 2009, and December 31, 2008, respectively)	**345,563**	205,943
Loans (included $3,073 and $7,696 at fair value at June 30, 2009, and December 31, 2008, respectively)	**680,601**	744,898
Allowance for loan losses	**(29,072)**	(23,164)
Loans, net of allowance for loan losses	**651,529**	721,734
Accrued interest and accounts receivable	**61,302**	60,987
Premises and equipment	**10,668**	10,045
Goodwill	**48,288**	48,027
Other intangible assets:		
Mortgage servicing rights	**14,600**	9,403
Purchased credit card relationships	**1,431**	1,649
All other intangibles	**3,651**	3,932
Other assets (included $32,225 and $29,199 at fair value at June 30, 2009, and December 31, 2008, respectively)	**118,536**	111,200
Total assets	**$ 2,026,642**	$ 2,175,052
Liabilities		
Deposits (included $3,787 and $5,605 at fair value at June 30, 2009, and December 31, 2008, respectively)	**$ 866,477**	$ 1,009,277
Federal funds purchased and securities loaned or sold under repurchase agreements (included $2,977 and $2,993 at fair value at June 30, 2009, and December 31, 2008, respectively)	**300,931**	192,546
Commercial paper	**42,713**	37,845
Other borrowed funds (included $16,264 and $14,713 at fair value at June 30, 2009, and December 31, 2008, respectively)	**73,968**	132,400
Trading liabilities	**123,218**	166,878
	171,685	187,978

Accounts payable and other liabilities (included the allowance for lending-related commitments of $746 and $659 at June 30, 2009, and December 31, 2008, respectively, and $441 and zero at fair value at June 30, 2009, and December 31, 2008, respectively)		
Beneficial interests issued by consolidated variable interest entities (included $1,763 and $1,735 at fair value at June 30, 2009, and December 31, 2008, respectively)	**20,945**	10,561
Long-term debt (included $53,442 and $58,214 at fair value at June 30, 2009, and December 31, 2008, respectively)	**254,226**	252,094
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	**17,713**	18,589
Total liabilities	**1,871,876**	2,008,168
Commitments and contingencies (see Note 23 of this Form 10-Q)		
Stockholders equity		
Preferred stock ($1 par value; authorized 200,000,000 shares at June 30, 2009, and December 31, 2008; issued 2,538,107 and 5,038,107 shares at June 30, 2009, and December 31, 2008, respectively)	**8,152**	31,939
Common stock ($1 par value; authorized 9,000,000,000 shares at June 30, 2009, and December 31, 2008; issued 4,104,933,895 and 3,941,633,895 shares at June 30, 2009, and December 31, 2008, respectively)	**4,105**	3,942
Capital surplus	**97,662**	92,143
Retained earnings	**56,355**	54,013
Accumulated other comprehensive income (loss)	**(3,438)**	(5,687)
Shares held in RSU Trust, at cost (1,926,714 and 4,794,723 shares at June 30, 2009, and December 31, 2008, respectively)	**(86)**	(217)
Treasury stock, at cost (180,799,067 and 208,833,260 shares at June 30, 2009, and December 31, 2008, respectively)	**(7,984)**	(9,249)
Total stockholders equity	**154,766**	166,884
Total liabilities and stockholders equity	**$ 2,026,642**	$ 2,175,052

The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

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JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)

(in millions, except per share data)	Six months ended June 30, **2009**	2008
Preferred stock		
Balance at January 1	**$ 31,939**	$
Issuance of preferred stock		6,000
Accretion of preferred stock discount on issuance to the U.S. Treasury	**1,213**	
Redemption of preferred stock issued to the U.S. Treasury	**(25,000)**	
Balance at June 30	**8,152**	6,000
Common stock		
Balance at January 1	**3,942**	3,658
Issuance of common stock	**163**	
Balance at June 30	**4,105**	3,658
Capital surplus		
Balance at January 1	**92,143**	78,597
Issuance of common stock	**5,589**	
Shares issued and commitments to issue common stock for employee stock-based compensation awards and related tax effects	**(70)**	(46)
Net change from the Bear Stearns merger:		
Reissuance of treasury stock and the Share Exchange agreement		48
Employee stock awards		271
Balance at June 30	**97,662**	78,870
Retained earnings		
Balance at January 1	**54,013**	54,715
Net income	**4,862**	4,376
Dividend declared:		
Preferred stock	**(1,003)**	(90)
Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	**(1,112)**	
Common stock ($0.10 and $0.76 per share for the six months ended June 30, 2009 and 2008, respectively)	**(405)**	(2,688)
Balance at June 30	**56,355**	56,313
Accumulated other comprehensive income (loss)		
Balance at January 1	**(5,687)**	(917)
Other comprehensive income (loss)	**2,249**	(649)
Balance at June 30	**(3,438)**	(1,566)

Shares held in RSU Trust		
Balance at January 1	**(217)**	
Resulting from the Bear Stearns merger		(269)
Reissuance from RSU Trust	**131**	
Balance at June 30	**(86)**	(269)
Treasury stock, at cost		
Balance at January 1	**(9,249)**	(12,832)
Reissuance from treasury stock	**1,284**	1,852
Share repurchases related to employee stock-based compensation awards	**(19)**	
Net change from the Bear Stearns merger as a result of the reissuance of treasury stock and the Share Exchange agreement		1,150
Balance at June 30	**(7,984)**	(9,830)
Total stockholders equity	**$ 154,766**	$ 133,176
Comprehensive income		
Net income	**$ 4,862**	$ 4,376
Other comprehensive income (loss)	**2,249**	(649)
Comprehensive income	**$ 7,111**	$ 3,727

The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

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JPMORGAN CHASE & CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Six months ended June 30, **2009**	2008
Operating activities		
Net income	**$ 4,862**	$ 4,376
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	**16,627**	7,879
Depreciation and amortization	**1,209**	1,503
Amortization of intangibles	**540**	632
Deferred tax benefit	**(2,276)**	(1,139)
Investment securities gains	**(545)**	(680)
Proceeds on sale of investment		(1,540)
Stock-based compensation	**1,672**	1,388
Originations and purchases of loans held-for-sale	**(9,850)**	(21,289)
Proceeds from sales, securitizations and paydowns of loans held-for-sale	**16,212**	22,660
Net change in:		
Trading assets	**140,934**	1,494
Securities borrowed	**(5,282)**	(3,396)
Accrued interest and accounts receivable	**(441)**	3,031
Other assets	**17,722**	(8,122)
Trading liabilities	**(61,751)**	13,383
Accounts payable and other liabilities	**(14,854)**	(1,669)
Other operating adjustments	**(1,520)**	5,462
Net cash provided by operating activities	**103,259**	23,973
Investing activities		
Net change in:		
Deposits with banks	**76,177**	(1,457)
Federal funds sold and securities purchased under resale agreements	**43,374**	(20,457)
Held-to-maturity securities:		
Proceeds	**5**	5
Available-for-sale securities:		
Proceeds from maturities	**47,129**	21,219
Proceeds from sales	**67,472**	32,438
Purchases	**(249,770)**	(88,119)
Proceeds from sales and securitization of loans held-for-investment	**17,897**	18,021
Other changes in loans, net	**37,593**	(41,648)
Net cash (used) received in business acquisitions or dispositions	**(18)**	444
Proceeds from asset sale to the FRBNY		28,850
Net purchases of asset-backed commercial paper guaranteed by the FRBB	**(3,257)**	
All other investing activities, net	**(2,172)**	(3,378)
Net cash provided by (used in) investing activities	**34,430**	(54,082)

Financing activities		
Net change in:		
Deposits	**(173,304)**	(2,564)
Federal funds purchased and securities loaned or sold under repurchase agreements	**107,281**	22,107
Commercial paper and other borrowed funds	**(53,690)**	(10,023)
Proceeds from the issuance of long-term debt and trust preferred capital debt securities	**38,079**	38,184
Repayments of long-term debt and trust preferred capital debt securities	**(34,924)**	(29,973)
Excess tax benefits related to stock-based compensation	**1**	121
Proceeds from issuance of preferred stock		6,000
Redemption of preferred stock issued to the U.S. Treasury	**(25,000)**	
Proceeds from issuance of common stock	**5,756**	
Cash dividends paid	**(2,681)**	(2,663)
All other financing activities, net	**(931)**	765
Net cash (used in) provided by financing activities	**(139,413)**	21,954
Effect of exchange rate changes on cash and due from banks	**(38)**	266
Net (decrease) in cash and due from banks	**(1,762)**	(7,889)
Cash and due from banks at the beginning of the year	**26,895**	40,144
Cash and due from banks at the end of the period	**$ 25,133**	$ 32,255
Cash interest paid	**$ 8,463**	$ 19,462
Cash income taxes paid	**3,837**	2,264

Note: In 2008, the fair value of noncash assets acquired and liabilities assumed in the merger with Bear Stearns were $288.2 billion and $287.7 billion, respectively; approximately 26 million shares of common stock, valued at approximately $1.2 billion, were issued in connection with

this merger.

The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

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See Glossary of Terms on pages 169 173 of this Form 10-Q for definitions of terms used throughout the Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BASIS OF PRESENTATION

JPMorgan Chase & Co. (JPMorgan Chase or the Firm), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America (U.S.), with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. For a discussion of the Firm s business segments information, see Note 25 on pages 163 166 of this Form 10-Q.

The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The unaudited consolidated financial statements prepared in conformity with U.S. GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense, and the disclosures of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in JPMorgan Chase s Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the U.S. Securities and Exchange Commission (the 2008 Annual Report).

Certain amounts in prior periods have been reclassified to conform to the current presentation.

NOTE 2 BUSINESS CHANGES AND DEVELOPMENTS

Decrease in common stock dividend

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

Acquisition of the banking operations of Washington Mutual Bank

Refer to Note 2 on pages 123 124 and 127 of JPMorgan Chase s 2008 Annual Report for a discussion of JPMorgan Chase s acquisition of the banking operations of Washington Mutual Bank (Washington Mutual) on September 25, 2008, including its purchase price and the allocation of the purchase price to net assets acquired and the resulting extraordinary gain. The acquisition is being accounted for under the purchase method of accounting in accordance with SFAS 141. The total purchase price to complete the acquisition was $1.9 billion, which was allocated to the Washington Mutual assets acquired and liabilities assumed using their fair values as of September 25, 2008. The allocation of the purchase price may be modified through September 25, 2009, as more information is obtained about the fair value of assets acquired and liabilities assumed.

Merger with The Bear Stearns Companies Inc.

Refer to Note 2 on pages 125 127 of JPMorgan Chase s 2008 Annual Report for a discussion of the merger on May 30, 2008, of a wholly-owned subsidiary of JPMorgan Chase with The Bear Stearns Companies Inc. (Bear Stearns). The merger is being accounted for under the purchase method of accounting in accordance with SFAS 141. The total purchase price to complete the merger was $1.5 billion, which was allocated to the Bear Stearns assets acquired and liabilities assumed using their fair values as of April 8, 2008, and May 30, 2008. The updated summary computation of the purchase price and the allocation of the purchase price to the net assets of Bear Stearns are presented below.

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(in millions, except for shares (in thousands), per share amounts and where otherwise noted)		
Purchase price		
Shares exchanged in the Share Exchange transaction (April 8, 2008)	95,000	
Other Bear Stearns shares outstanding	145,759	
Total Bear Stearns stock outstanding	240,759	
Cancellation of shares issued in the Share Exchange transaction	(95,000)	
Cancellation of shares acquired by JPMorgan Chase for cash in the open market	(24,061)	
Bear Stearns common stock exchanged as of May 30, 2008	121,698	
Exchange ratio	0.21753	
JPMorgan Chase common stock issued	26,473	
Average purchase price per JPMorgan Chase common share[(a)]	$ 45.26	
Total fair value of JPMorgan Chase common stock issued		$ 1,198
Bear Stearns common stock acquired for cash in the open market (24 million shares at an average share price of $12.37 per share)		298
Fair value of employee stock awards (largely to be settled by shares held in the RSU Trust[(b)])		242
Direct acquisition costs		27
Less: Fair value of Bear Stearns common stock held in the RSU Trust and included in the exchange of common stock		(269)[(b)]
Total purchase price		1,496
Net assets acquired		
Bear Stearns common stockholders equity	$ 6,052	
Adjustments to reflect assets acquired at fair value:		
Trading assets	(3,877)	
Premises and equipment	509	
Other assets	(288)	
Adjustments to reflect liabilities assumed at fair value:		
Long-term debt	504	
Other liabilities	(2,289)	
Fair value of net assets acquired excluding goodwill		611
Goodwill resulting from the merger[(c)]		$ 885

(a) The value of JPMorgan

Chase common stock was determined by averaging the closing prices of JPMorgan Chase s common stock for the four trading days during the period March 19, 2008, through March 25, 2008.

(b) Represents shares of Bear Stearns common stock held in an irrevocable grantor trust (the RSU Trust), to be used to settle stock awards granted to selected employees and certain key executives under certain heritage Bear Stearns employee stock plans. Shares in the RSU Trust were exchanged for 6 million shares of JPMorgan Chase common stock at the merger exchange ratio of 0.21753. For further discussion of the RSU Trust, see Note 10 on pages 155 157 of JPMorgan

Chase s 2008 Annual Report.

(c) *The goodwill was recorded in the Investment Bank and is not tax-deductible.*

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Condensed statement of net assets acquired
The following reflects the value assigned to Bear Stearns net assets as of the merger date.

(in millions)	May 30, 2008
Assets	
Cash and due from banks	**$ 534**
Federal funds sold and securities purchased under resale agreements	**21,204**
Securities borrowed	**55,195**
Trading assets	**136,489**
Loans	**4,407**
Accrued interest and accounts receivable	**34,677**
Goodwill	**885**
All other assets	**35,377**
Total assets	**$ 288,768**
Liabilities	
Federal funds purchased and securities loaned or sold under repurchase agreements	**$ 54,643**
Other borrowings	**16,166**
Trading liabilities	**24,267**
Beneficial interests issued by consolidated VIEs	**47,042**
Long-term debt	**67,015**
Accounts payable and other liabilities	**78,569**
Total liabilities	**287,702**
Bear Stearns net assets[(a)]	**$ 1,066**

(a) Reflects the fair value assigned to 49.4% of the Bear Stearns net assets acquired on April 8, 2008 (net of related amortization), and the fair value assigned to the remaining 50.6% of the Bear Stearns net assets acquired on May 30, 2008. The difference between the Bear Stearns net assets acquired,

as presented above, and the fair value of the net assets acquired (including goodwill), presented in the previous table, represents JPMorgan Chase s net losses recorded under the equity method of accounting.

Unaudited pro forma condensed combined financial information reflecting the Bear Stearns merger and Washington Mutual transaction

The following unaudited pro forma condensed combined financial information presents the results of operations of the Firm as they may have appeared for the three and six months ended June 30, 2008, if the Bear Stearns merger and the Washington Mutual transaction had been completed on January 1, 2008.

(in millions, except per share data)	Three months ended June 30, 2008	Six months ended June 30, 2008
Total net revenue	$ 14,181	$ 33,961
Net loss	(8,293)	(9,176)
Net loss per common share data[(a)]:		
Basic	$ (2.43)	$ (2.71)
Diluted[(b)]	(2.43)	(2.71)
Weighted-average common shares issued and outstanding		
Basic	3,435.1	3,427.0
Diluted[(b)]	3,435.1	3,427.0

(a) Effective January 1, 2009, the Firm implemented FSP EITF 03-6-1. Accordingly, prior period amounts have been revised. For further discussion of FSP EITF 03-6-1, see Note 21 on page 158 of this Form

10-Q.

(b) Common equivalent shares have been excluded from the pro forma computation of diluted loss per share for the three and six months ended June 30, 2008, as the effect would be antidilutive.

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The unaudited pro forma combined financial information is presented for illustrative purposes only, and it does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2008; nor is it indicative of the results of operations in future periods. Included in the unaudited pro forma combined financial information for the three and six months ended June 30, 2008, were pro forma adjustments to reflect the results of operations of Bear Stearns, and Washington Mutual s banking operations, considering the purchase accounting, valuation and accounting conformity adjustments related to each transaction. For the Washington Mutual transaction, the amortization of purchase accounting adjustments to report interest-earnings assets acquired and interest-bearing liabilities assumed at current interest rates is reflected. Valuation adjustments and the adjustment to conform allowance methodologies in the Washington Mutual transaction, and valuation and accounting conformity adjustments related to the Bear Stearns merger, are reflected in the results for the three and six months ended June 30, 2008.

Purchase of remaining interest in Highbridge Capital Management

On July 1, 2009, JPMorgan Chase completed its purchase of the remaining interest in Highbridge Capital Management, LLC.

Issuance of common stock

On June 2, 2009, the Firm issued $5.8 billion, or 163 million shares, of common stock. The common stock was issued to satisfy a regulatory supervisory condition requiring the Firm to demonstrate it could access the equity capital markets in order to be eligible to redeem the Series K preferred stock held by the U.S. Treasury. The proceeds from this issuance were used for general corporate purposes.

Subsequent events

The Firm has performed an evaluation of events that have occurred subsequent to June 30, 2009, and through August 10, 2009 (the date of the filing of this Form 10-Q). There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the Consolidated Financial Statements as of or for the three- and six-month periods ending June 30, 2009.

NOTE 3 FAIR VALUE MEASUREMENT

For a further discussion of JPMorgan Chase s valuation methodologies for assets, liabilities and lending-related commitments measured at fair value and the SFAS 157 valuation hierarchy, see Note 4 on pages 129 143 of JPMorgan Chase s 2008 Annual Report.

During the first half of 2009, there were no material changes made to the Firm s valuation models.

For a further discussion of the accounting for trading assets and liabilities, and private equity investments, see Note 6 on pages 146 148 of JPMorgan Chase s 2008 Annual Report.

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The following table presents the financial instruments carried at fair value as of June 30, 2009, and December 31, 2008, by major product category and by the SFAS 157 valuation hierarchy.

Assets and liabilities measured at fair value on a recurring basis

	Fair value hierarchy				
June 30, 2009 (in millions)	Level 1	Level 2	Level 3	FIN 39 netting[g]	Total fair value
Federal funds sold and securities purchased under resale agreements	**$**	**$ 18,996**	**$**	**$**	**$ 18,996**
Securities borrowed		**3,360**			**3,360**
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. government agencies[a]	**41,928**	**6,485**	**257**		**48,670**
Residential nonagency[b]		**1,027**	**2,832**		**3,859**
Commercial nonagency[b]		**263**	**1,850**		**2,113**
Total mortgage-backed securities	**41,928**	**7,775**	**4,939**		**54,642**
U.S. Treasury and government agencies[a]	**24,302**	**48**			**24,350**
Obligations of U.S. states and municipalities		**7,211**	**2,416**		**9,627**
Certificates of deposit, bankers acceptances and commercial paper		**3,276**			**3,276**
Non-U.S. government debt securities	**28,546**	**27,562**	**726**		**56,834**
Corporate debt securities		**40,617**	**5,482**		**46,099**
Loans		**15,949**	**15,208**		**31,157**
Asset-backed securities		**1,919**	**7,683**		**9,602**
Total debt instruments	**94,776**	**104,357**	**36,454**		**235,587**
Equity securities	**50,712**	**3,994**	**1,509**		**56,215**
Physical commodities[c]	**984**	**2,498**			**3,482**
Other		**1,582**	**1,269**		**2,851**
Total debt and equity instruments	**146,472**	**112,431**	**39,232**		**298,135**
Derivative receivables[d]	**2,998**	**1,736,643**	**57,896**	**(1,700,046)**	**97,491**
Total trading assets	**149,470**	**1,849,074**	**97,128**	**(1,700,046)**	**395,626**
Available-for-sale securities:					
Mortgage-backed securities:					
U.S. government agencies[a]	**176,701**	**3,738**			**180,439**
Residential nonagency[b]		**11,273**	**1,090**		**12,363**
Commercial nonagency[b]		**4,235**			**4,235**
Total mortgage-backed securities	**176,701**	**19,246**	**1,090**		**197,037**

U.S. Treasury and government agencies[a]	**695**	**33,983**			**34,678**
Obligations of U.S. states and municipalities		**5,532**	**474**		**6,006**
Certificates of deposit		**5,603**			**5,603**
Non-U.S. government debt securities	**5,034**	**11,317**			**16,351**
Corporate debt securities	**3,714**	**44,510**	**52**		**48,276**
Asset-backed securities:					
Credit card receivables		**22,243**			**22,243**
Collateralized debt and loan obligations		**10**	**11,489**		**11,499**
Other		**1,428**	**445**		**1,873**
Equity securities	**1,818**	**89**	**61**		**1,968**
Total available-for-sale securities	**187,962**	**143,961**	**13,611**		**345,534**
Loans		**1,317**	**1,756**		**3,073**
Mortgage servicing rights			**14,600**		**14,600**
Other assets:					
Private equity investments[e]	**139**	**292**	**6,129**		**6,560**
All other	**6,655**	**14,521**	**4,489**		**25,665**
Total other assets	**6,794**	**14,813**	**10,618**		**32,225**
Total assets measured at fair value on a recurring basis	**$344,226**	**$2,031,521**	**$137,713**	**$(1,700,046)**	**813,414**
Less: Level 3 assets for which the Firm does not bear economic exposure[f]			**2,526**		
Total recurring level 3 assets for which the Firm bears economic exposure			**$135,187**		

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	Fair value hierarchy				
June 30, 2009 (in millions)	Level 1	Level 2	Level 3	FIN 39 netting[g]	Total fair value
Deposits	**$**	**$ 3,160**	**$ 627**	**$**	**$ 3,787**
Federal funds purchased and securities loaned or sold under repurchase agreements		**2,977**			**2,977**
Other borrowed funds		**16,130**	**134**		**16,264**
Trading liabilities:					
Debt and equity instruments	**44,044**	**11,924**	**53**		**56,021**
Derivative payables[d]	**2,882**	**1,706,874**	**39,548**	**(1,682,107)**	**67,197**
Total trading liabilities	**46,926**	**1,718,798**	**39,601**	**(1,682,107)**	**123,218**
Accounts payable and other liabilities		**4**	**437**		**441**
Beneficial interests issued by consolidated VIEs		**703**	**1,060**		**1,763**
Long-term debt		**35,969**	**17,473**		**53,442**
Total liabilities measured at fair value on a recurring basis	**$46,926**	**$1,777,741**	**$59,332**	**$(1,682,107)**	**$201,892**

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	Fair value hierarchy				
December 31, 2008 (in millions)	Level 1	Level 2	Level 3	FIN 39 netting[g]	Total fair value
Federal funds sold and securities purchased under resale agreements	$	$ 20,843	$	$	$ 20,843
Securities borrowed		3,381			3,381
Trading assets[h]:					
Debt instruments:					
Mortgage-backed securities:					
U.S. government agencies[a]	48,761	9,984	163		58,908
Residential nonagency[b]		658	3,339		3,997
Commercial nonagency[b]		329	2,487		2,816
Total mortgage-backed securities	48,761	10,971	5,989		65,721
U.S. Treasury and government agencies[a]	29,646	1,659			31,305
Obligations of U.S. states and municipalities		10,361	2,641		13,002
Certificates of deposit, bankers acceptances and commercial paper	1,180	6,312			7,492
Non-U.S. government debt securities	19,986	17,954	707		38,647
Corporate debt securities	1	55,042	5,280		60,323
Loans		14,711	17,091		31,802
Asset-backed securities		2,414	7,106		9,520
Total debt instruments	99,574	119,424	38,814		257,812
Equity securities	73,174	3,992	1,380		78,546
Physical commodities[c]		3,581			3,581
Other	4	6,188	1,226		7,418
Total debt and equity instruments	172,752	133,185	41,420		347,357
Derivative receivables[d]	3,630	2,685,101	52,991	(2,579,096)	162,626
Total trading assets	176,382	2,818,286	94,411	(2,579,096)	509,983
Available-for-sale securities[h]:					
Mortgage-backed securities:					
U.S. government agencies[a]	109,009	8,376			117,385
Residential nonagency[b]		9,115	49		9,164
Commercial nonagency[b]		3,939			3,939
Total mortgage-backed securities	109,009	21,430	49		130,488
U.S. Treasury and government agencies[a]	615	9,742			10,357
	34	2,463	838		3,335

Obligations of U.S. states and municipalities					
Certificates of deposit		17,282			17,282
Non-U.S. government debt securities	6,112	2,232			8,344
Corporate debt securities		9,497	57		9,554
Asset-backed securities:					
Credit card receivables		11,391			11,391
Collateralized debt and loan obligations			11,195		11,195
Other		643	252		895
Equity securities	3,053	15			3,068
Total available-for-sale securities	118,823	74,695	12,391		205,909
Loans		5,029	2,667		7,696
Mortgage servicing rights			9,403		9,403
Other assets:					
Private equity investments[(e)]	151	332	6,369		6,852
All other	5,977	11,355	5,015		22,347
Total other assets	6,128	11,687	11,384		29,199
Total assets measured at fair value on a recurring basis	$301,333	$2,933,921	$130,256	$(2,579,096)	$786,414
Less: Level 3 assets for which the Firm does not bear economic exposure[(f)]			21,169		
Total recurring level 3 assets for which the Firm bears economic exposure			$109,087		

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	Fair value hierarchy				
December 31, 2008 (in millions)	Level 1	Level 2	Level 3	FIN 39 netting[g]	Total fair value
Deposits	$	$ 4,370	$ 1,235	$	$ 5,605
Federal funds purchased and securities loaned or sold under repurchase agreements		2,993			2,993
Other borrowed funds		14,612	101		14,713
Trading liabilities:					
Debt and equity instruments	34,568	10,418	288		45,274
Derivative payables[d]	3,630	2,622,371	43,484	(2,547,881)	121,604
Total trading liabilities	38,198	2,632,789	43,772	(2,547,881)	166,878
Accounts payable and other liabilities					
Beneficial interests issued by consolidated VIEs		1,735			1,735
Long-term debt		41,666	16,548		58,214
Total liabilities measured at fair value on a recurring basis	$38,198	$2,698,165	$61,656	$(2,547,881)	$250,138

(a) Includes total U.S. government-sponsored enterprise obligations of $222.9 billion and $182.1 billion at June 30, 2009, and December 31, 2008, respectively, which were predominantly mortgage-related.

(b) For further discussion of residential and commercial mortgage-backed securities, see the Mortgage-related exposure carried at fair value section of this Note on pages 110 111.

(c) Physical commodities inventories are

accounted for at the lower of cost or fair value.

(d) Derivative receivables and derivative payables balances are presented net on the Consolidated Balance Sheets where there is a legally enforceable master netting agreement in place with counterparties. For purposes of the table above, the Firm does not reduce the derivative receivables and derivative payables balances for this netting adjustment, either within or across the levels of the fair value hierarchy, as such netting is not relevant to a presentation that is based on the transparency of inputs to the valuation of an asset or liability. Therefore, the balances reported in the fair value hierarchy table are gross of any counterparty netting adjustments. However, if the Firm were to net such balances, the reduction in the level 3 derivative receivables and derivative payables balances would be $20.2 billion at June 30, 2009.

(e) Private equity instruments represent investments within the Corporate/Private Equity line of business.

The cost of the private equity investment portfolio was $8.5 billion and $8.3 billion at June 30, 2009, and December 31, 2008, respectively.

(f) Includes assets for which the Firm serves as an intermediary between two parties and does not bear market risk. The assets are predominantly reflected within derivative receivables.

(g) As permitted under FIN 39, the Firm has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists.

(h) Prior periods have been revised to conform to the current presentation.

Changes in level 3 recurring fair value measurements

The following tables include a rollforward of the balance sheet amounts for the three and six months ended June 30, 2009 and 2008 (including changes in fair value), for financial instruments classified by the Firm within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3, the determination is based on the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, the Firm risk manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the valuation hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the following tables do not reflect the effect of the Firm s risk management activities related to such level 3 instruments.

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	Fair value measurements using significant unobservable inputs					
Three months ended June 30, 2009 (in millions)	Fair value, March 31, 2009	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3	Fair value, June 30, 2009	Change in unrealized gains/(losses) related to financial instruments held at June 30, 2009
Assets:						
Trading assets:						
Debt instruments:						
Mortgage-backed securities:						
U.S. government agencies	**$ 288**	**$ (23)**	**$ (10)**	**$ 2**	**$ 257**	**$ (23)**
Residential-nonagency[(a)]	**2,469**	**(183)**	**563**	**(17)**	**2,832**	**(197)**
Commercial-nonagency[(a)]	**1,890**	**(11)**	**(29)**		**1,850**	**(48)**
Total mortgage-backed securities	**4,647**	**(217)**	**524**	**(15)**	**4,939**	**(268)**
Obligations of U.S. states and municipalities	**2,482**	**32**	**(98)**		**2,416**	**(8)**
Non-U.S. government debt securities	**737**	**21**	**(32)**		**726**	**4**
Corporate debt securities	**6,144**	**(21)**	**(752)**	**111**	**5,482**	**(44)**
Loans	**16,046**	**362**	**(866)**	**(334)**	**15,208**	**351**
Asset-backed securities	**6,488**	**887**	**490**	**(182)**	**7,683**	**828**
Total debt instruments	**36,544**	**1,064**	**(734)**	**(420)**	**36,454**	**863**
Equity securities	**963**	**29**	**(98)**	**615**	**1,509**	**17**
Other	**1,200**	**(20)**	**47**	**42**	**1,269**	**(9)**
Total debt and equity instruments	**38,707**	**1,073**[(d)(e)]	**(785)**	**237**	**39,232**	**871**[(d)(e)]
Net derivative receivables	**19,148**	**(5,707)**[(d)]	**759**	**4,148**	**18,348**	**(3,932)**[(d)]
Available-for-sale securities:						
Asset-backed securities	**11,078**	**767**	**89**		**11,934**	**767**
Other	**1,385**	**(60)**	**346**	**6**	**1,677**	**50**
Total available-for-sale securities	**12,463**	**707**[(f)]	**435**	**6**	**13,611**	**817**[(f)]
Loans	**2,987**	**(73)**[(d)]	**(1,112)**	**(46)**	**1,756**	**(116)**[(d)]
Mortgage servicing rights	**10,634**	**3,831**[(e)]	**135**		**14,600**	**3,831**[(e)]
Other assets:						

Private equity investments[(b)]	**6,245**	**(135)**[(d)]	**20**	**(1)**	**6,129**	**(145)**[(d)]
All other	**4,419**	**(116)**[(g)]	**189**	**(3)**	**4,489**	**(120)**[(g)]
Liabilities[(c)]:						
Deposits	**$ (928)**	**$ (9)**[(d)]	**$ 310**	**$**	**$ (627)**	**$ (9)**[(d)]
Other borrowed funds	**(47)**	**(9)**[(d)]	**(40)**	**(38)**	**(134)**	**(8)**[(d)]
Trading liabilities:						
Debt and equity instruments	**(257)**	**4**[(d)]	**200**		**(53)**	**9**[(d)]
Accounts payable and other liabilities	**(6)**	**2**[(d)]	**(433)**		**(437)**	**4**[(d)]
Beneficial interests issued by consolidated VIEs	**(502)**	**(161)**[(d)]	**482**	**(879)**	**(1,060)**	**(160)**[(d)]
Long-term debt	**(16,657)**	**(883)**[(d)]	**1,233**	**(1,166)**	**(17,473)**	**(1,077)**[(d)]

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	Fair value measurements using significant unobservable inputs					
Three months ended June 30, 2008 (in millions)	Fair value, March 31, 2008	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3	Fair value, June 30, 2008	Change in unrealized gains/(losses) related to financial instruments held at June 30, 2008
Assets:						
Trading assets:						
Debt and equity instruments	$ 40,827	$(2,053)[d][e]	$ 17,426	$2,696	$ 58,896	$ (2,261)[d][e]
Net derivative receivables	3,053	1,081[d]	1,576	265	5,975	(33)[d]
Available-for-sale securities	336	(8)[f]	2	(59)	271	(8)[f]
Loans	8,456	(122)[d]	699	(704)	8,329	(188)[d]
Mortgage servicing rights	8,419	1,516[e]	1,682		11,617	1,516[e]
Other assets:						
Private equity investments[b]	6,002	453[d]	546		7,001	71[d]
All other	3,267	(41)[g]	1,730	(25)	4,931	(55)[g]
Liabilities[c]:						
Deposits	$ (1,208)	$ (63)[d]	$ (7)	$ (50)	$ (1,328)	$ (64)[d]
Other borrowed funds	(139)	(97)[d]	(63)	(1)	(300)	[d]
Trading liabilities:						
Debt and equity instruments	(727)	21[d]	(164)		(870)	(162)[d]
Accounts payable and other liabilities						
Beneficial interests issued by consolidated VIEs	(51)	(7)[d]	(7,524)	(569)	(8,151)	(7)[d]
Long-term debt	(21,104)	(263)[d]	(1,485)	(124)	(22,976)	(409)[d]

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	Fair value measurements using significant unobservable inputs					
Six months ended June 30, 2009 (in millions)	Fair value, January 1, 2009	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3	Fair value, June 30, 2009	Change in unrealized gains/(losses) related to financial instruments held at June 30, 2009
Assets:						
Trading assets:						
Debt instruments:						
Mortgage-backed securities:						
U.S. government agencies	**$ 163**	**$ (35)**	**$ 56**	**$ 73**	**$ 257**	**$ (34)**
Residential nonagency[g]	**3,339**	**(548)**	**567**	**(526)**	**2,832**	**(590)**
Commercial nonagency[g]	**2,487**	**(241)**	**(245)**	**(151)**	**1,850**	**(97)**
Total mortgage-backed securities	**5,989**	**(824)**	**378**	**(604)**	**4,939**	**(721)**
Obligations of U.S. states and municipalities	**2,641**	**53**	**(278)**		**2,416**	**(25)**
Non-U.S. government debt securities	**707**	**25**	**(40)**	**34**	**726**	**2**
Corporate debt securities	**5,280**	**(164)**	**(3,102)**	**3,468**	**5,482**	**(88)**
Loans	**17,091**	**(1,188)**	**(954)**	**259**	**15,208**	**(1,117)**
Asset-backed securities	**7,106**	**669**	**128**	**(220)**	**7,683**	**574**
Total debt instruments	**38,814**	**(1,429)**	**(3,868)**	**2,937**	**36,454**	**(1,375)**
Equity securities	**1,380**	**(247)**	**(359)**	**735**	**1,509**	**(171)**
Other	**1,226**	**(107)**	**94**	**56**	**1,269**	**80**
Total debt and equity instruments	**41,420**	**(1,783)**[d][e]	**(4,133)**	**3,728**	**39,232**	**(1,466)**[d][e]
Net derivative receivables	**9,507**	**(4,938)**[d]	**(2,233)**	**16,012**	**18,348**	**(4,870)**
Available-for-sale securities:						
Asset-backed securities	**11,447**	**(138)**	**450**	**175**	**11,934**	**(331)**
Other	**944**	**(60)**	**247**	**546**	**1,677**	**50**
Total available-for-sale securities	**12,391**	**(198)**[f]	**697**	**721**	**13,611**	**(281)**[f]
Loans	**2,667**	**(478)**[d]	**(1,309)**	**876**	**1,756**	**(433)**[d]

Mortgage servicing rights	**9,403**	**5,141**[(e)]	**56**		**14,600**	**5,141**[(e)]
Other assets:						
Private equity investments[(b)]	**6,369**	**(473)**[(d)]	**163**	**70**	**6,129**	**(459)**[(d)]
All other	**5,015**	**(534)**[(g)]	**66**	**(58)**	**4,489**	**(524)**[(g)]
Liabilities[(c)]:						
Deposits	**$ (1,235)**	**$ (23)**[(d)]	**$ 693**	**$ (62)**	**$ (627)**	**$ (36)**[(d)]
Other borrowed funds	**(101)**	**86**[(d)]	**(76)**	**(43)**	**(134)**	**(5)**[(d)]
Trading liabilities:						
Debt and equity instruments	**(288)**	**(58)**[(d)]	**290**	**3**	**(53)**	**2**[(d)]
Accounts payable and other liabilities		**4**[(d)]	**(441)**		**(437)**	**4**[(d)]
Beneficial interests issued by consolidated VIEs		**(161)**[(d)]	**(20)**	**(879)**	**(1,060)**	**(160)**[(d)]
Long-term debt	**(16,548)**	**(41)**[(d)]	**2,551**	**(3,435)**	**(17,473)**	**(464)**[(d)]

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	Fair value measurements using significant unobservable inputs					
Six months ended June 30, 2008 (in millions)	Fair value, January 1, 2008	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3	Fair value, June 30, 2008	Change in unrealized gains/(losses) related to financial instruments held at June 30, 2008
Assets:						
Trading assets:						
Debt and equity instruments	$ 24,066	$(3,212)[d][e]	$ 21,311	$16,731	$ 58,896	$ (2,646)[d][e]
Net derivative receivables	633	2,793[d]	1,839	710	5,975	1,530[d]
Available-for-sale securities	101	(109)[f]	338	(59)	271	(8)[f]
Loans	8,380	(321)[d]	974	(704)	8,329	(258)[d]
Mortgage servicing rights	8,632	884[e]	2,101		11,617	884[e]
Other assets:						
Private equity investments[b]	6,763	662[d]	(424)		7,001	5[d]
All other	3,160	(13)[g]	1,776	8	4,931	44[g]
Liabilities[c]:						
Deposits	$ (1,161)	$ (77)[d]	$ (38)	$ (52)	$ (1,328)	$ (83)[d]
Other borrowed funds	(105)	(61)[d]	(201)	67	(300)	22[d]
Trading liabilities:						
Debt and equity instruments	(480)	(72)[d]	(175)	(143)	(870)	(251)[d]
Accounts payable and other liabilities	(25)	25[d]				
Beneficial interests issued by consolidated VIEs	(82)	24[d]	(7,524)	(569)	(8,151)	24[d]
Long-term debt	(21,938)	(37)[d]	(396)	(605)	(22,976)	(36)[d]

(a) For further discussion of residential and commercial mortgage-backed securities, see the Mortgage-related exposures carried at fair value

section of this Note on pages 110 111.

