J P MORGAN CHASE & CO
Form 10-Q
May 12, 2008

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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 March 31, 2008 **Commission file number 1-5805**

JPMORGAN CHASE & CO.
(Exact name of registrant as specified in its charter)

Delaware	**13-2624428**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
270 Park Avenue, New York, 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 (Do not check if a smaller reporting company) o	**Smaller reporting company o**

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 April 30, 2008: 3,426,631,526

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JPMORGAN CHASE & CO.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(unaudited) (in millions, except per share, headcount and ratio data) As of or for the period ended,	**1Q08**	4Q07	3Q07	2Q07	1Q07
Selected income statement data					
Noninterest revenue	**$ 9,231**	$ 10,161	$ 9,199	$ 12,740	$ 12,866
Net interest income	**7,659**	7,223	6,913	6,168	6,102
Total net revenue	**16,890**	17,384	16,112	18,908	18,968
Provision for credit losses	**4,424**	2,542	1,785	1,529	1,008
Noninterest expense	**8,931**	10,720	9,327	11,028	10,628
Income before income tax expense	**3,535**	4,122	5,000	6,351	7,332
Income tax expense	**1,162**	1,151	1,627	2,117	2,545
Net income	**$ 2,373**	$ 2,971	$ 3,373	$ 4,234	$ 4,787
Per common share					
Net income per share: Basic	**$ 0.70**	$ 0.88	$ 1.00	$ 1.24	$ 1.38
Diluted	**0.68**	0.86	0.97	1.20	1.34
Cash dividends declared per share	**0.38**	0.38	0.38	0.38	0.34
Book value per share	**36.94**	36.59	35.72	35.08	34.45
Common shares outstanding					
Average: Basic	**3,396**	3,367	3,376	3,415	3,456
Diluted	**3,495**	3,472	3,478	3,522	3,560
Common shares at period end	**3,401**	3,367	3,359	3,399	3,416
Share price[(a)]					
High	**$ 49.29**	$ 48.02	$ 50.48	$ 53.25	$ 51.95
Low	**36.01**	40.15	42.16	47.70	45.91
Close	**42.95**	43.65	45.82	48.45	48.38
Market capitalization	**146,066**	146,986	153,901	164,659	165,280
Financial ratios					
Return on common equity (ROE)	**8%**	10%	11%	14%	17%
Return on assets (ROA)	**0.61**	0.77	0.91	1.19	1.41
Overhead ratio	**53**	62	58	58	56
Tier 1 capital ratio	**8.3**	8.4	8.4	8.4	8.5
Total capital ratio	**12.5**	12.6	12.5	12.0	11.8
Tier 1 leverage ratio	**5.9**	6.0	6.0	6.2	6.2
Selected balance sheet data (period-end)					
Total assets	**$ 1,642,862**	$ 1,562,147	$ 1,479,575	$ 1,458,042	$ 1,408,918
Securities	**101,647**	85,450	97,706	95,984	97,029
Loans	**537,056**	519,374	486,320	465,037	449,765
Deposits	**761,626**	740,728	678,091	651,370	626,428
Long-term debt	**189,995**	183,862	173,696	159,493	143,274
Total stockholders equity	**125,627**	123,221	119,978	119,211	117,704

Headcount	**182,166**	180,667	179,847	179,664	176,314
Credit quality metrics					
Allowance for credit losses	**$ 12,601**	$ 10,084	$ 8,971	$ 8,399	$ 7,853
Nonperforming assets[(b)]	**5,443**	4,237	3,181	2,586	2,421
Allowance for loan losses to total loans[(c)]	**2.29%**	1.88%	1.76%	1.71%	1.74%
Net charge-offs	**$ 1,906**	$ 1,429	$ 1,221	$ 985	$ 903
Net charge-off rate[(c)]	**1.53%**	1.19%	1.07%	0.90%	0.85%
Wholesale net charge-off (recovery) rate[(c)]	**0.18**	0.05	0.19	(0.07)	(0.02)
Managed Card net charge-off rate	**4.37**	3.89	3.64	3.62	3.57

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

(b) Excludes purchased held-for-sale wholesale loans.

(c) End-of-period and average loans accounted for at fair value and loans held-for-sale were excluded when calculating the allowance coverage ratios and net charge-off rates, respectively.

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 109 111 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 upon the current beliefs and expectations of JPMorgan Chase s management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase s results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein, including in Forward-looking Statements on page 114 and Item 1A: Risk Factors on page 117 of this Form 10-Q, as well as in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Annual Report or 2007 Form 10-K), including Part I, Item 1A: Risk factors, to which reference is hereby made.

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 $1.6 trillion in assets, $125.6 billion in stockholders equity and operations in more than 60 countries. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the JPMorgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world s most prominent corporate, institutional and government clients.

JPMorgan Chase s principal bank subsidiaries are JPMorgan Chase Bank, National Association (JPMorgan Chase Bank, N.A.), a national banking association with branches in 17 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

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

Retail Financial Services

Retail Financial Services (RFS), which includes the Regional Banking, Mortgage Banking and Auto Finance reporting segments, serves consumers and businesses through bank branches, ATMs, online banking and telephone banking. Customers can use more than 3,100 bank branches (fourth-largest nationally), 9,200 ATMs (third-largest nationally) and 300 mortgage offices. More than 13,900 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans and investments across the 17-state footprint from New York to Arizona. Consumers also can obtain loans through more than 14,300 auto dealerships and 5,200 schools and universities nationwide.

Card Services

With more than 156 million cards in circulation and more than $150 billion in managed loans, Card Services (CS) is one of the nation s largest credit card issuers. Customers used Chase cards to meet more than $85 billion worth of their spending needs in the three months ended March 31, 2008.

With hundreds of partnerships, Chase has a market leadership position in building loyalty programs with many of the world s most respected brands.

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Chase Paymentech Solutions, LLC, a joint venture between JPMorgan Chase and First Data Corporation, is a processor of MasterCard and Visa payments, which handled more than 5 billion transactions in the three months ended March 31, 2008.

Commercial Banking

Commercial Banking (CB) serves more than 30,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion. Commercial Banking delivers extensive industry knowledge, local expertise and a dedicated service model. In partnership with the Firm s other businesses, it provides comprehensive solutions including lending, treasury services, investment banking and asset management to meet its clients domestic and international financial needs.

Treasury & Securities Services

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

Asset Management

With assets under supervision of $1.6 trillion, Asset Management (AM) 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 both money market instruments and bank deposits. AM also provides trust and estate and banking 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

Merger with The Bear Stearns Companies Inc.

On March 16, 2008, JPMorgan Chase and The Bear Stearns Companies Inc. (Bear Stearns) entered into an agreement to merge; the agreement was amended on March 24, 2008. The merger agreement, as amended, has been approved by the boards of directors of both companies. It provides for a stock-for-stock exchange in which 0.21753 shares of JPMorgan Chase common stock will be exchanged for each share of Bear Stearns common stock. The merger will be accounted for using the purchase method of accounting. The purchase price is currently estimated to be $1.5 billion. The merger, which is expected to be completed by May 30, 2008, is subject to the approval of the stockholders of Bear Stearns.

Concurrent with the closing of the merger, the Federal Reserve Bank of New York (the FRBNY) will take control, through a limited liability company (LLC) formed for this purpose, of a portfolio of $30 billion in assets of Bear Stearns, based on the value of the portfolio as of March 14, 2008. The assets of the LLC will be funded by a $29 billion, 10-year term loan from the FRBNY, and a $1 billion, 10-year note from JPMorgan Chase. The JPMorgan Chase note will be subordinated to the FRBNY loan and will bear the first $1 billion of any losses of the portfolio. Any remaining assets in the portfolio after repayment of the FRBNY loan, the JPMorgan Chase note and the expense of the LLC, will be for the account of the FRBNY.

In connection with the amended agreement, JPMorgan Chase and Bear Stearns also entered into a share exchange agreement under which, on April 8, 2008, JPMorgan Chase acquired 95,000,000 newly issued shares of Bear Stearns common stock (or 39.5% of Bear Stearns common stock after giving effect to the issuance) for 20,665,350 shares of JPMorgan Chase common stock at the same exchange ratio as provided in the amended merger agreement. Further, between March 24, 2008, and May 12, 2008, JPMorgan Chase acquired approximately 24 million shares of Bear Stearns common stock in the open market at an average purchase price of $11.27 per share. As of May 12, 2008, JPMorgan Chase beneficially owned approximately 119 million shares of common stock of Bear Stearns, or approximately 49.4% of the outstanding shares of common stock based on approximately 241 million shares of common stock issued and outstanding.

In connection with the amended agreement, JPMorgan Chase agreed to guarantee liabilities of Bear Stearns and certain of its subsidiaries arising under revolving and term loans, contracts associated with Bear Stearns trading business and obligations to deliver cash, securities or property to customers pursuant to customary custody arrangements. Other than following a termination of the merger agreement due to a change in recommendation by the board of directors of Bear Stearns prompted by a competing transaction proposal, JPMorgan Chase's guarantee of these obligations up to the date of such termination would remain in effect. Also on March 24, 2008, JPMorgan Chase entered into a separate guarantee under which it guaranteed the borrowings of Bear Stearns and its subsidiaries from the FRBNY in order to ensure continued access by Bear Stearns to the borrowings at the facility established by the FRBNY for primary dealers. For additional information regarding these guarantees, see Note 22 on pages 103 105 of this Form 10-Q.

Currently, there is a case pending in New York that asserts various claims against Bear Stearns and JPMorgan Chase, including breach of Delaware law and fiduciary duty, and which seeks, among other things, to enjoin the proposed merger and an unspecified amount of compensatory damages.

Purchase of additional interest in Highbridge Capital Management

In January 2008, JPMorgan Chase purchased an additional equity interest in Highbridge Capital Management, LLC (Highbridge). As a result, the Firm owns 77.5% of Highbridge as of March 31, 2008. Highbridge is a manager of hedge funds with $25 billion of assets under management at March 31, 2008. The Firm had acquired a majority interest in Highbridge in 2004.

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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 more complete understanding 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 March 31,		
(in millions, except per share and ratio data)	**2008**	2007	Change
Selected income statement data			
Total net revenue	**$ 16,890**	$ 18,968	(11)%
Provision for credit losses	**4,424**	1,008	339
Total noninterest expense	**8,931**	10,628	(16)
Net income	**2,373**	4,787	(50)
Earnings per share diluted	**$ 0.68**	$ 1.34	(49)%
Return on common equity	**8%**	17%	

Business overview

The Firm reported 2008 first-quarter net income of $2.4 billion, or $0.68 per share, compared with record net income of $4.8 billion, or $1.34 per share, for the first quarter of 2007. Return on common equity for the quarter was 8%, compared with 17% in the prior year. Results in the first quarter of 2008 reflected a significant increase in the provision for credit losses and a decline in total net revenue, partially offset by a decrease in total noninterest expense. Total net revenue declined primarily due to markdowns of $2.6 billion taken in the Investment Bank on prime, Alt-A and subprime mortgages, and on leveraged lending funded and unfunded commitments. A lower level of Private Equity gains also contributed to the decline in total net revenue. Partially offsetting the decline in total net revenue was $1.5 billion in proceeds from the sale of Visa shares in its initial public offering and wider spreads on higher loan and deposit balances. The provision for credit losses included an increase of $2.5 billion to the allowance for credit losses; $1.8 billion of the increase was related to the home equity and mortgage loan portfolios as performance continued to deteriorate. Total noninterest expense declined, primarily due to a decrease in compensation expense.