(b) Private equity instruments represent investments within the Corporate/Private Equity line of business. The cost of the private equity investment portfolio was $8.5 billion and $8.3 billion at June 30, 2009, and December 31, 2008, respectively.

(c) Level 3 liabilities as a percentage of total Firm liabilities accounted for at fair value (including liabilities carried at fair value on a nonrecurring basis) were 29% and 25% at June 30, 2009, and December 31, 2008, respectively.

(d) Reported in principal transactions revenue.

(e) Changes in fair value for Retail Financial Services mortgage loans originated with the intent to sell, and mortgage servicing rights are measured at fair value and reported in mortgage fees and related income.

(f) Realized gains (losses) and credit-related unrealized losses are reported in securities gains (losses). Unrealized gains (losses) not related to credit are reported in accumulated other comprehensive income (loss).

(g) Reported in other income.

Assets and liabilities measured at fair value on a nonrecurring basis

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following tables present assets and liabilities carried on the Consolidated Balance Sheets as well as off balance sheet instruments by caption and level within the SFAS 157 valuation hierarchy (as described above) as of June 30, 2009, and December 31, 2008, for which a nonrecurring change in fair value has been recorded during the reporting period.

	Fair value hierarchy			
June 30, 2009 (in millions)	Level 1	Level 2	Level 3	Total fair value
Loans[(a)]	**$**	**$4,399**	**$3,537**	**$ 7,936**
Other real estate owned		**441**	**134**	**575**
Other assets			**313**	**313**
Total other assets		**441**	**447**	**888**
Total assets at fair value on a nonrecurring basis	**$**	**$4,840**	**$3,984**	**$ 8,824**
Accounts payable and other liabilities[(b)]	**$**	**$ 147**	**$ 90**	**$ 237**
Total liabilities at fair value on a nonrecurring basis	**$**	**$ 147**	**$ 90**	**$ 237**

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	Fair value hierarchy			
December 31, 2008 (in millions)	Level 1	Level 2	Level 3	Total fair value
Loans[(a)]	$	$4,991	$3,999	$ 8,990
Other real estate owned		706	103	809
Other assets		1,057	188	1,245
Total other assets		1,763	291	2,054
Total assets at fair value on a nonrecurring basis	$	$6,754	$4,290	$ 11,044
Accounts payable and other liabilities[(b)]	$	$ 212	$ 98	$ 310
Total liabilities at fair value on a nonrecurring basis	$	$ 212	$ 98	$ 310

(a) Includes leveraged lending and other loan warehouses held-for-sale.

(b) Represents the fair value adjustment associated with $887 million and $1.5 billion of unfunded held-for-sale lending-related commitments within the leveraged lending portfolio at June 30, 2009, and December 31, 2008, respectively.

Nonrecurring fair value changes

The following table presents the total change in value of financial instruments for which a fair value adjustment has been included in the Consolidated Statements of Income for the three and six months ended June 30, 2009 and 2008, related to financial instruments held at June 30, 2009 and 2008.

(in millions)	Three months ended June 30, **2009**	2008	Six months ended June 30, **2009**	2008
Loans	**$(1,347)**	$(861)	**$(2,327)**	$(1,617)
Other assets	**(154)**	(76)	**(250)**	(151)
Accounts payable and other liabilities	**16**		**47**	
Total nonrecurring fair value gains (losses)	**$(1,485)**	$(937)	**$(2,530)**	$(1,768)

In the above table, loans predominantly include: (1) write-downs of delinquent Retail Financial Services (RFS) mortgage and home equity loans where impairment is based on the fair value of the underlying collateral and (2) the change in fair value for the Investment Bank (IB) leveraged lending and warehouse loans carried on the balance sheet at the lower of cost or fair value. Accounts payable and other liabilities predominantly include the change in fair value for unfunded lending-related commitments within the leveraged lending portfolio.

Level 3 analysis

Consolidated Balance Sheets changes

Level 3 assets (including assets measured at fair value on a nonrecurring basis) were 7% of total Firm assets at June 30, 2009. The following describes significant changes to level 3 assets during the quarter.

For the three months ended June 30, 2009

Level 3 assets decreased by $7.0 billion in the second quarter of 2009, largely due to $11.5 billion decrease in derivative receivables predominantly due to changes in credit spreads. This decrease was partially offset by a $4.0 billion increase in mortgage servicing rights (MSRs) primarily due to market interest rate and other changes impacting the Firm s estimate of future prepayments, as well as sales in RFS of originated loans for which servicing rights were retained.

For the six months ended June 30, 2009

Level 3 assets increased by $7.2 billion in the first half of 2009 due to the following:

Transfer of structured credit derivative receivables resulting from a decrease in transaction activity and the lack of observable market data. At June 30, 2009, the fair value of these receivables was approximately $32.3 billion. Offsetting these receivables were derivative payables with a fair value of $17.5 billion at June 30, 2009.

$5.2 billion increase in mortgage servicing rights (MSRs) primarily due to market interest rate and other changes impacting the Firm s estimate of future prepayments, as well as sales in RFS of originated loans for which servicing rights were retained.

$3.1 billion transfer of certain structured notes reflecting lower liquidity and pricing observability in the first quarter.

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The increase in level 3 assets described above was partially offset by:

- $17.7 billion transfer of single-name CDS on ABS from level 3 to level 2, resulting from a decline in pricing uncertainty. The fair value of these assets is generally based on observable market data from third-party transactions, benchmarking to relevant indices such as the Asset-Backed Securities Index (ABX), and calibration to other available market information such as broker quotes.
- $11.2 billion of derivative receivables principally due to changes in credit spreads.
- $3.6 billion related to sales of CDS positions on CMBS and RMBS.
- $3.1 billion related to sales and unwinds of structured transactions with hedge funds.
- $2.8 billion decrease in trading assets debt and equity, primarily in residential and commercial mortgage-backed securities and loans, principally driven by markdowns and sales, partially offset by increases of $577 million in certain asset-backed securities.

Gains and Losses

The Firm risk manages level 3 financial instruments using securities and derivative positions classified within level 1 or 2 of the valuation hierarchy; the effect of these risk management activities is not reflected in the level 3 gains and losses included in the tables above.

Three months ended June 30, 2009

Included in the tables for the three months ended June 30, 2009, were gains and losses resulting from:

- $3.8 billion in gains on MSRs.
- $1.1 billion in gains on trading debt and equity instruments, primarily from certain asset-backed securities.
- $5.7 billion of net losses on derivatives primarily related to changes in credit spreads.
- $883 million of losses related to structured note liabilities, primarily due to volatility in the equity markets.

Three months ended June 30, 2008

Included in the tables for the three months ended June 30, 2008, were gains and losses resulting from:

- $2.1 billion of losses on trading debt and equity instruments, principally from mortgage-related transactions;
- $700 million of losses on leveraged loans. Leveraged loans are typically classified as held-for-sale and measured at the lower of cost of fair value and therefore included in the nonrecurring fair value assets;
- $1.5 billion of gains on MSRs;
- Net gains of approximately $1.1 billion, principally related to equity derivatives transactions; and
- Gains on private equity instruments of approximately $450 million.

Six months ended June 30, 2009

Included in the tables for the first six months of 2009 were gains and losses resulting from:

- $5.1 billion of gains on MSRs.
- $4.9 billion of net losses on derivatives primarily related to changes in credit spreads and changes in interest rates.
- $2.5 billion of losses on trading debt and equity instruments, primarily related to residential and commercial loans and mortgage-backed securities and principally driven by markdowns and sales. These losses were partially offset by $669 million in gains on certain asset-backed securities. For a further discussion of the gains and losses on mortgage-related exposures inclusive of risk management activities, see the Mortgage-related exposures carried at fair value discussion below.
- $850 million of losses on leveraged loans. Leveraged loans are primarily classified as held-for-sale and measured at the lower of cost or fair value and therefore included in nonrecurring fair value assets.

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Six months ended June 30, 2008

Included in the tables for the first six months of 2008 were gains and losses resulting from:

- Losses on trading debt and equity instruments of approximately $3.2 billion, principally from mortgage-related transactions and auction-rate securities;
- Losses of approximately $1.6 billion on leveraged loans. Leveraged loans are typically classified as held-for-sale and measured at the lower of cost or fair value and therefore included in the nonrecurring fair value assets;
- Net gains of $2.8 billion related to fixed income and equity derivatives;
- Gains of $884 million on MSRs; and
- Private equity gains of approximately $650 million.

For further information on changes in the fair value of the MSRs see Note 17 on pages 154 155 of this Form 10-Q.

Mortgage-related exposures carried at fair value

The following table provides a summary of the Firm s mortgage-related exposures, including the impact of risk management activities. These exposures include all mortgage-related securities and loans carried at fair value regardless of their classification within the fair value hierarchy. The table below summarizes the Firm s mortgage-related exposures that are carried at fair value through earnings or at the lower of cost or fair value; the table excludes mortgage-related securities held in the available-for-sale portfolio, which are reported on page 111 of this Form 10-Q.

	Exposure as of		Exposure as of December 31,		Net gains/(losses) reported in income[f]			
	June 30, 2009		2008[e]		Three months ended June 30,		Six months ended June 30,	
(in millions)	Gross	Net of risk Management activities[d]	Gross	Net of risk Management activities[d]	**2009**	2008	**2009**	2008
U.S. residential mortgage:[a][b][c]								
Prime	**$4,304**	**$4,304**	$4,612	$4,612				
Alt-A	**3,377**	**3,210**	3,934	3,917				
	7,681	**7,514**	8,546	8,529	**$246**	$(166)	**$(191)**	$(1,279)
Subprime	**726**	**388**	941	(28)	**(35)**	(122)	**(30)**	(237)
Non-U.S. residential	**1,524**	**1,147**	1,591	951	**5**	(66)	**(4)**	(60)
Commercial mortgage:								
Securities	**2,179**	**1,570**	2,836	1,438	**127**	(106)	**255**	(359)
Loans	**3,505**	**2,399**	4,338	2,179	**(33)**	(84)	**(384)**	(97)

(a) Included exposures in IB and RFS segments.

(b) Excluded certain mortgages and mortgage-related assets that are carried at fair value and recorded in trading assets, such as: (i) U.S.

government agency and U.S. government-sponsored enterprise securities that are liquid and of high credit quality of $48.7 billion and $58.9 billion at June 30, 2009, and December 31, 2008, respectively; and (ii) conforming mortgage loans recently originated with the intent to sell to U.S. government agencies and U.S. government sponsored enterprises of $10.0 billion and $6.2 billion at June 30, 2009, and December 31, 2008, respectively; and (iii) reverse mortgages of $4.7 billion and $4.3 billion at June 30, 2009, and December 31, 2008, respectively, for which the principal risk is mortality risk. Also excluded mortgage servicing rights, which are reported in Note 17 on pages 154-155 of this Form 10-Q.

(c) Excluded certain mortgage-related financing transactions, which are collateralized by mortgage-related assets, of $4.0 billion and $5.7 billion at June 30, 2009, and December 31, 2008, respectively. These financing transactions are excluded from the

table, as they are accounted for on an accrual basis of accounting. For certain financings deemed to be impaired; impairment is measured and recognized based on the fair value of the collateral. Of these financing transactions, $175 million and $1.2 billion at June 30, 2009, and December 31, 2008, respectively, were considered impaired.

(d) Amounts reflect the effects of derivatives used to manage the credit risk of the gross exposures arising from cash-based instruments. The amounts are presented on a bond- or loan-equivalent (notional) basis. Derivatives are excluded from the gross exposure, as they are principally used for risk management purposes.

(e) Prior periods have been revised to conform to the current presentation.

(f) Net gains and losses include all revenue related to the positions (i.e., all interest income, changes in fair value of the assets, changes in fair value of the related risk management positions,

and all interest expense related to the liabilities funding those positions).

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Residential mortgages

Prime mortgage Of the $4.3 billion of prime mortgage exposure at June 30, 2009, approximately $2.1 billion relates to first-lien mortgages predominantly classified in level 3. The remaining $2.2 billion relates to securities (including $569 million of forward purchase commitments) where $583 million was classified in level 2, and $1.1 billion was classified in level 3; and $569 million was classified in derivative receivables in level 3. Prime mortgage securities are largely rated BBB and below.

Alt-A mortgage Of the $3.4 billion of Alt-A mortgage exposure at June 30, 2009, approximately $2.5 billion relates to first-lien mortgages classified in level 3. The remaining $922 million relates to securities, which are predominantly rated BB+ and below where $110 million was classified in level 2, and $812 million was classified in level 3.

Subprime mortgage Of the $726 million of subprime mortgage exposure at June 30, 2009, $501 million relates to securities, predominantly rated BB+ and below, where $43 million was classified in level 2, and $458 million was classified in level 3. The remaining $225 million relates to first-lien mortgages classified in level 3.

Non-U.S. residential mortgage

Of the $1.5 billion of non-U.S. residential mortgage exposure at June 30, 2009, $765 million relates to first-lien mortgages classified in level 3. The remaining $759 million relates to securities where $291 million was classified in level 2, and $468 million was classified in level 3. Securities are predominantly rated AAA.

Commercial mortgages

Of the $5.7 billion of commercial mortgage exposure at June 30, 2009, $3.5 billion relates to first-lien mortgages, predominantly in the U.S., classified in level 3. The remaining $2.2 billion relates to securities, which are partially rated AAA, where $263 million was classified in level 2, and $1.9 billion was classified in level 3.

The following table presents mortgage-related activities within the available-for-sale securities portfolio.

			Net gains/(losses) reported in income[(a)]				Unrealized gains/(losses) included in other comprehensive income (pretax)			
	Exposures as of	Exposures as of December	Three months ended		Six months ended		Three months ended		Six months ended	
(in millions)	**June 30, 2009**	31, 2008	June 30, **2009**	2008	June 30, **2009**	2008	June 30, **2009**	2008	June 30, **2009**	2008
Available-for-sale debt securities										
Mortgage-backed securities:										
U.S. government agencies	**$180,439**	$117,385	**$137**	$ 2	**$ 439**	$ (3)	**$(2,044)**	$(1,521)	**$(395)**	$(1,026)
Residential:										
Prime and Alt-A	**5,874**	6,895	**(88)**		**(235)**		**461**	(72)	**30**	(179)
Subprime	**55**	194	**(19)**	(9)	**(35)**	(29)	**21**	21	**19**	(2)
Non-U.S.	**6,434**	2,075					**(110)**		**37**	
Commercial	**4,235**	3,939	**(30)**		**(40)**		**366**		**141**	
Total mortgage-backed securities	**$197,037**	$130,488	**$**	$(7)	**$ 129**	$(32)	**$(1,306)**	$(1,572)	**$(168)**	$(1,207)
	33,879	9,657	**1**		**5**		**(215)**		**(278)**	

U.S. government
agencies

(a) Excludes related net interest income.

Exposures in the table above include $230.9 billion and $140.1 billion of mortgage-backed and mortgage-related securities classified as available-for-sale on the Firm s Consolidated Balance Sheets at June 30, 2009, and December 31, 2008. These investments are used as part of the Firm s centralized risk management of structural interest rate risk (i.e., the sensitivity of the Firm s Consolidated Balance Sheets to changes in interest rates). Changes in the Firm s structural interest rate position, as well as changes in the overall interest rate environment, are continually monitored, resulting in periodic repositioning of securities classified as available-for-sale. Given that this portfolio is primarily used to manage the Firm s structural interest rate risk, predominantly all of these securities are either backed by U.S. government agencies, backed by U.S. government-sponsored enterprises or largely rated AAA.

For additional information on investment securities in the available-for-sale portfolio, see Note 11 on pages 129-134 of this Form 10-Q.

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Credit adjustments

When determining the fair value of an instrument, it may be necessary to record a valuation adjustment to arrive at an exit price in accordance with SFAS 157. Valuation adjustments include, but are not limited to, amounts to reflect counterparty credit quality and the Firm s own creditworthiness. The market s view of the Firm s credit quality is reflected in credit spreads observed in the credit default swap market. For a detailed discussion of the valuation adjustments the Firm considers, see Note 4 on pages 129-143 of JPMorgan Chase s 2008 Annual Report.

The following table provides the credit adjustments, excluding the effect of any hedging activity, as reflected within the Consolidated Balance Sheets of the Firm as of the dates indicated.

(in millions)	**June 30, 2009**	December 31, 2008
Derivative receivables balance	**$ 97,491**	$ 162,626
Derivative CVAs[(a)]	**(5,167)**	(9,566)
Derivatives payables balance	**67,197**	121,604
Derivative DVAs	**(1,010)**	(1,389)
Structured notes balance[(b)]	**59,020**	67,340
Structured note DVAs[(c)]	**(1,952)**	(2,413)

(a) Derivatives credit valuation adjustments (CVA), gross of hedges, includes results managed by Credit Portfolio and other lines of business within IB.

(b) Structured notes are recorded within long-term debt, other borrowed funds or deposits on the Consolidated Balance Sheets, based on the tenor and legal form of the note.

(c) Structured notes are carried at fair value based

on the Firm s election under SFAS 159. For further information on these elections, see Note 4 on pages 114-116 of this Form 10-Q.

The following table provides the impact of credit adjustments, excluding the effect of any hedging activity, on earnings in the respective periods.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Credit adjustments:				
Derivative CVAs[(a)]	**$ 3,522**	$191	**$4,399**	$(1,372)
Derivative DVAs	**(793)**	106	**(379)**	639
Structured note DVAs[(b)]	**(1,099)**	308	**(461)**	1,206

(a) Derivatives CVA, gross of hedges, includes results managed by Credit Portfolio and other lines of business within IB.

(b) Structured notes are carried at fair value based on the Firm s election under SFAS 159. For further information on these elections, see Note 4 on pages 114-116 of this Form 10-Q.

Financial disclosures required by SFAS 107

Many, but not all, of the financial instruments held by the Firm are recorded at fair value on the Consolidated Balance Sheets. SFAS 107 requires disclosure of the estimated fair value of certain financial instruments and the methods and significant assumptions used to estimate their fair value. Financial instruments within the scope of SFAS 107 are included in the following table. Additionally, certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 provide only a

partial estimate of the fair value of JPMorgan Chase. For example, the Firm has developed long-term relationships with its customers through its deposit base and credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items, in the aggregate, add significant value to JPMorgan Chase, but their fair value is not disclosed in this Note.

Financial instruments for which carrying value approximates fair value

Certain financial instruments that are not carried at fair value on the Consolidated Balance Sheets are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash and due from banks; deposits with banks, federal funds sold and securities purchased under resale agreements; and securities borrowed with short-dated maturities; short-term receivables and accrued interest receivable; commercial paper; federal funds purchased, and securities loaned or sold, under repurchase agreements with short-dated maturities; other borrowed funds (excluding advances from Federal Home Loan Banks); accounts payable; and accrued liabilities. In addition, SFAS 107 requires that the fair value for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments.

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The following table presents the carrying value and estimated fair value of financial assets and liabilities as required by SFAS 107.

	June 30, 2009			December 31, 2008		
(in billions)	Carrying value	Estimated fair value	Appreciation/ (depreciation)	Carrying value	Estimated fair value	Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	**$ 148.3**	**$ 148.3**	**$**	$ 226.0	$ 226.0	$
Federal funds sold and securities purchased under resale agreements (included $19.0 and $20.8 at fair value at June 30, 2009, and December 31, 2008, respectively)	**159.2**	**159.2**		203.1	203.1	
Securities borrowed (included $3.4 and $3.4 at fair value at June 30, 2009, and December 31, 2008, respectively)	**129.3**	**129.3**		124.0	124.0	
Trading assets	**395.6**	**395.6**		510.0	510.0	
Securities	**345.6**	**345.6**		205.9	205.9	
Loans (included $3.1 and $7.7 at fair value at June 30, 2009, and December 31, 2008, respectively)	**651.5**	**635.0**	**(16.5)**	721.7	700.0	(21.7)
Mortgage servicing rights at fair value	**14.6**	**14.6**		9.4	9.4	
Other (included $32.2 and $29.2 at fair value at June 30, 2009, and December 31, 2008, respectively)[(a)]	**85.9**	**85.6**	**(0.3)**	83.0	83.1	0.1
Total financial assets	**$1,930.0**	**$1,913.2**	**$ (16.8)**	$2,083.1	$2,061.5	$ (21.6)
Financial liabilities						
Deposits (included $3.7 and $5.6 at fair value at June 30, 2009, and December 31, 2008, respectively)	**$ 866.5**	**$ 867.3**	**$ (0.8)**	$1,009.3	$1,010.2	$ (0.9)
Federal funds purchased and securities loaned or sold under repurchase agreements (included $3.0 and $3.0 at fair value at June 30, 2009, and December 31, 2008, respectively)	**300.9**	**300.9**		192.5	192.5	
Commercial paper	**42.7**	**42.7**		37.8	37.8	
Other borrowed funds (included $16.3 and $14.7 at fair value at June 30, 2009, and December 31, 2008, respectively)	**74.0**	**74.6**	**(0.6)**	132.4	134.1	(1.7)
Trading liabilities	**123.2**	**123.2**		166.9	166.9	
	150.1	**150.1**		167.2	167.2	

Accounts payable and other liabilities[(a)]						
Beneficial interests issued by consolidated VIEs (included $1.8 and $1.7 at fair value at June 30, 2009, and December 31, 2008, respectively)	**20.9**	**20.9**		10.6	10.5	0.1
Long-term debt and junior subordinated deferrable interest debentures (included $53.4 and $58.2 at fair value at June 30, 2009, and December 31, 2008, respectively)	**271.9**	**264.2**	**7.7**	270.7	262.1	8.6
Total financial liabilities	**$1,850.2**	**$1,843.9**	**$ 6.3**	$1,987.4	$1,981.3	$ 6.1
Net (depreciation) appreciation			**$ (10.5)**			$ (15.5)

(a) Prior periods have been revised to conform to the current presentation.

The majority of the Firm s unfunded lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets nor are they actively traded. The estimated fair values of the Firm s wholesale lending-related commitments at June 30, 2009, and December 31, 2008, were liabilities of $3.3 billion and $7.5 billion, respectively. The Firm does not estimate the fair value of consumer lending-related commitments. In many cases, the Firm can reduce or cancel these commitments by providing the borrower prior notice, or, in some cases, without notice as permitted by law.

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Trading assets and liabilities average balances

Average trading assets and liabilities were as follows for the periods indicated.

(in millions)		Three months ended June 30, **2009**	2008	Six months ended June 30, **2009**	2008
Trading assets	debt and equity instruments	**$308,951**	$401,578	**$311,883**	$401,687
Trading assets	derivative receivables	**114,096**	105,301	**128,092**	101,582
Trading liabilities	debt and equity instruments[(a)]	**$ 54,587**	$ 81,724	**$ 54,726**	$ 85,712
Trading liabilities	derivative payables	**78,155**	79,780	**86,503**	80,437

(a) Primarily represent securities sold, not yet purchased.

NOTE 4 FAIR VALUE OPTION

For a discussion of the primary financial instruments for which fair value elections have been made, including the determination of instrument-specific credit risk for these items, and the basis for those elections, see Note 5 on pages 144 146 of JPMorgan Chase s 2008 Annual Report.

Changes in fair value under the fair value option election

The following table presents the changes in fair value included in the Consolidated Statements of Income for the three and six months ended June 30, 2009 and 2008, for items for which the fair value election was made. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

	Three months ended June 30,					
	2009			2008		
(in millions)	Principal transactions[(b)]	Other income[(b)]	Total changes in fair value recorded	Principal transactions[(b)]	Other income[(b)]	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	**$ (269)**	**$**	**$ (269)**	$(398)	$	$ (398)
Securities borrowed	**(12)**		**(12)**	79		79
Trading assets:						
Debt and equity instruments, excluding loans	**244**	**22**[(c)]	**266**	(65)	21[(c)]	(44)
Loans reported as trading assets:	**8**	**(115)**[(c)]	**(107)**	(791)	2[(c)]	(789)

Changes in instrument-specific credit risk						
Other changes in fair value	**977**	**495**[c]	**1,472**	91	16[c]	107
Loans:						
Changes in instrument-specific credit risk	**124**		**124**	(239)		(239)
Other changes in fair value	**(19)**		**(19)**	(5)		(5)
Other assets		**(187)**[d]	**(187)**		(79)[d]	(79)
Deposits[a]	**(21)**		**(21)**	30		30
Federal funds purchased and securities loaned or sold under repurchase agreements	**61**		**61**	70		70
Other borrowed funds[a]	**(180)**		**(180)**	(16)		(16)
Trading liabilities	**(13)**		**(13)**	3		3
Beneficial interests issued by consolidated VIEs	**(139)**		**(139)**	206		206
Other liabilities	**5**		**5**			
Long-term debt:						
Changes in instrument-specific credit risk[a]	**(1,038)**		**(1,038)**	303		303
Other changes in fair value	**(2,978)**		**(2,978)**	408		408

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	Six months ended June 30,					
	2009			2008		
(in millions)	Principal transactions[(b)]	Other income[(b)]	Total changes in fair value recorded	Principal transactions[(b)]	Other income[(b)]	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	**$ (495)**	**$**	**$ (495)**	$ 151	$	$ 151
Securities borrowed	**(19)**		**(19)**	79		79
Trading assets:						
Debt and equity instruments, excluding loans	**304**	**19**[(c)]	**323**	124	15[(c)]	139
Loans reported as trading assets:						
Changes in instrument-specific credit risk	**(472)**	**(165)**[(c)]	**(637)**	(1,613)	(50)[(c)]	(1,663)
Other changes in fair value	**712**	**1,432**[(c)]	**2,144**	5	409[(c)]	414
Loans:						
Changes in instrument-specific credit risk	**(329)**		**(329)**	(500)		(500)
Other changes in fair value	**(126)**		**(126)**	23		23
Other assets		**(588)**[(d)]	**(588)**		(41)[(d)]	(41)
Deposits[(a)]	**(186)**		**(186)**	(369)		(369)
Federal funds purchased and securities loaned or sold under repurchase agreements	**94**		**94**	3		3
Other borrowed funds[(a)]	**(146)**		**(146)**	(88)		(88)
Trading liabilities	**(15)**		**(15)**	2		2
Beneficial interests issued by consolidated VIEs	**(124)**		**(124)**	31		31
Other liabilities	**4**		**4**			
Long-term debt:						
Changes in instrument-specific credit risk[(a)]	**(394)**		**(394)**	1,178		1,178
Other changes in fair value	**(1,771)**		**(1,771)**	(440)		(440)

(a) Total changes in instrument-specific credit risk related to structured notes were $(1.1) billion and $308 million for the three months ended June 30, 2009 and

2008, respectively, and $(461) million and $1.2 billion for the six months ended June 30, 2009 and 2008, respectively. Those totals include adjustments for structured notes classified within deposits and other borrowed funds, as well as long-term debt.

(b) Included in the amounts are gains and losses related to certain financial instruments previously carried at fair value by the Firm, such as structured liabilities elected pursuant to SFAS 155 and loans purchased as part of the Investment Bank s trading activities.

(c) Reported in mortgage fees and related income.

(d) Reported in other income.

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Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding
The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of June 30, 2009, and December 31, 2008, for loans and long-term debt for which the SFAS 159 fair value option has been elected. The loans were classified in trading assets debt and equity instruments or in loans.

	June 30, 2009			December 31, 2008		
(in millions)	Contractual principal outstanding	Fair value	Fair value over (under) contractual principal outstanding	Contractual principal outstanding	Fair value	Fair value over (under) contractual principal outstanding
Loans						
Performing loans 90 days or more past due						
Loans reported as trading assets	**$**	**$**	**$**	$	$	$
Loans						
Nonaccrual loans						
Loans reported as trading assets[(a)]	**6,016**	**1,724**	**(4,292)**	5,156	1,460	(3,696)
Loans	**1,277**	**181**	**(1,096)**	189	51	(138)
Subtotal	**7,293**	**1,905**	**(5,388)**	5,345	1,511	(3,834)
All other performing loans						
Loans reported as trading assets[(a)]	**38,976**	**29,433**	**(9,543)**	36,336	30,342	(5,994)
Loans	**4,310**	**2,688**	**(1,622)**	10,206	7,441	(2,765)
Total loans	**$ 50,579**	**$ 34,026**	**$(16,553)**	$ 51,887	$ 39,294	$(12,593)
Long-term debt						
Principal protected debt	**$(27,355)**[(c)]	**$(26,398)**	**$ (957)**	$(27,043)[(c)]	$(26,241)	$ (802)
Nonprincipal protected debt[(b)]	**NA**	**(27,044)**	**NA**	NA	(31,973)	NA
Total long-term debt	**NA**	**(53,442)**	**NA**	NA	$(58,214)	NA
FIN 46R long-term beneficial interests						
Principal protected debt	**$ (108)**	**$ (108)**	**$**	$	$	$
Nonprincipal protected debt[(b)]	**NA**	**(1,655)**	**NA**	NA	(1,735)	NA
Total FIN 46R long-term beneficial interests	**NA**	**$ (1,763)**	**NA**	NA	$ (1,735)	NA

(a) Loans reported as trading assets have been revised for the prior period.

(b) Remaining contractual principal is not

applicable to nonprincipal-protected notes. Unlike principal-protected notes, for which the Firm is obligated to return a stated amount of principal at the maturity of the note, nonprincipal-protected notes do not obligate the Firm to return a stated amount of principal at maturity, but to return an amount based on the performance of an underlying variable or derivative feature embedded in the note.

(c) Where the Firm issues principal-protected zero-coupon or discount notes, the balance reflected as the remaining contractual principal is the final principal payment at maturity.

NOTE 5 DERIVATIVE INSTRUMENTS

Derivative instruments enable end-users to transform or mitigate exposure to credit or market risks. Counterparties to a derivative contract seek to obtain risks and rewards similar to those that could be obtained from purchasing or selling a related cash instrument without having to exchange the full purchase or sales price upfront. JPMorgan Chase makes markets in derivatives for customers and also uses derivatives to hedge or manage risks of market exposures. The majority of the Firm s derivatives are entered into for market-making purposes.