U.S. economic activity in the first quarter of 2008 continued to be affected by the credit market turmoil that began during the second half of 2007. U.S. real gross domestic product grew slightly; consumer spending was relatively flat; the unemployment rate increased; and employment at businesses declined. In addition, food and energy costs increased and housing prices continued to decline with prices approximately 15% below the peak levels achieved in 2006. Funding markets remained challenging, with the differential between LIBOR rates and the expected federal funds rates widening significantly. These economic strains were seen in market trends as the S&P 500 index declined almost 10% during the first quarter of 2008; long-term U.S. Treasury rates declined approximately 50 basis points; credit spreads widened; and the dollar declined against most major currencies. In response, the Federal Reserve took a number of actions including reducing the federal funds rate by 200 basis points and boosting liquidity in the term funding markets. Global economic trends were mixed in the first quarter: among the industrial economies, the U.K. s and Japan s slowed significantly, while Europe s continued to expand at a steady but slow pace despite the strength of the Euro; most developing economies, especially those in Asia, continued to grow rapidly.

During the first quarter of 2008, the performance of the Firm was negatively affected by the overall global economic environment. The Investment Bank incurred a loss for the quarter reflecting significant markdowns related to mortgage and leveraged lending exposures. Retail Financial Services also recorded a loss driven by a significantly higher provision for credit losses due to ongoing weakness in the home equity and mortgage loan portfolios. Card Services earnings decreased due to a higher level of net charge-offs; Commercial Bank's earnings declined slightly as a higher provision for credit losses more than offset increased revenue; and Asset Management results declined as

revenue flattened and expense increased. The Firm continued to invest in building each of its businesses, which helped to drive revenue and market share growth. Treasury & Securities Services net income increased significantly as higher revenue was partially offset by increased expense. RFS, CS, CB, and TSS each reported organic revenue growth. In addition, CB, TSS and AM increased deposits, assets under custody and assets under management, respectively. The IB continued to gain market share across products and ranked #1 for global investment banking fees and ranked #1, based on volume, for global debt, equity and equity-related. On March 16, 2008, the Firm announced the planned acquisition of Bear Stearns, which will add new capabilities in prime brokerage and clearing and is expected to strengthen equities, mortgage trading, commodities and asset management. The transaction is expected to close by

May 30, 2008. However, as with any acquisition, its success will depend on the Firm s ability to successfully combine the Firm s businesses with those of Bear Stearns. See Risk Factors on pages 117 118 of this Form 10-Q.

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 13 14 of this Form 10-Q.

Investment Bank recorded a net loss for the quarter, compared with record net income in the prior year. The net loss reflected a significant decline in total net revenue and a higher provision for credit losses offset partially by lower noninterest expense. Markdowns in fixed income markets on prime, Alt-A and subprime mortgages, leveraged lending funded and unfunded commitments, and collateralized debt obligation (CDO) warehouses and unsold positions drove the decrease in revenue. In addition, equity markets results declined due to weak trading results and investment banking fees decreased due primarily to lower debt and equity underwriting fees. Partially offsetting these lower results was record revenue in rates and currencies. The higher provision for credit losses was driven by an increase in the allowance for credit losses, reflecting the impact of the transfer of funded and unfunded leveraged lending commitments to retained loans from held-for-sale loans and the effect of a weakening credit environment. The decrease in total noninterest expense was due primarily to lower performance-based compensation expense.

Retail Financial Services reported a net loss for the quarter due to a significant increase in the provision for credit losses. Total net revenue increased from the prior year, primarily driven by increased loan and deposit balances; wider loan spreads; higher volume and improved margins on mortgage loan originations; increased deposit-related fees; and the absence of a prior-year charge resulting from accelerated surrenders of customer annuity contracts. These benefits were offset partially by markdowns on the mortgage warehouse and pipeline, a shift to narrower spread deposit products and a decline in net mortgage servicing revenue. The substantial increase in the provision was due primarily to an increase in estimated losses for the home equity and mortgage portfolios, driven by continued weakness in the housing market. Total noninterest expense rose from the prior year, reflecting higher mortgage production and servicing expense, and investment in the retail distribution network.

Card Services net income decreased, driven by a higher provision for credit losses, partially offset by growth in total managed net revenue. Total managed net revenue growth resulted primarily from wider loan spreads, an increased level of fees and higher average managed loan balances. These benefits were offset partially by the effect of higher revenue reversals associated with increased charge-offs and the discontinuation of certain billing practices (including the elimination of certain over-limit fees and the two-cycle billing method for calculating finance charges beginning in the second quarter of 2007). The managed provision for credit losses increased from the prior year due to a higher level of charge-offs and a prior-year release of the allowance for loan losses. Higher marketing expense drove the increase in total noninterest expense.

Commercial Banking net income declined slightly as an increase in the provision for credit losses was largely offset by growth in total net revenue. The growth in total net revenue resulted from double-digit growth in liability and loan balances and higher deposit-related, credit card and lending fees. These benefits to revenue were offset primarily by spread compression in the liability and loan portfolios, a continued shift to narrower-spread liability products, and lower gains related to the sale of securities acquired in the satisfaction of debt. The increase in the provision for credit losses largely reflected growth in loan balances and the effect of the weakening credit environment. Total noninterest expense was flat compared with the prior year.

Treasury & Securities Services net income increased, driven by higher total net revenue, partially offset by higher total noninterest expense. Both Worldwide Securities Services and Treasury Services posted double-digit revenue growth. Worldwide Securities Services growth was driven by increased product usage by new and existing clients and wider spreads in securities lending and foreign exchange offset partially by spread compression on liability products. Treasury Services net revenue reflected higher liability balances and wider market-driven spreads, as well as growth in electronic and trade loan volumes. Total noninterest expense was up, reflecting higher expense related to business and volume growth, as well as investment in new product platforms.

Asset Management net income decreased from the prior year due primarily to higher total noninterest expense, lower performance fees and lower market valuations for seed capital investments in JPMorgan funds. These results were

offset partially by increased revenue from asset inflows, and growth in deposit and loan balances. The provision for credit losses increased from a benefit in the prior year, primarily driven by an increase in loan balances and a lower level of recoveries. The increase in total noninterest expense was due primarily to higher compensation expense, reflecting increased headcount.

Corporate/Private Equity net income included proceeds from the sale of Visa shares in its initial public offering in the first quarter of 2008. Excluding the impact of the sale of Visa shares, net income decreased, driven by lower results in Private Equity and by a narrower net interest spread, trading losses and an increase in the provision for credit losses in Corporate. These lower results were offset partially by lower total noninterest expense, primarily due to a net release of litigation reserves.

The Firm s managed provision for credit losses was $5.1 billion, up $3.5 billion from the prior year. The wholesale provision for credit losses was $747 million, compared with $77 million in the prior year, reflecting an increase in the allowance for credit losses, primarily related to the transfer of funded and unfunded leveraged lending commitments to retained loans from held-for-sale. In addition, the allowance reflected the effect of a weakening credit environment. Wholesale net charge-offs were $92 million, compared with net recoveries of $6 million, resulting in net charge-off and recovery rates of 0.18% and 0.02%, respectively. The total consumer managed provision for credit losses was $4.4 billion, compared with $1.5 billion in the prior year, reflecting increases in the allowance for credit losses largely related to home equity and subprime mortgage loans and higher net charge-offs. Consumer managed net charge-offs were $2.5 billion, compared with $1.5 billion, resulting in a managed net charge-off rate of 2.68% and 1.81%, respectively. The Firm had total nonperforming assets of $5.4 billion at March 31, 2008, up from the prior-year level of $2.4 billion.

Total stockholders equity at March 31, 2008, was $125.6 billion, and the Tier 1 capital ratio was 8.3%, compared with 8.5% at March 31, 2007.

Business outlook

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

JPMorgan Chase s outlook for the second quarter of 2008 should be viewed against the backdrop of the global and U.S. economies (which currently are extremely volatile), financial markets activity (including interest rate movements), 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 s current expectations are for the global and U.S. economic environments to continue to be weak, for capital markets to remain under stress and for a continued decline in U.S. housing prices. These factors have affected, and are likely to continue to negatively impact, the Firm s credit losses, overall business volumes and earnings.

The consumer provision for credit losses could increase substantially as a result of a higher level of losses in Retail Financial Services $95.0 billion home equity loan portfolio and $15.8 billion retained subprime mortgage loan portfolio; and in the $45.1 billion prime mortgage loan portfolio (mostly held in the Corporate segment). Given the potential stress on the consumer from the continued downward pressure on housing prices and the elevated inventory of unsold houses nationally, management remains extremely cautious with respect to the home equity, mortgage and credit card portfolios. Based on management s current economic outlook, home equity net charge-offs could potentially double by the fourth quarter of 2008 from the level experienced in the first quarter of 2008 and the net charge-off rate for Card Services could potentially increase to approximately 5.00% during 2008. Net charge-offs for home equity, mortgage and credit card portfolios could be higher depending on factors such as changes in housing prices, unemployment levels and consumer behavior. The wholesale provision for credit losses may also increase over time as a result of loan growth, portfolio activity and changes in underlying credit conditions.

The Investment Bank continues to be negatively affected by the disruption in the credit and mortgage markets, as well as by overall lower levels of liquidity and wider credit spreads. Continuation of these factors could potentially lead to reduced levels of client activity, difficulty in syndicating leveraged loans, lower investment banking fees and lower trading revenue. The Firm s trading results could also be affected by the tightening of credit spreads. Assets with currently impaired values could recover a portion of previous markdowns; however, if the Firm s own credit spreads tighten, the fair value of certain liabilities would be reduced, which would negatively affect trading results. While some leveraged finance loans were sold during the first quarter of 2008, the Firm held $22.5 billion of leveraged loans and unfunded commitments as held-for-sale as of March 31, 2008. Markdowns in excess of 11% have been taken on the leveraged lending positions as of March 31, 2008. These positions are difficult to hedge effectively and if market

conditions deteriorate further in the second quarter of 2008, further markdowns may be necessary on this asset class. The Investment Bank also held, at March 31, 2008, an aggregate $12.8 billion of prime and Alt-A mortgage exposure and $1.9 billion of subprime mortgage exposures which could also be negatively affected by market conditions. In addition, $3.1 billion of auction-rate securities with low maximum reset rates were held on balance sheet due to a significant reduction in liquidity as a result of credit concerns with monoline bond insurers. Other exposures as of March 31, 2008 that have higher levels of risk given the current market environment include: CDO warehouse and unsold positions of $4.4 billion (over 90% corporate loans and bonds) and Commercial Mortgage-Backed

Securities (CMBS) exposure of $13.5 billion. In addition, the Firm s exposures to these asset classes are likely to increase upon completion of the Bear Stearns merger. See Risk Factors on pages 117 118 of this Form 10-Q.