Trading Derivatives

The Firm transacts in a variety of derivatives in its trading portfolios to meet the needs of customers (both dealers and clients) and to generate revenue through this trading activity. The Firm makes markets in derivatives for its customers (collectively, client derivatives) seeking to mitigate or transform interest rate, credit, foreign exchange, equity and commodity risks. The Firm actively manages the risks from its exposure to these derivatives by entering into other derivative transactions or by purchasing or selling other financial instruments that partially or fully offset the exposure from client derivatives. The Firm also seeks to earn a spread between the client derivatives and offsetting positions, and from the remaining open risk positions. For more information about trading derivatives, see the trading derivatives gains and losses table on page 122 of this Form 10-Q.

Risk Management Derivatives

The Firm manages its market exposures using various derivative instruments.

Interest rate contracts are used to minimize fluctuations in earnings that are caused by changes in interest rates. Fixed-rate assets and liabilities appreciate or depreciate in market value as interest rates change. Similarly, interest income and interest expense increase or decrease as a result of variable-rate assets and liabilities resetting to current market rates, and as a result of the repayment and subsequent origination or issuance of fixed-rate assets and liabilities

at current market rates. Gains and

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losses on the derivative instruments that are related to such assets and liabilities are expected to substantially offset this variability in earnings. The Firm generally uses interest rate swaps, forwards and futures to manage the impact of interest rate fluctuations on earnings.

Foreign currency forward contracts are used to manage the foreign exchange risk associated with certain foreign currency denominated (i.e., non-U.S.) assets and liabilities and forecasted transactions denominated in a foreign currency, as well as the Firm s net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. As a result of fluctuations in foreign currencies, the U.S. dollar equivalent values of the foreign currency denominated assets and liabilities or forecasted revenue or expense increase or decrease. Gains or losses on the derivative instruments that are related to the foreign currency denominated assets or liabilities, or forecasted transactions, are expected to substantially offset this variability.

Gold forward contracts are used to manage the price risk of gold inventory in the Firm s commodities portfolio. Gains or losses on the gold forwards are expected to substantially offset the depreciation or appreciation of the gold inventory as a result of gold price changes. Also in the commodities portfolio, electricity and natural gas futures and forwards contracts are used to manage the price risk associated with energy-related tolling and load-serving contracts and energy-related investments.

The Firm uses credit derivatives to manage the counterparty credit risk associated with loans and lending-related commitments. Credit derivatives compensate the purchaser when the entity referenced in the contract experiences a credit event, such as bankruptcy or a failure to pay an obligation when due. For a further discussion of credit derivatives, see the discussion in the Credit derivatives section on pages 123 124 of this Form 10-Q.

For more information about risk management derivatives, see the risk management derivatives gains and losses table on page 122 of this Form 10-Q.

Notional amount of derivative contracts

The following table summarizes the notional amount of derivative contracts outstanding as of June 30, 2009, and December 31, 2008.

	Notional amounts[(c)]	
(in billions)	**June 30, 2009**	December 31, 2008
Interest rate contracts		
Swaps[(a)]	**$48,914**	$ 54,524
Futures and forwards	**6,172**	6,277
Written options	**4,782**	4,803
Purchased options	**4,736**	4,656
Total interest rate contracts	**64,604**	70,260
Credit derivatives[(b)]	**6,813**	8,388
Foreign exchange contracts		
Cross-currency swaps[(a)]	**1,846**	1,681
Spot, futures and forwards	**3,652**	3,744
Written options	**727**	972
Purchased options	**752**	959
Total foreign exchange contracts	**6,977**	7,356
Equity contracts		
Swaps	**80**	77

Futures and forwards	**51**	56
Written options	**645**	628
Purchased options	**616**	652
Total equity contracts	**1,392**	1,413
Commodity contracts		
Swaps	**186**	234
Spot, futures and forwards	**100**	115
Written options	**196**	206
Purchased options	**190**	198
Total commodity contracts	**672**	753
Total derivative notional amounts	**$80,458**	$ 88,170

(a) During the first quarter of 2009, cross-currency interest rate swaps previously reported in interest rate contracts were reclassified to foreign exchange contracts to be more consistent with industry practice. The effect of this change resulted in a reclassification of $1.7 trillion in notional amount of cross-currency swaps from interest rate contracts to foreign exchange contracts as of December 31, 2008.

(b) For more information on

volumes and types of credit derivative contracts, see the credit derivative discussion on pages 123 124 of this Form 10-Q.

(c) Represents the sum of gross long and gross short third-party notional derivative contracts.

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While the notional amounts disclosed above indicate the volume of the Firm s derivative activity, the notional amounts significantly exceed, in the Firm s view, the possible losses that could arise from such transactions. For most derivative transactions, the notional amount does not change hands; it is used simply as a reference to calculate payments.

Accounting for Derivatives

All free-standing derivatives are required to be recorded on the Consolidated Balance Sheets at fair value. The accounting for changes in value of a derivative depends on whether or not the contract has been designated and qualifies for hedge accounting. Derivatives that are not designated as hedges are marked to market through earnings. The tabular disclosures on pages 119 124 of this Form 10-Q provide additional information on the amount of and reporting for derivative assets, liabilities, gains and losses. For further discussion of derivatives embedded in structured notes, see Notes 4 and 5 on pages 129 143 and 144 146, respectively, of JPMorgan Chase s 2008 Annual Report.

Derivatives designated as hedges

The Firm applies hedge accounting to certain derivatives executed for risk management purposes typically interest rate, foreign exchange and gold derivatives, as described above. JPMorgan Chase does not seek to apply hedge accounting to all of the Firm s risk management activities involving derivatives. For example, the Firm does not apply hedge accounting to purchased credit default swaps used to manage the credit risk of loans and commitments, because of the difficulties in qualifying such contracts as hedges. For the same reason, the Firm does not apply hedge accounting to certain interest rate derivatives used for risk management purposes, or to commodity derivatives used to manage the price risk of tolling and load-serving contracts.

To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, for a derivative to be designated as a hedge, the risk management objective and strategy must be documented. Hedge documentation must identify the derivative hedging instrument, the asset or liability and type of risk to be hedged, and how the effectiveness of the derivative will be assessed prospectively and retrospectively. To assess effectiveness, the Firm uses statistical methods such as regression analysis, as well as nonstatistical methods including dollar-value comparisons of the change in the fair value of the derivative to the change in the fair value or cash flows of the hedged item. The extent to which a derivative has been, and is expected to continue to be, effective at offsetting changes in the fair value or cash flows of the hedged item must be assessed and documented at least quarterly. Any hedge ineffectiveness (i.e., the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk) must be reported in current-period earnings. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

There are three types of hedge accounting designations: fair value hedges, cash flow hedges and net investment hedges. JPMorgan Chase uses fair value hedges primarily to hedge fixed-rate long-term debt, available-for-sale (AFS) securities and gold inventory. For qualifying fair value hedges, the changes in the fair value of the derivative, and in the value of the hedged item for the risk being hedged, are recognized in earnings. If the hedge relationship is terminated, then the fair value adjustment to the hedged item continues to be reported as part of the basis of the hedged item and is amortized to earnings as a yield adjustment.

JPMorgan Chase uses cash flow hedges to hedge the exposure to variability in cash flows from floating-rate financial instruments and forecasted transactions, primarily the rollover of short-term assets and liabilities, and foreign currency denominated revenue and expense. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income (loss) (OCI) and recognized in the Consolidated Statements of Income when the hedged cash flows affect earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item primarily interest income, interest expense, noninterest revenue and compensation expense. The ineffective portions of cash flow hedges are immediately recognized in earnings. If the hedge relationship is terminated, then the value of the derivative recorded in accumulated other comprehensive income (loss) (AOCI) is recognized in earnings when the cash flows that were hedged affect earnings. For hedge relationships that are discontinued because a forecasted transaction is not expected to occur according to the original hedge forecast, any related derivative values recorded in AOCI are immediately recognized in earnings.

JPMorgan Chase uses foreign currency hedges to protect the value of the Firm s net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. For qualifying net investment hedges, changes in the fair value of the derivatives are recorded in the translation adjustments account within AOCI.

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Impact of derivatives on the Consolidated Balance Sheets

The following table summarizes information on derivative fair values that are reflected on the Firm s Consolidated Balance Sheets as of June 30, 2009, by accounting designation (e.g., whether the derivatives were designated as hedges or not) and contract type.

Free-standing derivatives[(a)]

	Derivative receivables			Derivative payables		
June 30, 2009 (in millions)	Not designated as hedges	Designated as hedges	Total derivative receivables	Not designated as hedges	Designated as hedges[(c)]	Total derivative payables
Trading assets and liabilities						
Interest rate	$1,242,053	$7,110	$ 1,249,163	$1,211,804	$ 437	$ 1,212,241
Credit	295,576		295,576	284,220		284,220
Foreign exchange	151,265	2,436	153,701	152,782	1,257	154,039
Equity	54,747		54,747	55,416		55,416
Commodity	44,350		44,350	43,388		43,388
Gross fair value of trading assets and liabilities	$1,787,991	$9,546	$ 1,797,537	$1,747,610	$1,694	$ 1,749,304
FIN 39 netting[(b)]			(1,700,046)			(1,682,107)
Carrying value of derivative trading assets and trading liabilities on the Consolidated Balance Sheets			$ 97,491			$ 67,197

(a) *Excludes structured notes for which the fair value option has been elected. See Note 4 on pages 114 116 of this Form 10-Q for further information.*

(b) *FIN 39 permits the netting of derivative receivables and derivative payables, and*

the related cash collateral received and paid when a legally enforceable master netting agreement exists between the Firm and a derivative counterparty.

(c) Excludes $1.0 billion related to separated commodity derivatives used as fair value hedging instruments that are recorded in the line item of the host contract (i.e., other borrowed funds).

Derivative receivables and payables mark-to-market

The following table summarizes the fair values of derivative receivables and payables by contract type after application of FIN 39 netting as of June 30, 2009, and December 31, 2008.

(in millions)	**June 30, 2009**	December 31, 2008
Derivative receivables:		
Interest rate[(a)]	**$ 33,956**	$ 49,996
Credit	**25,413**	44,695
Foreign exchange[(a)]	**18,851**	38,820
Equity	**6,496**	14,285
Commodity	**12,775**	14,830
Total derivative receivables	**$ 97,491**	$ 162,626
Trading liabilities		
Derivative payables:		
Interest rate[(a)]	**$ 13,583**	$ 27,645
Credit	**11,861**	23,566
Foreign exchange[(a)]	**19,237**	41,156

Equity	**12,871**	17,316
Commodity	**9,645**	11,921
Total derivative payables	**$ 67,197**	$ 121,604

(a) During the first quarter of 2009, cross-currency interest rate swaps previously reported in interest rate contracts were reclassified to foreign exchange contracts to be more consistent with industry practice. The effect of this change resulted in reclassifications of $14.1 billion and $20.8 billion derivative receivables and derivative payables, respectively, between cross-currency interest rate swaps and foreign exchange contracts, as of December 31, 2008.

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Impact of derivatives and hedged items on the income statement and on other comprehensive income

The following table summarizes the total pretax impact of JPMorgan Chase s derivative-related activities on the Firm s Consolidated Statements of Income and Other Comprehensive Income for the three and six months ended June 30, 2009, by accounting designation.

	Derivative-related gains/(losses)					
Consolidated Statements of Income (in millions)	Fair value hedges[(a)]	Cash flow hedges	Net investment hedges	Risk management activities	Trading activities[(a)]	Total
Three months ended June 30, 2009	$(1,448)	$ 55	$ (21)	$(4,624)	$ 6,054	$ 16
Six months ended June 30, 2009	(2,673)	142	(30)	(5,389)	10,125	2,175

	Derivative-related net changes in other comprehensive income					
Other Comprehensive Income (loss)	Fair value hedges	Cash flow hedges	Net investment hedges	Risk management activities	Trading activities	Total
Three months ended June 30, 2009	NA	$ (82)	$ (208)	NA	NA	$ (290)
Six months ended June 30, 2009	NA	168	(27)	NA	NA	141

(a) *Includes the hedge accounting impact of the hedged item for fair value hedges, and includes cash instruments within trading activities.*

The tables that follow reflect more detailed information regarding the derivative-related income statement impact by accounting designation for the three and six months ended June 30, 2009.

Fair value hedge gains and losses

The following table presents derivative instruments, by contract type, used in fair value hedge accounting relationships, as well as pretax gains (losses) recorded on such derivatives and the related hedged items for the three and six months ended June 30, 2009. The Firm includes gains (losses) on the hedging derivative and the related hedged item in the same line item in the Consolidated Statements of Income.

	Gains/(losses) recorded in income		
Three months ended June 30, 2009	Derivatives	Hedge	Derivatives excluded	Total income

(in millions)	hedged risk	Hedged items	ineffectiveness[(d)]	components[(e)]	statement impact
Contract type					
Interest rate[(a)]	$(1,477)	$ 1,287	$ (190)	$(1,562)	$ (1,752)
Foreign exchange[(b)]	(1,217)	1,217		319	319
Commodity[(c)]	(24)	24		(15)	(15)
Total	$(2,718)	$ 2,528	$ (190)	$(1,258)	$ (1,448)

Six months ended	Gains/(losses) recorded in income				
	Derivatives			Derivatives	
June 30, 2009			Hedge	excluded	Total income
(in millions)	hedged risk	Hedged items	ineffectiveness[(d)]	components[(e)]	statement impact
Contract type					
Interest rate[(a)]	$(1,118)	$ 634	$ (484)	$(2,293)	$ (2,777)
Foreign exchange[(b)]	(1,770)	1,770		117	117
Commodity[(c)]	(182)	182		(13)	(13)
Total	$(3,070)	$ 2,586	$ (484)	$(2,189)	$ (2,673)

(a) Primarily consists of hedges of the benchmark (e.g., LIBOR) interest rate risk of fixed-rate long-term debt. Gains and losses were recorded in net interest income.

(b) Primarily consists of hedges of the foreign currency risk of long-term debt and AFS securities for changes in spot foreign currency rates. Gains and losses related to the derivatives

and the hedged items, due to changes in spot foreign currency rates, were recorded in principal transactions revenue. The excluded components were recorded in net interest income.

(c) Consists of overall fair value hedges of physical gold inventory. Gains and losses were recorded in principal transactions revenue.

(d) Hedge ineffectiveness is the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk.

(e) Certain components of hedging derivatives are permitted to be excluded from the assessment of hedge effectiveness, such as forward

points on a futures or forwards contract. Amounts related to excluded components are recorded in current-period income.

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Cash flow hedge gains and losses

The following table presents derivative instruments, by contract type, used in cash flow hedge accounting relationships, and the pretax gains (losses) recorded on such derivatives, for the three and six months ended June 30, 2009. The Firm includes the gain (loss) on the hedging derivative in the same line item as the offsetting change in cash flows on the hedged item in the Consolidated Statements of Income.

	Gains/(losses) recorded in income and other comprehensive income (loss)				
Three months ended June 30, 2009 (in millions)	Derivatives effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income[c]	Total income statement impact	Derivatives effective portion recorded in OCI	Total change in OCI for period
Contract type					
Interest rate[a]	$(26)	$ 1	$ (25)	$ (343)	$ (317)
Foreign exchange[b]	80		80	315	235
Total	$ 54	$ 1	$ 55	$ (28)	$ (82)

	Gains/(losses) recorded in income and other comprehensive income (loss)				
Six months ended June 30, 2009 (in millions)	Derivatives effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income[c]	Total income statement impact	Derivatives effective portion recorded in OCI	Total change in OCI for period
Contract type					
Interest rate[a]	$ (69)	$ 2	$ (67)	$ (299)	$ (230)
Foreign exchange[b]	209		209	607	398
Total	$140	$ 2	$ 142	$ 308	$ 168

(a) Primarily consists of benchmark interest rate hedges of LIBOR-indexed floating-rate assets and floating-rate liabilities. Gains and losses were recorded in net interest income.

(b) Primarily consists of hedges of the foreign currency risk of non-U.S. dollar denominated revenue and expense. The income statement classification of gains and losses follows the hedged item primarily net interest income, compensation expense and other expense.

(c) Hedge ineffectiveness is the amount by which the cumulative gain or loss on the designated derivative instrument exceeds the present value of the cumulative expected change in cash flows on the hedged item attributable to the hedged risk.

Over the next 12 months, it is expected that $62 million (after tax) of net losses recorded in AOCI at June 30, 2009, related to cash flow hedges will be recognized in income. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

Net investment hedge gains and losses

The following table presents hedging instruments, by contract type, that were used in net investment hedge accounting relationships, and the pretax gains (losses) recorded on such derivatives for the three and six months ended June 30, 2009.

Three months ended	Gains/(losses) recorded in income and other comprehensive income (loss)	
June 30, 2009 (in millions)	Derivatives excluded components recorded directly in income[(a)]	Derivatives effective portion recorded in OCI
Contract type		
Foreign exchange	$ (21)	$ (208)

Total	$ (21)	$ (208)

Six months ended	Gains/(losses) recorded in income and other comprehensive income (loss)	
June 30, 2009 (in millions)	Derivatives excluded components recorded directly in income[(a)]	Derivatives effective portion recorded in OCI
Contract type		
Foreign exchange	$ (30)	$ (27)
Total	$ (30)	$ (27)

(a) Certain components of derivatives used as hedging instruments are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on a futures or forwards contract. Amounts related to excluded components are recorded in current-period income. There was no ineffectiveness for net investment hedge accounting relationships during the three and six months ended June 30, 2009.

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Risk management derivatives gains and losses (not designated as hedging instruments)
The following table presents nontrading derivatives, by contract type, that were not designated in hedge relationships, and the pretax gains (losses) recorded on such derivatives for the three and six months ended June 30, 2009. These derivatives are risk management instruments used to mitigate or transform the risk of market exposures arising from banking activities other than trading activities, which are discussed separately below.

	Derivatives gains/(losses) recorded in income	
(in millions)	Three months ended June 30, 2009	Six months ended June 30, 2009
Contract type		
Interest rate[(a)]	$ (3,047)	$ (3,200)
Credit[(b)]	(1,512)	(2,028)
Foreign exchange[(c)]	(82)	(151)
Equity[(b)]		
Commodity[(b)]	17	(10)
Total	$ (4,624)	$ (5,389)

(a) Gains and losses were recorded in principal transactions revenue, mortgage fees and related income, and net interest income.

(b) Gains and losses were recorded in principal transactions revenue.

(c) Gains and losses were recorded in principal transactions revenue and net interest income.

Trading derivative gains and losses

The Firm has elected to present derivative gains and losses related to its trading activities together with the cash instruments with which they are risk managed. All amounts are recorded in principal transactions revenue in the Consolidated Statements of Income for the three and six months ended June 30, 2009.

	Gains/(losses) recorded in principal transactions revenue	
(in millions)	Three months ended June 30, 2009	Six months ended June 30, 2009
Type of instrument		
Interest rate	$ 1,373	$ 3,758
Credit	2,332	1,683
Foreign exchange	2,052	3,126
Equity	(62)	798
Commodity	359	760
Total	$ 6,054	$ 10,125

Credit risk, liquidity risk and credit-related contingent features

In addition to the specific market risks introduced by each derivative contract type, derivatives expose JPMorgan Chase to credit risk the risk that derivative counterparties may fail to meet their payment obligations under the derivative contracts and the collateral, if any, held by the Firm proves to be of insufficient value to cover the payment obligation. The amount of derivative receivables reported on the Consolidated Balance Sheets is the fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by the Firm. These amounts represent the cost to the Firm to replace the contracts at then-current market rates should the counterparty default. However, in management s view, the appropriate measure of current credit risk should take into consideration other additional liquid securities held as collateral by the Firm, which is disclosed in the table below. While derivative receivables expose the Firm to credit risk, derivative payables expose the Firm to liquidity risk, as the derivative contracts typically require the Firm to post cash or securities collateral with counterparties as the MTM moves in the counterparties favor, or upon specified downgrades in the Firm s and its subsidiaries respective credit ratings. At June 30, 2009, the impact of a single-notch and six-notch ratings downgrade to JPMorgan Chase & Co., and its subsidiaries, primarily JPMorgan Chase Bank, N.A., would have required $1.2 billion and $4.0 billion, respectively, of additional collateral to be posted by the Firm. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Firm or the counterparty, at the fair value of the derivative contracts. At June 30, 2009, the impact of a single-notch and six-notch ratings downgrade to JPMorgan Chase & Co., and its subsidiaries, primarily JPMorgan Chase Bank, N.A., related to contracts with termination triggers would have required the Firm to settle trades with a fair value of $0.3 million and $4.7 billion, respectively. The aggregate fair value of net derivative payables that contain contingent collateral or termination features triggered upon a downgrade was $28.7 billion at June 30, 2009, for which the Firm has posted collateral of $21.6 billion in the normal course of business.

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The following table shows the current credit risk of derivative receivables after FIN 39 netting and collateral received, and current liquidity risk of derivative payables after FIN 39 netting and collateral posted, as of June 30, 2009.

June 30, 2009 (in millions)	Derivative receivables	Derivative payables
Gross derivative fair value	$ 1,797,537	$ 1,749,304
Fin 39 netting offsetting receivables/payables	(1,628,843)	(1,628,843)
Fin 39 netting cash collateral received/paid	(71,203)	(53,264)
Carrying value on Consolidated Balance Sheets	97,491	67,197
Securities collateral received/paid	(13,796)	(8,744)
Derivative fair value, net of all collateral	$ 83,695	$ 58,453

In addition to the collateral amounts reflected in the table above, the Firm receives and delivers collateral at the initiation of derivative transactions, which is available as security against potential exposure that could arise should the fair value of the transactions move in the Firm s or client s favor, respectively. The Firm and its counterparties also hold collateral related to contracts that have a non-daily call frequency for collateral to be posted, and collateral that the Firm or a counterparty has agreed to return but has not yet settled, as of the reporting date. At June 30, 2009, the Firm received collateral of $22.3 billion and delivered collateral of $5.7 billion of such additional collateral. These amounts were not netted against the derivative receivables and payables in the table above, because, at an individual counterparty level, the collateral exceeded the fair value exposure at June 30, 2009.

Credit derivatives

Credit derivatives are financial instruments whose value is derived from the credit risk associated with the debt of a third-party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Credit derivatives expose the protection purchaser to the creditworthiness of the protection seller, as the protection seller is required to make payments under the contract when the reference entity experiences a credit event, such as a bankruptcy, a failure to pay its obligation or a restructuring. The seller of credit protection receives a premium for providing protection but has the risk that the underlying instrument referenced in the contract will be subject to a credit event.

The Firm is both a purchaser and seller of credit protection in the credit derivatives market and uses credit derivatives for two primary purposes. First, in its capacity as a market-maker in the dealer/client business, the Firm actively risk manages a portfolio of credit derivatives by purchasing and selling credit protection, predominantly on corporate debt obligations, to meet the needs of customers. As a seller of protection, the Firm s exposure to a given reference entity may be offset partially, or entirely, with a contract to purchase protection from another counterparty on the same or similar reference entity. Second, the Firm uses credit derivatives to mitigate credit risk associated with its overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments) as well as to manage its exposure to residential and commercial mortgages.

For a further discussion of credit derivatives, including a description of the different types used by the Firm, see Note 32 on pages 202 205 of JPMorgan Chase s 2008 Annual Report.

The following table presents a summary of the notional amounts of credit derivatives and credit-related notes the Firm sold and purchased as of June 30, 2009, and December 31, 2008. Upon a credit event, the Firm as seller of protection would typically pay out only a percentage of the full notional amount of net protection sold, as the amount actually required to be paid on the contracts takes into account the recovery value of the reference obligation at the time of settlement. The Firm manages the credit risk on contracts to sell protection by purchasing protection with identical or similar underlying reference entities. As such, other purchased protection referenced in the following table includes credit derivatives bought on related, but not identical, reference positions; these include indices, portfolio coverage and other reference points. The Firm does not use notional as the primary measure of risk management for credit

derivatives because notional does not take into account the probability of occurrence of a credit event, recovery value of the reference obligation, or related cash instruments and economic hedges.

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Total credit derivatives and credit-related notes

June 30, 2009 (in millions)	Maximum payout/Notional amount: Protection sold	Protection purchased with identical underlyings[c]	Net protection (sold)/purchased[d]	Other protection purchased[e]
Credit derivatives				
Credit default swaps	$(3,314,803)	$ 3,397,677	$ 82,874	$ 43,131
Other credit derivatives[a]	(11,206)	13,707	2,501	32,712
Total credit derivatives	(3,326,009)	3,411,384	85,375	75,843
Credit-related notes	(3,272)		(3,272)	985
Total	$(3,329,281)	$ 3,411,384	$ 82,103	$ 76,828

December 31, 2008 (in millions)	Maximum payout/Notional amount: Protection sold	Protection purchased with identical underlyings[c]	Net protection (sold)/purchased[d]	Other protection purchased[e]
Credit derivatives				
Credit default swaps[b]	$(4,099,141)	$ 3,973,616	$ (125,525)	$ 288,751
Other credit derivatives[a]	(4,026)		(4,026)	22,344[b]
Total credit derivatives	(4,103,167)	3,973,616	(129,551)	311,095
Credit-related notes[b]	(4,080)		(4,080)	2,373
Total	$(4,107,247)	$ 3,973,616	$ (133,631)	$ 313,468

(a) Primarily consists of total return swaps and credit default swap options.

(b) The amounts of protection sold for total credit derivatives and credit-related notes have been revised for the prior period.

(c) Represents the notional amount of purchased credit derivatives where the underlying reference instrument is identical to the reference instrument on which the Firm has sold credit protection.

(d) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.

(e) Represents single-name and index CDS protection the Firm purchased.

The following table summarizes the notional and fair value amounts of credit derivatives and credit-related notes as of June 30, 2009, and December 31, 2008, where JPMorgan Chase is the seller of protection. The maturity profile is based on the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of protection purchased are comparable to the profile reflected below.

Protection sold credit derivatives and credit-related notes ratings/maturity profile

June 30, 2009 (in millions)	<1 year	1 5 years	>5 years	Total notional amount	Fair value[(c)]

Risk rating of reference entity					
Investment grade (AAA to BBB-)[(a)]	**$(254,689)**	**$(1,387,651)**	**$ (553,971)**	**$(2,196,311)**	**$ (89,496)**
Noninvestment grade (BB+ and below)[(a)]	**(143,846)**	**(760,023)**	**(229,101)**	**(1,132,970)**	**(159,499)**
Total	**$(398,535)**	**$(2,147,674)**	**$ (783,072)**	**$(3,329,281)**	**$(248,995)**

December 31, 2008 (in millions)	<1 year	1 5 years	>5 years	Total notional amount	Fair value[(c)]
Risk rating of reference entity					
Investment grade (AAA to BBB-)[(a)(b)]	$(179,379)	$(1,743,283)	$ (701,775)	$(2,624,437)	$(222,318)
Noninvestment grade (BB+ and below)[(a)(b)]	(118,734)	(950,619)	(413,457)	(1,482,810)	(253,326)
Total	$(298,113)	$(2,693,902)	$(1,115,232)	$(4,107,247)	$(475,644)

(a) Ratings scale is based on the Firm s internal ratings, which generally correspond to ratings defined by S&P and Moody s.

(b) The amounts of protection sold for total credit derivatives and credit-related notes have been revised for the prior period.

(c) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements and cash collateral held by the Firm.

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NOTE 6 OTHER NONINTEREST REVENUE

For a discussion of the components of and accounting policies for the Firm s other noninterest revenue, see Note 6 and Note 7 on pages 146 149 of JPMorgan Chase s 2008 Annual Report.

The following table presents the components of investment banking fees.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Underwriting:				
Equity	**$ 949**	$ 542	**$1,257**	$ 901
Debt	**766**	717	**1,369**	1,087
Total underwriting	**1,715**	1,259	**2,626**	1,988
Advisory	**391**	353	**866**	840
Total investment banking fees	**$2,106**	$1,612	**$3,492**	$2,828

The following table presents principal transactions revenue.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Trading revenue	**$3,155**	$ 538	**$5,644**	$ (465)
Private equity gains (losses)[(a)]	**(58)**	214	**(546)**	414
Principal transactions	**$3,097**	$ 752	**$5,098**	$ (51)

(a) Includes revenue on private equity investments held in the Private Equity business within Corporate/Private Equity, and those held in other business segments.

The following table presents components of asset management, administration and commissions.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Asset management:				
Investment management fees	**$1,172**	$1,451	**$2,255**	$2,874
All other asset management fees	**78**	143	**159**	290
Total asset management fees	**1,250**	1,594	**2,414**	3,164
Total administration fees[(a)]	**498**	690	**953**	1,360
Commission and other fees:				
Brokerage commissions	**762**	730	**1,449**	1,508
All other commissions and fees	**614**	614	**1,205**	1,192

Total commissions and fees	**1,376**	1,344	**2,654**	2,700
Total asset management, administration and commissions	**$3,124**	$3,628	**$6,021**	$7,224

(a) Includes fees for custody, securities lending, funds services and securities clearance.

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NOTE 7 INTEREST INCOME AND INTEREST EXPENSE

Details of interest income and interest expense were as follows.

(in millions)	Three months ended June 30, **2009**	2008	Six months ended June 30, **2009**	2008
Interest income[(a)]				
Loans	**$ 9,825**	$ 8,430	**$20,333**	$17,715
Securities	**3,178**	1,398	**6,038**	2,577
Trading assets	**2,954**	4,117	**6,168**	8,656
Federal funds sold, securities purchased under resale agreements and securities borrowed	**272**	2,057	**1,008**	4,250
Deposits with banks	**246**	373	**689**	709
Other assets[(b)]	**74**	154	**239**	154
Total interest income	**16,549**	16,529	**34,475**	34,061
Interest expense[(a)]				
Interest-bearing deposits	**1,165**	3,592	**2,851**	8,200
Short-term and other liabilities[(c)]	**876**	2,679	**1,967**	5,910
Long-term debt	**1,781**	1,864	**3,525**	3,766
Beneficial interests issued by consolidated VIEs	**57**	100	**95**	232
Total interest expense	**3,879**	8,235	**8,438**	18,108
Net interest income	**12,670**	8,294	**26,037**	15,953
Provision for credit losses	**8,031**	3,455	**16,627**	7,879
Net interest income after provision for credit losses	**$ 4,639**	$ 4,839	**$ 9,410**	$ 8,074

(a) *Interest income and interest expense include the current-period interest accruals for financial instruments measured at fair value, except for financial instruments containing embedded derivatives that would be separately*

accounted for in accordance with SFAS 133 absent the SFAS 159 fair value election; for those instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue.

(b) Predominantly margin loans.

(c) Includes brokerage customer payables.

NOTE 8 PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFIT PLANS

For a discussion of JPMorgan Chase s pension and other postretirement employee benefit (OPEB) plans, see Note 9 on pages 149 155 of JPMorgan Chase s 2008 Annual Report.

The following table presents the components of net periodic benefit cost reported in the Consolidated Statements of Income for the Firm s U.S. and non-U.S. defined benefit pension and OPEB plans.

	Defined benefit pension plans					
	U.S.		Non-U.S.		OPEB plans	
Three months ended June 30, (in millions)	**2009**	2008	**2009**	2008	**2009**	2008
Components of net periodic benefit cost						
Benefits earned during the period	**$ 80**	$ 64	**$ 7**	$ 7	**$ 1**	$ 1
Interest cost on benefit obligations	**128**	122	**30**	38	**13**	18
Expected return on plan assets	**(146)**	(180)	**(28)**	(41)	**(24)**	(24)
Amortization:						
Net loss	**77**		**11**	7		
Prior service cost (credit)	**1**	1			**(3)**	(4)
Net periodic benefit cost	**140**	7	**20**	11	**(13)**	(9)
Other defined benefit pension plans[(a)]	**4**	3	**4**	5	**NA**	NA
Total defined benefit plans	**144**	10	**24**	16	**(13)**	(9)
Total defined contribution plans	**76**	70	**63**	82	**NA**	NA
Total pension and OPEB cost included in compensation expense	**$ 220**	$ 80	**$ 87**	$ 98	**$(13)**	$ (9)

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	Defined benefit pension plans					
	U.S.		Non-U.S.		OPEB plans	
Six months ended June 30, (in millions)	**2009**	2008	**2009**	2008	**2009**	2008
Components of net periodic benefit cost						
Benefits earned during the period	**$ 157**	$ 128	**$ 14**	$ 14	**$ 2**	$ 3
Interest cost on benefit obligations	**256**	244	**56**	76	**31**	37
Expected return on plan assets	**(292)**	(360)	**(52)**	(82)	**(48)**	(49)
Amortization:						
Net loss	**153**		**21**	14		
Prior service cost (credit)	**2**	2			**(7)**	(8)
Net periodic benefit cost	**276**	14	**39**	22	**(22)**	(17)
Other defined benefit pension plans[(a)]	**7**	6	**8**	9	**NA**	NA
Total defined benefit plans	**283**	20	**47**	31	**(22)**	(17)
Total defined contribution plans	**154**	136	**122**	162	**NA**	NA
Total pension and OPEB cost included in compensation expense	**$ 437**	$ 156	**$169**	$193	**$(22)**	$(17)

(a) Includes various defined benefit pension plans, which are individually immaterial.

The fair value of plan assets for the U.S. defined benefit pension and OPEB plans and the material non-U.S. defined benefit pension plans were $9.2 billion and $2.2 billion, respectively, as of June 30, 2009, and $8.1 billion and $2.0 billion, respectively, as of December 31, 2008. See Note 22 on page 159 of this Form 10-Q for further information on unrecognized amounts (i.e., net loss and prior service costs/(credit)) reflected in accumulated other comprehensive income for the six months ended June 30, 2009 and 2008.