A weaker economy, lower equity markets, lower volatility in certain products and narrow spreads (which had been driven wider by recent market conditions) in the second quarter of 2008 could also adversely affect business volumes, and levels of assets under custody and assets under management, which could result in lower earnings in Treasury & Securities Services and Asset Management. Management continues to believe that the net loss in Corporate will be approximately $50 million to $100 million per quarter. Private Equity results, which are dependent upon the capital markets, could continue to be volatile and may be significantly lower in 2008 than in 2007.

CONSOLIDATED RESULTS OF OPERATIONS

The following 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 65 67 of this Form 10-Q and pages 96 98 of JPMorgan Chase s 2007 Annual Report.

Total net revenue

The following table presents the components of total net revenue.

	Three months ended March 31,		
(in millions)	**2008**	2007	Change
Investment banking fees	**$ 1,216**	$ 1,739	(30)%
Principal transactions	**(803)**	4,487	NM
Lending & deposit-related fees	**1,039**	895	16
Asset management, administration and commissions	**3,596**	3,186	13
Securities gains (losses)	**33**	2	NM
Mortgage fees and related income	**525**	476	10
Credit card income	**1,796**	1,563	15
Other income	**1,829**	518	253
Noninterest revenue	**9,231**	12,866	(28)
Net interest income	**7,659**	6,102	26
Total net revenue	**$ 16,890**	$ 18,968	(11)

Total net revenue for the first quarter of 2008 was $16.9 billion, down $2.1 billion, or 11%, from the first quarter of 2007. The decline was due to losses on principal transactions activities compared with the record level of gains achieved in the first quarter of 2007. The swing in the results reflected markdowns taken in the Investment Bank on mortgage-related positions, leveraged lending commitments, CDO warehouses and unsold positions, as well as lower levels of private equity gains. Lower investment banking fees also contributed to the decline in net revenue. The decline was offset partially by higher net interest income, proceeds from the sale of Visa shares in its initial public offering and an increase in asset management, administration and commissions revenue, which reflected higher brokerage commissions and growth in assets under custody and management.

Investment banking fees in the first quarter of 2008 declined from the near-record level in the first quarter of last year. Lower debt and equity underwriting fees more than offset the slight rise in advisory fees. For a further discussion of investment banking fees, which are primarily recorded in IB, see the IB segment results on pages 16 19 of this Form 10-Q.

Principal transactions revenue consists of trading revenue and private equity gains. The Firm s trading activities in the first quarter of 2008 resulted in a net loss in contrast with the record level of gains achieved in the first quarter of 2007. The net loss was due primarily to markdowns of $1.2 billion on prime, Alt-A and subprime mortgages; markdowns of $1.1 billion on leveraged lending funded and unfunded commitments; and markdowns of $266 million

on CDO warehouses and unsold positions. These markdowns were offset partially by record revenue in rates and currencies, and a combined benefit of $949 million from the widening of the Firm s credit spread on certain structured liabilities. Private equity gains declined significantly driven by lower gains of $200 million, compared with gains of $1.3 billion in the prior year, which included a fair value adjustment related to the adoption of SFAS 157 (Fair Value Measurements). For a further discussion of principal transactions revenue, see the IB and Corporate/Private Equity segment results on pages 16 19 and 36 37, respectively, and Note 5 on pages 81 83 of this Form 10-Q.

Lending & deposit-related fees rose from the first quarter of 2007, primarily as a result of higher deposit-related fees. For a further discussion of lending & deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 20 26, the TSS segment results on pages 31 32, and the CB segment results on pages 29 30 of this Form 10-Q.

The increase in asset management, administration and commissions revenue compared with the first quarter of 2007 was primarily due to increased commissions revenue due mainly to higher brokerage transaction volume (primarily included within fixed income and equity markets revenue of IB) and the absence of a charge in RFS in the first quarter of 2007 resulting from accelerated surrenders of customer annuity contracts. TSS also contributed to the increase in asset management, administration and commissions, driven by increased product usage by new and existing clients (primarily in custody, fund and alternative investment services and depositary receipts). Finally, asset management fees in AM were up slightly as growth in assets under management, due primarily to liquidity product inflows across segments and alternative product inflows in Institutional and Private Bank segments, were largely offset by lower performance fees. For additional information on these fees and commissions, see the segment discussions for IB on pages 16 19, RFS on pages 20 26, TSS on pages 31 32, and AM on pages 33 35, of this Form 10-Q.

The increase in securities gains for the first quarter of 2008, compared with the same period in 2007, was primarily driven by repositioning of the Corporate investment securities portfolio. 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 36 37 of this Form 10-Q.

Mortgage fees and related income increased from the first quarter of 2007, due primarily to higher production revenue, which benefited from higher volume and improved margins on mortgage loan originations, partially offset by markdowns on the mortgage warehouse and pipeline. For a discussion of mortgage fees and related income, which is recorded primarily in RFS s Mortgage Banking business, see the Mortgage Banking discussion on pages 24 25 of this Form 10-Q.

Credit card income increased from the first quarter of 2007, due primarily to higher servicing fees earned in connection with securitization activities. The higher fees were primarily a result of wider loan margins offset partially by higher net credit losses. For a further discussion of credit card income, see CS s segment results on pages 26 28 of this Form 10-Q.

The increase in other income from the first quarter of 2007 was due primarily to the proceeds from the sale of Visa shares in its initial public offering ($1.5 billion pretax) and higher credit card net securitization gains. These gains were offset partially by markdowns on certain investments, higher losses on other real estate owned and lower gains related to the sale of securities acquired in the satisfaction of debt.

Net interest income rose from the first quarter of 2007, primarily due to the following: higher trading-related net interest income, wider spreads on higher balances of consumer loans, and growth in liability and deposit balances in the wholesale and consumer businesses. These benefits were offset partly by a narrower net interest spread in Corporate and spread compression on deposit and liability products. The Firm s total average interest-earning assets for the first quarter of 2008 were $1.2 trillion, up 15% from the first quarter of 2007. The increase was primarily driven by higher trading assets debt instruments, loans, federal funds sold & securities purchased under resale agreements, and deposits with banks, partially offset by a decline in available-for-sale (AFS) securities. The net interest yield on these assets, on a fully taxable equivalent basis, was 2.59%, an increase of 21 basis points from the first quarter of 2007.

Provision for credit losses	Three months ended March 31,		
(in millions)	**2008**	2007	Change
Provision for credit losses	**$ 4,424**	$ 1,008	339%

The provision for credit losses increased significantly from the first quarter of 2007, due to increases in both the consumer and wholesale provisions. The increase in the consumer provision reflected increases in estimated losses for the home equity and mortgage loan portfolios and higher net charge-offs. The increase in the wholesale provision reflected an increase in the allowance for credit losses, primarily related to the transfer of funded and unfunded leveraged lending commitments to retained loans from held-for-sale loans and the effect of a weakening 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 20 26, CS on pages 26 28, IB on pages 16 19, CB on pages 29 30 and Credit Risk

Management on pages 48 61 of this Form 10-Q.

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Noninterest expense

The following table presents the components of noninterest expense.

	Three months ended March 31,		
(in millions)	**2008**	2007	Change
Compensation expense	**$ 4,951**	$ 6,234	(21)%
Occupancy expense	**648**	640	1
Technology, communications and equipment expense	**968**	922	5
Professional & outside services	**1,333**	1,200	11
Marketing	**546**	482	13
Other expense	**169**	735	(77)
Amortization of intangibles	**316**	353	(10)
Merger costs		62	NM
Total noninterest expense	**$ 8,931**	$ 10,628	(16)

Total noninterest expense for the first quarter of 2008 was $8.9 billion, down $1.7 billion, or 16%, from the first quarter of 2007. The decline was driven by lower performance-based compensation and a net reduction of litigation expense.

The decrease in compensation expense from the first quarter of 2007 was primarily the result of lower performance-based incentives, partially offset by additional headcount due to investment in the businesses.

Technology, communications and equipment expense increased moderately compared with the first quarter of 2007, due primarily to higher depreciation expense on owned automobiles subject to operating leases in the Auto Finance business in RFS and higher technology expense related to business growth.

Professional & outside services rose from the prior year, primarily reflecting higher brokerage expense in IB; investments in new product platforms in TSS; and higher expense related to business and volume growth in TSS and other businesses. The increase was offset partially by lower outside processing expense in CS.

Marketing expense increased, compared with the first quarter of 2007, due to higher credit card marketing expense.

The significant decrease in other expense, compared with the first quarter of 2007, was due largely to a net reduction of litigation expense.

For a discussion of amortization of intangibles, refer to Note 16 on pages 98 101 of this Form 10-Q.

Income tax expense

The Firm s income before income tax expense, income tax expense and effective tax rate were as follows for each of the periods indicated.

	Three months ended March 31,	
(in millions, except rate)	**2008**	2007
Income before income tax expense	**$ 3,535**	$ 7,332
Income tax expense	**1,162**	2,545
Effective tax rate	**32.9%**	34.7%

The decrease in the effective tax rate compared with the prior year was primarily the result of lower reported pretax income combined with changes in the proportion of income subject to federal, state and local taxes.

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 69 72 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 and the lines of business results on a managed basis, which is a non-GAAP financial measure. The Firm s definition of managed basis starts with the reported U.S. GAAP results and includes certain reclassifications that assume credit card loans securitized by CS remain on the balance sheet and presents revenue on a fully taxable-equivalent (FTE) basis. These adjustments do not have any impact on net income as reported by the lines of business or by the Firm as a whole.

The presentation of CS results on a managed basis assumes that credit card loans that have been securitized and sold in accordance with SFAS 140 still remain on the Consolidated Balance Sheets and that the earnings on the securitized loans are classified in the same manner as the earnings on retained loans recorded on the Consolidated Balance Sheets. JPMorgan Chase uses the concept of managed basis to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations are funded and decisions are made about allocating resources, such as employees and capital, based upon managed financial information. In addition, the same underwriting standards and ongoing risk monitoring 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 26 28 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 14 on pages 89 94 of this Form 10-Q.

Total net revenue for each of the business segments and the Firm is presented on an 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 March 31, 2008			
(in millions, except per share and ratio data)	Reported results	Credit card[(a)]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 1,216**	**$**	**$**	**$ 1,216**
Principal transactions	**(803)**			**(803)**
Lending & deposit-related fees	**1,039**			**1,039**
Asset management, administration and commissions	**3,596**			**3,596**
Securities gains	**33**			**33**
Mortgage fees and related income	**525**			**525**
Credit card income	**1,796**	**(937)**		**859**
Other income	**1,829**		**203**	**2,032**
Noninterest revenue	**9,231**	**(937)**	**203**	**8,497**
Net interest income	**7,659**	**1,618**	**124**	**9,401**
Total net revenue	**16,890**	**681**	**327**	**17,898**
Provision for credit losses	**4,424**	**681**		**5,105**
Noninterest expense	**8,931**			**8,931**
Income before income tax expense	**3,535**		**327**	**3,862**
Income tax expense	**1,162**		**327**	**1,489**
Net income	**$ 2,373**	**$**	**$**	**$ 2,373**
Diluted earnings per share	**$ 0.68**	**$**	**$**	**$ 0.68**
Return on common equity	**8%**	**%**	**%**	**8%**
Return on equity less goodwill	**12**			**12**
Return on assets	**0.61**	**NM**	**NM**	**0.58**
Overhead ratio	**53**	**NM**	**NM**	**50**

	Three months ended March 31, 2007			
(in millions, except per share and ratio data)	Reported results	Credit card[(a)]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 1,739	$	$	$ 1,739
Principal transactions	4,487			4,487
Lending & deposit-related fees	895			895
Asset management, administration and commissions	3,186			3,186
Securities gains	2			2
Mortgage fees and related income	476			476

Credit card income	1,563	(746)		817
Other income	518		110	628
Noninterest revenue	12,866	(746)	110	12,230
Net interest income	6,102	1,339	70	7,511
Total net revenue	18,968	593	180	19,741
Provision for credit losses	1,008	593		1,601
Noninterest expense	10,628			10,628
Income before income tax expense	7,332		180	7,512
Income tax expense	2,545		180	2,725
Net income	$ 4,787	$	$	$ 4,787
Diluted earnings per share	$ 1.34	$	$	$ 1.34
Return on common equity	17%	%	%	17%
Return on equity less goodwill	27			27
Return on assets	1.41	NM	NM	1.34
Overhead ratio	56	NM	NM	54

(a) Credit card securitizations affect CS. See pages 26 28 of this Form 10-Q for further information.

Three months ended March 31,		**2008**			2007	
(in millions)	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans Period-end	**$ 537,056**	**$ 75,062**	**$ 612,118**	$ 449,765	$ 68,403	$ 518,168
Total assets average	**1,569,797**	**71,589**	**1,641,386**	1,378,915	65,114	1,444,029

BUSINESS SEGMENT RESULTS

The Firm is managed on a line-of-business basis. The business segment financial results presented reflect the current organization of JPMorgan Chase. There are six major reportable business segments: the Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate/Private Equity segment. The business segments are determined based upon the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For further discussion of Business Segment Results, see pages 38 39 of JPMorgan Chase s 2007 Annual Report.

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 page 38 of JPMorgan Chase s 2007 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.

Segment Results Managed Basis[(a)]

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

Three months ended March 31, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income (loss)			Return on equity	
	2008	2007	Change	**2008**	2007	Change	**2008**	2007	Change	**2008**	2007
Investment Bank	**$ 3,011**	$ 6,254	(52)%	**$ 2,553**	$ 3,831	(33)%	**$ (87)**	$ 1,540	NM	**(2)%**	30%
Retail Financial Services	**4,702**	4,106	15	**2,570**	2,407	7	**(227)**	859	NM	**(5)**	22
Card Services	**3,904**	3,680	6	**1,272**	1,241	2	**609**	765	(20)%	**17**	22
Commercial Banking	**1,067**	1,003	6	**485**	485		**292**	304	(4)	**17**	20
Treasury & Securities Services	**1,913**	1,526	25	**1,228**	1,075	14	**403**	263	53	**46**	36
Asset Management	**1,901**	1,904		**1,323**	1,235	7	**356**	425	(16)	**29**	46
Corporate/Private Equity	**1,400**	1,268	10	**(500)**	354	NM	**1,027**	631	63	**NM**	NM
Total	**$ 17,898**	$ 19,741	(9)%	**$ 8,931**	$ 10,628	(16)%	**$ 2,373**	$ 4,787	(50)%	**8%**	17%

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

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INVESTMENT BANK

For a discussion of the business profile of the IB, see pages 40 42 of JPMorgan Chase s 2007 Annual Report and page 4 of this Form 10-Q.

Selected income statement data	Three months ended March 31,		
(in millions, except ratios)	**2008**	2007	Change
Revenue			
Investment banking fees	**$ 1,206**	$ 1,729	(30)%
Principal transactions	**(798)**	3,142	NM
Lending & deposit-related fees	**102**	93	10
Asset management, administration and commissions	**744**	641	16
All other income	**(66)**	42	NM
Noninterest revenue	**1,188**	5,647	(79)
Net interest income	**1,823**	607	200
Total net revenue[(a)]	**3,011**	6,254	(52)
Provision for credit losses	**618**	63	NM
Credit reimbursement from TSS[(b)]	**30**	30	
Noninterest expense			
Compensation expense	**1,241**	2,637	(53)
Noncompensation expense	**1,312**	1,194	10
Total noninterest expense	**2,553**	3,831	(33)
Income (loss) before income tax expense	**(130)**	2,390	NM
Income tax expense (benefit)	**(43)**	850	NM
Net income (loss)	**$ (87)**	$ 1,540	NM
Financial ratios			
ROE	**(2)%**	30%	
ROA	**(0.05)**	0.95	
Overhead ratio	**85**	61	
Compensation expense as a % of total net revenue	**41**	42	
Revenue by business			
Investment banking fees:			
Advisory	**$ 483**	$ 472	2
Equity underwriting	**359**	393	(9)
Debt underwriting	**364**	864	(58)

Total investment banking fees	**1,206**	1,729	(30)
Fixed income markets	**466**	2,592	(82)
Equity markets	**976**	1,539	(37)
Credit portfolio	**363**	394	(8)
Total net revenue	**$ 3,011**	$ 6,254	(52)
Revenue by region			
Americas	**$ 536**	$ 3,366	(84)
Europe/Middle East/Africa	**1,641**	2,251	(27)
Asia/Pacific	**834**	637	31
Total net revenue	**$ 3,011**	$ 6,254	(52)

(a) Total net revenue included tax-equivalent adjustments, primarily due to tax-exempt income from municipal bond investments and income tax credits related to affordable housing investments, of $289 million and $152 million for the quarters ended March 31, 2008 and 2007, respectively.

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

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Quarterly results

Net loss was $87 million, a decline from record net income of $1.5 billion in the prior year. The lower results reflected a decline in total net revenue and a higher provision for credit losses offset partially by lower noninterest expense.

Total net revenue was $3.0 billion, a decline of $3.2 billion, or 52%, from the prior year. Investment banking fees were $1.2 billion, down 30% from the prior year, reflecting lower debt and equity underwriting fees. Debt underwriting fees of $364 million declined 58%, reflecting lower bond underwriting and loan syndication fees, which were negatively affected by market conditions. Equity underwriting fees were $359 million, down 9% from the prior year. Advisory fees of $483 million were up slightly from the prior year. Fixed income markets revenue was $466 million, down $2.1 billion, or 82%, from the prior year. The decline was due primarily to markdowns of $1.2 billion on prime, Alt-A and subprime mortgages; markdowns of $1.1 billion on leveraged lending funded and unfunded commitments; and markdowns of $266 million on CDO warehouses and unsold positions. These markdowns were offset partially by record revenue in rates and currencies. Equity markets revenue was $1.0 billion, down 37% from the prior year, as weak trading results were offset partially by strong client revenue across businesses. Fixed income markets and equity markets results included a combined benefit of $949 million from the widening of the Firm s credit spread on certain structured liabilities, with an impact of $662 million and $287 million, respectively. Credit portfolio revenue was $363 million, down $31 million, or 8%, from the prior year.

The provision for credit losses was $618 million, compared with $63 million in the prior year. The current-quarter provision reflects an increase of $605 million in the allowance for credit losses, reflecting the impact of the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from held-for-sale loans and the effect of a weakening credit environment. Net charge-offs were $13 million, compared with net recoveries of $6 million in the prior year. The allowance for loan losses to total loans retained was 2.55% for the current quarter, an increase from 1.76% in the prior year.

Average loans retained were $74.1 billion, an increase of $15.1 billion, or 26%, from the prior year, principally driven by growth in acquisition finance activity, including leveraged lending. Average fair value and held-for-sale loans were $19.6 billion, up $5.9 billion, or 43%, from the prior year.

Noninterest expense was $2.6 billion, a decrease of $1.3 billion, or 33%, from the prior year. The decline was due to lower performance-based compensation expense.

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Selected metrics	Three months ended March 31,		
(in millions, except headcount and ratio data)	**2008**	2007	Change
Selected average balances			
Total assets	**$ 755,828**	$ 658,724	15%
Trading assets debt and equity instruments	**369,456**	335,118	10
Trading assets derivatives receivables	**90,234**	56,398	60
Loans:			
Loans retained[(a)]	**74,106**	58,973	26
Loans held-for-sale and loans at fair value	**19,612**	13,684	43
Total loans	**93,718**	72,657	29
Adjusted assets[(b)]	**662,419**	572,017	16
Equity	**22,000**	21,000	5
Headcount	**25,780**	23,892	8
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ 13**	$ (6)	NM
Nonperforming assets:			
Nonperforming loans[(c)]	**321**	92	249
Other nonperforming assets	**118**	36	228
Allowance for credit losses:			
Allowance for loan losses	**1,891**	1,037	82
Allowance for lending-related commitments	**607**	310	96
Total allowance for credit losses	**2,498**	1,347	85
Net charge-off (recovery) rate[(c)(d)]	**0.07%**	(0.04)%	
Allowance for loan losses to average loans[(c)(d)]	**2.55**[(i)]	1.76	
Allowance for loan losses to nonperforming loans[(c)]	**683**	1,178	
Nonperforming loans to average loans	**0.34**	0.13	
Market risk average trading and credit portfolio VAR[)]			
By risk type:			
Fixed income	**$ 120**	$ 45	167
Foreign exchange	**35**	19	84
Equities	**31**	42	(26)
Commodities and other	**28**	34	(18)
Diversification[(f)]	**(92)**	(58)	(59)
Total trading VAR[(g)]	**122**	82	49
Credit portfolio VAR[(h)]	**30**	13	131
Diversification[(f)]	**(30)**	(12)	(150)
Total trading and credit portfolio VAR	**$ 122**	$ 83	47

(a) Loans retained included credit portfolio loans,

leveraged leases and other accrual loans, and excluded loans 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; and (4) goodwill and intangibles. 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.

(c) Nonperforming loans include loans held-for-sale and loans at fair value of $44 million and $4 million at March 31, 2008 and March 31, 2007, 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.

(d) Loans held-for-sale and loans accounted for at fair value were excluded when

calculating the allowance coverage ratio and net charge-off (recovery) rate.

(e) *For a more complete description of value-at-risk (VAR), see pages 61 62 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 substantially all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example,*

correlation risk or the credit spread sensitivity of certain mortgage products. 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 63 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 and Private Equity.