On January 15, 2009, the Firm made a discretionary cash contribution to its U.S. defined benefit pension plan of $1.3 billion, funding the plan to the maximum allowable amount under applicable tax law. The 2009 potential contributions for the Firm s U.S. non-qualified defined benefit pension plans are $39 million. The 2009 potential contributions for the Firm s non-U.S. defined benefit pension plans (excluding the main United Kingdom (U.K.) plan) are $44 million and for OPEB plans are $2 million. The amount of potential 2009 contributions to the Firm s main U.K. defined benefit pension plan is not reasonably estimable at this time.

On May 1, 2009, the Firm amended the employer matching contribution feature of the 401(k) Savings Plan (the Plan) to provide that: (i) for employees earning less than $50,000, matching contributions will be based on their contributions to the Plan, but not to exceed 5% of their eligible compensation (e.g., base pay); and (ii) for employees earning $50,000 or more per year, matching contributions will be made at the discretion of the Firm s management, depending on the Firm s earnings for the year. Any such matching contributions will be made on an annual basis, following the end of the calendar year, to employees who are employed by the Firm at the end of such year.

Pursuant to a compromise and settlement agreement between JPMorgan Chase Bank, N.A. and Washington Mutual Inc., JPMorgan Chase Bank, N.A. will become a contributing employer under the WaMu Savings Plan effective as of September 25, 2008, and the sponsor of the WaMu Savings Plan as of August 10, 2009. As of July 28, 2009, the

United States Bankruptcy Court for the District of Delaware entered an order approving the compromise and settlement agreement, which will become final and non-appealable on August 10, 2009.

NOTE 9 EMPLOYEE STOCK-BASED INCENTIVES

For a discussion of the accounting policies and other information relating to employee stock-based compensation, see Note 10 on pages 155 157 of JPMorgan Chase s 2008 Annual Report.

The Firm recognized noncash compensation expense related to its various employee stock-based incentive plans of $884 million and $728 million for the quarters ended June 30, 2009 and 2008, respectively, and $1.7 billion and $1.4 billion in the first six months of 2009 and 2008, respectively, in its Consolidated Statements of Income. These amounts included an accrual for the estimated cost of stock awards to be granted to full-career eligible employees of $192 million and $140 million for the quarters ended June 30, 2009 and 2008, respectively, and $332 million and $274 million for the first six months ended June 30, 2009 and 2008, respectively.

In the first quarter of 2009, the Firm granted 130 million restricted stock units (RSUs), with a grant date fair value of $19.52 per RSU, in connection with its annual incentive grant.

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NOTE 10 NONINTEREST EXPENSE

Merger costs

Costs associated with the Bear Stearns merger and the Washington Mutual transaction are reflected in the merger costs caption of the Consolidated Statements of Income. For a further discussion of the Bear Stearns merger and the Washington Mutual transaction, see Note 2 on pages 96 99 of this Form 10-Q. A summary of merger-related costs is shown in the following table.

Three months ended June 30,		**2009**		
(in millions)	Bear Stearns	Washington Mutual	Total	2008
Expense category				
Compensation[(a)]	**$(16)**	**$ 77**	**$ 61**	$126
Occupancy[(a)]	**(3)**	**18**	**15**	
Technology and communications and other	**3**	**64**	**67**	29
Total[(b)(c)]	**$(16)**	**$ 159**	**$143**	$155

Six months ended June 30,		**2009**		
(in millions)	Bear Stearns	Washington Mutual	Total	2008
Expense category				
Compensation[(a)]	**$(10)**	**$ 213**	**$203**	$126
Occupancy[(a)]	**(3)**	**23**	**20**	
Technology and communications and other	**17**	**108**	**125**	29
Total[(b)(c)]	**$ 4**	**$ 344**	**$348**	$155

(a) Represents partial reversals of merger costs accrued in prior periods.

(b) With the exception of occupancy- and technology-related write-offs, all of the costs in the table required the expenditure of cash.

(c) 2008 Merger Activity is related to Bear Stearns only.

The table below shows changes in the merger reserve balance related to costs associated with the transactions.

Six months ended June 30,	**2009**			
(in millions)	Bear Stearns	Washington Mutual	Total	2008
Merger reserve balance, beginning of period	**$ 327**	**$ 441**	**$ 768**	$
Recorded as merger costs	**4**	**344**	**348**	155
Recorded as goodwill	**(5)**		**(5)**	1,112
Utilization of merger reserve	**(257)**	**(583)**	**(840)**	(174)
Merger reserve balance, end of period[(a)]	**$ 69**	**$ 202**	**$ 271**	$1,093

(a) 2008 Merger Activity is related to Bear Stearns only.

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NOTE 11 SECURITIES

Securities are classified as AFS, held-to-maturity (HTM) or trading. For additional information regarding AFS and HTM securities, see Note 12 on pages 158 162 of JPMorgan Chase s 2008 Annual Report. Trading securities are discussed in Note 5 on pages 116 124 of this Form 10-Q.

Securities gains and losses

The following table presents realized gains and realized and unrealized losses that were recognized in income from AFS securities.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Realized gains	**$ 743**	$675	**$1,153**	$ 812
Realized losses	**(210)**	(28)	**(417)**	(132)
Net realized gains	**533**	647	**736**	680
Unrealized credit losses included in securities gains	**(186)**[(b)]		**(191)**[(b)]	
Net securities gains[(a)]	**$ 347**	$647	**$ 545**	$ 680

(a) Proceeds from securities sold were within approximately 2% of amortized cost.

(b) Includes impairment losses recognized in income for the three and six months ended June 30, 2009, on certain subprime and prime mortgage-backed securities and obligations of U.S. states and municipalities.

The amortized cost and estimated fair value of AFS and HTM securities were as follows for the dates indicated.

	June 30, 2009				December 31, 2008			
(in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value

Available-for-sale debt securities								
Mortgage-backed securities[(a)]:								
U.S. government agencies[(b)]	**$179,086**	**$2,219**	**$ 866**	**$180,439**	$115,198	$2,414	$ 227	$117,385
Residential:								
Prime and Alt-A	**7,540**	**45**	**1,711**	**5,874**	8,826	4	1,935	6,895
Subprime	**55**			**55**	213		19	194
Non-U.S.	**6,555**	**123**	**244**	**6,434**	2,233	24	182	2,075
Commercial	**4,738**	**7**	**510**	**4,235**	4,623		684	3,939
Total mortgage-backed securities	**$197,974**	**$2,394**	**$3,331**	**$197,037**	$131,093	$2,442	$3,047	$130,488
U.S. Treasury and government agencies[(b)]	**34,940**	**108**	**370**	**34,678**	10,402	52	97	10,357
Obligations of U.S. states and municipalities	**6,043**	**157**	**194**	**6,006**	3,479	94	238	3,335
Certificates of deposit	**5,587**	**16**		**5,603**	17,226	64	8	17,282
Non-U.S. government debt securities	**16,221**	**162**	**32**	**16,351**	8,173	173	2	8,344
Corporate debt securities	**47,826**	**520**	**70**	**48,276**	9,358	257	61	9,554
Asset-backed securities[(a)]:								
Credit card receivables	**22,354**	**297**	**408**	**22,243**	13,651	8	2,268	11,391
Collateralized debt and loan obligations	**11,637**	**409**	**547**	**11,499**	11,847	168	820	11,195
Other	**1,929**	**25**	**81**	**1,873**	1,026	4	135	895
Total available-for-sale debt securities	**$344,511**	**$4,088**	**$5,033**	**$343,566**	$206,255	$3,262	$6,676	$202,841
Available-for-sale equity securities	**1,873**	**98**	**3**	**1,968**	3,073	2	7	3,068
Total available-for-sale securities	**$346,384**	**$4,186**	**$5,036**	**$345,534**	$209,328	$3,264	$6,683	$205,909
Total held-to-maturity securities[(c)]	**$ 29**	**$ 2**	**$**	**$ 31**	$ 34	$ 1	$	$ 35

(a) Prior periods have been revised to conform to the current presentation.

(b) Includes total U.S. government-sponsored enterprise obligations with fair values of $171.6 billion and $120.1 billion at June 30, 2009, and December 31, 2008, respectively, which

were predominantly mortgage-related.

(c) *Consists primarily of mortgage-backed securities issued by U.S. government-sponsored enterprises.*

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Securities impairment

The following tables present the fair value and gross unrealized losses for AFS securities by aging category at June 30, 2009, and December 31, 2008.

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			Total
June 30, 2009 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total fair value	gross unrealized losses
Available-for-sale debt securities						
Mortgage-backed securities:						
U.S. government agencies	**$ 90,016**	**$ 848**	**$ 1,243**	**$ 18**	**$ 91,259**	**$ 866**
Residential:						
Prime and Alt-A	**2,626**	**375**	**2,757**	**1,336**	**5,383**	**1,711**
Subprime						
Non-U.S.	**1,964**	**244**			**1,964**	**244**
Commercial	**3,880**	**510**			**3,880**	**510**
Total mortgage-backed securities	**98,486**	**1,977**	**4,000**	**1,354**	**102,486**	**3,331**
U.S. Treasury and government agencies	**16,359**	**370**			**16,359**	**370**
Obligations of U.S. states and municipalities	**2,244**	**189**	**130**	**5**	**2,374**	**194**
Certificates of deposit						
Non-U.S. government debt securities	**2,013**	**32**			**2,013**	**32**
Corporate debt securities	**6,741**	**55**	**1,536**	**15**	**8,277**	**70**
Asset-backed securities:						
Credit card receivables	**592**	**29**	**9,532**	**379**	**10,124**	**408**
Collateralized debt and loan obligations	**6,755**	**239**	**3,993**	**308**	**10,748**	**547**
Other	**476**	**56**	**576**	**25**	**1,052**	**81**
Total available-for-sale debt securities	**133,666**	**2,947**	**19,767**	**2,086**	**153,433**	**5,033**
Available-for-sale equity securities	**3**	**3**			**3**	**3**
Total securities with gross unrealized losses	**$133,669**	**$2,950**	**$19,767**	**$2,086**	**$153,436**	**$5,036**

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			Total
	Fair	Gross unrealized	Fair	Gross unrealized	Total fair	gross unrealized

December 31, 2008 (in millions)	value	losses	value	losses	value	losses
Available-for-sale debt securities						
Mortgage-backed securities[(a)]:						
U.S. government agencies	$ 6,016	$ 224	$ 469	$ 3	$ 6,485	$ 227
Residential:						
Prime and Alt-A	6,254	1,838	333	97	6,587	1,935
Subprime			151	19	151	19
Non-U.S.	1,908	182			1,908	182
Commercial	3,939	684			3,939	684
Total mortgage-backed securities	18,117	2,928	953	119	19,070	3,047
U.S. Treasury and government agencies[(a)]	7,659	97			7,659	97
Obligations of U.S. states and municipalities	1,129	232	16	6	1,145	238
Certificates of deposit	382	8			382	8
Non-U.S. government debt securities	308	1	74	1	382	2
Corporate debt securities	558	54	30	7	588	61
Asset-backed securities[(a)]:						
Credit card receivables	10,267	1,964	472	304	10,739	2,268
Collateralized debt and loan obligations	9,059	820			9,059	820
Other	813	134	17	1	830	135
Total available-for-sale debt securities	48,292	6,238	1,562	438	49,854	6,676
Available-for-sale equity securities	19	7			19	7
Total securities with gross unrealized losses	$48,311	$6,245	$1,562	$438	$49,873	$6,683

(a) Prior periods have been revised to conform to the current presentation.

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Other-than-temporary impairment

In April 2009, the FASB amended the other-than-temporary impairment (OTTI) model for debt securities. The impairment model for equity securities was not affected. Under the new guidance, OTTI loss must be recognized in earnings if an investor has the intent to sell the debt security, or if it is more likely than not, will be required to sell the debt security before recovery of its amortized cost basis. However, even if an investor does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in income. Amounts relating to factors other than credit losses are recorded in OCI. The guidance also requires additional disclosures regarding the calculation of credit losses, as well as factors considered in reaching a conclusion that an investment is not other-than-temporarily impaired. JPMorgan Chase early adopted the new guidance effective for the period ending March 31, 2009. The Firm did not record a transition adjustment for securities held at March 31, 2009, which were previously considered other-than-temporarily impaired, as the Firm intended to sell the securities for which it had previously recognized OTTIs.

AFS securities in unrealized loss positions are analyzed as part of the Firm s ongoing assessment of OTTI. When the Firm intends to sell AFS securities, it recognizes an impairment loss equal to the full difference between the amortized cost basis and the fair value of those securities.

When the Firm does not intend to sell AFS equity or debt securities in an unrealized loss position, potential OTTI is considered using a variety of factors, including the length of time and extent to which the market value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes, and changes in fair value of the security after the balance sheet date. For debt securities, the Firm estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist, and, where applicable under EITF Issue 99-20, to determine if any adverse changes in cash flows have occurred. The Firm s cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period including, for example, for securities issued in a securitization, underlying loan-level data, and structural features of the securitization, such as subordination, excess spread, overcollateralization or other forms of credit enhancement. The Firm compares the losses projected for the underlying collateral (pool losses) against the level of credit enhancement in the securitization structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the AFS debt security exists. The Firm also performs other analyses to support its cash flow projections, such as first-loss analyses or stress scenarios. For debt securities, the Firm considers a decline in fair value to be other-than-temporary when the Firm does not expect to recover the entire amortized cost basis of the security, including, as applicable under EITF Issue 99-20, when an adverse change in cash flows has occurred. The Firm applies EITF Issue 99-20 to beneficial interests in securitizations that are rated below AA at acquisition, or that can be contractually prepaid or otherwise settled in such a way that the Firm would not recover substantially all of its recorded investment. For equity securities, the Firm considers the above factors, as well as the Firm s intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value, and whether evidence exists to support a realizable value equal to or greater than the carrying value. The Firm considers a decline in fair value of AFS equity securities to be other-than-temporary if it is probable that the Firm will not recover its amortized cost basis.

The following table presents unrealized losses that are included in securities gains and losses above.

June 30, 2009 (in millions)	Three months ended	Six months ended
Debt securities the Firm does not intend to sell with credit losses		
Total unrealized losses	**$ (880)**	$ (880)
Unrealized losses not related to credit	**696**	696

Unrealized credit losses recognized in income[(a)]	**(184)**	(184)
Unrealized losses recognized in income on debt securities the Firm intends to sell	**(2)**	(7)
Total unrealized losses recognized in income	**$ (186)**	$ (191)

(a) Represents the credit loss component of certain prime mortgage-backed securities and obligations of U.S. states and municipalities that the Firm does not intend to sell.

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Since the first quarter of 2008, the Firm has increased its investment securities positions. Many of these securities were purchased at discounts to par, given the significant liquidity constraints in the market. The timing and prices at which the Firm acquired its investments have resulted in the majority of unrealized losses existing for less than 12 months. Based on the analyses described above, which have been applied to these securities, the Firm believes that the unrealized losses that it does not consider to be other-than-temporary result from liquidity conditions in the current market environment. As of June 30, 2009, the Firm does not intend to sell the securities with a loss position in AOCI, and it is not likely that the Firm will be required to sell these securities before recovery of their amortized cost basis. As a result, except for the securities reported in the table above for which credit losses have been recognized in income, the Firm believes that the securities with an unrealized loss in AOCI are not other-than-temporarily impaired as of June 30, 2009.

Following is a description of the Firm s main security investments and the key assumptions used in its estimate of the present value of the cash flows most likely to be collected from those investments.

Mortgage-backed securities U.S. government agencies

As of June 30, 2009, gross unrealized losses on mortgage-backed securities related to U.S. agencies were $866 million, of which $18 million related to securities that have been in an unrealized loss position for longer than 12 months. These mortgage-backed securities do not have any credit losses, given the explicit and implicit guarantees provided by the U.S. federal government.

Mortgage-backed securities Prime and Alt-A non-agency

As of June 30, 2009, gross unrealized losses related to prime and Alt-A mortgage-backed securities issued by private issuers were $1.7 billion, of which $1.3 billion related to securities that have been in an unrealized loss position for longer than 12 months. Approximately one-third of these positions are currently rated AAA. Approximately half of the amortized cost of the investments in prime and Alt-A mortgage-backed securities have experienced downgrades and approximately one-third of the amortized cost of investments in prime and Alt-A mortgage-backed securities are currently rated below investment grade. Despite the downgrades experienced, the portfolio generally continues to possess credit enhancement levels sufficient to support the Firm s investment. However, the Firm has recognized $66 million of OTTIs in earnings for securities that have experienced increased delinquency rates associated with specific collateral types and origination dates. In analyzing prime and Alt-A residential mortgage-backed securities for potential credit losses, the key inputs to the Firm s cash flow projections were estimated peak-to-trough home price declines of up to 44% and an unemployment rate of 10.3%. The Firm s cash flow projections assumed liquidation rates of 75% to 100% and loss severities of 45% to 55%, depending on the underlying collateral type and seasoning.

Mortgage-backed securities Subprime

As of June 30, 2009, there were no gross unrealized losses related to subprime residential mortgage-backed securities (RMBS) in an unrealized loss position. During the three and six months ended June 30, 2009, the Firm recorded losses of $2 million and $7 million, respectively, on subprime RMBS based on the Firm s intent to sell. In addition, the Firm realized losses of $17 million and $28 million, respectively, on sales of subprime RMBS during the three and six months ended June 30, 2009.

Mortgage-backed securities Commercial

As of June 30, 2009, gross unrealized losses related to commercial mortgage-backed securities were $510 million; none of the losses related to securities that were in an unrealized loss position for longer than 12 months. Substantially all of the Firm s commercial mortgage-backed securities are rated AAA and possess, on average, 27% subordination (a form of credit enhancement for the benefit of senior securities, expressed here as the percentage of pool losses that can occur before an asset-backed security will incur its first dollar of principal loss). In considering whether potential credit-related losses exist, the Firm conducted a scenario analysis, using high levels of delinquencies and losses over the near term, followed by lower levels over the long term. Specific assumptions included: (i) all loans more than 60 days delinquent will default; (ii) additional default rates for the remaining portfolio forecasted to be up to 8% in the near term and 2% in the long term; and (iii) loss severity assumptions ranging from 45% in the near term to 40% in later years.

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Asset-backed securities Credit card receivables

As of June 30, 2009, gross unrealized losses related to credit card receivables asset-backed securities were $408 million, of which $379 million of the losses related to securities that were in an unrealized loss position for longer than 12 months. Of the $408 million of unrealized losses related to credit card related asset-backed securities, $375 million relates to purchased credit card related asset-backed securities, and $33 million related to retained interests in the Firm s own credit card receivable securitizations. The credit card related asset-backed securities include AAA, AA, A and BBB ratings. One of the key metrics the Firm reviews for credit card-related asset-backed securit is each trust s excess spread which is the credit enhancement resulting from cash that remains each month after payments are made to investors for principal and interest, and to servicers for servicing fees, and after credit losses are allocated. The average excess spread for the issuing trusts in which the Firm holds interests ranges from 1% to 6%. The Firm uses internal models to project the cash flows that impact excess spread. For retained interests, the Firm uses its own underlying loan data as well as available market benchmarks. For purchased investments, the Firm uses available market benchmarks and trends to support the assumptions used in the projections. In analyzing potential credit losses, the primary assumptions are underlying charge-off rates, which range from 9% to 16% (charge-off rates consider underlying assumptions such as unemployment rates and roll rates), payment rates of 11% to 22%, and portfolio yields of 14% to 24%.

Asset-backed securities Collateralized debt and loan obligations

As of June 30, 2009, gross unrealized losses related to collateralized debt and loan obligations were $547 million, of which $308 million related to securities that were in an unrealized loss position for longer than 12 months. Substantially all of these securities are rated AAA and have an average of 28% credit enhancement. Credit enhancement in collateralized loan obligations (CLOs) is mainly composed of overcollateralization the excess of the par amount of collateral over the par amount of securities. The key assumptions considered in analyzing potential credit losses were underlying loan and debt security defaults and loss severity. Based on current default trends, the Firm assumed collateral default rates of 15% in 2009, 12% in 2010 and 5% thereafter. Further, loss severities were assumed to be 50% for loans and 80% for debt securities. Losses on collateral were estimated to occur approximately 18 months after default.

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Contractual maturities and yields

The following table presents the amortized cost and estimated fair value at June 30, 2009, of JPMorgan Chase s AFS and HTM securities by contractual maturity.

By remaining maturity (in millions)	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years[c]	Total
			June 30, 2009		
Available-for-sale debt securities					
Mortgage-backed securities[b]					
Amortized cost	$ 29	$ 1,308	$ 8,467	$188,170	$197,974
Fair value	30	1,333	7,998	187,676	197,037
Average yield[a]	2.81%	2.99%	4.33%	4.76%	4.73%
U.S. Treasury and government agencies[b]					
Amortized cost	$ 541	$26,141	$ 8,028	$ 230	$ 34,940
Fair value	541	26,176	7,734	227	34,678
Average yield[a]	0.18%	2.42%	3.48%	5.95%	2.65%
Obligations of U.S. states and municipalities					
Amortized cost	$	$ 132	$ 419	$ 5,492	$ 6,043
Fair value		137	422	5,447	6,006
Average yield[a]	%	4.23%	5.12%	4.43%	4.47%
Certificates of deposit					
Amortized cost	$ 5,587	$	$	$	$ 5,587
Fair value	5,603				5,603
Average yield[a]	2.92%	%	%	%	2.92%
Non-U.S. government debt securities					
Amortized cost	$ 5,015	$ 8,160	$ 897	$ 2,149	$ 16,221
Fair value	5,024	8,286	890	2,151	16,351
Average yield[a]	1.53%	2.57%	3.73%	2.29%	2.28%
Corporate debt securities					
Amortized cost	$ 3,484	$43,527	$ 603	$ 212	$ 47,826
Fair value	3,547	43,895	618	216	48,276
Average yield[a]	2.41%	2.45%	6.28%	6.94%	2.52%
Asset-backed securities					
Amortized cost	$12,668	$ 9,209	$ 8,447	$ 5,596	$ 35,920
Fair value	12,732	9,044	8,290	5,549	35,615
Average yield[a]	2.01%	1.89%	1.87%	2.23%	1.98%
Total available-for-sale debt securities					
Amortized cost	$27,324	$88,477	$26,861	$201,849	$344,511
Fair value	27,477	88,871	25,952	201,266	343,566
Average yield[a]	2.12%	2.41%	3.34%	4.66%	3.78%

Available-for-sale equity securities					
Amortized cost	$	$	$	$ 1,873	$ 1,873
Fair value				1,968	1,968
Average yield[(a)]	%	%	%	0.34%	0.34%
Total available-for-sale securities					
Amortized cost	$27,324	$88,477	$26,861	$203,722	$346,384
Fair value	27,477	88,871	25,952	203,234	345,534
Average yield[(a)]	2.12%	2.41%	3.34%	4.62%	3.76%
Total held-to-maturity securities					
Amortized cost	$	$	$ 27	$ 2	$ 29
Fair value			29	2	31
Average yield[(a)]	%	%	6.89%	6.46%	6.85%

(a) The average yield was based on amortized cost balances at the end of the period and does not give effect to changes in fair value that are reflected in accumulated other comprehensive income (loss). Yields are derived by dividing interest/dividend income (including the effect of related derivatives on available-for-sale securities and the amortization of premiums and accretion of discounts) by total amortized cost. Taxable-equivalent yields are used where applicable.

(b) U.S. government agencies and U.S. government-sponsored enterprises were the only issuers whose securities exceeded 10% of JPMorgan Chase s total

stockholders equity at June 30, 2009.

(c) Includes securities with no stated maturity. Substantially all of the Firm s mortgage-backed securities and collateralized mortgage obligations are due in 10 years or more, based on contractual maturity. The estimated duration, which reflects anticipated future prepayments based on a consensus of dealers in the market, is approximately five years for nonagency mortgage-backed securities and three years for collateralized mortgage obligations.

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NOTE 12 SECURITIES FINANCING ACTIVITIES

For a discussion of accounting policies relating to securities financing activities, see Note 13 on pages 162-163 of JPMorgan Chase s 2008 Annual Report. For further information regarding securities borrowed and securities lending agreements for which the SFAS 159 fair value option has been elected, see Note 4 on pages 114-116 of this Form 10-Q.

The following table details the components of collateralized financings.

(in millions)	**June 30, 2009**	December 31, 2008
Securities purchased under resale agreements[(a)]	**$158,861**	$ 200,265
Securities borrowed[(b)]	**129,263**	124,000
Securities sold under repurchase agreements[(c)]	**$287,092**	$ 174,456
Securities loaned	**6,403**	6,077

(a) Includes resale agreements of $19.0 billion and $20.8 billion accounted for at fair value at June 30, 2009, and December 31, 2008, respectively.

(b) Includes securities borrowed of $3.4 billion accounted for at fair value at both June 30, 2009, and December 31, 2008.

(c) Includes repurchase agreements of $3.0 billion accounted for at fair value at both June 30, 2009, and December 31,

2008.

JPMorgan Chase pledges certain financial instruments it owns to collateralize repurchase agreements and other securities financings. Pledged securities that can be sold or repledged by the secured party are identified as financial instruments owned (pledged to various parties) on the Consolidated Balance Sheets.

At June 30, 2009, the Firm received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately $597.5 billion. This collateral was generally obtained under resale or securities-borrowing agreements. Of these securities, approximately $435.6 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

NOTE 13 LOANS

The accounting for a loan is based on whether it is originated or purchased, and whether the loan is used in an investing or trading strategy. The measurement framework for loans in the Consolidated Financial Statements is one of the following:

- At the principal amount outstanding, net of the allowance for loan losses, unearned income and any net deferred loan fees or costs, for loans held-for-investment (other than purchased credit-impaired loans);
- At the lower of cost or fair value, with valuation changes recorded in noninterest revenue, for loans that are classified as held-for-sale;
- At fair value, with changes in fair value recorded in noninterest revenue, for loans classified as trading assets or risk managed on a fair value basis; or
- Purchased credit-impaired loans held-for-investment are accounted for under SOP 03-3 and initially measured at fair value, which includes estimated future credit losses. Accordingly, an allowance for loan losses related to these loans is not recorded at the acquisition date.

For a detailed discussion of accounting policies relating to loans, see Note 14 on pages 163-166 of JPMorgan Chase s 2008 Annual Report. See Note 4 on pages 114-116 of this Form 10-Q for further information on the Firm s elections of fair value accounting under SFAS 159. See Note 3 on pages 99-114 of this Form 10-Q for further information on loans carried at fair value and classified as trading assets.

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The composition of the Firm s aggregate loan portfolio at each of the dates indicated was as follows.

(in millions)	June 30, 2009	December 31, 2008
U.S. wholesale loans:		
Commercial and industrial	**$ 59,096**	$ 68,709
Real estate	**61,754**	64,214
Financial institutions	**18,083**	20,615
Government agencies	**5,826**	5,918
Other	**24,619**	22,330
Loans held-for-sale and at fair value	**2,826**	4,990
Total U.S. wholesale loans	**172,204**	186,776
Non-U.S. wholesale loans:		
Commercial and industrial	**24,052**	27,941
Real estate	**2,871**	2,667
Financial institutions	**10,173**	16,381
Government agencies	**688**	603
Other	**16,918**	18,711
Loans held-for-sale and at fair value	**4,719**	8,965
Total non-U.S. wholesale loans	**59,421**	75,268
Total wholesale loans:[(a)]		
Commercial and industrial	**83,148**	96,650
Real estate[(b)]	**64,625**	66,881
Financial institutions	**28,256**	36,996
Government agencies	**6,514**	6,521
Other	**41,537**	41,041
Loans held-for-sale and at fair value[(c)]	**7,545**	13,955
Total wholesale loans	**231,625**	262,044
Total consumer loans:[(d)]		
Home equity	**108,229**	114,335
Prime mortgage	**68,878**	72,266
Subprime mortgage	**13,825**	15,330
Option ARMs	**9,034**	9,018
Auto loans	**42,887**	42,603
Credit card[(e)(f)]	**85,736**	104,746
Other	**33,041**	33,715
Loans held-for-sale[(g)]	**1,940**	2,028
Total consumer loans excluding purchased credit-impaired loans	**363,570**	394,041
Consumer loans purchased credit-impaired loans	**85,406**	88,813

Total consumer loans	**448,976**	482,854
Total loans[(h)]	**$680,601**	$ 744,898

(a) Includes Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management.

(b) Represents credits extended for real estate-related purposes to borrowers who are primarily in the real estate development or investment businesses, and which the repayment is predominantly from the sale, lease, management, operations or refinancing of the property.

(c) Includes loans for commercial & industrial, real estate, financial institutions and other of $5.5 billion, $334 million, $701 million and $1.0 billion, respectively, at June 30, 2009, and $11.0 billion, $428 million, $1.5 billion and $995 million, respectively, at December 31, 2008.

(d) Includes Retail Financial Services, Card Services and the Corporate/Private Equity segment.

(e) Includes billed finance charges and fees net of an allowance for uncollectible amounts.

(f) Includes $5.0 billion of loans at June 30, 2009, from the Washington Mutual Master Trust, which were consolidated onto the Firm s balance sheet at fair value during the second quarter of 2009. See Note 15 on pages 139-147 of this Form 10-Q.

(g) Includes loans for prime mortgage and other (largely student loans) of $589 million and $1.4 billion, respectively, at June 30, 2009, and $206 million and $1.8 billion, respectively, at December 31, 2008.

(h) Loans (other than purchased loans and those for which the SFAS 159 fair value

option has been elected) are presented net of $574 million and $694 million of unearned income and net deferred loan costs at June 30, 2009, and December 31, 2008, respectively.

The following table reflects information about the Firm s loan sales.

(in millions)	Three months ended June 30, **2009**	2008	Six months ended June 30, **2009**	2008
Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)[(a)]	**$ 306**	$ (335)	**$ 13**	$ (952)

(a) Excludes sales related to loans accounted for at fair value.

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Purchased credit-impaired loans

In connection with the Washington Mutual transaction, JPMorgan Chase acquired certain loans that it deemed to be credit-impaired under SOP 03-3. For a detailed discussion of purchased credit-impaired loans, including accounting policies, see Note 14 on pages 163-166 of JPMorgan Chase s 2008 Annual Report.

Purchased credit-impaired loans are reported in loans on the Firm s Consolidated Balance Sheets. The allowance for loan losses, if required, would be reported as a reduction of the carrying amount of the loans. No allowance for loan losses has been recorded for these loans as of June 30, 2009. The outstanding balance and the carrying amount of the purchased credit-impaired consumer loans were as follows.

(in millions)	**June 30, 2009**	December 31, 2008
Outstanding balance[(a)]	**$110,793**	$ 118,180
Carrying amount	**85,406**	88,813

(a) Represents the sum of contractual principal, interest and fees earned at the reporting date.

The accretable yield represents the excess of cash flows expected to be collected over the fair value of the purchased credit-impaired loans. This amount is not reported on the Firm s Consolidated Balance Sheets, but is accreted into interest income at a level rate of return over the expected lives of the underlying loans. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

The table below sets forth the accretable yield activity for purchased credit-impaired consumer loans for the three and six months ended June 30, 2009.

Accretable yield activity

(in millions)	Three months ended June 30, 2009	Six months ended June 30, 2009[(a)]
Balance at the beginning of the period	**$** 29,114	**$** 32,619
Accretion into interest income	(1,106)	(2,365)
Changes in interest rates on variable-rate loans	(1,045)	(3,291)
Balance, June 30, 2009	$ 26,963	$ 26,963

(a) During the first quarter of 2009, the Firm continued to refine its model to estimate future cash flows for its purchased credit-impaired consumer loans,

which resulted in an adjustment of the initial estimate of cash flows expected to be collected. These refinements, which primarily affected the amount of undiscounted-interest cash flows expected to be received over the life of the loans, resulted in a $6.1 billion increase in cash flows expected to be collected. However, on a discounted basis, these refinements did not have a material impact on the fair value of the purchased credit-impaired loans as of the September 25, 2008, acquisition date; nor did they have a material impact on the amount of interest income recognized in the Firm s Consolidated Statements of Income since that date.

Other impaired loans

For a detailed discussion of impaired loans, including types of impaired loans, certain troubled debt restructurings and accounting policies relating to the interest income on these loans, see Note 14 on pages 163-166 of JPMorgan Chase s 2008 Annual Report.

The tables below set forth information about JPMorgan Chase s impaired loans, excluding credit card loans, which are discussed below. The Firm primarily uses the discounted cash flow method for valuing impaired loans.

(in millions)	**June 30, 2009**	December 31, 2008
Impaired loans with an allowance:		
Wholesale	**$ 5,273**	$ 2,026
Consumer[(a)]	**3,751**	2,252
Total impaired loans with an allowance	**9,024**	4,278

Impaired loans without an allowance:[b]		
Wholesale	**266**	62
Consumer[a]		
Total impaired loans without an allowance	**266**	62
Total impaired loans	**$ 9,290**	$ 4,340
Allowance for impaired loans under SFAS 114:		
Wholesale	**$ 2,108**	$ 712
Consumer[a]	**801**	379
Total allowance for impaired loans under SFAS 114[c]	**$ 2,909**	$ 1,091

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(in millions)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Average balance of impaired loans during the period:				
Wholesale	**$4,375**	$ 747	**$3,639**	$ 683
Consumer[(a)]	**3,479**	962	**3,042**	837
Total impaired loans	**$7,854**	$1,709	**$6,681**	$1,520
Interest income recognized on impaired loans during the period:				
Wholesale	**$**	$	**$**	$
Consumer[(a)]	**37**	13	**67**	21
Total interest income recognized on impaired loans during the period	**$ 37**	$ 13	**$ 67**	$ 21

(a) Excludes credit card loans.

(b) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under SFAS 114.

(c) The allowance for impaired loans under SFAS 114 is included in JPMorgan Chase s allowance for loan losses. The allowance for certain consumer-impaired loans has been categorized in the allowance for loan

losses as
formula-based.