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

(i) The allowance for loan losses to period-end loans was 2.46% at March 31, 2008.

According to Thomson Financial, in the first quarter of 2008, the Firm was ranked #1 in Global Debt, Equity and Equity-Related; #4 in Global Equity and Equity-Related; #1 in Global Syndicated Loans; #1 in Global Long-term Debt and #4 in Global Announced M&A based upon volume.

	Three months ended March 31, 2008		Full Year 2007	
Market shares and rankings[(a)]	Market Share	Rankings	Market Share	Rankings
Global debt, equity and equity-related	**10%**	**#1**	8%	#2
Global syndicated loans	**11**	**#1**	13	#1
Global long-term debt	**10**	**#1**	7	#3
Global equity and equity-related[(b)]	**7**	**#4**	9	#2
Global announced M&A	**27**	**#4**	27	#4
U.S. debt, equity and equity-related	**15**	**#1**	10	#2
U.S. syndicated loans	**27**	**#1**	24	#1
U.S. long-term debt	**15**	**#1**	12	#2
U.S. equity and equity-related[(b)]	**9**	**#4**	11	#5
U.S. announced M&A	**40**	**#3**	28	#3

(a) Source: Thomson Financial

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

(b) Includes rights offerings; U.S. domiciled equity and equity-related transactions, per Thomson Financial.

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RETAIL FINANCIAL SERVICES

For a discussion of the business profile of RFS, see pages 43 48 of JPMorgan Chase s 2007 Annual Report and page 4 of this Form 10-Q.

Selected income statement data	Three months ended March 31,		
(in millions, except ratios)	**2008**	2007	Change
Revenue			
Lending & deposit-related fees	**$ 461**	$ 423	9%
Asset management, administration and commissions	**377**	263	43
Mortgage fees and related income	**525**	482	9
Credit card income	**174**	142	23
Other income	**154**	179	(14)
Noninterest revenue	**1,691**	1,489	14
Net interest income	**3,011**	2,617	15
Total net revenue	**4,702**	4,106	15
Provision for credit losses	**2,492**	292	NM
Noninterest expense			
Compensation expense	**1,160**	1,065	9
Noncompensation expense	**1,310**	1,224	7
Amortization of intangibles	**100**	118	(15)
Total noninterest expense	**2,570**	2,407	7
Income (loss) before income tax expense	**(360)**	1,407	NM
Income tax expense (benefit)	**(133)**	548	NM
Net income (loss)	**$ (227)**	$ 859	NM
Financial ratios			
ROE	**(5)%**	22%	
Overhead ratio	**55**	59	
Overhead ratio excluding core deposit intangibles[(a)]	**53**	56	

(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 Regional Banking s core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $99 million and $116 million for the quarters ended March 31, 2008 and 2007, respectively.

Quarterly results

Net loss was $227 million, compared with net income of $859 million in the prior year, as a significant increase in the provision for credit losses resulted in a net loss in Regional Banking.

Total net revenue was $4.7 billion, an increase of $596 million, or 15%, from the prior year. Net interest income was $3.0 billion, up $394 million, or 15%, due to increased loan balances, wider loan spreads, and higher deposit balances. These benefits were offset partially by a shift to narrower spread deposit products. Noninterest revenue was $1.7 billion, up $202 million, or 14%, driven by higher volume and improved margins on mortgage loan originations, increased deposit-related fees and the absence of a prior-year charge resulting from accelerated surrenders of customer annuity contracts. These benefits were offset partially by markdowns on the mortgage warehouse and pipeline and a decrease in net mortgage servicing revenue.

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The provision for credit losses was $2.5 billion, compared with $292 million in the prior year. The current-quarter provision includes an increase of $1.1 billion in the allowance for loan losses related to home equity loans. Housing price declines have continued to exceed expectations resulting in a significant increase in estimated losses, particularly for high loan-to-value second-lien loans. Home equity net charge-offs were $447 million (1.89% net charge-off rate), compared with $68 million (0.32% net charge-off rate) in the prior year. The current-quarter provision also includes a $417 million increase in the allowance for loan losses related to subprime mortgage loans, reflecting an increase in estimated losses for this portfolio. Subprime mortgage net charge-offs were $149 million (3.82% net charge-off rate), compared with $20 million (0.92% net charge-off rate) in the prior year. The provision was also affected by an increase in the allowance for credit losses for prime mortgage and auto loans.
Noninterest expense was $2.6 billion, an increase of $163 million, or 7%, from the prior year, reflecting higher mortgage production and servicing expense, and investment in the retail distribution network.

Selected metrics	Three months ended March 31,		
(in millions, except headcount and ratios)	**2008**	2007	Change
Selected ending balances			
Assets	**$ 227,916**	$ 212,997	7%
Loans:			
Loans retained	**184,211**	163,462	13
Loans held-for-sale and loans at fair value*(a)*	**18,000**	25,006	(28)
Total loans	**202,211**	188,468	7
Deposits	**230,854**	221,840	4
Selected average balances			
Assets	**$ 227,560**	$ 217,135	5
Loans:			
Loans retained	**182,220**	162,744	12
Loans held-for-sale and loans at fair value*(a)*	**17,841**	28,235	(37)
Total loans	**200,061**	190,979	5
Deposits	**225,555**	216,933	4
Equity	**17,000**	16,000	6
Headcount	**70,095**	67,247	4
Credit data and quality statistics			
Net charge-offs	**$ 789**	$ 185	326
Nonperforming loans*(b)(c)*	**3,292**	1,655	99
Nonperforming assets*(b)(c)*	**3,824**	1,910	100
Allowance for loan losses	**4,208**	1,453	190
Net charge-off rate*(d)(e)*	**1.71%**	0.46%	
Allowance for loan losses to ending loans*(d)*	**2.28**	0.89	
Allowance for loan losses to nonperforming loans*(d)*	**133**	94	
Nonperforming loans to total loans	**1.63**	0.88	

(a) Loans included prime mortgage

loans originated with the intent to sell, which were accounted for at fair value. These loans, classified as trading assets on the Consolidated Balance Sheets, totaled $13.5 billion and $11.6 billion at March 31, 2008 and 2007, respectively. Average loans included prime mortgage loans, classified as trading assets on the Consolidated Balance Sheets, of $13.4 billion and $6.5 billion for the quarters ended March 31, 2008 and 2007, respectively.

(b) Nonperforming loans included loans held-for-sale and loans accounted for at fair value of $129 million and $112 million at March 31, 2008 and 2007, respectively. Certain of these loans are classified as trading assets on the Consolidated Balance Sheets.

(c) Nonperforming loans and assets excluded (1) loans eligible for repurchase as well as loans

repurchased from Governmental National Mortgage Association (GNMA) pools that are insured by U.S. government agencies of $1.8 billion and $1.3 billion at March 31, 2008 and 2007, respectively, and (2) education 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 $252 million and $178 million at March 31, 2008 and 2007, respectively. These amounts for GNMA and education loans were excluded, as reimbursement is proceeding normally.

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

(e) The net charge-off rate for the first quarter of 2008 excluded $14 million of

charge-offs related to prime mortgage loans held by Corporate in the Corporate/Private Equity sector.

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REGIONAL BANKING

Selected income statement data	Three months ended March 31,		
(in millions, except ratios)	**2008**	2007	Change
Noninterest revenue	**$ 878**	$ 793	11%
Net interest income	**2,543**	2,299	11
Total net revenue	**3,421**	3,092	11
Provision for credit losses	**2,324**	233	NM
Noninterest expense	**1,794**	1,729	4
Income (loss) before income tax expense	**(697)**	1,130	NM
Net income (loss)	**$ (433)**	$ 690	NM
ROE	**(14)%**	24%	
Overhead ratio	**52**	56	
Overhead ratio excluding core deposit intangibles[(a)]	**50**	52	

(a) Regional Banking uses the overhead ratio (excluding the amortization of core deposit intangibles (CDI)), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this inclusion

would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excludes Regional Banking s core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $99 million and $116 million for the quarters ended March 31, 2008 and 2007, respectively.

Quarterly results

Regional Banking net loss was $433 million, compared with net income of $690 million in the prior year, reflecting a significant increase in the provision for credit losses. Total net revenue was $3.4 billion, up $329 million, or 11%, benefiting from higher loan balances, wider loan spreads, increased deposit-related fees and higher deposit balances. Total net revenue also benefited from the absence of a prior-year charge related to accelerated surrenders of customer annuity contracts. These benefits were offset partially by a shift to narrower spread deposit products. The provision for credit losses was $2.3 billion, compared with $233 million in the prior year. The increase in the provision was due to weakness in the home equity and subprime mortgage portfolios (see Retail Financial Services discussion of the provision for credit losses for further detail). Noninterest expense was $1.8 billion, up $65 million, or 4%, from the prior year due to investment in the retail distribution network.

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Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended March 31, 2008	2007	Change
Business metrics			
Home equity origination volume	**$ 6.7**	$ 12.7	(47)%
End-of-period loans owned			
Home equity	**$ 95.0**	$ 87.7	8
Mortgage[(a)]	**15.9**	9.2	73
Business banking	**15.8**	14.3	10
Education	**12.4**	11.1	12
Other loans[(b)]	**1.1**	2.7	(59)
Total end of period loans	**140.2**	125.0	12
End-of-period deposits			
Checking	**$ 69.1**	$ 69.3	
Savings	**105.4**	100.1	5
Time and other	**44.6**	42.2	6
Total end of period deposits	**219.1**	211.6	4
Average loans owned			
Home equity	**$ 95.0**	$ 86.3	10
Mortgage[(a)]	**15.8**	8.9	78
Business banking	**15.6**	14.3	9
Education	**12.0**	11.0	9
Other loans[(b)]	**1.5**	3.0	(50)
Total average loans[(c)]	**139.9**	123.5	13
Average deposits			
Checking	**$ 66.3**	$ 67.3	(1)
Savings	**100.3**	96.7	4
Time and other	**47.7**	42.5	12
Total average deposits	**214.3**	206.5	4
Average assets	**149.9**	135.9	10
Average equity	**12.4**	11.8	5
Credit data and quality statistics			
(in millions, except ratios)			
30+ day delinquency rate[(d)(e)]	**3.23%**	1.84%	
Net charge-offs			
Home equity	**$ 447**	$ 68	NM
Mortgage	**163**	20	NM
Business banking	**40**	25	60
Other loans	**21**	13	62
Total net charge-offs	**671**	126	433
Net charge-off rate			

Home equity	**1.89%**	0.32%	
Mortgage[f]	**3.79**	0.91	
Business banking	**1.03**	0.71	
Other loans	**0.89**	0.55	
Total net charge-off rate[c][f]	**1.94**	0.43	
Nonperforming assets[g]	**$ 3,348**	$ 1,688	98

(a) The balance reported reflected primarily subprime mortgage loans owned.

(b) Included commercial loans derived from community development activities for the quarter ended March 31, 2007. Beginning with the quarter ended March 31, 2008, these loans are reported primarily in CB.