Included in the table above are consumer loans, excluding credit card loans, that have been modified in a troubled debt restructuring, with balances of approximately $3.1 billion and $1.8 billion as of June 30, 2009, and December 31, 2008, respectively. For detailed discussion of modification of the terms of credit card loan agreements, see Note 14 on pages 163-166 of JPMorgan Chase s 2008 Annual Report. At June 30, 2009, and December 31, 2008, the Firm modified $3.7 billion and $2.4 billion, respectively, of on balance sheet credit card loans outstanding.

During the first quarter of 2009, the U.S. Treasury introduced the Making Home Affordable Plan (MHA), which includes programs designed to assist eligible homeowners by modifying the terms of their mortgages. The Firm is participating in MHA while continuing to expand its other loss-mitigation efforts for financially stressed borrowers who do not qualify for the MHA programs. MHA and the Firm s other loss mitigation programs generally represent various forms of term extensions, rate reductions and forbearances provided to financially troubled borrowers. Under these programs, borrowers must make three payments during a 90-day trial modification period and be successfully re-underwritten with income verification, before their loan is officially deemed to be modified. Upon formal modification, the loan is generally accounted for as a troubled debt restructuring. For purchased credit-impaired loans, the impact of the modification is incorporated into the Firm s quarterly assessment of whether a probable and/or significant change in estimated future cash flows has occurred and the loans continue to be reported as purchased credit-impaired loans. As of June 30, 2009, approximately 26,000 approved trial mortgage modifications with an unpaid principal balance of $8.3 billion were included on the Firm s balance sheet. Approximately $4.6 billion of these loans were included in the Firm s purchased credit impaired loan portfolio.

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NOTE 14 ALLOWANCE FOR CREDIT LOSSES

For further discussion of the allowance for credit losses and the related accounting policies, see Note 15 on pages 166-168 of JPMorgan Chase s 2008 Annual Report.

The table below summarizes the changes in the allowance for loan losses.

	Six months ended June 30,	
(in millions)	**2009**	2008
Allowance for loan losses at January 1	**$23,164**	$ 9,234
Gross charge-offs	**10,937**	4,524
Gross (recoveries)	**(522)**	(488)
Net charge-offs	**10,415**	4,036
Provision for loan losses	**16,540**	8,043
Other[(a)]	**(217)**	5
Allowance for loan losses at June 30	**$29,072**	$13,246
Components:		
Asset-specific	**$ 2,240**	$ 235
Formula-based	**26,832**	13,011
Total allowance for loan losses	**$29,072**	$13,246

(a) Other predominantly includes a reclassification in 2009 related to the issuance and retention of securities from the Chase Issuance Trust. See Note 15 on pages 139-147 of this Form 10-Q.

The table below summarizes the changes in the allowance for lending-related commitments.

	Six months ended June 30,	
(in millions)	**2009**	2008
Allowance for lending-related commitments at January 1	**$659**	$ 850
Provision for lending-related commitments	**87**	(164)
Allowance for lending-related commitments at June 30	**$746**	$ 686
Components:		

Asset-specific	**$111**	$ 16
Formula-based	**635**	670
Total allowance for lending-related commitments	**$746**	$ 686

NOTE 15 LOAN SECURITIZATIONS

For a discussion of the accounting policies relating to loan securitizations, see Note 16 on pages 168-176 of JPMorgan Chase s 2008 Annual Report. JPMorgan Chase securitizes and sells a variety of loans, including residential mortgage, credit card, automobile, student, and commercial (primarily related to real estate) loans. JPMorgan Chase sponsored securitizations use special-purpose entities (SPEs) as part of the securitization process. These SPEs are structured to meet the definition of a qualifying special-purpose entity (QSPE) (for a further discussion, see Note 1 on page 122 of JPMorgan Chase s 2008 Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected on the Firm s Consolidated Balance Sheets (except for retained interests, as described below). The primary purposes of these securitization vehicles are to meet investor needs and to generate liquidity for the Firm through the sale of loans to the QSPEs, which are financed through the issuance of fixed- or floating-rate asset-backed securities.

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The following table presents the total unpaid principal amount of assets held in JPMorgan Chase sponsored securitization entities, for which sale accounting was achieved and to which the Firm has continuing involvement, at June 30, 2009, and December 31, 2008. Continuing involvement includes servicing the loans, holding senior or subordinated interests, recourse or guarantee arrangements and derivative transactions. In certain instances, the Firm s only continuing involvement is servicing the loans.

	Principal amount outstanding		JPMorgan Chase interest in securitized assets[e][f][g][h]				
June 30, 2009 (in billions)	Total assets held by Firm-sponsored QSPEs	Assets held in QSPEs with continuing involvement	Trading assets[i]	AFS securities[i]	Loans	Other assets[i]	Total interests held by JPMorgan Chase
Securitization-related:							
Credit card	$101.7	$ 101.7[d]	$0.2	$14.3	$10.5	$8.2	$ 33.2
Residential mortgage:							
Prime[a]	211.3	194.8	1.1	0.6			1.7
Subprime	55.1	48.1		0.1			0.1
Option ARMs	45.3	45.3		0.1			0.1
Commercial and other[b]	159.6	32.7	1.6	0.6			2.2
Student loans	1.0	1.0				0.1	0.1
Auto	0.4	0.4					
Total[c]	$574.4	$ 424.0	$2.9	$15.7	$10.5	$8.3	$ 37.4

	Principal amount outstanding		JPMorgan Chase interest in securitized assets[e][f][g][h]				
December 31, 2008 (in billions)	Total assets held by Firm-sponsored QSPEs	Assets held in QSPEs with continuing involvement	Trading assets[i]	AFS securities[i]	Loans	Other assets[i]	Total interests held by JPMorgan Chase
Securitization-related:							
Credit card	$121.6	$ 121.6[d]	$0.5	$5.6	$33.3	$5.6	$ 45.0
Residential mortgage:							
Prime[a]	233.9	212.3	1.7	0.7			2.4
Subprime	61.0	58.6		0.1			0.1
Option ARMs	48.3	48.3	0.1	0.3			0.4
Commercial and other[b]	174.1	45.7	2.0	0.5			2.5
Student loans	1.1	1.1				0.1	0.1

Auto	0.8	0.8					
Total[(c)]	$640.8	$ 488.4	$4.3	$7.2	$33.3	$5.7	$ 50.5

(a) Includes Alt-A loans.

(b) Consists of securities backed by commercial loans (predominantly real estate) and non-mortgage-related consumer receivables purchased from third parties. The Firm generally does not retain a residual interest in its sponsored commercial mortgage securitization transactions. Includes co-sponsored commercial securitizations and, therefore, includes non JPMorgan Chase originated commercial mortgage loans.

(c) Includes securitized loans where the Firm owns less than a majority of the subordinated or residual interests in the securitizations.

(d) Includes credit card loans, accrued interest and fees, and cash amounts on deposit.

(e) Excludes retained servicing (for a discussion of MSRs, see Note 17 on pages 154-155 of this Form 10-Q).

(f)

Excludes senior and subordinated securities of $1.2 billion and $974 million at June 30, 2009, and December 31, 2008, respectively, that the Firm purchased in connection with IB s secondary market-making activities.

(g) Includes investments acquired in the secondary market, but predominantly held-for-investment purposes, of $1.5 billion and $1.8 billion as of June 30, 2009, and December 31, 2008, respectively. This is comprised of $1.3 billion and $1.4 billion of investments classified as available-for-sale, including $1.2 billion and $172 million in credit cards, $19 million and $693 million of residential mortgages, and zero and $495 million of commercial and other; and $241 million and $452 million of investments classified as trading, including $156 million and $112 million of credit cards, $83 million and $303 million of residential mortgages, and $2 million and $37 million of commercial and other,

all respectively at June 30, 2009, and December 31, 2008.

(h) Excludes interest rate and foreign exchange derivatives primarily used to manage the interest rate and foreign exchange risks of the securitization entities. See Note 5 on pages 116-124 of this Form 10-Q for further information on derivatives.

(i) Certain of the Firm s retained interests are reflected at their fair values.

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Securitization activity by major product type

The following discussion describes the nature of the Firm s securitization activities by major product type.

Credit card securitizations

Overview

The Card Services (CS) business securitizes originated and purchased credit card loans, primarily through the Chase Issuance Trust (the Trust). The Firm s primary continuing involvement after securitization includes servicing the receivables, retaining an undivided seller s interest in the receivables, retaining certain senior and subordinated securities and maintaining escrow accounts. CS maintains servicing responsibilities for all credit card securitizations that it sponsors. As servicer and transferor, the Firm receives contractual servicing fees based on the securitized loan balance plus excess servicing fees, which are recorded in credit card income as discussed in Note 6 on page 125 of this Form 10-Q. The Firm acquired the seller s interest in the Washington Mutual Master Trust (the WMM Trust) and became its sponsor in connection with the Washington Mutual transaction. For further discussion of credit card securitizations, see Note 16 on pages 169 170 of JPMorgan Chase s 2008 Annual Report.

Actions taken in the second quarter of 2009

During the quarter ended June 30, 2009, the overall performance of the Firm s credit card securitization trusts declined primarily due to the increase in credit losses incurred on the underlying credit card receivables.

Trust: The Chase Issuance Trust (the Firm s primary issuance trust), which holds prime quality credit card receivables, maintained positive excess spread, a key metric for evaluating the performance of a credit card trust, through the first six months of 2009. However, given market uncertainty concerning projected credit costs in the credit card industry, and to mitigate any further deterioration in the performance of the Trust, the Firm took certain actions, as permitted by the Trust agreements, to enhance the performance of the Trust. On May 12, 2009, the Firm increased the required credit enhancement level for each tranche of outstanding notes issued by the Trust by increasing the minimum required amount of subordinated notes and the funding requirements for the Trust s cash escrow accounts. On June 1, 2009, the Firm began designating as discount receivables a percentage of new credit card receivables for inclusion in the Trust, thereby requiring collections of such discounted receivables to be applied as finance charge collections in the Trust, which is expected to increase the excess spread for the Trust. The Firm expects to discontinue designating a percentage of new receivables as discount receivables on July 1, 2010. Also, during the second quarter of 2009, the Firm exchanged $3.5 billion of its undivided seller s interest in the Trust for $3.5 billion of zero-coupon subordinated securities issued by the Trust and retained by the Firm. The issuance of the zero-coupon securities by the Trust is also expected to increase the excess spread for the Trust. These actions resulted in the addition of approximately $40 billion of risk-weighted assets for regulatory capital purposes, which decreased the Firm s Tier 1 capital ratio by approximately 40 basis points, but did not have a material impact on the Firm s Consolidated Balance Sheets or results of operations.

WMM Trust: At the time of the acquisition of the Washington Mutual banking operations, the assets of the WMM Trust were comprised of Washington Mutual subprime credit card receivables. The quality of the assets in the WMM Trust was much lower than the quality of the credit card receivables that JPMorgan Chase has historically securitized in the public markets.

In order to more closely conform the WMM Trust to the overall quality typical of a JPMorgan Chase-sponsored credit card securitization master trust, during the fourth quarter of 2008 the Firm randomly removed $6.2 billion of credit card loans from the WMM Trust and replaced them with $5.8 billion of higher-quality receivables from the Firm s portfolio.

However, as a result of continued deterioration during 2009 in the credit quality of the remaining Washington Mutual-originated assets in the WMM Trust, the performance of the portfolio indicated that an early amortization event was likely to occur unless additional actions were taken. On May 15, 2009, JPMorgan Chase, as seller and servicer, and the Bank of New York Mellon, as trustee, amended the pooling and servicing agreement to permit non-random removals of credit card accounts. On May 19, 2009, the Firm removed all remaining credit card receivables originated by Washington Mutual. Following this removal, the WMM Trust collateral was entirely comprised of receivables originated by JPMorgan Chase. As a result of the actions taken by the Firm, the assets and liabilities of the WMM Trust were consolidated on the balance sheet of JPMorgan Chase. As a result, the Firm has

recorded during the second quarter of 2009, additional assets with an initial fair value of $6.0 billion, additional liabilities with an initial fair value of $6.1 billion, and a pre-tax loss of approximately $64 million.

Retained interests in nonconsolidated credit card securitizations

Following is a description of the Firm s retained interests in credit card securitizations that were not consolidated at the dates presented. Accordingly, the Firms s retained interests in the WMM Trust are included in the amounts reported at December 31, 2008, but are no longer included at June 30, 2009, due to the second quarter actions noted above. For further information regarding the WMM Trust assets and liabilities, see Note 16 on pages 148-153 of this Form 10-Q.

The agreements with the credit card securitization trusts require the Firm to maintain a minimum undivided interest in the trusts (which generally ranges from 4% to 12%). At June 30, 2009 and December 31, 2008, the Firm had $10.5 billion and $33.3 billion, respectively, related to its undivided interests in the trusts. The Firm maintained an average undivided interest in principal receivables in the trusts of approximately 18% for the six months ended June 30, 2009, and 22% for the year ended December 31, 2008. These undivided interests in the trusts represent the Firm s interests in

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the receivables transferred to the trust that have not been securitized; these undivided interests are not represented by security certificates, are carried at historical cost and classified within loans.

CS retained senior and subordinated securities in its credit card securitization trusts. The senior securities totaled $7.2 billion and $3.5 billion at June 30, 2009 and December 31, 2008, respectively, and the subordinated securities totaled $5.8 billion and $2.3 billion at June 30, 2009 and December 31, 2008, respectively. Of the securities retained, $13.0 billion and $5.4 billion were classified as AFS securities at June 30, 2009 and December 31, 2008, respectively. The senior AFS securities were used by the Firm as collateral for a secured financing transaction. The retained subordinated interests that were acquired in the Washington Mutual transaction and classified as trading assets had a carrying value of $389 million at December 31, 2008, and were subsequently repaid or valued at zero before being eliminated upon the consolidation of the WMM Trust. As discussed above, the Firm consolidated the assets and liabilities of the WMM Trust in the second quarter of 2009.

Credit card securitizations include escrow accounts up to predetermined limits to cover deficiencies in cash flows owed to investors. Amounts in such escrow accounts were $964 million and $74 million as of June 30, 2009 and December 31, 2008, respectively. The increase in the balance of these escrow accounts primarily relates to the Trust actions described above that the Firm took on May 12, 2009. Additionally, the Firm has retained subordinated interests in accrued interest and fees on the securitized receivables totaling $3.2 billion and $3.0 billion as of June 30, 2009 and December 31, 2008, respectively. JPMorgan Chase has also recorded $241 million representing receivables that have been transferred to the Trust and designated as discount receivables. All of these residual interests are reported in other assets.

Mortgage securitizations

The Firm securitizes originated and purchased residential mortgages and originated commercial mortgages.

RFS securitizes residential mortgage loans that it originates and purchases, and it typically retains servicing for all of its originated and purchased residential mortgage loans. Additionally, RFS may retain servicing for certain mortgage loans purchased by IB. As servicer, the Firm receives servicing fees based on the securitized loan balance plus ancillary fees. The Firm also retains the right to service the residential mortgage loans it sells to Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) in accordance with their servicing guidelines and standards. For a discussion of MSRs, see Note 17 on pages 154 155 of this Form 10-Q. In a limited number of securitizations, RFS may retain an interest in addition to servicing rights. The amount of interest retained related to these securitizations totaled $397 million and $939 million at June 30, 2009, and December 31, 2008, respectively. These retained interests are accounted for as trading or AFS securities; the classification depends on whether the retained interest is represented by a security certificate or has an embedded derivative, and when it was retained (i.e., prior to the adoption of SFAS 155).

IB securitizes residential mortgage loans (including those that it purchased and certain mortgage loans originated by RFS) and commercial mortgage loans that it originated. These loans are often serviced by RFS. Upon securitization, IB may engage in underwriting and trading activities of the securities issued by the securitization trust. IB may retain unsold senior and/or subordinated interests (including residual interests) in both residential and commercial mortgage securitizations at the time of securitization. These retained interests are accounted for at fair value and classified as trading assets. The amount of residual interests retained was $46 million and $155 million at June 30, 2009, and December 31, 2008, respectively. Additionally, IB retained $2.4 billion and $2.8 billion of senior and subordinated interests as of June 30, 2009, and December 31, 2008, respectively; these securities were retained in connection with the Firm s underwriting activities.

In addition to the amounts reported in the securitization activity tables below, the Firm sold residential mortgage loans totaling $40.2 billion and $39.4 billion during the three months ended June 30, 2009 and 2008, respectively, and $78.4 billion and $69.1 billion during the six months ended June 30, 2009 and 2008, respectively. The majority of these loan sales were for securitization by the GNMA, FNMA and FHLMC. These sales resulted in pretax gains (losses) of $34 million and $36 million during the three months ended June 30, 2009 and 2008, respectively, and $51 million and $26 million during the six months ended June 30, 2009 and 2008, respectively.

The Firm s mortgage loan sales are primarily nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the loans. However, for a limited number of loan sales, the Firm is obligated to share up to

100% of the credit risk associated with the sold loans with the purchaser. See Note 24 on pages 162 163 of this Form 10-Q for additional information on loans sold with recourse.

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Other securitizations

The Firm also securitizes automobile and student loans originated by RFS and purchased consumer loans (including automobile and student loans). The Firm retains servicing responsibilities for all originated and certain purchased student and automobile loans. It may also hold a retained interest in these securitizations; such residual interests are classified as other assets. At June 30, 2009, and December 31, 2008, the Firm held $20 million and $37 million, respectively, of retained interests in securitized automobile loan securitizations, and $52 million and $52 million, respectively, of residual interests in securitized student loans.

Securitization activity

The following tables provide information related to the Firm s securitization activities for the three and six months ended June 30, 2009, and 2008. For the periods presented, there were no cash flows from the Firm to the QSPEs related to recourse or guarantee arrangements.

	Three months ended June 30, 2009						
		Residential mortgage					
(in millions, except for ratios and where otherwise noted)	Credit card	Prime[f]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	**$12,495**	**$**	**$**	**$**	**$**	**$**	**$**
Pretax gains	**17**						
All cash flows during the period:							
Proceeds from new securitizations	**$12,495**[e][g]	**$**	**$**	**$**	**$**	**$**	**$**
Servicing fees collected	**314**	**111**	**41**	**118**	**1**	**1**	**1**
Other cash flows received[a]	**147**	**2**	**1**				
Proceeds from collections reinvested in revolving securitizations	**37,719**						
Purchases of previously transferred financial assets (or the underlying collateral)[b]	[h]	**35**		**10**			
Cash flows received on the interests that continue to be held by the Firm[c]	**77**	**210**	**8**	**16**	**34**	**3**	**2**
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[d]	**16.7%** **PPR**						
Weighted-average life (in years)	**0.5**						
Expected credit losses	**8.7%**						
Discount rate	**18.0%**						

	Three months ended June 30, 2008						
		Residential mortgage					
(in millions, except for ratios and where otherwise noted)	Credit card	Prime[f]	Subprime	Option ARMs	Commercial and other	Student loans	Auto

Principal securitized	$10,760	$	$	$ 662	$	$
Pretax gains	97					
All cash flows during the period:						
Proceeds from new securitizations	$10,759[(e)]	$	$	$ 632	$	$
Servicing fees collected	281	37	30	2	2	5
Other cash flows received[(a)]	1,089	3	1			
Proceeds from collections reinvested in revolving securitizations	39,455					
Purchases of previously transferred financial assets (or the underlying collateral)[(b)]		100	2			1
Cash flows received on the interests that continue to be held by the Firm[(c)]	14	113	5	30		11
Key assumptions used to measure retained interests originated during the year (rates per annum):						
Prepayment rate[(d)]	19.7% PPR					
Weighted-average life (in years)	0.4					
Expected credit losses	4.5%					
Discount rate	13.0%					

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(in millions, except for ratios and where otherwise noted)	Credit card	Residential mortgage Prime[f]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
		Six months ended June 30, 2009					
Principal securitized	**$16,423**	**$**	**$**	**$**	**$**	**$**	**$**
Pretax gains	**16**						
All cash flows during the period:							
Proceeds from new securitizations	**$16,423**[e][g]	**$**	**$**	**$**	**$**	**$**	**$**
Servicing fees collected	**634**	**232**	**85**	**246**	**8**	**2**	**3**
Other cash flows received[a]	**1,109**	**6**	**2**				
Proceeds from collections reinvested in revolving securitizations	**77,217**						
Purchases of previously transferred financial assets (or the underlying collateral)[b]	***(h)***	**76**		**13**			**137**
Cash flows received on the interests that continue to be held by the Firm[c]	**145**	**364**	**13**	**64**	**158**	**3**	**13**
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[d]	**16.7%** **PPR**						
Weighted-average life (in years)	**0.5**						
Expected credit losses	**8.7%**						
Discount rate	**18.0%**						

(in millions, except for ratios and where otherwise noted)	Credit card	Residential mortgage Prime[f]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
		Six months ended June 30, 2008					
Principal securitized	$15,305	$	$	$	$662	$	$
Pretax gains	136						
All cash flows during the period:							
Proceeds from new securitizations	$15,304[e]	$	$	$	$632	$	$
Servicing fees collected	551	60	56		3	2	10
Other cash flows received[a]	2,503	3	1				
Proceeds from collections reinvested in revolving securitizations	76,922						
Purchases of previously transferred financial assets (or the underlying collateral)[b]		149	13				149

Cash flows received on the interests that continue to be held by the Firm[(c)]	17	158	14	89	24

Key assumptions used to measure retained interests originated during the year (rates per annum):	
Prepayment rate[(d)]	19.4% PPR
Weighted-average life (in years)	0.4
Expected credit losses	4.4%
Discount rate	12.7%

(a) Includes excess servicing fees and other ancillary fees received.

(b) Includes cash paid by the Firm to reacquire assets from the QSPEs for example, servicer clean-up calls.

(c) Includes cash flows received on retained interests including, for example, principal repayments and interest payments.

(d) PPR: principal payment rate.

(e) Includes $3.5 billion and $7.4 billion of securities retained by the Firm for the three and six months ended June 30, 2009,

respectively. $1.2 billion of securities were retained by the Firm for both the three and six months ended June 30, 2008.

(f) Includes Alt-A loans.

(g) As required under the terms of the transaction documents, $513 million of proceeds from new securitizations were deposited to cash escrow accounts during the three and six months ended June 30, 2009.

(h) Excludes activities related to the Washington Mutual Master Trust. For a description of the activities, see page 141 of this Note.

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JPMorgan Chase s interest in securitized assets held at fair value

The following table summarizes the Firm s securitization interests, which are carried at fair value on the Firm s Consolidated Balance Sheets at June 30, 2009, and December 31, 2008, respectively. The risk ratings are periodically reassessed as information becomes available. As of June 30, 2009, and December 31, 2008, 60% and 55%, respectively, of the Firm s retained securitization interests, which are carried at fair value, were risk-rated A or better.

	Ratings profile of interests held[c][d][e]					
	June 30, 2009			December 31, 2008		
(in billions)	Investment-grade	Noninvestment-grade	Total interests held	Investment-grade	Noninvestment-grade	Total interests held
Asset types:						
Credit card[a]	**$14.4**	**$ 4.6**	**$ 19.0**	$ 5.8	$ 3.8	$ 9.6
Residential mortgage:						
Prime[b]	**1.0**	**0.7**	**1.7**	2.0	0.4	2.4
Subprime		**0.1**	**0.1**		0.1	0.1
Option ARMs	**0.1**		**0.1**	0.4		0.4
Commercial and other	**2.0**	**0.2**	**2.2**	2.2	0.3	2.5
Student loans		**0.1**	**0.1**		0.1	0.1
Auto						
Total	**$17.5**	**$ 5.7**	**$ 23.2**	$10.4	$ 4.7	$ 15.1

(a) Includes retained subordinated interests carried at fair value, including CS s accrued interests and fees, escrow accounts, and other residual interests. Excludes undivided seller interest in the trusts of $10.5 billion and $33.3 billion and unencumbered cash amounts on deposit of $3.7 billion and $2.1 billion at June 30, 2009, and December 31, 2008,

respectively, which are carried at historical cost.

(b) Includes Alt-A loans.

(c) The ratings scale is presented on an S&P-equivalent basis.

(d) Includes $1.5 billion and $1.8 billion of investments acquired in the secondary market, but predominantly held for investment purposes, as of June 30, 2009, and December 31, 2008, respectively. Of these amounts, $1.4 billion and $1.7 billion are classified as investment-grade as of June 30, 2009, and December 31, 2008, respectively.

(e) Excludes senior and subordinated securities of $1.2 billion and $974 million at June 30, 2009, and December 31, 2008, respectively, that the Firm

purchased in connection with IB s secondary market-making activities.

The table below outlines the key economic assumptions used at June 30, 2009, and December 31, 2008, to determine the fair value of certain of the Firm s retained interests, other than MSRs, that are valued using modeling techniques. The table below also outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in assumptions used to determine fair value. For a discussion of residential MSRs, see Note 17 on pages 154 155 of this Form 10-Q.

June 30, 2009[a]

(in millions, except rates and where otherwise noted)	Credit card	Residential mortgage Prime[d]	Subprime	Option ARMs	Commercial and other	Student loans	Auto loans
JPMorgan Chase interests in securitized assets	**$3,571**[c]	**$1,638**	**$ 50**	**$ 132**	**$2,213**	**$ 55**	**$ 20**
Weighted-average life (in years)	**0.5**	**7.4**	**2.4**	**6.7**	**3.7**	**8.1**	**0.6**
Weighted-average prepayment rate[b]	**16.4%**	**8.7%**	**27.0%**	**10.0%**	**0.8%**	**5.0%**	**1.4%**
	PPR	**CPR**	**CPR**	**CPR**	**CPR**	**CPR**	**ABS**
Impact of 10% adverse change	**$ (9)**	**$ (29)**	**$ (2)**	**$ (1)**	**$ (3)**	**$ (1)**	**$**
Impact of 20% adverse change	**(19)**	**(59)**	**(3)**	**(2)**	**(3)**	**(2)**	**(1)**
Weighted-average loss assumption	**9.3%**	**2.9%**	**2.3%**	**3.3%**	**1.6%**	**%**[e]	**1.1%**
Impact of 10% adverse change	**$ (83)**	**$ (17)**	**$ (5)**	**$**	**$ (37)**	**$**	**$**
Impact of 20% adverse change	**(84)**	**(33)**	**(9)**		**(107)**		**(1)**
Weighted-average discount rate	**12.0%**	**13.2%**	**23.8%**	**12.9%**	**10.8%**	**9.0%**	**3.4%**
Impact of 10% adverse change	**$ (7)**	**$ (49)**	**$ (2)**	**$ (2)**	**$ (41)**	**$ (2)**	**$**
Impact of 20% adverse change	**(14)**	**(93)**	**(5)**	**(5)**	**(78)**	**(4)**	

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December 31, 2008 (in millions, except rates and where otherwise noted)	Credit card	Residential mortgage			Commercial and other	Student loans	Auto loans
		Prime[d]	Subprime	Option ARMs			
JPMorgan Chase interests in securitized assets	$3,463[c]	$1,420	$ 68	$ 436	$1,966	$ 55	$ 40
Weighted-average life (in years)	0.5	5.3	1.5	7.3	3.5	8.2	0.7
Weighted-average prepayment rate[b]	16.6% PPR	17.7% CPR	25.1% CPR	7.6% CPR	0.7% CPR	5.0% CPR	1.3% ABS
Impact of 10% adverse change	$ (42)	$ (31)	$ (5)	$ (4)	$ (1)	$ (1)	$
Impact of 20% adverse change	(85)	(57)	(6)	(11)	(1)	(2)	(1)
Weighted-average loss assumption	7.0%	4.4%	3.4%	0.3%	0.3%[e]	%[f]	0.5%
Impact of 10% adverse change	$ (235)	$ (25)	$ (7)	$	$ (12)	$	$
Impact of 20% adverse change	(426)	(49)	(13)	(1)	(24)		(1)
Weighted-average discount rate	18.0%	14.5%	21.5%	17.3%	12.4%	9.0%	4.1%
Impact of 10% adverse change	$ (10)	$ (52)	$ (3)	$ (16)	$ (26)	$ (2)	$
Impact of 20% adverse change	(20)	(102)	(5)	(28)	(49)	(4)	

(a) As of June 30, 2009, certain investments acquired in the secondary market but predominantly held for investment purposes are included.

(b) PPR: principal payment rate; ABS: absolute prepayment speed; CPR: constant prepayment rate.

(c) Excludes the Firm s retained

senior and subordinated AFS securities in its credit card securitization trusts which are discussed in Note 11 on pages 129 134 of this Form 10-Q.

(d) Includes Alt-A loans.

(e) Expected losses for student loans and certain wholesale securitizations are minimal and are incorporated into other assumptions.

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated easily, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in the table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might counteract or magnify the sensitivities. The above sensitivities also do not reflect risk management practices the Firm may undertake to mitigate such risks.

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Loan delinquencies and net charge-offs

The table below includes information about delinquencies, net charge-offs/(recoveries) and components of reported and securitized financial assets at June 30, 2009, and December 31, 2008.

	Total loans		90 days past due and still accruing		Nonaccrual assets[g]		Net loan charge-offs (recoveries)			
							Three months ended June 30,		Six months ended June 30,	
(in millions)	**June 30, 2009**	Dec. 31, 2008	**June 30, 2009**	Dec. 31, 2008	**June 30, 2009**	Dec. 31, 2008	**2009**	2008	**2009**	2008
Home equity	**$ 108,229**	$ 114,335	**$**	$	**$ 1,487**	$ 1,394	**$ 1,265**	$ 511	**$ 2,363**	$ 958
Prime mortgage[a]	**68,878**	72,266			**3,501**	1,895	**483**	104	**795**	154
Subprime mortgage	**13,825**	15,330			**2,773**	2,690	**410**	192	**774**	341
Option ARMs	**9,034**	9,018			**182**	10	**15**		**19**	
Auto	**42,887**	42,603			**154**	148	**146**	119	**320**	237
Credit card	**85,736**	104,746	**3,503**	2,649	**4**	4	**2,689**	1,064	**4,718**	2,053
All other	**33,041**	33,715	**473**	463	**722**	430	**332**	99	**556**	160
Loans held-for-sale[b]	**1,940**	2,028					**NA**	NA	**NA**	NA
Total consumer loans excluding purchased credit-impaired loans	**363,570**	394,041	**3,976**	3,112	**8,823**	6,571	**5,340**	2,089	**9,545**	3,903
Consumer loans purchased credit-impaired loans[c]	**85,406**	88,813								
Total consumer loans	**448,976**	482,854	**3,976**	3,112	**8,823**	6,571	**5,340**	2,089	**9,545**	3,903
Total wholesale loans	**231,625**	262,044	**234**	163	**5,962**[h]	2,382[h]	**679**	41	**870**	133
Total loans reported	**680,601**	744,898	**4,210**	3,275	**14,785**	8,953	**6,019**	2,130	**10,415**	4,036
Securitized loans:										
Residential mortgage:										
Prime mortgage[a]	**194,792**	212,274			**30,899**	21,130	**2,395**	674	**4,591**	683
	48,111	58,607			**15,171**	13,301	**2,044**	637	**4,278**	892

Subprime mortgage										
Option ARMs	**45,341**	48,328			**9,692**	6,440	**474**		**854**	
Auto	**434**	791			**1**	2	**1**	2	**3**	5
Credit card	**85,790**	85,571	**2,066**	1,802			**1,664**	830	**3,128**	1,511
Student	**1,042**	1,074	**61**	66				1		1
Commercial and other	**32,712**	45,677		28	**912**	166	**5**	3	**10**	5
Total loans securitized[(d)]	**408,222**	452,322	**2,127**	1,896	**56,675**	41,039	**6,583**	2,147	**12,864**	3,097
Total loans reported and securitized[(e)]	$**1,088,823**[(f)]	$1,197,220[(f)]	**$6,337**	$5,171	**$71,460**	$49,992	**$12,602**	$4,277	**$23,279**	$7,133

(a) Includes Alt-A loans.

(b) Includes loans for prime mortgage and other (largely student loans) of $589 million and $1.4 billion at June 30, 2009, respectively, and $206 million and $1.8 billion at December 31, 2008, respectively.

(c) Purchased credit-impaired loans represent loans acquired in the Washington Mutual transaction for which a deterioration in credit quality occurred between the origination date and JPMorgan Chase s acquisition date. Under SOP 03-3, these loans were initially recorded at fair value and accrete interest income over the estimated life of the loan when cash flows are reasonably estimable, even if the

underlying loans are contractually past due. For additional information, see Note 13 on pages 135 138 of this Form 10-Q.

(d) Total assets held in securitization-related SPEs were $574.4 billion and $640.8 billion at June 30, 2009, and December 31, 2008, respectively. The $408.2 billion and $452.3 billion of loans securitized at June 30, 2009, and December 31, 2008, respectively, excludes: $150.4 billion and $152.4 billion of securitized loans, in which the Firm has no continuing involvement; $10.5 billion and $33.3 billion of seller s interests in credit card master trusts; and $5.3 billion and $2.8 billion, of cash amounts on deposit and escrow accounts, all respectively.

(e) Represents both loans on the Consolidated Balance Sheets and loans that have been securitized.

(f) Includes securitized loans that were previously recorded at fair value and classified as trading assets.

(g) Excludes nonperforming loans and assets related to: (i) loans eligible for repurchase, as well as loans repurchased from GNMA pools that are insured by U.S. government agencies, of $4.7 billion and $3.3 billion at June 30, 2009, and December 31, 2008, respectively; and (ii) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $473 million and $437 million at June 30, 2009, and December 31, 2008, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.

(h) Includes nonperforming loans held-for-sale and loans at fair value of $133 million and $32 million at June 30, 2009, and December 31, 2008, respectively.

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NOTE 16 VARIABLE INTEREST ENTITIES

Refer to Note 1 on page 122 and Note 17 on pages 177 186 of JPMorgan Chase s 2008 Annual Report for a further description of JPMorgan Chase s policies regarding consolidation of variable interest entities (VIEs) and the Firm s principal involvement with VIEs.