(c) Average loans include loans held-for-sale of $4.0 billion and $4.4 billion for the quarters ended March 31, 2008 and 2007, respectively. These amounts were excluded when calculating the net charge-off rate.

(d) Excluded loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $1.5 billion and

$975 million at March 31, 2008 and 2007, respectively. These amounts are excluded as reimbursement is proceeding normally.

(e) *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 $534 million and $519 million at March 31, 2008 and 2007, respectively. These amounts are excluded as reimbursement is proceeding normally.*

(f) *The mortgage and total net charge-off rate for the first quarter of 2008 excluded $14 million of charge-offs related to prime mortgage loans held by Corporate in the Corporate/Private Equity sector.*

(g) *Excluded nonperforming assets related to education loans that are 90 days past due and still accruing, which were insured by U.S. government agencies under the*

Federal Family Education Loan Program of $252 million and $178 million at March 31, 2008 and 2007, respectively. These amounts were excluded as reimbursement is proceeding normally.

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Retail branch business metrics	Three months ended March 31,		
(in millions, except where otherwise noted)	**2008**	2007	Change
Investment sales volume	**$ 4,084**	$ 4,783	(15)%
Number of:			
Branches	**3,146**	3,071	75#
ATMs	**9,237**	8,560	677
Personal bankers[(a)]	**9,826**	7,846	1,980
Sales specialists[(a)]	**4,133**	3,712	421
Active online customers (in thousands)[(b)]	**6,454**	5,295	1,159
Checking accounts (in thousands)	**11,068**	10,158	910

(a) Employees acquired as part of the Bank of New York transaction are included beginning June 30, 2007. This transaction was completed on October 1, 2006.

(b) During the quarter ended June 30, 2007, RFS changed the methodology for determining active online customers to include all individual RFS customers with one or more online accounts that have been active within 90 days of period end, including customers who also have online accounts with Card Services. Prior periods

have been restated to conform to this new methodology.

MORTGAGE BANKING

Selected income statement data (in millions, except ratios and where otherwise noted)	Three months ended March 31, **2008**	2007	Change
Production revenue	**$ 576**	$ 400	44%
Net mortgage servicing revenue:			
Servicing revenue	**634**	601	5
Changes in MSR asset fair value:			
Due to inputs or assumptions in model	**(632)**	108	NM
Other changes in fair value	**(425)**	(378)	(12)
Total changes in MSR asset fair value	**(1,057)**	(270)	(291)
Derivative valuation adjustments and other	**598**	(127)	NM
Total net mortgage servicing revenue	**175**	204	(14)
Total net revenue	**751**	604	24
Noninterest expense	**536**	468	15
Income before income tax expense	**215**	136	58
Net income	**$ 132**	$ 84	57
ROE	**22%**	17%	
Business metrics (in billions)			
Third-party mortgage loans serviced (ending)	**$ 627.1**	$ 546.1	15
MSR net carrying value (ending)	**8.4**	7.9	6
Average mortgage loans held-for-sale[(a)]	**13.8**	23.8	(42)
Average assets	**32.2**	38.0	(15)
Average equity	**2.4**	2.0	20
Mortgage origination volume by channel (in billions)			
Retail	**$ 12.6**	$ 10.9	16
Wholesale	**10.6**	9.9	7
Correspondent	**12.0**	4.8	150
CNT (Negotiated transactions)	**11.9**	10.5	13
Total	**$ 47.1**	$ 36.1	30

(a) Included $13.4 billion and $6.5 billion of prime

mortgage loans at fair value for the three months ended March 31, 2008 and 2007, respectively. These loans are classified as trading assets on the Consolidated Balance Sheets.

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Quarterly results

Mortgage Banking net income was $132 million, compared with $84 million in the prior year. Total net revenue was $751 million, up $147 million, or 24%. Total net revenue comprises production revenue and net mortgage servicing revenue. Production revenue was $576 million, up $176 million, primarily benefiting from higher volume and improved margins on mortgage loan originations, partially offset by markdowns on the mortgage warehouse and pipeline. In addition, the benefit of the one-time impact from the adoption of SAB 109 in the current quarter was offset by the absence of the prior-year impact of the adoption of SFAS 159. Net mortgage servicing revenue, which includes loan servicing revenue, MSR risk management results and other changes in fair value, was $175 million, compared with $204 million in the prior year. Loan servicing revenue of $634 million increased $33 million on growth of 15% in third-party loans serviced. MSR risk management results were negative $34 million compared with negative $19 million in the prior year. Other changes in fair value of the MSR asset were negative $425 million compared with negative $378 million in the prior year. Noninterest expense was $536 million, an increase of $68 million, or 15%. The increase reflected higher production expense due primarily to growth in originations and higher servicing costs due to increased delinquencies and defaults.

AUTO FINANCE

Selected income statement data	Three months ended March 31,		
(in millions, except ratios and where otherwise noted)	**2008**	2007	Change
Noninterest revenue	**$ 151**	$ 131	15%
Net interest income	**379**	279	36
Total net revenue	**530**	410	29
Provision for credit losses	**168**	59	185
Noninterest expense	**240**	210	14
Income before income tax expense	**122**	141	(13)
Net income	**$ 74**	$ 85	(13)
ROE	**13%**	16%	
ROA	**0.65**	0.80	
Business metrics (in billions)			
Auto origination volume	**$ 7.2**	$ 5.2	38
End-of-period loans and lease-related assets			
Loans outstanding	**$ 44.4**	$ 39.7	12
Lease financing receivables	**0.3**	1.2	(75)
Operating lease assets	**2.0**	1.7	18
Total end-of-period loans and lease-related assets	**46.7**	42.6	10
Average loans and lease-related assets			
Loans outstanding	**$ 42.9**	$ 39.4	9
Lease financing receivables	**0.3**	1.5	(80)
Operating lease assets	**1.9**	1.6	19
Total average loans and lease-related assets	**45.1**	42.5	6
Average assets	**45.5**	43.2	5
Average equity	**2.3**	2.2	5

Credit quality statistics			
30+ day delinquency rate	**1.44%**	1.33%	
Net charge-offs			
Loans	**$ 117**	$ 58	102
Lease receivables	**1**	1	
Total net charge-offs	**118**	59	100
Net charge-off rate			
Loans	**1.10%**	0.60%	
Lease receivables	**1.34**	0.27	
Total net charge-off rate	**1.10**	0.59	
Nonperforming assets	**$ 160**	$ 140	14

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Quarterly results

Auto Finance net income was $74 million, a decrease of $11 million, or 13%, from the prior year. Total net revenue was $530 million, up $120 million, or 29%, reflecting a reduction in residual value reserves for direct finance leases, higher automobile operating lease revenue, higher loan balances and wider loan spreads. The provision for credit losses was $168 million, up $109 million. The current-quarter provision included an increase in the allowance for credit losses, reflecting higher estimated losses. The net charge-off rate was 1.10%, compared with 0.59% in the prior year. Noninterest expense of $240 million grew $30 million, or 14%, driven by increased depreciation expense on owned automobiles subject to operating leases.

CARD SERVICES

For a discussion of the business profile of CS, see pages 49 51 of JPMorgan Chase s 2007 Annual Report and pages 4 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 13 14 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	Three months ended March 31,		
(in millions, except ratios)	**2008**	2007	Change
Revenue			
Credit card income	**$ 600**	$ 599	%
All other income	**119**	92	29
Noninterest revenue	**719**	691	4
Net interest income	**3,185**	2,989	7
Total net revenue	**3,904**	3,680	6
Provision for credit losses	**1,670**	1,229	36
Noninterest expense			
Compensation expense	**267**	254	5
Noncompensation expense	**841**	803	5
Amortization of intangibles	**164**	184	(11)
Total noninterest expense	**1,272**	1,241	2
Income before income tax expense	**962**	1,210	(20)
Income tax expense	**353**	445	(21)
Net income	**$ 609**	$ 765	(20)
Memo: Net securitization gains	**$ 70**	$ 23	204

Financial ratios		
ROE	**17%**	22%
Overhead ratio	**33**	34

Quarterly results

Net income was $609 million, a decline of $156 million, or 20%, from the prior year. The decrease was driven by a higher managed provision for credit losses, partially offset by growth in managed net revenue.

End-of-period managed loans of $150.9 billion grew $4.4 billion, or 3%, from the prior year. Average managed loans of $153.6 billion increased $4.1 billion, or 3%, from the prior year. The increases from the prior year in both end-of-period and average managed loans reflects organic portfolio growth.

Managed net revenue was $3.9 billion, an increase of $224 million, or 6%, from the prior year. Net interest income was $3.2 billion, up $196 million, or 7%, from the prior year. The increase in net interest income was driven by wider loan spreads, an increased level of fees and higher average managed loan balances. These benefits were offset partially by the effect of higher revenue reversals associated with increased charge-offs and the discontinuation of certain billing practices (including the elimination of certain over-limit fees and the two-cycle billing method for calculating finance charges beginning in the second quarter of 2007). Noninterest revenue was $719 million, an increase of $28 million, or 4%, from the prior year. The increase is primarily related to higher net securitization gains. Charge volume growth of 5%

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reflected a 10% increase in sales volume, partially offset by a lower level of balance transfers, the result of more targeted marketing efforts.

The managed provision for credit losses was $1.7 billion, an increase of $441 million, or 36%, from the prior year, due to a higher level of charge-offs and an $85 million prior-year release of the allowance for loan losses. The managed net charge-off rate for the quarter was 4.37%, up from 3.57% in the prior year. The 30-day managed delinquency rate was 3.66%, up from 3.07% in the prior year.

Noninterest expense was $1.3 billion, an increase of $31 million, or 2%, compared with the prior year, due to higher marketing expense.

Selected metrics	Three months ended March 31,		
(in millions, except headcount, ratios and where otherwise noted)	**2008**	2007	Change
Financial metrics			
% of average managed outstandings:			
Net interest income	**8.34%**	8.11%	
Provision for credit losses	**4.37**	3.34	
Noninterest revenue	**1.88**	1.88	
Risk adjusted margin[(a)]	**5.85**	6.65	
Noninterest expense	**3.33**	3.37	
Pretax income (ROO)[(b)]	**2.52**	3.28	
Net income	**1.60**	2.08	
Business metrics			
Charge volume (in billions)	**$ 85.4**	$ 81.3	5%
Net accounts opened (in millions)	**3.4**	3.4	
Credit cards issued (in millions)	**156.4**	152.1	3
Number of registered internet customers (in millions)	**26.7**	24.3	10
Merchant acquiring business[(c)]			
Bank card volume (in billions)	**$ 182.4**	$ 163.6	11
Total transactions (in billions)	**5.2**	4.5	16
Selected ending balances			
Loans:			
Loans on balance sheets	**$ 75,888**	$ 78,173	(3)
Securitized loans	**75,062**	68,403	10
Managed loans	**$ 150,950**	$ 146,576	3
Selected average balances			
Managed assets	**$ 159,602**	$ 156,271	2
Loans:			
Loans on balance sheets	**$ 79,445**	$ 81,932	(3)
Securitized loans	**74,108**	67,485	10
Managed average loans	**$ 153,553**	$ 149,417	3
Equity	**$ 14,100**	$ 14,100	

Headcount	**18,931**	18,749	1
Managed credit quality statistics			
Net charge-offs	**$ 1,670**	$ 1,314	27
Net charge-off rate	**4.37%**	3.57%	
Managed delinquency ratios			
30+ days	**3.66%**	3.07%	
90+ days	**1.84**	1.52	
Allowance for loan losses[(d)]	**$ 3,404**	$ 3,092	10
Allowance for loan losses to period-end loans[(d)]	**4.49%**	3.96%	

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

(b) Pretax return on average managed outstandings.

(c) Represents 100% of the merchant acquiring business.

(d) Loans on a reported basis.

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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 March 31, 2008	2007	Change
Income statement data[(a)]			
Credit card income			
Reported	**$ 1,537**	$ 1,345	14%
Securitization adjustments	**(937)**	(746)	(26)
Managed credit card income	**$ 600**	$ 599	
Net interest income			
Reported	**$ 1,567**	$ 1,650	(5)
Securitization adjustments	**1,618**	1,339	21
Managed net interest income	**$ 3,185**	$ 2,989	7
Total net revenue			
Reported	**$ 3,223**	$ 3,087	4
Securitization adjustments	**681**	593	15
Managed total net revenue	**$ 3,904**	$ 3,680	6
Provision for credit losses			
Reported	**$ 989**	$ 636	56
Securitization adjustments	**681**	593	15
Managed provision for credit losses	**$ 1,670**	$ 1,229	36
Balance sheet average balances[(a)]			
Total average assets			
Reported	**$ 88,013**	$ 91,157	(3)
Securitization adjustments	**71,589**	65,114	10
Managed average assets	**$ 159,602**	$ 156,271	2
Credit quality statistics[(a)]			
Net charge-offs			
Reported	**$ 989**	$ 721	37
Securitization adjustments	**681**	593	15
Managed net charge-offs	**$ 1,670**	$ 1,314	27

(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 13 14 of this Form 10-Q.

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COMMERCIAL BANKING

For a discussion of the business profile of CB, see pages 52 53 of JPMorgan Chase s 2007 Annual Report and page 5 of this Form 10-Q.

Selected income statement data (in millions, except ratios)	Three months ended March 31, **2008**	2007	Change
Revenue			
Lending & deposit-related fees	**$ 193**	$ 158	22%
Asset management, administration and commissions	**26**	23	13
All other income[(a)]	**115**	154	(25)
Noninterest revenue	**334**	335	
Net interest income	**733**	668	10
Total net revenue	**1,067**	1,003	6
Provision for credit losses	**101**	17	494
Noninterest expense			
Compensation expense	**178**	180	(1)
Noncompensation expense	**294**	290	1
Amortization of intangibles	**13**	15	(13)
Total noninterest expense	**485**	485	
Income before income tax expense	**481**	501	(4)
Income tax expense	**189**	197	(4)
Net income	**$ 292**	$ 304	(4)
Financial ratios			
ROE	**17%**	20%	
Overhead ratio	**45**	48	

(a) IB-related and commercial card revenue is included in all other income.

Quarterly results

Net income was $292 million, a decrease of $12 million, or 4%, from the prior year driven by an increase in the provision for credit losses, largely offset by growth in total net revenue.

Total net revenue was $1.1 billion, an increase of $64 million, or 6%, from the prior year. Net interest income was $733 million, up $65 million, or 10%. The increase was driven by double-digit growth in liability and loan balances, primarily offset by spread compression in the liability and loan portfolios and a continued shift to narrower spread

liability products. Noninterest revenue was $334 million, flat compared with the prior year, reflecting lower gains related to the sale of securities acquired in the satisfaction of debt and lower investment banking fees, offset by higher deposit-related, credit card and lending fees.

Middle Market Banking revenue was $706 million, an increase of $45 million, or 7%, from the prior year. Mid-Corporate Banking revenue was $207 million, a decrease of $5 million, or 2%. Real Estate Banking revenue was $97 million, a decline of $5 million, or 5%.

The provision for credit losses was $101 million, compared with $17 million in the prior year. The current-quarter provision largely reflects growth in loan balances and the effect of the weakening credit environment. The allowance for loan losses to total loans retained was 2.65% for the current quarter, down from 2.68% in the prior year. Nonperforming loans were $446 million, up $305 million from the prior year, reflecting increases in nonperforming loans in each business segment. Net charge-offs (primarily related to residential real estate clients) were $81 million (0.48% net charge-off rate), compared with recoveries of $1 million (0.01% net recovery rate) in the prior year.

Noninterest expense was $485 million, flat compared with the prior year.

Selected metrics (in millions, except ratio and headcount data)	Three months ended March 31, **2008**	2007	Change
Revenue by product:			
Lending	**$ 379**	$ 348	9%
Treasury services	**616**	556	11
Investment banking	**68**	76	(11)
Other	**4**	23	(83)
Total Commercial Banking revenue	**$ 1,067**	$ 1,003	6
IB revenue, gross[(a)]	**$ 203**	$ 231	(12)
Revenue by business:			
Middle Market Banking	**$ 706**	$ 661	7
Mid-Corporate Banking	**207**	212	(2)
Real Estate Banking	**97**	102	(5)
Other	**57**	28	104
Total Commercial Banking revenue	**$ 1,067**	$ 1,003	6
Selected average balances:			
Total assets	**$ 101,979**	$ 82,545	24
Loans:			
Loans retained	**67,510**	57,185	18
Loans held-for-sale and loans at fair value	**521**	475	10
Total loans[(b)]	**68,031**	57,660	18
Liability balances[(c)]	**99,477**	81,752	22
Equity	**7,000**	6,300	11
Average loans by business:			
Middle Market Banking	**$ 40,111**	$ 36,317	10
Mid-Corporate Banking	**15,150**	10,669	42
Real Estate Banking	**7,457**	7,074	5
Other	**5,313**	3,600	48
Total Commercial Banking loans	**$ 68,031**	$ 57,660	18
Headcount	**4,075**	4,281	(5)
Credit data and quality statistics:			
Net charge-offs (recoveries)	**$ 81**	$ (1)	NM
Nonperforming loans[(d)]	**446**	141	216
Allowance for credit losses:			
Allowance for loan losses	**1,790**	1,531	17
Allowance for lending-related commitments	**200**	187	7

Total allowance for credit losses	**1,990**	1,718	16
Net charge-off (recovery) rate[(b)]	**0.48%**	(0.01)%	
Allowance for loan losses to average loans[(b)]	**2.65**	2.68	
Allowance for loan losses to nonperforming loans[(d)]	**426**	1,086	
Nonperforming loans to average loans	**0.66**	0.24	

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

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

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

(d) Nonperforming loans held-for-sale were $26 million at March 31, 2008. This amount was excluded when calculating the allowance coverage ratios. There were no

nonperforming loans held-for-sale at March 31, 2007.

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TREASURY & SECURITIES SERVICES

For a discussion of the business profile of TSS, see pages 54 55 of JPMorgan Chase s 2007 Annual Report and page 5 of this Form 10-Q.

Selected income statement data	Three months ended March 31,		
(in millions, except ratios)	**2008**	2007	Change
Revenue			
Lending & deposit-related fees	**$ 269**	$ 213	26%
Asset management, administration and commissions	**820**	686	20
All other income	**200**	125	60
Noninterest revenue	**1,289**	1,024	26
Net interest income	**624**	502	24
Total net revenue	**1,913**	1,526	25
Provision for credit losses	**12**	6	100
Credit reimbursement to IB[(a)]	**(30)**	(30)	
Noninterest expense			
Compensation expense	**641**	558	15
Noncompensation expense	**571**	502	14
Amortization of intangibles	**16**	15	7
Total noninterest expense	**1,228**	1,075	14
Income before income tax expense	**643**	415	55
Income tax expense	**240**	152	58
Net income	**$ 403**	$ 263	53
Financial ratios			
ROE	**46%**	36%	
Overhead ratio	**64**	70	
Pretax margin ratio[(b)]	**34**	27	

(a) TSS is charged a credit reimbursement related to certain exposures managed within the IB credit portfolio on

behalf of clients shared with TSS.

(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.*

Quarterly results

Net income was $403 million, an increase of $140 million, or 53%, from the prior year, driven by higher total net revenue, partially offset by higher noninterest expense.

Total net revenue was $1.9 billion, an increase of $387 million, or 25%, from the prior year. Worldwide Securities Services total net revenue of $1.1 billion was up $263 million, or 31%. The growth was driven by increased product usage by new and existing clients (primarily in custody, fund and alternative investments services and depositary receipts) and wider spreads in securities lending and foreign exchange driven by recent market conditions. These benefits were offset partially by spread compression on liability products. Treasury Services total net revenue was $813 million, an increase of $124 million, or 18%, from the prior year. This increase reflected higher liability balances and wider market-driven spreads, as well as growth in electronic and trade loan volumes. TSS firmwide total net revenue, which includes Treasury Services total net revenue recorded in other lines of business, grew to $2.6 billion, up $456 million, or 21%. Treasury Services firmwide total net revenue grew to $1.5 billion, up $193 million, or 15%.

The provision for credit losses was $12 million, an increase of $6 million from the prior year.

Noninterest expense was $1.2 billion, an increase of $153 million, or 14%, from the prior year, reflecting higher expense related to business and volume growth, as well as investment in new product platforms.

Selected metrics (in millions, except headcount, ratio data and where otherwise noted)	Three months ended March 31, 2008	2007	Change
Revenue by business			
Treasury Services	**$ 813**	$ 689	18%
Worldwide Securities Services	**1,100**	837	31
Total net revenue	**$ 1,913**	$ 1,526	25
Business metrics			
Assets under custody (in billions)	**$ 15,690**	$ 14,661	7
Number of:			
US$ ACH transactions originated (in millions)	**1,004**	971	3
Total US$ clearing volume (in thousands)	**28,056**	26,840	5
International electronic funds transfer volume (in thousands)[(a)]	**40,039**	42,399	(6)
Wholesale check volume (in millions)	**623**	771	(19)
Wholesale cards issued (in thousands)[(b)]	**19,122**	17,146	12
Selected balance sheets (average)			
Total assets	**$ 57,204**	$ 46,005	24
Loans[(c)]	**23,086**	18,948	22
Liability balances[(d)]	**254,369**	210,639	21
Equity	**3,500**	3,000	17
Headcount	**26,561**	24,875	7
TSS firmwide metrics			
Treasury Services firmwide revenue[(e)]	**$ 1,498**	$ 1,305	15
Treasury & Securities Services firmwide revenue[(e)]	**2,598**	2,142	21
Treasury Services firmwide overhead ratio[(f)]	**55%**	59%	
Treasury & Securities Services firmwide overhead ratio[(f)]	**58**	63	
Treasury Services firmwide liability balances (average)[(g)]	**$ 221,716**	$ 186,631	19
Treasury & Securities Services firmwide liability balances (average)[(g)]	**353,845**	292,391	21

(a) International electronic funds transfer includes non-US$ ACH and clearing volume.