Multi-seller conduits

The following table summarizes the Firm s involvement with Firm-administered multi-seller conduits. On May 31, 2009, the Firm consolidated one of the Firm-administered multi-seller conduits due to the redemption of the expected loss note (ELN). There were no consolidated Firm-administered multi-seller conduits as of December 31, 2008.

	June 30, 2009		
(in billions)	Consolidated	Nonconsolidated	December 31, 2008
Total assets held by conduits	**$6.9**	**$ 23.0**	$ 42.9
Total commercial paper issued by conduits	**6.9**	**23.0**	43.1
Liquidity and credit enhancements			
Deal-specific liquidity facilities (primarily asset purchase agreements)	**9.8**	**31.6**[(b)]	55.4[(b)]
Program-wide liquidity facilities	**4.0**	**13.0**	17.0
Program-wide credit enhancements	**0.4**	**2.0**	3.0
Maximum exposure to loss[(a)]	**9.8**	**32.3**	56.9

(a) The Firm s maximum exposure to loss, calculated separately for each multi-seller conduit, includes the Firm s exposure to both deal-specific liquidity facilities and program-wide credit enhancements. For purposes of calculating the Firm s maximum exposure to loss, the Firm-provided, program-wide

credit enhancement is limited to deal-specific liquidity facilities provided by third parties.

(b) The accounting for these agreements is further discussed in Note 33 on pages 206 210 of JPMorgan Chase s 2008 Annual Report. The carrying value related to asset purchase agreements was $112 million and $147 million at June 30, 2009, and December 31, 2008, respectively, of which $110 million and $138 million, respectively, represented the remaining fair value of the guarantee under FIN 45. The Firm has recorded this guarantee in other liabilities, with an offsetting entry recognized in other assets for the net present value of the

future premium receivable under the contracts.

Assets funded by nonconsolidated multi-seller conduits

The following table presents information on the commitments and assets held by JPMorgan Chase s nonconsolidated Firm-administered multi-seller conduits as of June 30, 2009, and December 31, 2008.

	June 30, 2009				December 31, 2008			
(in billions)	Unfunded commitments to Firm s clients	Commercial paper funded assets	Liquidity provided by third parties	Liquidity provided by Firm	Unfunded commitments to Firm s clients	Commercial paper funded assets	Liquidity provided by third parties	Liquidity provided by Firm
Asset types:								
Credit card	**$1.8**	**$ 4.5**	**$**	**$ 6.3**	$ 3.0	$ 8.9	$ 0.1	$11.8
Vehicle loans and leases	**1.4**	**7.4**		**8.8**	1.4	10.0		11.4
Trade receivables	**3.2**	**2.3**		**5.5**	3.8	5.5		9.3
Student loans	**0.6**	**2.1**		**2.7**	0.7	4.6		5.3
Commercial	**0.7**	**2.1**		**2.8**	1.5	4.0	0.4	5.1
Residential mortgage		**0.6**		**0.6**		0.7		0.7
Capital commitments	**0.5**	**1.7**	**0.6**	**1.6**	1.3	3.9	0.6	4.6
Rental car finance	**0.2**	**0.3**		**0.5**	0.2	0.4		0.6
Equipment loans and leases	**0.3**	**0.6**		**0.9**	0.7	1.6		2.3
Floorplan vehicle		**0.4**		**0.4**	0.7	1.8		2.5
Floorplan other								
Consumer	**0.2**	**0.4**		**0.6**	0.1	0.7	0.1	0.7
Other	**0.6**	**0.6**	**0.3**	**0.9**	0.6	0.8	0.3	1.1
Total	**$9.5**	**$ 23.0**	**$ 0.9**	**$31.6**	$14.0	$ 42.9	$ 1.5	$55.4

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Ratings profile of VIE assets of the nonconsolidated multi-seller conduits[(a)]

June 30, 2009 (in billions)	Investment-grade AAA to AAA-	Investment-grade AA+ to AA-	Investment-grade A+ to A-	Investment-grade BBB to BBB-	Noninvestment-grade BB+ and below	Commercial paper funded assets	Wt. avg. expected life (years)[(b)]
Asset types:							
Credit card	**$ 2.9**	**$ 1.5**	**$ 0.1**	**$**	**$**	**$ 4.5**	**1.6**
Vehicle loans and leases	**2.7**	**3.8**	**0.8**	**0.1**		**7.4**	**2.3**
Trade receivables		**1.9**	**0.4**			**2.3**	**0.7**
Student loans	**2.1**					**2.1**	**1.3**
Commercial	**0.7**	**0.9**	**0.2**		**0.3**	**2.1**	**2.5**
Residential mortgage		**0.5**			**0.1**	**0.6**	**3.5**
Capital commitments		**0.1**	**1.6**			**1.7**	**2.3**
Rental car finance			**0.3**			**0.3**	**1.0**
Equipment loans and leases	**0.4**	**0.2**				**0.6**	**2.5**
Floorplan vehicle				**0.4**		**0.4**	**0.6**
Floorplan other							
Consumer	**0.3**	**0.1**				**0.4**	**2.0**
Other		**0.6**				**0.6**	**3.9**
Total	**$ 9.1**	**$ 9.6**	**$ 3.4**	**$ 0.5**	**$ 0.4**	**$ 23.0**	**2.0**

Ratings profile of VIE assets of the nonconsolidated multi-seller conduits [(a)]

December 31, 2008 (in billions)	Investment-grade AAA to AAA-	Investment-grade AA+ to AA-	Investment-grade A+ to A-	Investment-grade BBB to BBB-	Noninvestment-grade BB+ and below	Commercial paper funded assets	Wt. avg. Expected life (years)[(b)]
Asset types:							
Credit card	$ 4.8	$ 3.9	$ 0.1	$ 0.1	$	$ 8.9	1.5
Vehicle loans and leases	4.1	4.1	1.8			10.0	2.5
Trade receivables		4.0	1.5			5.5	1.0
Student loans	3.6	0.9		0.1		4.6	1.8
Commercial	1.1	2.0	0.6	0.3		4.0	2.7
Residential mortgage		0.6		0.1		0.7	4.0
Capital commitments		3.6	0.3			3.9	2.4
Rental car finance			0.4			0.4	1.5
Equipment loans and leases	0.4	1.2				1.6	2.2

Floorplan	vehicle	0.1	1.0	0.7			1.8	1.1
Floorplan	other							
Consumer		0.1	0.4	0.2			0.7	1.6
Other		0.5	0.3				0.8	3.7
Total		$ 14.7	$ 22.0	$ 5.6	$ 0.6	$	$ 42.9	2.0

(a) The ratings scale is presented on an S&P-equivalent basis.

(b) Weighted-average expected life for each asset type is based on the remaining term of each conduit transaction s committed liquidity, plus either the expected weighted-average life of the assets should the committed liquidity expire without renewal, or the expected time to sell the underlying assets in the securitization market.

The assets held by the multi-seller conduits are structured so that if they were rated, the Firm believes the majority of them would receive an A rating or better by external rating agencies. However, it is unusual for the assets held by the conduits to be explicitly rated by an external rating agency. Instead, the Firm s Credit Risk group assigns each asset purchase liquidity facility an internal risk rating based on its assessment of the probability of default for the transaction. The ratings provided in the above table reflect the S&P-equivalent ratings of the internal rating grades assigned by the Firm.

The risk ratings are periodically reassessed as information becomes available. As of June 30, 2009, and December 31, 2008, 93% and 90%, respectively, of the assets in the nonconsolidated conduits were risk-rated A or better.

Commercial paper issued by nonconsolidated multi-seller conduits

The weighted-average life of commercial paper issued by nonconsolidated multi-seller conduits at June 30, 2009, and December 31, 2008, was 20 days and 27 days, respectively, and the average yield on the commercial paper at June 30, 2009, and December 31, 2008, was 0.3% and 0.6%, respectively. In the normal course of business, JPMorgan Chase trades and invests in commercial paper, including paper issued by the Firm-administered conduits. The percentage of commercial paper purchased by the Firm from all Firm-administered conduits during the six months ended June 30, 2009, ranged from less than 1% to approximately 4.7% on any given day. The largest daily amount of commercial paper outstanding held by the Firm in any one multi-seller conduit during the quarter ended June 30, 2009, was

approximately $852 million, or 12%, of the conduit s commercial paper outstanding. The Firm is not obligated under any agreement (contractual or noncontractual) to purchase the commercial paper issued by nonconsolidated JPMorgan Chase administered conduits.

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Consolidation analysis

Each nonconsolidated multi-seller conduit administered by the Firm at June 30, 2009, and December 31, 2008, had issued ELNs, the holders of which are committed to absorbing the majority of the expected loss of each respective conduit. The total amounts of ELNs outstanding for nonconsolidated conduits at June 30, 2009, and December 31, 2008, were $96 million and $136 million, respectively.

The Firm could fund purchases of assets from nonconsolidated, Firm-administered multi-seller conduits should it become necessary.

Investor intermediation

Municipal bond vehicles

Exposure to nonconsolidated municipal bond VIEs at June 30, 2009, and December 31, 2008, including the ratings profile of the VIEs assets, were as follows.

	June 30, 2009				December 31, 2008			
(in billions)	Fair value of assets held by VIEs	Liquidity facilities[c]	Excess/ (deficit)[d]	Maximum exposure	Fair value of assets held by VIEs	Liquidity facilities[c]	Excess/ (deficit)[d]	Maximum exposure
Nonconsolidated municipal bond vehicles[a][b]	**$12.0**	**$ 7.9**	**$ 4.1**	**$ 7.9**	$10.0	$ 6.9	$ 3.1	$ 6.9

	Ratings profile of VIE assets[e]						Wt. avg.
	Investment-grade				Noninvestment-grade	Fair value of assets held	expected life of assets
(in billions)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below	by VIEs	(years)
Nonconsolidated municipal bond vehicles[a]							
June 30, 2009	**$1.4**	**$ 10.5**	**$0.1**	**$**	**$**	**$ 12.0**	**16.6**
December 31, 2008	3.8	5.9	0.2	0.1		10.0	22.3

(a) *Excluded $3.7 billion and $6.0 billion at June 30, 2009, and December 31, 2008, respectively, which were consolidated due to the Firm*

owning the residual interests.

(b) Certain of the municipal bond vehicles are structured to meet the definition of a QSPE (as discussed in Note 1 on page 122 of JPMorgan Chase s 2008 Annual Report); accordingly, the assets and liabilities of QSPEs are not reflected in the Firm s Consolidated Balance Sheets (except for retained interests that are reported at fair value). Excluded nonconsolidated amount of $603 million at December 31, 2008, related to QSPE municipal bond vehicles in which the Firm owned the residual interests. The Firm did not own residual interests in QSPE municipal bond vehicles at June 30, 2009.

(c) The Firm may serve as credit enhancement

provider in municipal bond vehicles in which it serves as liquidity provider. The Firm provided insurance on underlying municipal bonds, in the form of letters of credit, of $10 million at both June 30, 2009, and December 31, 2008.

(d) Represents the excess/(deficit) of municipal bond asset fair value available to repay the liquidity facilities, if drawn.

(e) The ratings scale is based on the Firm s internal risk ratings and presented on an S&P-equivalent basis.

In the first half of 2009, the Firm did not experience a drawdown on its liquidity facilities. In addition, the municipal bond vehicles did not experience any bankruptcy or downgrade termination events during the first half of 2009.

As remarketing agent, the Firm may hold putable floating-rate certificates of the municipal bond vehicles. At both June 30, 2009, and December 31, 2008, respectively, the Firm held $293 million of these certificates on its Consolidated Balance Sheets. The largest amount held by the Firm at any time during the first half of 2009 was $438 million, or 1.3%, of the municipal bond vehicles outstanding putable floating-rate certificates. The Firm did not have and continues not to have any intent to protect any residual interest holder from potential losses on any of the municipal bond holdings.

At June 30, 2009, and December 31, 2008, 99% and 97%, respectively, of the municipal bonds held by vehicles to which the Firm served as liquidity provider were rated AA- or better, based upon either the rating of the underlying municipal bond itself, or the rating including any credit enhancement. At June 30, 2009, and December 31, 2008, $2.4 billion and $2.6 billion, respectively, of the bonds were insured by monoline bond insurers.

Credit-linked note vehicles

Exposure to nonconsolidated credit-linked note VIEs at June 30, 2009, and December 31, 2008, was as follows.

	June 30, 2009	December 31, 2008

(in billions)	Derivative receivables	Trading assets[c]	Total exposure[d]	Par value of collateral held by VIEs[e]	Derivative receivables	Trading assets[c]	Total exposure[d]	Par value of collateral held by VIEs[e]
Credit-linked notes[a]								
Static structure	**$2.8**	**$0.8**	**$ 3.6**	**$ 12.1**	$ 3.6	$0.7	$ 4.3	$ 14.5
Managed structure[b]	**6.1**	**0.6**	**6.7**	**15.1**	7.7	0.3	8.0	16.6
Total	**$8.9**	**$1.4**	**$10.3**	**$ 27.2**	$11.3	$1.0	$12.3	$ 31.1

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(a) Excluded collateral with a fair value of $2.2 billion and $2.1 billion at June 30, 2009, and December 31, 2008, respectively, which was consolidated as the Firm, in its role as secondary market maker, held a majority of the issued credit-linked notes of certain vehicles.

(b) Included synthetic collateralized debt obligation vehicles, which have similar risk characteristics to managed credit-linked note vehicles. At December 31, 2008, trading assets included $7 million of transactions with subprime collateral; there were no such transactions in trading assets at June 30, 2009.

(c) Trading assets principally comprise notes issued by VIEs,

which from time to time are held as part of the termination of a deal or to support limited market-making.

(d) On balance sheet exposure that includes derivative receivables and trading assets.

(e) The Firm s maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. The Firm relies upon the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.

Asset swap vehicles

Exposure to nonconsolidated asset swap VIEs at June 30, 2009, and December 31, 2008, was as follows.

	June 30, 2009	December 31, 2008
	Derivative	Derivative

(in billions)	receivables (payables)	Trading assets[a]	Total exposure[b]	Par value of collateral held by VIEs[c]	receivables (payables)	Trading assets[a]	Total exposure[b]	Par value of collateral held by VIEs[c]
Nonconsolidated asset swap vehicles[d]	**$0.2**	**$**	**$0.2**	**$ 6.0**	$(0.2)	$	$(0.2)	$ 7.3

(a) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.

(b) On balance sheet exposure that includes derivative receivables and trading assets.

(c) The Firm s maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. The Firm relies upon the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that

the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.

(d) Excluded collateral with a fair value of $1.1 billion and $1.0 billion at June 30, 2009, and December 31, 2008, respectively, which was consolidated as the Firm, in its role as secondary market maker, held a majority of the issued notes of certain vehicles.

Collateralized debt obligation vehicles

For further information on the Firm s involvement with collateralized debt obligations (CDOs), see Note 17 on pages 184 185 of JPMorgan Chase s 2008 Annual Report.

As of June 30, 2009, and December 31, 2008, the Firm had noninvestment-grade funded loans of $320 million and $405 million, respectively, to nonconsolidated CDO warehouse VIEs. Additionally, the Firm had unfunded commitments of $75 million and $746 million as of June 30, 2009, and December 31, 2008, respectively to these nonconsolidated CDO warehouse VIEs. These unfunded commitments are typically contingent on certain asset-quality conditions being met. The Firm s maximum exposure to loss related to the nonconsolidated CDO warehouse VIEs was $395 million and $1.1 billion as of June 30, 2009, and December 31, 2008, respectively.

Once the CDO vehicle closes and issues securities, the Firm has no obligation to provide further support to the vehicle. At the time of closing, the Firm may hold unsold securities that the Firm was not able to place with third-party investors. In addition, the Firm may on occasion hold some of the CDO vehicles securities as a secondary market-maker or as a principal investor, or it may be a derivative counterparty to the vehicles. At June 30, 2009, and December 31, 2008, these amounts were not significant.

VIEs sponsored by third parties

Investment in a third-party credit card securitization trust

The Firm holds a note in a third-party-sponsored VIE, which is a credit card securitization trust that owns credit card receivables issued by a national retailer. The note is structured so that the principal amount can float up to 47% of the principal amount of the receivables held by the trust, not to exceed $4.2 billion. The Firm is not the primary beneficiary of the trust and accounts for its investment at fair value within AFS investment securities. At June 30, 2009, and December 31, 2008, the amortized cost of the note was $3.6 billion and $3.6 billion, respectively, and the fair value was $3.4 billion and $2.6 billion, respectively. For more information on AFS securities, see Note 11 on

pages 129 134 of this Form 10-Q.

VIE used in FRBNY transaction

In conjunction with the Bear Stearns merger, in June 2008, the Federal Reserve Bank of New York (FRBNY) took control, through an LLC formed for this purpose, of a portfolio of $30.0 billion in assets, based on the value of the portfolio as of March 14, 2008. The assets of the LLC were funded by a $28.85 billion term loan from the FRBNY and a $1.15 billion subordinated loan from JPMorgan Chase. The JPMorgan Chase loan is subordinated to the FRBNY loan and will bear the first $1.15 billion of any losses of the portfolio. Any remaining assets in the portfolio after repayment of the FRBNY loan, repayment of the JPMorgan Chase loan and the expense of the LLC will be for the account of the

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FRBNY. The extent to which FRBNY and JPMorgan Chase loans will be repaid will depend upon the value of the asset portfolio and the liquidation strategy directed by the FRBNY.

Other VIEs sponsored by third parties

The Firm enters into transactions with VIEs structured by other parties. These include, for example, acting as a derivative counterparty, liquidity provider, investor, underwriter, placement agent, trustee or custodian. These transactions are conducted at arm s length, and individual credit decisions are based on the analysis of the specific VIE, taking into consideration the quality of the underlying assets. Where these activities do not cause JPMorgan Chase to absorb a majority of the expected losses, or to receive a majority of the residual returns, the Firm records and reports these positions on its Consolidated Balance Sheets similarly to the way it would record and report positions from any other third-party transaction. These transactions are not considered significant for disclosure purposes under FIN 46.

Consolidated VIE assets and liabilities

The following table presents information on assets, liabilities and commitments related to VIEs that are consolidated by the Firm.

		Consolidated VIEs Assets		
June 30, 2009	Trading assets debt and equity			
(in billions)	instruments	Loans	Other[b]	Total assets[c]
VIE program type				
Multi-seller conduits	**$**	**$ 3.9**	**$3.0**	**$ 6.9**
Credit card loans[a]		**8.2**	**0.1**	**8.3**
Municipal bond vehicles	**3.6**		**0.1**	**3.7**
Credit-linked notes	**1.6**		**0.6**	**2.2**
CDO warehouses	**0.1**			**0.1**
Student loans		**3.9**		**3.9**
Employee funds				
Energy investments			**0.4**	**0.4**
Other	**1.7**	**1.1**	**0.9**	**3.7**
Total	**$7.0**	**$17.1**	**$5.1**	**$ 29.2**

		Liabilities	
June 30, 2009	Beneficial interests in VIE		
(in billions)	assets[d]	Other[e]	Total liabilities
VIE program type			
Multi-seller conduits	**$ 6.9**	**$**	**$ 6.9**
Credit card loans[a]	**6.1**		**6.1**
Municipal bond vehicles	**3.3**	**0.2**	**3.5**
Credit-linked notes	**0.8**		**0.8**

CDO warehouses			
Student loans	**2.7**	**1.1**	**3.8**
Employee funds			
Energy investments	**0.1**		**0.1**
Other	**1.0**	**0.3**	**1.3**
Total	**$20.9**	**$1.6**	**$ 22.5**

December 31, 2008 (in billions)	Consolidated VIEs Assets: Trading assets debt and equity instruments	Loans	Other[(b)]	Total assets[(c)]
VIE program type				
Multi-seller conduits	$	$	$	$
Credit card loans[(a)]				
Municipal bond vehicles	5.9		0.1	6.0
Credit-linked notes	1.9		0.2	2.1
CDO warehouses	0.2		0.1	0.3
Student loans		4.0	0.1	4.1
Employee funds			0.5	0.5
Energy investments			0.4	0.4
Other	2.8	1.3	1.1	5.2
Total	$10.8	$5.3	$2.5	$ 18.6

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December 31, 2008 (in billions)	Beneficial interests in VIE assets[d]	Liabilities Other[e]	Total liabilities
VIE program type			
Multi-seller conduits	$	$	$
Credit card loans[a]			
Municipal bond vehicles	5.5	0.4	5.9
Credit-linked notes	1.3	0.6	1.9
CDO warehouses			
Student loans	2.8	1.1	3.9
Employee funds	0.1		0.1
Energy investments	0.2		0.2
Other	0.7	1.8	2.5
Total	$10.6	$3.9	$ 14.5

(a) Represents consolidated securitized credit card loans related to the WMM Trust, as well as loans that were represented by the Firm s undivided interest and subordinated interest and fees, which were previously recorded on the Firm s balance sheet prior to consolidation. For further discussion, see Off-Balance Sheet Arrangements and Contractual Cash Obligations on pages 51-53 and

Note 15 on pages 139-147 respectively, of this Form 10-Q.

(b) Included assets classified as resale agreements and other assets within the Consolidated Balance Sheets.

(c) Assets of each consolidated VIE included in the program types above are generally used to satisfy the liabilities to third parties. The difference between total assets and total liabilities recognized for consolidated VIEs represents the Firm s interest in the consolidated VIEs for each program type.

(d) The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item on the Consolidated Balance Sheets titled, Beneficial interests issued by consolidated

variable interest entities. The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. Included in beneficial interests in VIE assets are long-term beneficial interests of $9.6 billion and $10.6 billion at June 30, 2009, and December 31, 2008, respectively.

(e) Included liabilities classified as other borrowed funds, long-term debt, and accounts payable and other liabilities in the Consolidated Balance Sheets.

NOTE 17 GOODWILL AND ALL OTHER INTANGIBLE ASSETS

For a discussion of accounting policies related to goodwill and other intangible assets, see Note 18 on pages 186-189 of JPMorgan Chase s 2008 Annual Report.

Goodwill and all other intangible assets consist of the following.

(in millions)	**June 30, 2009**	December 31, 2008
Goodwill	**$ 48,288**	$ 48,027
Mortgage servicing rights	**14,600**	9,403
Purchased credit card relationships	**1,431**	1,649
All other intangible assets:		
Other credit card related intangibles	**$ 710**	$ 743
Core deposit intangibles	**1,399**	1,597

Other intangibles	**1,542**	1,592
Total all other intangible assets	**$ 3,651**	$ 3,932

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Goodwill

The $261 million increase in goodwill from December 31, 2008, was largely due to purchase accounting adjustments related to the Bear Stearns merger, as well as an acquisition of a commodities business by IB. For additional information related to the Bear Stearns merger, see Note 2 on pages 96-99 of this Form 10-Q.

Goodwill was not impaired at June 30, 2009, or December 31, 2008, nor was any goodwill written off due to impairment during either of the six month periods ended June 30, 2009 or 2008.

Goodwill attributed to the business segments was as follows.

(in millions)	**June 30, 2009**	December 31, 2008
Investment Bank	**$ 4,955**	$ 4,765
Retail Financial Services	**16,839**	16,840
Card Services	**14,066**	13,977
Commercial Banking	**2,870**	2,870
Treasury & Securities Services	**1,660**	1,633
Asset Management	**7,521**	7,565
Corporate/Private Equity	**377**	377
Total goodwill	**$ 48,288**	$ 48,027

Mortgage servicing rights

For a further description of the MSR asset, interest rate risk management, and the valuation methodology of MSRs, see Notes 4 and 18 on pages 132 and 186-189, respectively, of JPMorgan Chase s 2008 Annual Report.

The fair value of MSRs is sensitive to changes in interest rates, including their effect on prepayment speeds. JPMorgan Chase uses, or has used, combinations of derivatives and trading instruments to manage changes in the fair value of MSRs. The intent is to offset any changes in the fair value of MSRs with changes in the fair value of the related risk management instruments. MSRs decrease in value when interest rates decline. Conversely, securities (such as mortgage-backed securities), principal-only certificates and certain derivatives (when the Firm receives fixed-rate interest payments) increase in value when interest rates decline.

The following table summarizes MSR activity for the three and six months ended June 30, 2009 and 2008.

(in millions, except where otherwise noted)	Three months ended June 30, **2009**	2008	Six months ended June 30, **2009**	2008
Fair value at the beginning of the period	**$ 10,634**	$ 8,419	**$ 9,403**	$ 8,632
MSR activity				
Originations of MSRs	**984**	1,185	**1,978**	1,922
Purchase of MSRs		904	**2**	1,011
Disposition of MSRs	**(10)**		**(10)**	
Total net additions	**974**	2,089	**1,970**	2,933
Change in valuation due to inputs and assumptions[(a)]	**3,831**	1,516	**5,141**	884
Other changes in fair value[(b)]	**(839)**	(407)	**(1,914)**	(832)
Total change in fair value of MSRs[(c)]	**2,992**	1,109	**3,227**	52

Fair value at June 30	**$ 14,600**[(d)]	$11,617	**$ 14,600**[(d)]	$11,617
Change in unrealized gains/(losses) included in income related to MSRs held at June 30	**$ 3,831**	$ 1,516	**$ 5,141**	$ 884
Contractual service fees, late fees and other ancillary fees included in income	**$ 1,221**	$ 684	**$ 2,428**	$ 1,312
Third-party mortgage loans serviced at June 30 (in billions)	**$1,126.4**	$ 736.4	**$1,126.4**	$ 736.4

(a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model. Also represents total realized and unrealized gains/(losses) included in net income per the SFAS 157 disclosure for fair value measurement using significant unobservable inputs (level 3).

(b) Includes changes in the MSR value due to modeled servicing portfolio runoff (or time decay). Represents the impact of cash settlements per the SFAS 157 disclosure for fair value measurement using significant unobservable

inputs (level 3).

(c) Includes $(2) million and $(4) million related to commercial real estate for the three and six month periods ended June 30, 2009 and 2008, respectively.

(d) Includes $41 million related to commercial real estate.

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The table below outlines the key economic assumptions used to determine the fair value of the Firm s MSRs at June 30, 2009, and December 31, 2008; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions.

(in millions, except rates and where otherwise noted)	**June 30, 2009**	December 31, 2008
Weighted-average prepayment speed assumption (CPR)	**13.00%**	35.21%
Impact on fair value of 10% adverse change	**$ (950)**	$ (1,039)
Impact on fair value of 20% adverse change	**(1,824)**	(1,970)
Weighted-average option adjusted spread	**3.97%**	3.80%
Impact on fair value of 100 basis points adverse change	**$ (595)**	$ (311)
Impact on fair value of 200 basis points adverse change	**(1,142)**	(606)

CPR: Constant prepayment rate.

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. Changes in fair value based on a 10% and 20% variation in assumptions generally cannot be easily extrapolated, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Purchased credit card relationships and all other intangible assets

For the six months ended June 30, 2009, purchased credit card relationships, other credit card-related intangibles, core deposit intangibles and other intangible assets decreased by $499 million, primarily reflecting amortization expense. Except for $517 million of indefinitely-lived intangibles related to asset management advisory contracts, which are not amortized but are tested for impairment at least annually, the remainder of the Firm s other acquired intangible assets are subject to amortization.

The components of credit card relationships, core deposits and other intangible assets were as follows.

	June 30, 2009			December 31, 2008		
(in millions)	Gross amount	Accumulated amortization	Net carrying value	Gross amount	Accumulated amortization	Net carrying value
Purchased credit card relationships	**$5,771**	**$4,340**	**$1,431**	$5,765	$4,116	$1,649
All other intangibles:						
Other credit card related intangibles	**$ 865**	**$ 155**	**$ 710**	$ 852	$ 109	$ 743
Core deposit intangibles	**4,280**	**2,881**	**1,399**	4,280	2,683	1,597
Other intangibles	**2,291**	**749**[(a)(b)]	**1,542**	2,376	784[(a)]	1,592

(a) Includes amortization expense related to servicing assets on securitized automobile loans, which is recorded in

lending & deposit related fees, of $1 million and $3 million for the six months ended June 30, 2009 and 2008, respectively.

(b) The decrease in other intangibles gross amount and accumulated amortization from December 2008 was primarily attributable to the removal of fully amortized assets.

Amortization expense

The following table presents amortization expense related to credit card relationships, core deposits and all other intangible assets.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Purchased credit card relationships	**$ 108**	$ 158	**$224**	$317
All other intangibles:				
Other credit card related intangibles	**23**	6	**46**	11
Core deposit intangibles	**99**	119	**198**	238
Other intangibles	**35**	33	**72**	66
Total amortization expense	**$ 265**	$ 316	**$540**	$632

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Future amortization expense

The following table presents estimated future amortization expense related to credit card relationships, core deposits and all other intangible assets.

For the year: (in millions)	Purchased credit card relationships	Other credit card-related intangibles	Core deposit intangibles	All other intangible assets	**Total**
2009[(a)]	$ 420	$ 93	$ 387	$ 169	$1,069
2010	351	100	329	147	927
2011	288	98	284	132	802
2012	250	100	240	122	712
2013	211	99	195	112	617

(a) Includes $224 million, $46 million, $198 million and $72 million of amortization expense related to purchased credit card relationships, other credit card-related intangibles, core deposit intangibles and all other intangibles, respectively, recognized during the first six months of 2009.

NOTE 18 DEPOSITS

For further discussion of deposits, see Note 20 on page 190 in JPMorgan Chase s 2008 Annual Report.

At June 30, 2009, and December 31, 2008, noninterest-bearing and interest-bearing deposits were as follows.

(in millions)	**June 30, 2009**	December 31, 2008
U.S. offices:		
Noninterest-bearing	**$192,247**	$ 210,899
	433,862	511,077

Interest-bearing (included $1,002 and $1,849 at fair value at June 30, 2009, and December 31, 2008, respectively)		
Non-U.S. offices:		
Noninterest-bearing	**8,291**	7,697
Interest-bearing (included $2,785 and $3,756 at fair value at June 30, 2009, and December 31, 2008, respectively)	**232,077**	279,604
Total	**$866,477**	$ 1,009,277

On May 20, 2009, the Helping Families Save Their Homes Act of 2009 was signed into law. The Act extends through December 31, 2013, the FDIC s temporary standard maximum deposit insurance amount, which was increased on October 3, 2008, from $100,000 to $250,000 per depositor per institution.

NOTE 19 OTHER BORROWED FUNDS

The following table details the components of other borrowed funds.

(in millions)	**June 30, 2009**	December 31, 2008
Advances from Federal Home Loan Banks[(a)]	**$ 48,838**	$ 70,187
Nonrecourse advances FRBB[(b)]	**14,473**	11,192
Other[(c)]	**10,657**	51,021
Total other borrowed funds	**$ 73,968**	$ 132,400

(a) Maturities of advances from the FHLBs were $39.6 billion, $7.6 billion, and $719 million in each of the 12-month periods ending June 30, 2010, 2011, and 2013, respectively, and $940 million maturing after June 30, 2014. Maturities for the 12 month period ending June 30, 2012 and 2014 were not material.

(b) On September 19, 2008, the Federal Reserve

Board established a special lending facility, the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), to provide liquidity to eligible U.S. money market mutual funds (MMMFs). Under the AMLF, banking organizations must use the loan proceeds to finance their purchases of eligible high-quality asset-backed commercial paper (ABCP) investments from MMMFs, which are pledged to secure nonrecourse advances from the Federal Reserve Bank of Boston (FRBB). Participating banking organizations do not bear any credit or market risk related to the ABCP investments they hold under this facility; therefore, the

ABCP investments held are not assessed any regulatory capital. The AMLF will be in effect until October 30, 2009. The nonrecourse advances from the FRBB were elected under the fair value option and recorded in other borrowed funds; the corresponding ABCP investments were also elected under the fair value option and recorded in other assets.

(c) Includes zero and $30 billion of advances from the Federal Reserve under the Federal Reserve s Term Auction Facility (TAF) at June 30, 2009, and December 31, 2008, respectively, pursuant to which the Federal Reserve auctions term funds to depository institutions that are eligible to

borrow under the primary credit program. The TAF allows all eligible depository institutions to place a bid for an advance from its local Federal Reserve Bank at an interest rate set by an auction. All advances are required to be fully collateralized. The TAF is designed to improve liquidity by making it easier for sound institutions to borrow when the markets are not operating efficiently.

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NOTE 20 PREFERRED STOCK

JPMorgan Chase is authorized to issue 200 million shares of preferred stock, in one or more series, with a par value of $1 per share. For a further discussion of preferred stock, see Note 24 on pages 193-194 of JPMorgan Chase s 2008 Annual Report.

The following is a summary of preferred stock outstanding as of June 30, 2009, and December 31, 2008.

		Shares at		Outstanding at			
(in millions)	Share value and redemption price per share[(b)]	**June 30, 2009**	December 31, 2008	**June 30, 2009**	December 31, 2008	Earliest redemption date	**Contractual rate in effect at June 30, 2009**
Cumulative Preferred Stock, Series E[(a)]	$ 200	**818,113**	818,113	**$ 164**	$ 164	Any time	**6.15%**
Cumulative Preferred Stock, Series F[(a)]	200	**428,825**	428,825	**86**	86	Any time	**5.72**
Cumulative Preferred Stock, Series G[(a)]	200	**511,169**	511,169	**102**	102	Any time	**5.49**
Fixed to Floating Rate Noncumulative Perpetual Preferred Stock, Series I[(a)]	10,000	**600,000**	600,000	**6,000**	6,000	4/30/2018	**7.90**
Noncumulative Perpetual Preferred Stock, Series J[(a)]	10,000	**180,000**	180,000	**1,800**	1,800	9/1/2013	**8.63**
Fixed Rate Cumulative Perpetual Preferred Stock, Series K	10,000		2,500,000		23,787[(c)]		**NA**
Total preferred stock		**2,538,107**	5,038,107	**$8,152**	$31,939		

(a) Represented by depositary shares.

(b) Redemption price includes amount shown in the table plus any accrued but unpaid dividends.

(c) Represents the carrying value

as of December 31, 2008. The redemption value was $25.0 billion.

Redemption of Series K preferred stock

On June 17, 2009, the Firm redeemed all of the outstanding shares of Series K preferred stock issued to the U.S. Treasury, and repaid the full $25.0 billion principal amount. Following discussions with the U.S. Treasury regarding the warrant that was issued to the U.S. Treasury in connection with the U.S. Treasury s purchase of the Series K preferred stock, on July 7, 2009, JPMorgan Chase notified the U.S. Treasury that it had revoked its warrant repurchase notice. JPMorgan Chase understands, based on the U.S. Treasury s public statements, that the U.S. Treasury intends to pursue a public auction of the warrant. The U.S. Treasury has advised JPMorgan Chase that the Firm will be permitted to participate in any such auction.

During the period that shares of the Series K preferred stock were outstanding, no dividends could be declared or paid on stock ranking junior or equally with the Series K preferred stock, unless all accrued and unpaid dividends for all past dividend periods on the Series K preferred stock were fully paid. Also, the U.S. Treasury s consent was required until October 28, 2011, for any increase in dividends on the Firm s common stock above $0.38 per share. In addition, the Firm could not repurchase or redeem any common stock or other equity securities of the Firm, or any trust preferred capital debt securities issued by the Firm or any of its affiliates, without the prior consent of the U.S. Treasury (other than (i) repurchases of the Series K preferred stock and (ii) repurchases of junior preferred shares or common stock in connection with any employee benefit plan in the ordinary course of business consistent with past practice) until October 28, 2011. As a result of the redemption of the Series K preferred stock, JPMorgan Chase is no longer subject to any of these restrictions.

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NOTE 21 EARNINGS PER SHARE

For a discussion of the computation of basic and diluted earnings per share (EPS), see Note 26 on page 195 of JPMorgan Chase s 2008 Annual Report.

Effective January 1, 2009, the Firm implemented FSP EITF 03-6-1, which clarifies that unvested stock-based compensation awards containing nonforfeitable rights to dividends or dividend equivalents (collectively, dividends) are participating securities and should be included in the EPS calculation using the two-class method. JPMorgan Chase grants restricted stock and RSUs to certain employees under its stock-based compensation programs, which entitle the recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock. These unvested awards meet the FSP s definition of participating securities. Under the two class method, all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities, based on their respective rights to receive dividends. EPS data for the prior periods were revised as required by the FSP.

The following table presents the calculation of basic and diluted EPS for the three and six months ended June 30, 2009 and 2008.

	Three months ended June 30,		Six months ended June 30,	
(in millions, except per share amounts)	**2009**	2008	**2009**	2008
Basic earnings per share				
Net income	**$ 2,721**	$ 2,003	**$ 4,862**	$ 4,376
Less: Preferred stock dividends	**473**	90	**1,002**	90
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury[(a)]	**1,112**		**1,112**	
Net income applicable to common equity	**1,136**	1,913	**2,748**	4,286
Less: Dividends and undistributed earnings allocated to participating securities	**64**	70	**157**	153
Net income applicable to common stockholders[(b)]	**$ 1,072**	$ 1,843	**$ 2,591**	$ 4,133
Total weighted-average basic shares outstanding	**3,811.5**	3,426.2	**3,783.6**	3,411.1
Net income per share[(a)(c)]	**$ 0.28**	$ 0.54	**$ 0.68**	$ 1.21

	Three months ended June 30,		Six months ended June 30,	
(in millions, except per share amounts)	**2009**	2008	**2009**	2008
Diluted earnings per share				
Net income applicable to common stockholders[(b)]	**$ 1,072**	$ 1,843	**$ 2,591**	$ 4,133
Total weighted-average basic shares outstanding	**3,811.5**	3,426.2	**3,783.6**	3,411.1
Add: Employee stock options and SARs[(d)]	**12.6**	26.9	**7.8**	27.1
Total weighted-average diluted shares outstanding[(e)]	**3,824.1**	3,453.1	**3,791.4**	3,438.2

Net income per share[(a)(c)]	**$**	**0.28**	$	0.53	**$**	**0.68**	$	1.20

(a) The calculation of basic and diluted EPS for the three and six months ended June 30, 2009 includes a one-time noncash reduction of $1.1 billion, or $0.27 and $0.28 per share, respectively, resulting from the redemption of Series K preferred stock issued to the U.S. Treasury.

(b) Net income applicable to common stockholders for diluted and basic EPS may differ under the two-class method as a result of adding common stock equivalents for options, SARs and warrants to dilutive shares outstanding, which alters the ratio used to allocate earnings to common stockholders and participating securities for purposes of calculating diluted EPS.

(c) EPS data has been revised to reflect the retrospective application of FSP EITF 03-6-1, which resulted in a reduction of basic and diluted EPS for the three months ended June 30, 2009, of $0.02 and $0.01, respectively; for the six months ended June 30, 2009, of $0.05 and $0.02, respectively; for the three months ended June 30, 2008, of $0.02 and $0.01, respectively; and for the six months ended June 30, 2008, of $0.05 and $0.02, respectively.

(d) Options issued under employee benefit plans and, subsequent to October 28, 2008, the warrant issued under the U.S. Treasury s Capital Purchase Program, to purchase an aggregate 315 million and 169 million shares of

common stock were outstanding for the three months ended June 30, 2009 and 2008, respectively, and an aggregate 339 million and 171 million for the six months ended June 30, 2009 and 2008, respectively, but were not included in the computation of diluted EPS because the options were antidilutive.

(e) Participating securities were included in the calculation of diluted EPS using the two-class method, as this computation was more dilutive than the calculation using the treasury-stock method.

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NOTE 22 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) includes the after-tax change in unrealized gains and losses on AFS securities, SFAS 52 foreign currency translation adjustments (including the impact of related derivatives), SFAS 133 cash flow hedging activities and SFAS 158 net loss and prior service cost (credit) related to the Firm s defined benefit pension and OPEB plans.

Six months ended June 30, 2009 (in millions)	Unrealized gains (losses) on AFS securities[(a)]	Translation adjustments, net of hedges	Cash flow hedges	Net loss and prior service costs (credit) of defined benefit pension and OPEB plans	Accumulated other comprehensive income (loss)
Balance at January 1, 2009	**$ (2,101)**	**$ (598)**	**$ (202)**	**$ (2,786)**	**$ (5,687)**
Net change	**1,576**[(b)]	**491**[(d)]	**95**[(e)]	**87**[(f)]	**2,249**
Balance at June 30, 2009	**$ (525)**[(c)]	**$ (107)**	**$ (107)**	**$ (2,699)**	**$ (3,438)**

Six months ended June 30, 2008 (in millions)	Unrealized gains (losses) on AFS securities[(a)]	Translation adjustments, net of hedges	Cash flow hedges	Net loss and prior service costs (credit) of defined benefit pension and OPEB plans	Accumulated other comprehensive income (loss)
Balance at January 1, 2008	$ 380	$ 8	$ (802)	$ (503)	$ (917)
Net change	(851)[(b)]	109[(d)]	35[(e)]	58[(f)]	(649)
Balance at June 30, 2008	$ (471)	$ 117	$ (767)	$ (445)	$ (1,566)

(a) Represents the after-tax difference between the fair value and amortized cost of the AFS securities portfolio and retained interests in securitizations recorded in other assets.

(b) The net change for the six months ended June 30, 2009, was due primarily to the narrowing of spreads on U.S. government agency mortgage-backed securities and credit card ABS positions as a result of improvement in the credit environment. The net change for the six months ended June 30, 2008, was due primarily to the net increase in interest rates on agency mortgage-backed pass-through securities and market spreads.

(c) Includes after-tax unrealized losses of $(426) million not related to credit on debt securities for which credit losses have been recognized in income.

(d) Includes $509 million and $215 million at June 30, 2009 and 2008, respectively, of after-tax gains/(losses) on foreign currency

translation from operations for which the functional currency is other than the U.S. dollar, partially offset by $(18) million and $(106) million, respectively, of after-tax gains/(losses) on hedges. The Firm may not hedge its entire exposure to foreign currency translation on net investments in foreign operations.

(e) The net change for the six months ended June 30, 2009, included $86 million of after-tax gains recognized in income, and $181 million of after-tax gains, representing the net change in derivative fair value that was reported in comprehensive income. The net change for the six months ended June 30, 2008, included $134 million of after-tax losses recognized in income, and $99 million of after-tax losses representing the net change in

derivative fair value that was reported in comprehensive income.

(f) The net change for the six months ended June 30, 2009, was primarily due to after-tax adjustments based on the final 2008 year-end actuarial valuations for the U.S. and non-U.S. defined benefit pension plans and the U.S. OPEB plan, as well as the amortization of net loss and prior service credit into net periodic benefit cost, offset by a change in the 2009 tax rates. The net change for the six months ended June 30, 2008, was primarily due to after-tax adjustments based on the 2007 final year-end actuarial valuations for the U.S. and non-U.S. defined benefit pension plans and U.S. OPEB plan, as well as the amortization of net loss and prior service credit into net periodic benefit cost.

NOTE 23 COMMITMENTS AND CONTINGENCIES

For a discussion of the Firm s commitments and contingencies, see Note 31 on page 201 of JPMorgan Chase s 2008 Annual Report.

Litigation reserve

The Firm maintains litigation reserves for certain of its outstanding litigation. In accordance with the provisions of SFAS 5, JPMorgan Chase accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. When the Firm is named a defendant in a litigation and may be subject to joint and several liability and a judgment sharing agreement is in place, the Firm recognizes expense and obligations net of amounts expected to be paid by other signatories to the judgment-sharing agreement. While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at June 30, 2009, the Firm s litigation reserves were adequate at such date. Management reviews litigation reserves at least quarterly, and the reserves may be increased or decreased in the future to reflect further relevant developments. The Firm believes it has meritorious defenses to the claims asserted against it in its currently outstanding litigation and, with respect to such litigation, intends to continue to defend itself vigorously, litigating or settling cases according to management s judgment as to what is in the best interests of stockholders.

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NOTE 24 OFF-BALANCE SHEET LENDING-RELATED FINANCIAL INSTRUMENTS AND GUARANTEES

JPMorgan Chase utilizes lending-related financial instruments, such as commitments and guarantees, to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparties draw down on these commitments or the Firm fulfills its obligation under these guarantees, and the counterparties subsequently fail to perform according to the terms of these contracts. For a discussion of off-balance sheet lending-related financial instruments and guarantees, and the Firm s related accounting policies, see Note 33 on pages 206-210 of JPMorgan Chase s 2008 Annual Report.

To provide for the risk of loss inherent in wholesale-related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 14 on page 139 of this Form 10-Q for further discussion regarding the allowance for credit losses on lending-related commitments. The following table summarizes the contractual amounts of off-balance sheet lending-related financial instruments and guarantees and the related allowance for credit losses on lending-related commitments at June 30, 2009, and December 31, 2008. The amounts in the table below for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. The Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

Off-balance sheet lending-related financial instruments and guarantees

	Contractual amount		Allowance for lending-related commitments	
(in millions)	**June 30, 2009**	December 31, 2008	**June 30, 2009**	December 31, 2008
Lending-related				
Consumer:				
Credit card	**$ 607,949**	$ 623,702	**$**	$
Home equity	**70,642**	95,743		
Other	**20,691**	22,062	**27**	25
Total consumer	**$ 699,282**	$ 741,507	**$ 27**	$ 25
Wholesale:				
Other unfunded commitments to extend credit[(a)(b)]	**185,000**	189,563	**319**	349
Asset purchase agreements	**30,010**	53,729	**2**	9
Standby letters of credit and other financial guarantees[(a)(c)(d)]	**89,453**	95,352	**397**	274
Unused advised lines of credit	**35,137**	36,300		
Other letters of credit[(a)(c)]	**4,391**	4,927	**1**	2
Total wholesale	**343,991**	379,871	**719**	634
Total lending-related	**$1,043,273**	$1,121,378	**$746**	$ 659
Other guarantees				
Securities lending guarantees[(e)]	**$ 153,940**	$ 169,281	**NA**	NA
Residual value guarantees	**670**	670	**NA**	NA

Derivatives qualifying as guarantees[f]	**85,715**	83,835	**NA**	NA

(a) Represents the contractual amount net of risk participations totaling $27.1 billion and $28.3 billion at June 30, 2009, and December 31, 2008, respectively.

(b) Excludes unfunded commitments to third-party private equity funds of $1.5 billion and $1.4 billion at June 30, 2009, and December 31, 2008, respectively. Also excludes unfunded commitments for other equity investments of $921 million and $1.0 billion at June 30, 2009, and December 31, 2008, respectively.

(c) JPMorgan Chase held collateral relating to $29.2 billion and $31.0 billion of standby letters

of credit and $1.3 billion and $1.0 billion of other letters of credit at June 30, 2009, and December 31, 2008, respectively.

(d) Includes unissued standby letters of credit commitments of $37.5 billion and $39.5 billion at June 30, 2009, and December 31, 2008, respectively.

(e) Collateral held by the Firm in support of securities lending indemnification agreements was $157.0 billion and $170.1 billion at June 30, 2009, and December 31, 2008, respectively. Securities lending collateral comprises primarily cash, securities issued by governments that are members of the Organisation for Economic

Co-operation and Development (OECD) and U.S. government agencies.

(f) *Represents notional amounts of derivatives qualifying as guarantees.*

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Other unfunded commitments to extend credit

Other unfunded commitments to extend credit include commitments to U.S. domestic states and municipalities, hospitals and other not-for-profit entities to provide funding for periodic tenders of their variable-rate demand bond obligations or commercial paper. Performance by the Firm is required in the event that the variable-rate demand bonds or commercial paper cannot be remarketed to new investors. The amount of commitments related to variable-rate demand bonds and commercial paper of U.S. domestic states and municipalities, hospitals and not-for-profit entities was $23.3 billion and $23.5 billion at June 30, 2009, and December 31, 2008, respectively. Similar commitments exist to extend credit in the form of liquidity facility agreements with nonconsolidated municipal bond VIEs. For further information, see Note 16 on pages 148-153 of this Form 10-Q.

Also included in other unfunded commitments to extend credit are commitments to investment- and noninvestment-grade counterparties in connection with leveraged acquisitions. These commitments are dependent on whether the acquisition by the borrower is successful, tend to be short-term in nature and, in most cases, are subject to certain conditions based on the borrower s financial condition or other factors. The amount of commitments related to leveraged acquisitions at June 30, 2009, and December 31, 2008, was $2.9 billion and $3.6 billion, respectively. For further information, see Note 3 and Note 4 on pages 99-114 and 114-116 respectively, of this Form 10-Q.

FIN 45 guarantees

The Firm considers the following off-balance sheet lending-related arrangements to be guarantees under FIN 45: certain asset purchase agreements, standby letters of credit and financial guarantees, securities lending indemnifications, certain indemnification agreements included within third-party contractual arrangements and certain derivative contracts. For a further discussion of the off-balance sheet lending-related arrangements the Firm considers to be guarantees under FIN 45, and the related accounting policies, see Note 33 on pages 206-210 of JPMorgan Chase s 2008 Annual Report. The amount of the liability related to FIN 45 guarantees recorded at June 30, 2009, and December 31, 2008, excluding the allowance for credit losses on lending-related commitments and derivative contracts discussed below, was $475 million and $535 million, respectively.

Asset purchase agreements

Asset purchase agreements are principally used as a mechanism to provide liquidity to SPEs, predominantly multi-seller conduits, as described in Note 16 on pages 148-153 of this Form 10-Q.

The carrying value of asset purchase agreements of $112 million and $147 million at June 30, 2009, and December 31, 2008, respectively, which is classified in accounts payable and other liabilities on the Consolidated Balance Sheets, includes $2 million and $9 million at June 30, 2009, and December 31, 2008, respectively, for the allowance for lending-related commitments, and $110 million and $138 million at June 30, 2009, and December 31, 2008, respectively, for the fair value of the FIN 45 guarantee liability.

Standby letters of credit

Standby letters of credit (SBLC) and financial guarantees are conditional lending commitments issued by the Firm to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. The carrying value of standby and other letters of credit of $763 million and $673 million at June 30, 2009, and December 31, 2008, respectively, which is classified in accounts payable and other liabilities on the Consolidated Balance Sheets, includes $398 million and $276 million at June 30, 2009, and December 31, 2008, respectively, for the allowance for lending-related commitments, and $365 million and $397 million at June 30, 2009, and December 31, 2008, respectively, for the fair value of the FIN 45 guarantee.

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The following table summarizes the types of facilities under which standby letters of credit and other letters of credit arrangements are outstanding by the ratings profiles of the Firm s customers as of June 30, 2009, and December 31, 2008. The ratings scale is representative of the payment or performance risk to the Firm s internal risk ratings, which generally correspond to ratings defined by S&P and Moody s.

Standby letters of credit and other financial guarantees and other letters of credit

	June 30, 2009		December 31, 2008	
(in millions)	Standby letters of credit and other financial guarantees	Other letters of credit	Standby letters of credit and other financial guarantees	Other letters of credit[(c)]
Investment-grade[(a)]	**$66,916**	**$3,212**	$73,394	$3,772
Noninvestment-grade[(a)]	**22,537**	**1,179**	21,958	1,155
Total contractual amount	**$89,453**[(b)]	**$4,391**	$95,352[(b)]	$4,927
Allowance for lending-related commitments	**$ 397**	**$ 1**	$ 274	$ 2
Commitments with collateral	**29,174**	**1,348**	30,972	1,000

(a) Ratings scale is based on the Firm s internal ratings, which generally correspond to ratings defined by S&P and Moody s.

(b) Represents contractual amount net of risk participations totaling $27.1 billion and $28.3 billion at June 30, 2009, and December 31, 2008, respectively.

(c) The investment-grade and noninvestment-grade amounts have been revised from previous disclosures.

Derivatives qualifying as guarantees

In addition to the contracts described above, the Firm transacts certain derivative contracts that meet the characteristics of a guarantee under FIN 45. The total notional value of the derivatives that the Firm deems to be

guarantees was $85.7 billion and $83.8 billion at June 30, 2009, and December 31, 2008, respectively. The notional value generally represents the Firm s maximum exposure to derivatives qualifying as guarantees, although exposure to certain stable value derivatives is contractually limited to a substantially lower percentage of the notional value. The fair value of the contracts reflects the probability of whether the Firm will be required to perform under the contract. At June 30, 2009, and December 31, 2008, the fair value related to derivative guarantees was a derivative receivable of $212 million and $184 million, respectively, and a derivative payable of $3.0 billion and $5.6 billion, respectively. The Firm reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

In addition to derivative contracts that meet the characteristics of a guarantee under FIN 45, the Firm is both a purchaser and seller of credit protection in the credit derivatives market. For a further discussion of credit derivatives, see Note 5 on pages 116-124 of this Form 10-Q, and Note 32 on pages 202-205 of JPMorgan Chase s 2008 Annual Report.

Loan sale- and securitization-related indemnifications

Indemnifications for breaches of representations and warranties

As part of the Firm s loan sale and securitization activities, as described in Note 14 and Note 16 on pages 163-166 and 168-176, respectively, of JPMorgan Chase s 2008 Annual Report, and Note 13 and Note 15 on pages 135-138 and 139-147, respectively, of this Form 10-Q, the Firm generally makes representations and warranties in its loan sale and securitization agreements that the loans sold meet certain requirements. These agreements may require the Firm (including in its roles as a servicer) to repurchase the loans and/or indemnify the purchaser of the loans against losses due to any breaches of such representations or warranties. Generally, the maximum amount of future payments the Firm would be required to make for breaches under these representations and warranties would be equal to the current amount of assets held by such securitization-related SPEs, plus, in certain circumstances, accrued and unpaid interest on such loans and certain expense.

During the first quarter of 2009, the Firm resolved certain current and future claims for certain loans originated and sold by Washington Mutual. At June 30, 2009, and December 31, 2008, the Firm had recorded a repurchase liability of $756 million and $1.1 billion, respectively.

Loans sold with recourse

The Firm provides servicing for mortgages and certain commercial lending products on both a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to the Firm is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans, such as the FNMA, or the FHLMC or a private investor, insurer or guarantor. Losses on recourse servicing predominantly occur when foreclosure sales proceeds of the property underlying a defaulted loan are less than the sum of the outstanding principal balance, plus accrued interest on the loan and the cost of holding and disposing of the underlying property. The Firm s loan sale transactions have primarily been executed on a nonrecourse basis, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. At June 30, 2009, and December 31, 2008, the unpaid principal balance of loans sold with recourse totaled $14.1

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billion and $15.0 billion, respectively. The carrying values of the related liability that the Firm had recorded, which is representative of the Firm s view of the likelihood it will have to perform under this guarantee, were $258 million and $241 million at June 30, 2009, and December 31, 2008, respectively.

NOTE 25 BUSINESS SEGMENTS

JPMorgan Chase is organized into six major reportable business segments the Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services (TSS) and Asset Management (AM), as well as a Corporate/Private Equity segment. The segments are based on the products and services provided or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For a definition of managed basis, see the footnotes to the table below. For a further discussion concerning JPMorgan Chase s business segments, see Business Segment Results on pages 18-19 of this Form 10-Q, and pages 40-41 and Note 37 on pages 214-215 of JPMorgan Chase s 2008 Annual Report.

Segment results

The following tables provide a summary of the Firm s segment results for the three and six months ended June 30, 2009 and 2008, on a managed basis. The impact of credit card securitization adjustments has been included in reconciling items so that the total Firm results are on a reported basis. Finally, total net revenue (noninterest revenue and net interest income) for each of the segments is presented on a tax-equivalent basis. Accordingly, revenue from tax-exempt securities and investments that receive tax credits are presented in the managed results on a basis comparable to taxable securities and investments. This approach 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 (benefit). The following tables summarize the business segment results and reconciliation to reported U.S. GAAP results.

Segment results and reconciliation[a]

Three months ended June 30, 2009 (in millions, except ratios)	Investment Bank	Retail Financial Services	Card Services[d]	Commercial Banking
Noninterest revenue	**$ 4,856**	**$ 2,940**	**$ 557**	**$ 458**
Net interest income	**2,445**	**5,030**	**4,311**	**995**
Total net revenue	**7,301**	**7,970**	**4,868**	**1,453**
Provision for credit losses	**871**	**3,846**	**4,603**	**312**
Credit reimbursement (to)/from TSS[b]				
Noninterest expense[c]	**4,067**	**4,079**	**1,333**	**535**
Income (loss) before income tax expense	**2,363**	**45**	**(1,068)**	**606**
Income tax expense (benefit)	**892**	**30**	**(396)**	**238**
Net income (loss)	**$ 1,471**	**$ 15**	**$ (672)**	**$ 368**
Average common equity	**$ 33,000**	**$ 25,000**	**$ 15,000**	**$ 8,000**
Average assets	**710,825**	**410,228**	**193,310**	**137,283**
Return on average common equity	**18%**	**%**	**(18)%**	**18%**
Overhead ratio	**56**	**51**	**27**	**37**

Three months ended June 30, 2009 (in millions, except ratios)	Treasury &	Asset Management	Corporate/	Reconciling Items[d][e]	Total

	Securities Services		Private Equity		
Noninterest revenue	**$ 1,245**	**$ 1,568**	**$ 1,400**	**$ (71)**	**$ 12,953**
Net interest income	**655**	**414**	**865**	**(2,045)**	**12,670**
Total net revenue	**1,900**	**1,982**	**2,265**	**(2,116)**	**25,623**
Provision for credit losses	**(5)**	**59**	**9**	**(1,664)**	**8,031**
Credit reimbursement (to)/from TSS[(b)]	**(30)**			**30**	
Noninterest expense[(c)]	**1,288**	**1,354**	**864**		**13,520**
Income (loss) before income tax expense	**587**	**569**	**1,392**	**(422)**	**4,072**
Income tax expense (benefit)	**208**	**217**	**584**	**(422)**	**1,351**
Net income (loss)	**$ 379**	**$ 352**	**$ 808**	**$**	**$ 2,721**
Average common equity	**$ 5,000**	**$ 7,000**	**$ 47,865**	**$**	**$ 140,865**
Average assets	**35,520**	**59,334**	**573,460**	**(81,588)**	**2,038,372**
Return on average common equity	**30%**	**20%**	**NM**	**NM**	**3%**
Overhead ratio	**68**	**68**	**NM**	**NM**	**53**

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Segment results and reconciliation[a]

Three months ended June 30, 2008 (in millions, except ratios)	Investment Bank	Retail Financial Services	Card Services[d]	Commercial Banking
Noninterest revenue	$ 3,191	$ 1,960	$ 764	$ 383
Net interest income	2,309	3,150	3,011	723
Total net revenue	5,500	5,110	3,775	1,106
Provision for credit losses	398	1,585	2,194	47
Credit reimbursement (to)/from TSS[b]				
Noninterest expense[c]	4,734	2,680	1,185	476
Income before income tax expense	368	845	396	583
Income tax expense (benefit)	(26)	342	146	228
Net income (loss)	$ 394	$ 503	$ 250	$ 355
Average common equity	$ 23,319	$ 17,000	$ 14,100	$ 7,000
Average assets	814,860	267,808	161,601	103,469
Return on average common equity	7%	12%	7%	20%
Overhead ratio	86	52	31	43

Three months ended June 30, 2008 (in millions, except ratios)	Treasury & Securities Services	Asset Management	Corporate/ Private Equity	Reconciling Items[d][e]	Total
Noninterest revenue	$ 1,357	$ 1,703	$ 181	$ 566	$ 10,105
Net interest income (loss)	662	361	(47)	(1,875)	8,294
Total net revenue	2,019	2,064	134	(1,309)	18,399
Provision for credit losses	7	17	37	(830)	3,455
Credit reimbursement (to)/from TSS[b]	(30)			30	
Noninterest expense[c]	1,317	1,400	385		12,177
Income (loss) before income tax expense	665	647	(288)	(449)	2,767
Income tax expense (benefit)	240	252	31	(449)	764
Net income (loss)	$ 425	$ 395	$ (319)	$	$ 2,003
Average common equity	$ 3,500	$ 5,066	$ 56,421	$	$ 126,406
Average assets	56,192	65,015	274,334	(74,580)	1,668,699
Return on average common equity	49%	31%	NM	NM	6%
Overhead ratio	65	68	NM	NM	66

Segment results and reconciliation[a]

Six months ended June 30, 2009 (in millions, except ratios)	Investment Bank	Retail Financial Services	Card Services[d]	Commercial Banking
Noninterest revenue	**$ 10,525**	**$ 6,537**	**$ 1,204**	**$ 880**
Net interest income	**5,147**	**10,268**	**8,793**	**1,975**
Total net revenue	**15,672**	**16,805**	**9,997**	**2,855**
Provision for credit losses	**2,081**	**7,723**	**9,256**	**605**
Credit reimbursement (to)/from TSS[b]				
Noninterest expense[c]	**8,841**	**8,250**	**2,679**	**1,088**
Income (loss) before income tax expense	**4,750**	**832**	**(1,938)**	**1,162**
Income tax expense (benefit)	**1,673**	**343**	**(719)**	**456**
Net income (loss)	**$ 3,077**	**$ 489**	**$ (1,219)**	**$ 706**
Average common equity	**$ 33,000**	**$ 25,000**	**$ 15,000**	**$ 8,000**
Average assets	**721,934**	**416,813**	**197,234**	**140,771**
Return on average common equity	**19%**	**4%**	**(16)%**	**18%**
Overhead ratio	**56**	**49**	**27**	**38**

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Six months ended June 30, 2009 (in millions, except ratios)	Treasury & Securities Services	Asset Management	Corporate/ Private Equity	Reconciling Items[d][e]	Total
Noninterest revenue	**$ 2,393**	**$ 2,868**	**$ 102**	**$ 102**	**$ 24,611**
Net interest income	**1,328**	**817**	**1,854**	**(4,145)**	**26,037**
Total net revenue	**3,721**	**3,685**	**1,956**	**(4,043)**	**50,648**
Provision for credit losses	**(11)**	**92**	**9**	**(3,128)**	**16,627**
Credit reimbursement (to)/from TSS[b]	**(60)**			**60**	
Noninterest expense[c]	**2,607**	**2,652**	**776**		**26,893**
Income (loss) before income tax expense	**1,065**	**941**	**1,171**	**(855)**	**7,128**
Income tax expense (benefit)	**378**	**365**	**625**	**(855)**	**2,266**
Net income (loss)	**$ 687**	**$ 576**	**$ 546**	**$**	**$ 4,862**
Average common equity	**$ 5,000**	**$ 7,000**	**$ 45,691**	**$**	**$ 138,691**
Average assets	**37,092**	**58,783**	**562,221**	**(82,182)**	**2,052,666**
Return on average common equity	**28%**	**17%**	**NM**	**NM**	**4%**
Overhead ratio	**70**	**72**	**NM**	**NM**	**53**

Segment results and reconciliation[a]

Six months ended June 30, 2008 (in millions, except ratios)	Investment Bank	Retail Financial Services	Card Services[d]	Commercial Banking
Noninterest revenue	$ 4,409	$ 3,649	$ 1,483	$ 717
Net interest income	4,132	6,224	6,196	1,456
Total net revenue	8,541	9,873	7,679	2,173
Provision for credit losses	1,016	4,273	3,864	148
Credit reimbursement (to)/from TSS[b]				
Noninterest expense[c]	7,287	5,252	2,457	961
Income (loss) before income tax expense	238	348	1,358	1,064
Income tax expense (benefit)	(69)	156	499	417
Net income (loss)	$ 307	$ 192	$ 859	$ 647
Average common equity	$ 22,659	$ 17,000	$ 14,100	$ 7,000
Average assets	785,344	263,911	160,601	102,724
Return on average common equity	3%	2%	12%	19%
Overhead ratio	85	53	32	44

Six months ended June 30, 2008 (in millions, except ratios)	Treasury & Securities Services	Asset Management	Corporate/ Private Equity	Reconciling Items[d][e]	Total
Noninterest revenue	$ 2,646	$ 3,293	$ 1,869	$ 1,270	$ 19,336
Net interest income	1,286	672	(396)	(3,617)	15,953
Total net revenue	3,932	3,965	1,473	(2,347)	35,289
Provision for credit losses	19	33	37	(1,511)	7,879
Credit reimbursement (to)/from TSS[b]	(60)			60	
Noninterest expense[c]	2,545	2,723	(117)		21,108
Income (loss) before income tax expense	1,308	1,209	1,553	(776)	6,302
Income tax expense (benefit)	480	458	761	(776)	1,926
Net income	$ 828	$ 751	$ 792	$	$ 4,376
Average common equity	$ 3,500	$ 5,033	$ 56,201	$	$ 125,493
Average assets	56,698	62,651	260,403	(73,084)	1,619,248
Return on average common equity	48%	30%	NM	NM	7%
Overhead ratio	65	69	NM	NM	60

(a) 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 do not have any impact on net income as reported by the lines of business or by the

Firm as a whole.

(b) In the second quarter of 2009, IB began reporting credit reimbursement from TSS as a component of total net revenue, whereas TSS continues to report its credit reimbursement to IB as a separate line item on its income statement (not part of net revenue). Reconciling items include an adjustment to offset IB s inclusion of the credit reimbursement in total net revenue. Prior periods have been revised for IB and Reconciling items to reflect this presentation.

(c) Includes merger costs, which are reported in the Corporate/Private Equity segment. Merger costs attributed to the business segments for the three and six months ended June 30, 2009 and 2008, were as follows.

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	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Investment Bank	**$ 1**	$ 132	**$ 16**	$ 132
Retail Financial Services	**91**		**184**	
Card Services	**8**		**36**	
Commercial Banking	**2**		**5**	
Treasury & Securities Services	**4**		**7**	
Asset Management	**2**	1	**3**	1
Corporate/Private Equity	**35**	22	**97**	22

(d) Managed results for credit card exclude the impact of credit card securitizations on total net revenue, provision for credit losses and average assets, as JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in evaluating the credit performance of the entire managed credit card portfolio as operations are funded, and decisions are made about allocating resources, such as employees and capital, based on managed information. These

adjustments are eliminated in reconciling items to arrive at the Firm s reported U.S. GAAP results. The related securitization adjustments were as follows.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Noninterest revenue	**$ (294)**	$ (843)	**$ (834)**	$ (1,780)
Net interest income	**1,958**	1,673	**3,962**	3,291
Provision for credit losses	**1,664**	830	**3,128**	1,511
Average assets	**81,588**	74,580	**82,182**	73,084

(e) Segment managed results reflect revenue on a tax-equivalent basis, with the corresponding income tax impact recorded within income tax expense. These adjustments are eliminated in reconciling items to arrive at the Firm s reported U.S. GAAP results. Tax-equivalent adjustments for the three and six months ended June 30, 2009 and 2008, were as follows.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2009**	2008	**2009**	2008
Noninterest revenue	**$ 335**	$ 247	**$ 672**	$ 450
Net interest income	**87**	202	**183**	326
Income tax expense	**422**	449	**855**	776

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JPMORGAN CHASE & CO.
CONSOLIDATED AVERAGE BALANCE SHEETS, INTEREST AND RATES
(Taxable-Equivalent Interest and Rates; in millions, except rates)

	Three months ended June 30, 2009			Three months ended June 30, 2008		
	Average balance	Interest	Rate (annualized)	Average balance	Interest	Rate (annualized)
Assets						
Deposits with banks	**$ 68,001**	**$ 246**	**1.45%**	$ 38,813	$ 373	3.87%
Federal funds sold, securities purchased under resale agreements and securities borrowed	**264,461**	**272**	**0.41**	255,986	2,057	3.23
Trading assets debt instruments	**245,444**	**3,002**	**4.91**	302,053	4,199	5.59
Securities	**354,216**	**3,210**	**3.64**(b)	109,834	1,440	5.27(b)
Loans	**697,908**	**9,832**	**5.65**	537,964	8,508	6.36
Other assets	**36,638**	**74**	**0.80**	15,629	154	3.97
Total interest-earning assets	**1,666,668**	**16,636**	**4.00**	1,260,279	16,731	5.34
Allowance for loan losses	**(27,384)**			(11,877)		
Cash and due from banks	**22,816**			32,179		
Trading assets equity instruments	**63,507**			99,525		
Trading assets derivative receivables	**114,096**			105,301		
Goodwill	**48,273**			45,781		
Other intangible assets:						
Mortgage servicing rights	**12,256**			9,947		
Purchased credit card relationships	**1,485**			2,063		
All other intangibles	**3,733**			3,760		
Other assets	**132,922**			121,741		
Total assets	**$ 2,038,372**			$ 1,668,699		
Liabilities						
Interest-bearing deposits	**$ 672,350**	**$ 1,165**	**0.70%**	$ 612,305	$ 3,592	2.36%
Federal funds purchased and securities loaned or sold under repurchase agreements	**289,971**	**167**	**0.23**	203,348	1,380	2.73
Commercial paper	**37,371**	**23**	**0.24**	47,323	255	2.17
Other borrowings and liabilities(a)	**207,489**	**686**	**1.32**	111,477	1,044	3.77
Beneficial interests issued by consolidated VIEs	**14,493**	**57**	**1.59**	17,990	100	2.24
Long-term debt	**274,323**	**1,781**	**2.60**	229,336	1,864	3.27
Total interest-bearing liabilities	**1,495,997**	**3,879**	**1.04**	1,221,779	8,235	2.71
Noninterest-bearing deposits	**199,221**			119,860		
Trading liabilities derivative payables	**78,155**			79,780		
	95,796			116,325		

All other liabilities, including the allowance for lending-related commitments					
Total liabilities	**1,869,169**		1,537,744		
Stockholders equity					
Preferred stock	**28,338**		4,549		
Common stockholders equity	**140,865**		126,406		
Total stockholders equity	**169,203**		130,955		
Total liabilities and stockholders equity	**$ 2,038,372**		$ 1,668,699		2.63%
Interest rate spread		**2.96%**			
Net interest income and net yield on interest-earning assets	**$ 12,757**	**3.07%**		$ 8,496	2.71%

(a) Includes securities sold but not yet purchased.

(b) For the quarters ended June 30, 2009 and 2008, the annualized rate for available-for-sale securities, based on amortized cost, was 3.62% and 5.28%, respectively.

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JPMORGAN CHASE & CO.
CONSOLIDATED AVERAGE BALANCE SHEETS, INTEREST AND RATES
(Taxable-Equivalent Interest and Rates; in millions, except rates)

	Six months ended June 30, 2009			Six months ended June 30, 2008		
	Average balance	Interest	Rate (annualized)	Average balance	Interest	Rate (annualized)
Assets						
Deposits with banks	**$ 78,237**	**$ 689**	**1.78%**	$ 35,394	$ 709	4.03%
Federal funds sold , securities purchased under resale agreements and securities borrowed	**273,052**	**1,008**	**0.74**	246,670	4,250	3.46
Trading assets debt instruments	**248,753**	**6,277**	**5.09**	312,519	8,817	5.67
Securities	**318,019**	**6,096**	**3.87**(b)	99,796	2,660	5.36(b)
Loans	**712,353**	**20,349**	**5.76**	532,281	17,797	6.72
Other assets	**32,050**	**239**	**1.50**	7,815	154	3.97
Total interest-earning assets	**1,662,464**	**34,658**	**4.20**	1,234,475	34,387	5.60
Allowance for loan losses	**(25,407)**			(10,815)		
Cash and due from banks	**25,003**			33,344		
Trading assets equity instruments	**63,130**			89,168		
Trading assets derivative receivables	**128,092**			101,582		
Goodwill	**48,173**			45,740		
Other intangible assets:						
Mortgage servicing rights	**11,702**			9,110		
Purchased credit card relationships	**1,533**			2,142		
All other intangibles	**3,796**			3,870		
Other assets	**134,180**			110,632		
Total assets	**$2,052,666**			$1,619,248		
Liabilities						
Interest-bearing deposits	**$ 704,228**	**$ 2,851**	**0.82%**	$ 606,218	$ 8,200	2.72%
Federal funds purchased and securities loaned or sold under repurchase agreements	**258,217**	**369**	**0.29**	191,622	2,862	3.00
Commercial paper	**35,543**	**62**	**0.35**	47,453	658	2.79
Other borrowings and liabilities(a)	**221,999**	**1,536**	**1.39**	109,515	2,390	4.39
Beneficial interests issued by consolidated VIEs	**12,138**	**95**	**1.58**	16,036	232	2.92
Long-term debt	**266,571**	**3,525**	**2.67**	214,846	3,766	3.52
Total interest-bearing liabilities	**1,498,696**	**8,438**	**1.14**	1,185,690	18,108	3.07
Noninterest-bearing deposits	**198,531**			119,439		
Trading liabilities derivative payables	**86,503**			80,437		
All other liabilities, including the allowance for lending-related	**100,107**			105,914		

commitments					
Total liabilities	**1,883,837**		1,491,480		
Stockholders equity					
Preferred stock	**30,138**		2,275		
Common stockholders equity	**138,691**		125,493		
Total stockholders equity	**168,829**		127,768		
Total liabilities and stockholders equity	**$2,052,666**		$1,619,248		
Interest rate spread		**3.06%**			2.53%
Net interest income and net yield on interest-earning assets	**$26,220**	**3.18%**		$16,279	2.65%

(a) Includes securities sold but not yet purchased.

(b) For the six months ended June 30, 2009 and 2008, the annualized rate for available-for-sale securities, based on amortized cost, was 3.84% and 5.39%, respectively.

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GLOSSARY OF TERMS

ACH: Automated Clearing House.

Advised lines of credit: An authorization which specifies the maximum amount of a credit facility the Firm has made available to an obligor on a revolving but nonbinding basis. The borrower receives written or oral advice of this facility. The Firm may cancel this facility at any time.

AICPA: American Institute of Certified Public Accountants.

AICPA Statement of Position (SOP) 03-3: Accounting for Certain Loans or Debt Securities Acquired in a Transfer.

Assets under management: Represent assets actively managed by Asset Management on behalf of Institutional, Retail, Private Banking, Private Wealth Management and Bear Stearns Private Client Services. Excludes assets managed by American Century Companies, Inc., in which the Firm has a 42% ownership interest as of June 30, 2009

Assets under supervision: Represent assets under management, as well as custody, brokerage, administration and deposit accounts.

Average managed assets: Refer to total assets on the Firm s Consolidated Balance Sheets plus credit card receivables that have been securitized and removed from the Firm s Consolidated Balance Sheets.

Beneficial interest issued by consolidated VIEs: Represents the interest of third-party holders of debt/equity securities, or other obligations, issued by VIEs that JPMorgan Chase consolidates under FIN 46R. The underlying obligations of the VIEs consist of short-term borrowings, commercial paper and long-term debt. The related assets consist of trading assets, available-for-sale securities, loans and other assets.

Benefit obligation: Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

Combined loan-to-value ratio: For residential real estate loans, an indicator of how much equity a borrower has in a secured borrowing based on current estimates of the value of the collateral and considering all lien positions related to the property.

Commodities contracts: Exchange-traded futures and over-the-counter forwards are contracts to deliver specified commodities (e.g., gold, electricity, natural gas, other precious and base metals, oil, farm products, livestock) on an agreed-upon future settlement date in exchange for cash. Exchange-traded commodities swaps and over-the-counter commodities swap contracts are contracts to deliver fixed cash payments in exchange for cash payments that float based on changes in an underlying commodities index.

Contractual credit card charge-off: In accordance with the Federal Financial Institutions Examination Council policy, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification of the filing of bankruptcy, whichever is earlier.

Credit card securitizations: Card Services managed results excludes the impact of credit card securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Through securitization, the Firm transforms a portion of its credit card receivables into securities, which are sold to investors. The credit card receivables are removed from the Consolidated Balance Sheets through the transfer of the receivables to a trust, and through the sale of undivided interests to investors that entitle the investors to specific cash flows generated from the credit card receivables. The Firm retains the remaining undivided interests as seller s interests, which are recorded in loans on the Consolidated Balance Sheets. A gain or loss on the sale of credit card receivables to investors is recorded in other income. Securitization also affects the Firm s Consolidated Statements of Income, as the aggregate amount of interest income, certain fee revenue and recoveries that is in excess of the aggregate amount of interest paid to investors, gross credit losses and other trust expense related to the securitized receivables, is reclassified into credit card income in the Consolidated Statements of Income.

Credit derivatives: Contractual agreements that provide protection against a credit event on one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer

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of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

Deposit margin: Represents net interest income expressed as a percentage of average deposits.

EITF: Emerging Issues Task Force.

EITF Issue 07-5: Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity s Own Stock.

EITF Issue 99-20: Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.

FASB: Financial Accounting Standards Board.

FICO: Fair Isaac Corporation.

FIN 39: FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts an interpretation of APB Opinion No. 10 and FASB Statement No. 105.

FIN 45: FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34.

FIN 46R: FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities an interpretation of ARB No. 51.

Foreign exchange contracts: Include foreign exchange forward contracts and cross-currency swaps. Foreign exchange forward contracts are contracts to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon future settlement date. Cross-currency swaps are contracts between two parties to exchange interest and principal payments in one currency for the same in another currency.

Forward points: Represents the interest rate differential between two currencies, which is either added to or subtracted from the current exchange rate (i.e., spot rate) to determine the forward exchange rate.

FSP: FASB Staff Position.

FSP EITF 03-6-1: Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.

FSP FAS 107-1 and APB 28-1: Interim Disclosures about Fair Value of Financial Instruments.

FSP FAS 115-2 and FAS 124-2: Recognition and Presentation of Other-Than-Temporary Impairments.

FSP FAS 132(R)-1: Employers Disclosures about Postretirement Benefit Plan Assets.

FSP FAS 140-3: Accounting for Transfers of Financial Assets and Repurchase Financing Transactions.

FSP FAS 141(R)-1: Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies.

FSP FAS 157-4: Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly.

Interest rate contracts: Includes interest rate swaps, forwards and futures contracts. Interest rate swap contracts involve the exchange of fixed- and variable-rate interest payments based on a contracted notional amount. Interest rate forward contracts are primarily arrangements to exchange cash in the future based on price movements of specified financial instruments. Interest rate futures contracts are financial futures which provide for cash payments based on interest rate changes on an underlying interest-bearing instrument or index.

Interests in purchased receivables: Represent an ownership interest in cash flows of an underlying pool of receivables transferred by a third-party seller into a bankruptcy-remote entity, generally a trust.

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Investment-grade: An indication of credit quality based on JPMorgan Chase s internal risk assessment system. Investment grade generally represents a risk profile similar to a rating of a BBB-"/ Baa3 or better, as defined by independent rating agencies.
LIBOR: London Interbank Offered Rate.
Managed basis: A non-GAAP presentation of financial results that includes reclassifications related to credit card securitizations and to present revenue on a fully taxable-equivalent basis. Management uses this non-GAAP financial measure at the segment level because it believes this provides information to enable investors to understand the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.
Managed credit card receivables: Refers to credit card receivables on the Firm s Consolidated Balance Sheets plus credit card receivables that have been securitized and removed from the Firm s Consolidated Balance Sheets.
Mark-to-market exposure: A measure, at a point in time, of the value of a derivative or foreign exchange contract in the open market. When the mark-to-market value is positive, it indicates the counterparty owes JPMorgan Chase and, therefore, creates a repayment risk for the Firm. When the mark-to-market value is negative, JPMorgan Chase owes the counterparty; in this situation, the Firm does not have repayment risk.
Master netting agreement: An agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or termination of any one contract. See FIN 39.
Mortgage product types:
Alt-A
Alt-A loans are generally higher in credit quality than subprime loans but have characteristics that would disqualify the borrower from a traditional prime loan. Alt-A lending characteristics may include one or more of the following: (i) limited documentation; (ii) high combined-loan-to-value (CLTV) ratio; (iii) loans secured by non-owner occupied properties; or (iv) debt-to-income ratio above normal limits. Perhaps the most important characteristic is limited documentation. A substantial proportion of traditional Alt-A loans is those where a borrower does not provide complete documentation of his or her assets or the amount or source of his or her income.
Option ARMs
The option ARM home loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only, or minimum payment. The minimum payment on an option ARM loan is based on the interest rate charged during the introductory period. This introductory rate has usually been significantly below the fully indexed rate. The fully indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully indexed rate and adjusts monthly to reflect movements in the index. The minimum payment is typically insufficient to cover interest accrued in the prior month, and will negatively amortize as any unpaid interest is deferred and added to the principal balance of the loan. Option ARMs typically become fully amortizing loans upon reaching a negative amortization cap or on dates specified in the borrowing agreement, at which time the required payment generally increases substantially.
Prime
Prime mortgage loans are made to borrowers with good credit records and a monthly income that is at least three to four times greater than their monthly housing expense (mortgage payments plus taxes and other debt payments). These borrowers provide full documentation and generally have reliable payment histories.
Subprime
Subprime loans are designed for customers with one or more high risk characteristics, including but not limited to: (i) unreliable or poor payment histories; (ii) high loan-to-value (LTV) ratio of greater than 80% (without borrower-paid mortgage insurance); (iii) high debt-to-income ratio; (iv) the occupancy type for the loan is other than the borrower s primary residence; or (v) a history of delinquencies or late payments on the loan.
MSAs: Metropolitan Statistical Areas.
NA: Data is not applicable or available for the period presented.

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Net charge-off ratio: The net-charge ratio is calculated using both net charge-offs (annualized) and average retained loans for the reporting period.
Net yield on interest-earning assets: The average rate for interest-earning assets less the average rate paid for all sources of funds.
NM: Not meaningful.
Nonconforming mortgage loans: Mortgage loans that do not meet the requirements for sale to U.S. government agencies and U.S. government sponsored enterprises. These requirements include limits on loan-to-value ratios, loan terms, loan amounts, down payments, borrower credit worthiness and other requirements.
OPEB: Other postretirement employee benefits.
Overhead ratio: Noninterest expense as a percentage of total net revenue.
Personal bankers: Retail branch office personnel who acquire, retain and expand new and existing customer relationships by assessing customer needs and recommending and selling appropriate banking products and services.
Portfolio activity: Describes changes to the risk profile of existing lending-related exposures and their impact on the allowance for credit losses from changes in customer profiles and inputs used to estimate the allowances.
Pre-provision profit: Total net revenue less noninterest expense.
Principal transactions: Realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value) and changes in fair value associated with financial instruments held by the Investment Bank for which the SFAS 159 fair value option was elected. Principal transactions revenue also includes private equity gains and losses.
Purchased credit-impaired loans: Purchased loans for which the credit quality has deteriorated since origination, but prior to purchase. These loans are accounted for at fair value as of the purchase date, which includes the impact of estimated credit losses for the loans over the life of loan.
Receivables from customers: Primarily represents margin loans to prime and retail brokerage customers which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets for the wholesale lines of business.
Reported basis: Financial statements prepared under accounting principles generally accepted in the United States of America (U.S. GAAP). The reported basis includes the impact of credit card securitizations but excludes the impact of taxable-equivalent adjustments.
Risk layered loans: Loans with multiple high risk elements.
Sales specialists: Retail branch office personnel who specialize in the marketing of a single product, including mortgages, investments and business banking, by partnering with the personal bankers.
SFAS: Statement of Financial Accounting Standards.
SFAS 5: Accounting for Contingencies.
SFAS 52: Foreign Currency Translation.
SFAS 107: Disclosures about Fair Value of Financial Instruments.
SFAS 114: Accounting by Creditors for Impairment of a Loan an amendment of FASB Statements No. 5 and 15.
SFAS 133: Accounting for Derivative Instruments and Hedging Activities.
SFAS 140: Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125.
SFAS 141 and SFAS 141R: Business Combinations.
SFAS 142: Goodwill and Other Intangible Assets.
SFAS 155: Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140.
SFAS 157: Fair Value Measurements.

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SFAS 158: Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R).
SFAS 159: The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115.
SFAS 160: Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51.
SFAS 161: Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133.
SFAS 165: Subsequent Events.
SFAS 166: Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140.
SFAS 167: Amendments to FASB Interpretation No. 46(R).
Stress testing: A scenario that measures market risk under unlikely but plausible events in abnormal markets.
Troubled debt restructuring: Occurs when the Firm modifies the original terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.
Unaudited: Financial statements and information that have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion.
U.S. GAAP: Accounting principles generally accepted in the United States of America.
U.S. government and federal agency obligations: Obligations of the U.S. government or an instrumentality of the U.S. government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.
U.S. government-sponsored enterprise obligations: Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.
Value-at-risk (VaR): A measure of the dollar amount of potential loss from adverse market moves in an ordinary market environment.

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LINE OF BUSINESS METRICS

Investment Banking

IB s revenue comprises the following:

Investment banking fees include advisory, equity underwriting, bond underwriting and loan syndication fees.

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.

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.

Credit portfolio revenue includes net interest income, fees and loan sale 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.

Retail Financial Services

Description of selected business metrics within Retail Banking:

Personal bankers Retail branch office personnel who acquire, retain and expand new and existing customer relationships by assessing customer needs and recommending and selling appropriate banking products and services.

Sales specialists Retail branch office personnel who specialize in the marketing of a single product, including mortgages, investments and business banking, by partnering with the personal bankers.

Mortgage banking revenue comprises the following:

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 includes the following components:

(a) 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.

(b) Changes in MSR asset fair value due to:

market-based inputs such as interest rates and volatility, as well as updates to assumptions used in the MSR valuation model.

modeled servicing portfolio runoff (or time decay).

(c) Derivative valuation adjustments and other, which represents changes in the fair value of derivative instruments used to offset the impact of changes in the market-based inputs to the MSR valuation model.

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

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

Correspondent negotiated transactions (CNT) These transactions occur when mid- to large-sized mortgage lenders, banks and bank-owned mortgage companies sell loans in bulk to the Firm, and the Firm resells the loans, while retaining the servicing. These transactions supplement traditional production channels and provide growth opportunities in the servicing portfolio in stable and rising-rate periods.

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Card Services

Description of selected business metrics within CS:

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.

Commercial Banking

Commercial Banking revenue comprises the following:

Lending includes a variety of financing alternatives, which are primarily provided on a basis secured by receivables, inventory, equipment, real estate or other assets. Products include term loans, revolving lines of credit, bridge financing, asset-based structures and leases.

Treasury services includes a broad range of products and services enabling clients to transfer, invest and manage the receipt and disbursement of funds, while providing the related information reporting. These products and services include U.S. dollar and multi-currency clearing, ACH, lockbox, disbursement and reconciliation services, check deposits, other check and currency-related services, trade finance and logistics solutions, commercial card, and deposit products, sweeps and money market mutual funds.

Investment banking products provide clients with sophisticated capital-raising alternatives, as well as balance sheet and risk management tools through loan syndications, investment-grade debt, asset-backed securities, private placements, high-yield bonds, equity underwriting, advisory, interest rate derivatives, foreign exchange hedges and securities sales.

Description of selected business metrics within CB:

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

IB revenue, gross Represents total revenue related to investment banking products sold to CB clients.

Treasury & Securities Services

Treasury & Securities Services **firmwide metrics** include certain TSS product revenue and liability balances reported in other lines of business related to customers who are also customers of those other lines of business. In order to capture the firmwide impact of Treasury Services 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 management s view, in order to understand the aggregate TSS business.

Description of selected business metrics within TSS:

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

Asset Management

Assets under management: Represent assets actively managed by Asset Management on behalf of Institutional, Retail, Private Banking, Private Wealth Management and Bear Stearns Private Client Services. Excludes assets managed by American Century Companies, Inc., in which the Firm has a 42% ownership interest as of June 30, 2009.

Assets under supervision: Represent assets under management as well as custody, brokerage, administration and deposit accounts.

Alternative assets: The following types of assets constitute alternative investments hedge funds, currency, real estate and private equity.

AM s client segments comprise the following:

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

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

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

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

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

FORWARD-LOOKING STATEMENTS

From time to time, the Firm has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, or other words of similar meanin Forward-looking statements provide JPMorgan Chase s current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase s disclosures in this Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the Securities and Exchange Commission. In addition, the Firm s senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

All forward-looking statements are, by their nature, subject to risks and uncertainties, many of which are beyond the Firm s control. JPMorgan Chase s actual future results may differ materially from those set forth in its forward-looking statements. While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ from those in the forward-looking statements.

- local, regional and international business, economic and political conditions and geopolitical events;
- changes in trade, monetary and fiscal policies and laws;
- securities and capital markets behavior, including changes in market liquidity and volatility;
- changes in investor sentiment or consumer spending or saving behavior;
- the Firm s ability to manage effectively its liquidity;
- credit ratings assigned to the Firm, its subsidiaries or their securities;
- the Firm s reputation;
- the Firm s ability to deal effectively with an economic slowdown or other economic or market difficulty;
- technology changes instituted by the Firm, its counterparties or competitors;
- mergers and acquisitions, including the Firm s ability to integrate acquisitions;
- the Firm s ability to develop new products and services;
- acceptance of the Firm s new and existing products and services by the marketplace and the ability of the Firm to increase market share;
- the Firm s ability to attract and retain employees;
- the Firm s ability to control expense;
- competitive pressures;
- changes in the credit quality of the Firm or its customers and counterparties;
- adequacy of the Firm s risk management framework;
- changes in laws and regulatory requirements or adverse judicial proceedings;
- changes in applicable accounting policies;

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the Firm s ability to determine accurate values of certain assets and liabilities;
occurrence of natural or man-made disasters or calamities or conflicts, including any effect of any such disasters, calamities or conflicts on the Firm s power generation facilities and the Firm s other commodity-related activities;
the other risks and uncertainties detailed in Part 1, Item 1A: Risk Factors in the Firm s Annual Report on Form 10-K for the year ended December 31, 2008.

Any forward-looking statements made by or on behalf of the Firm speak only as of the date they are made, and JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. The reader should, however, consult any further disclosures of a forward-looking nature the Firm may make in any subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K.

Item 3 Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see the Market Risk Management section of the MD&A on pages 80-86 of this Form 10-Q.

Item 4 Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Firm s management, including its Chairman and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective. See Exhibits 31.1 and 31.2 for the Certification statements issued by the Chairman and Chief Executive Officer, and Chief Financial Officer.

The Firm is committed to maintaining high standards of internal control over financial reporting. Nevertheless, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

Part II Other Information

Item 1 Legal Proceedings

The following information supplements and amends the disclosure set forth under Part 1, Item 3 Legal Proceedings in the Firm s 2008 Annual Report on Form 10-K, and Part II, Item 1 Legal Proceedings in the Firm s Quarterly Report on Form 10-Q for the quarterly period ending March 31, 2009 (the Firm s SEC filings).

Municipal Derivatives Investigation and Litigation. In the coordinated MDL antitrust proceeding in the Southern District of New York, on June 18, 2009, plaintiffs filed a second consolidated amended class action complaint, naming as defendants sixteen providers and brokers involved in the municipal bond market, including JPMorgan Chase and The Bear Stearns Companies Inc. (Bear Stearns). On July 17, 2009, the Court ordered a stay of discovery pending disposition of the pending motions to dismiss the second consolidated amended class action complaint. Motions to dismiss the complaint are due on September 18, 2009.

As noted previously, certain class and individual antitrust actions that are not part of the consolidated amended class action complaint are proceeding separately in the MDL court. The Court has ordered the plaintiffs in these actions to file amended complaints by September 15, 2009.

Separately, the Alabama Public Schools and College Authority (APSCA) brought a declaratory judgment action in the United States District Court for the Northern District of Alabama claiming that certain interest rate swaption transactions entered into with JPMorgan Chase Bank, N.A. are void on the grounds that the APSCA purportedly did not have the authority to enter into transactions or, alternatively, are voidable at the APSCA s option because of its alleged inability to issue refunding bonds in relation to the swaption. On July 21, 2009, the Court denied JPMorgan Chase s motion to dismiss the action, and discovery is expected to commence shortly.

Enron Litigation. JPMorgan Chase finalized its settlements resolving the 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. Other previously-disclosed Enron-related litigation is continuing.

IPO Allocation Litigation. On June 9, 2009, the United States District Court for the Southern District of New York preliminarily approved the parties Stipulation and Agreement of Settlement (the Stipulation), certified Settlement Classes for the purposes of the Stipulation only, approved the form and program of Class notice described in the Stipulation, and scheduled a hearing before the Court on September 10, 2009 to determine whether the proposed Stipulation should be finally approved. The Firm s share of the settlement is approximately $62 million.

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Mortgage-Backed Securities Litigation. On May 15, 2009, the First Amended Complaint was filed in the purported class action pending against Bear, Stearns & Co. Inc. and certain of its subsidiaries and former employees in the United States District Court for the Southern District of New York (the "*NJ Carpenters Action*). The Amended Complaint asserts the same claims for violations of the federal securities laws as its predecessor pleading, but has expanded the scope of the challenged transactions to 44 separate offerings, all traceable to two separate Registration Statements filed by the Bear depositor entities. As in the original pleading, plaintiffs seek recovery of unspecified compensatory damages and rescission.

On July 9, 2009, another purported class action was commenced by an employee benefit plan in the United States District Court for the Southern District of New York, which asserts claims for violations of the federal securities laws against Bear Stearns, Bear, Stearns & Co. Inc. and Structured Asset Mortgage Investments II Inc. (SAMI II), as well as certain former Bear, Stearns & Co. Inc. employees that served as officers and/or directors of SAMI II, with respect to 19 offerings of Mortgage Pass-Through Securities, 11 of which are also the subject of the *NJ Carpenters Action*. The plaintiff in this case likewise seeks compensatory damages in an unspecified amount and rescission.

As previously-disclosed, other MBS-related litigation is continuing.

Auction-Rate Securities Investigations and Litigation. With respect to the regulatory investigations, JPMorgan Chase finalized settlement agreements with the New York Attorney General s Office and the Office of Financial Regulation for the State of Florida on June 2, 2009 and June 4, 2009, respectively. With respect to the putative securities class action pending in the Southern District of New York, on June 1, 2009, the Court dismissed plaintiffs putative class action complaint without prejudice. A new putative securities class action complaint was filed on July 10, 2009 on behalf of a class of investors who purchased auction-rate securities for which the Firm served as an auction dealer. The Firm has not yet answered or moved to dismiss this claim. With respect to the two putative antitrust class actions pending in the Southern District of New York, the Court ordered that limited discovery proceed pending the Court s decision on the joint motion to dismiss both actions by the Firm and the other defendants.

City of Milan Litigation and Criminal Investigation. The previously-disclosed attachment order of approximately Euro 92 million has since been reduced to Euro 44.9 million. On July 27, 2009, JPMCB was served with a notice that the Prosecutor had concluded his investigation and made certain allegations in respect of the transactions against the former and existing employees and JPMorgan Chase Bank, National Association.

Washington Mutual Litigations. On June 11, 2009, in the action commenced by Washington Mutual, Inc. (WMI) against the Federal Deposit Insurance Corporation (FDIC) in the United States District Court for the District of Columbia (the District Court Action), the FDIC moved to dismiss all but one of the claims asserted by WMI. In addition, on July 13, 2009, the FDIC filed an amended answer and counterclaims, including counterclaims naming JPMorgan Chase as a defendant. On July 27, 2009, WMI moved to dismiss the counterclaims and to stay the District Court Action. In JPMorgan Chase s adversary proceeding in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Case), on May 29, 2009, WMI and its wholly-owned subsidiary, WMI Investment Corp. (together, the Debtors) answered that complaint and asserted counterclaims that largely track the claims asserted by WMI against the FDIC in the District Court Action, as well as raise certain intellectual property claims. On June 18, 2009, JPMorgan Chase moved to dismiss the counterclaims. On May 19, 2009, in the Debtors separate adversary proceeding in the Bankruptcy Case against JPMorgan Chase seeking turnover of $4 billion in purported deposit funds, Debtors moved for summary judgment. On July 6, 2009, JPMorgan Chase answered the turnover complaint and asserted counterclaims against Debtors and crossclaims against the FDIC. Debtors have moved to dismiss the counterclaims. On July 27, 2009, the Debtors were granted in the Bankruptcy Case leave to take discovery from JPMorgan Chase purportedly related to a litigation filed in the 122nd State District Court of Galveston County, Texas (the Texas Action). The FDIC and JPMorgan Chase have both moved to have the Texas Action dismissed or transferred to the United States District Court for the District of Columbia.

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

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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 1A Risk Factors

The following risk factor should be read in conjunction with a discussion of the other risk factors affecting the Firm. For such information, see Part I, Item 1A: Risk Factors, on pages 4-10 of JPMorgan Chase s 2008 Annual Report on Form 10-K, and Forward-Looking Statements on pages 176-177 of this Form 10-Q.

Market reform efforts may result in our businesses becoming subject to extensive and pervasive additional regulations around the world.

Recent economic and market conditions have led to numerous proposals in the United States and internationally for changes in the regulation of the financial industry in an effort to prevent future crises and reform the financial regulatory system. Some proposals have already been adopted. For example, on May 22, 2009, Congress enacted the Credit Card Accountability Responsibility and Disclosure Act of 2009. The Act, among other things, prescribes when and how interest rates can be increased, requires advance notice of significant changes in terms of the cardholder agreement, restricts the imposition of certain fees, requires a specified cutoff hour when payments must be credited to accounts, prescribes how payments must be allocated to outstanding balances on accounts and restricts the issuance of credit cards for persons under 21 years of age except in certain circumstances. Complying with these legislative changes, as well as the requirements of the amendments to Regulation Z adopted by the Board of Governors of the Federal Reserve System in December 2008, will require us to invest significant management attention and resources to make the necessary disclosure and system changes in our Card Services business, and there is no assurance such changes will not have an adverse affect on that business or its results of operation.

In addition, President Obama s administration has released a comprehensive plan for regulatory reform in the financial industry. The Administration s plan contains significant proposed structural reforms, including heightened powers for the Federal Reserve to regulate risk across the financial system; a new Financial Services Oversight Council chaired by the U.S. Treasury; and two new federal agencies, a Consumer Financial Protection Agency and a new National Bank Supervisor. The plan also calls for new substantive regulation across the financial industry, including more heightened scrutiny and regulation for any financial firm whose combination of size, leverage, and interconnectedness could pose a threat to financial stability if it failed; requiring that broker-dealers who provide investment advice about securities to investors have the same fiduciary obligations as registered investment advisers; new requirements for the securitization market, including requiring a securitizer to retain a material economic interest in the credit risk associated with the underlying securitization; and comprehensive regulation of large participants in the over-the-counter derivatives markets, including the imposition on such participants of additional capital requirements, business conduct standards, reporting requirements and more conservative initial margin requirements relating to their counterparty exposures. The regulations would also require certain derivatives transactions that are now conducted on the over-the-counter derivatives markets to be traded on an exchange or cleared through a clearing house. In furtherance of the Administration s plan, Congressman Barney Frank has introduced legislation enabling the creation of the Consumer Financial Protection Agency. The legislation would subject federally chartered financial institutions to state consumer protection laws that have historically been preempted.

There are also numerous reform efforts underway internationally, including proposals by the European Commission to amend bank capital requirements, and by the Financial Services Authority in the U.K. on ways to enhance regulatory standards applicable to financial institutions and enhance supervisory approaches and international cooperation among financial supervisors.

There can be no assurance as to whether or when any of the parts of the Administration s plan or other U.S. or international proposals will be enacted into legislation, and if adopted, what the final provisions of such legislation will be. New U.S. and international legislation and regulatory changes could require us to change certain of our business practices, impose additional costs on us, or otherwise adversely affect our business operations, results of operation or financial condition, result in a significant loss of revenue, limit our ability to pursue business

opportunities we might otherwise consider engaging in, cause business disruptions or impact the value of assets that we hold.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

During the second quarter of 2009, there were no shares of common stock of JPMorgan Chase & Co. issued in transactions exempt from registration under the Securities Act of 1933, pursuant to Section 4(2) thereof.

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On April 17, 2007, the Board of Directors authorized the repurchase of up to $10.0 billion of the Firm s common shares. The new authorization commenced April 19, 2007, and replaced the Firm s previous $8.0 billion repurchase program. During the second quarter of 2009, under the current $10.0 billion stock repurchase program, the Firm did not repurchase any shares. As of June 30, 2009, $6.2 billion of authorized repurchase capacity remained under the current stock repurchase program. Following the redemption of the Series K preferred stock, the Firm is no longer subject to the restrictions on repurchases of its capital stock that were set forth in the purchase agreement concerning the issuance and sale of the Series K preferred stock to the U.S Treasury.

The Firm has determined that it may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of common stock in accordance with the repurchase program. 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.

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 pursuant to these plans during the second quarter of 2009 were as follows:

For the six months ended June 30, 2009	Total shares repurchased	Average price paid per share
First quarter	**986,413**	**$ 19.53**
April	316	30.90
May	279	33.65
June	64	34.70
Second quarter	**659**	**32.43**
Year-to-date	**987,072**	**$ 19.54**

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Item 3 Defaults Upon Senior Securities

None

Item 4 Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of JPMorgan Chase was held on May 19, 2009. For information regarding matters submitted to a vote of security holders at the meeting, see the Firm s Current Report on Form 8-K dated May 19, 2009, which is incorporated herein by reference.

Item 5 Other Information

None

Item 6 Exhibits

31.1 Certification

31.2 Certification

32 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS XBRL Instance Document*

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Includes the following materials from JPMorgan Chase & Co. contained in this Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income, (iv) the Consolidated

Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements, which is tagged as blocks of text.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JPMORGAN CHASE & CO.
(Registrant)

Date: August 10, 2009

By /s/ Louis Rauchenberger
Louis Rauchenberger

Managing Director and Controller
[Principal Accounting Officer]

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INDEX TO EXHIBITS

EXHIBIT NO.	EXHIBITS
31.1	Certification
31.2	Certification

The following exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. In addition, Exhibit No. 32 shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document