(b) Wholesale cards issued include domestic commercial card, stored value card, prepaid card, and government

electronic benefit card products.

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

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

TSS firmwide metrics

TSS firmwide metrics include certain TSS product revenue and liability balances reported in other lines of business for customers who are also customers of those lines of business. 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.

(e) Firmwide revenue includes TS revenue recorded in the CB, Regional Banking and AM lines of business (see below) and excludes FX revenue recorded in the IB for TSS-related FX activity.

	Three months ended March 31,		
(in millions)	**2008**	2007	Change

Treasury Services revenue reported in CB	**$ 616**	$ 556	11%
Treasury Services revenue reported in other lines of business	**69**	60	15

TSS firmwide FX revenue, which includes FX revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of the IB, was $191 million and $112 million for the quarters ended March 31, 2008 and 2007, respectively.

(f) Overhead ratios have been calculated based upon firmwide revenue and TSS and TS expense, respectively, including those allocated to certain other lines of business. FX revenue and expense recorded in the IB for TSS-related FX activity are not included in this ratio.

(g) Firmwide liability balances include TS liability balances recorded in certain other lines of business. Liability balances associated with TS customers who are also customers of the CB line of business are not included in TS liability balances.

ASSET MANAGEMENT

For a discussion of the business profile of AM, see pages 56 58 of JPMorgan Chase s 2007 Annual Report and on page 5 of this Form 10-Q.

Selected income statement data	Three months ended March 31,		
(in millions, except ratios)	**2008**	2007	Change
Revenue			
Asset management, administration and commissions	**$ 1,531**	$ 1,489	3%
All other income	**59**	170	(65)
Noninterest revenue	**1,590**	1,659	(4)
Net interest income	**311**	245	27
Total net revenue	**1,901**	1,904	
Provision for credit losses	**16**	(9)	NM
Noninterest expense			
Compensation expense	**825**	764	8
Noncompensation expense	**477**	451	6
Amortization of intangibles	**21**	20	5
Total noninterest expense	**1,323**	1,235	7
Income before income tax expense	**562**	678	(17)
Income tax expense	**206**	253	(19)
Net income	**$ 356**	$ 425	(16)
Financial ratios			
ROE	**29%**	46%	
Overhead ratio	**70**	65	
Pretax margin ratio[(a)]	**30**	36	
Selected metrics			
Revenue by client segment			
Private bank	**$ 655**	$ 560	17%
Institutional	**490**	551	(11)
Retail	**466**	527	(12)
Private client services	**290**	266	9
Total net revenue	**$ 1,901**	$ 1,904	

(a) 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.

Quarterly results

Net income was $356 million, a decline of $69 million, or 16%, from the prior year driven primarily by higher noninterest expense, lower performance fees and lower market valuations for seed capital investments in JPMorgan funds. These results were offset partially by increased total net revenue from asset inflows, and growth in deposit and loan balances.

Total net revenue of $1.9 billion was flat compared with the prior year. Noninterest revenue was $1.6 billion, a decline of $69 million, or 4%, largely due to lower performance fees and lower market valuations for seed capital investments, partially offset by growth in assets under management. Net interest income was $311 million, up $66 million, or 27%, from the prior year, primarily due to higher deposit and loan balances.

Private Bank revenue grew 17% to $655 million due to higher assets under management and increased deposit and loan balances, partially offset by lower performance and placement fees. Institutional revenue declined 11% to $490 million due to lower performance fees, partially offset by growth in assets under management. Retail revenue declined 12% to $466 million, largely due to net equity outflows and lower market valuations for seed capital investments. Private Client Services revenue grew 9% to $290 million due to higher deposit and loan balances and growth in assets under management.

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The provision for credit losses was $16 million, compared with a benefit of $9 million in the prior year, primarily driven by an increase in loan balances and a lower level of recoveries.
Noninterest expense was $1.3 billion, an increase of $88 million, or 7%, from the prior year. The increase was due primarily to higher compensation expense, reflecting increased headcount.

Business metrics	Three months ended March 31,		
(in millions, except headcount, ratios and ranking data, and where otherwise noted)	**2008**	2007	Change
Number of:			
Client advisors	**1,744**	1,533	14%
Retirement planning services participants	**1,519,000**	1,423,000	7
% of customer assets in 4 & 5 Star Funds[(a)]	**49%**	61%	(20)
% of AUM in 1st and 2nd quartiles:[(b)]			
1 year	**52%**	76%	(32)
3 years	**73%**	76%	(4)
5 years	**75%**	81%	(7)
Selected balance sheets data (average)			
Total assets	**$ 60,286**	$ 45,816	32
Loans[(c)]	**36,628**	25,640	43
Deposits	**68,184**	54,816	24
Equity	**5,000**	3,750	33
Headcount	**14,955**	13,568	10
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ (2)**	$	NM
Nonperforming loans	**11**	34	(68)
Allowance for loan losses	**130**	114	14
Allowance for lending-related commitments	**6**	5	20
Net charge-off (recovery) rate	**(0.02)%**	%	
Allowance for loan losses to average loans	**0.35**	0.44	
Allowance for loan losses to nonperforming loans	**1,182**	335	
Nonperforming loans to average loans	**0.03**	0.13	

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

(b)

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

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

Assets under supervision

Assets under supervision were $1.6 trillion, an increase of $174 billion, or 12%, from the prior year. Assets under management were $1.2 trillion, up 13%, or $134 billion, from the prior year. The increase was due primarily to liquidity product inflows across all segments, and alternative product inflows in Institutional and Private Bank segments. Custody, brokerage, administration and deposit balances were $382 billion, up $40 billion.

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ASSETS UNDER SUPERVISION[a] (in billions)

As of March 31,	**2008**	2007
Assets by asset class		
Liquidity	**$ 471**	$ 318
Fixed income	**200**	180
Equities & balanced	**390**	446
Alternatives	**126**	109
Total assets under management	**1,187**	1,053
Custody/brokerage/administration/deposits	**382**	342
Total assets under supervision	**$ 1,569**	$ 1,395
Assets by client segment		
Institutional	**$ 652**	$ 550
Private Bank	**196**	170
Retail	**279**	274
Private Client Services	**60**	59
Total assets under management	**$ 1,187**	$ 1,053
Institutional	**$ 652**	$ 551
Private Bank	**441**	374
Retail	**366**	361
Private Client Services	**110**	109
Total assets under supervision	**$ 1,569**	$ 1,395
Assets by geographic region		
U.S./Canada	**$ 773**	$ 664
International	**414**	389
Total assets under management	**$ 1,187**	$ 1,053
U.S./Canada	**$ 1,063**	$ 929
International	**506**	466
Total assets under supervision	**$ 1,569**	$ 1,395
Mutual fund assets by asset class		
Liquidity	**$ 405**	$ 257
Fixed income	**45**	48
Equity	**186**	219

Total mutual fund assets	**$ 636**	$ 524

(a) Excludes assets under management of American Century Companies, Inc, in which the Firm has 44% ownership.

Assets under management rollforward	Three months ended March 31,	
	2008	2007
Beginning balance at January 1	**$ 1,193**	$ 1,013
Net asset flows:		
Liquidity	**68**	7
Fixed income		2
Equities, balanced and alternative	**(21)**	10
Market/performance/other impacts	**(53)**	21
Ending balance	**$ 1,187**	$ 1,053
Assets under supervision rollforward		
Beginning balance	**$ 1,572**	$ 1,347
Net asset flows	**52**	27
Market/performance/other impacts	**(55)**	21
Ending balance	**$ 1,569**	$ 1,395

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CORPORATE / PRIVATE EQUITY

For a discussion of the business profile of Corporate/Private Equity, see pages 59 60 of JPMorgan Chase s 2007 Annual Report.

Selected income statement data	Three months ended March 31,		
(in millions, except headcount)	**2008**	2007	Change
Revenue			
Principal transactions	**$ 5**	$ 1,325	(100)%
Securities gains (losses)	**42**	(8)	NM
All other income[(a)]	**1,639**	68	NM
Noninterest revenue	**1,686**	1,385	22
Net interest income (expense)	**(286)**	(117)	(144)
Total net revenue	**1,400**	1,268	10
Provision for credit losses	**196**	3	NM
Noninterest expense			
Compensation expense	**639**	776	(18)
Noncompensation expense[(b)]	**(82)**	556	NM
Merger costs		62	NM
Subtotal	**557**	1,394	(60)
Net expense allocated to other businesses	**(1,057)**	(1,040)	(2)
Total noninterest expense	**(500)**	354	NM
Income before income tax expense	**1,704**	911	87
Income tax expense	**677**	280	142
Net income	**$ 1,027**	$ 631	63
Total net revenue			
Private equity	**$ 163**	$ 1,253	(87)
Corporate	**1,237**	15	NM
Total net revenue	**$ 1,400**	$ 1,268	10
Net income (loss)			
Private equity	**$ 57**	$ 698	(92)
Corporate	**970**	(29)	NM
Merger costs		(38)	NM
Total net income	**$ 1,027**	$ 631	63

Headcount	**21,769**	23,702	(8)

(a) Included proceeds from the sale of Visa shares in its initial public offering in the first quarter of 2008.

(b) Included a release of credit card litigation reserves in the first quarter of 2008.

Quarterly results

Net income for Corporate / Private Equity was $1.0 billion (net income was $72 million, excluding $955 million in after-tax proceeds from the sale of Visa shares in its initial public offering), compared with $631 million in the prior year. Excluding the impact of the sale of Visa shares, the decrease in net income was driven by lower results in Private Equity, lower total net revenue and an increase in the provision for credit losses both in Corporate. These lower results were offset partially by a net release of litigation reserves.

Net income for Private Equity was $57 million, compared with $698 million in the prior year. Total net revenue was $163 million, a decrease of $1.1 billion. The decline was driven by lower Private Equity gains of $189 million, compared with gains of $1.3 billion in the prior year, which included a fair value adjustment related to the adoption of SFAS 157 (Fair Value Measurements). Noninterest expense was $76 million, a decline of $88 million from the prior year, reflecting lower compensation expense.

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Excluding the proceeds from the sale of Visa shares in its initial public offering ($1.5 billion pretax and $955 million after-tax), net income for Corporate was $15 million, compared with a net loss of $67 million in the prior year. Total net revenue (excluding the effect of Visa sales proceeds) was negative $303 million, compared with $15 million in the prior year. The decrease was due to a narrower net interest spread and trading losses. The provision for credit losses was $196 million, compared with $3 million in the prior year, largely reflecting an increase in the allowance for loan losses for prime mortgages. For a discussion of consumer credit risk, see Consumer Credit Portfolio on pages 57 59 of this Form 10-Q. Noninterest expense was negative $576 million, compared with $190 million in the prior year, reflecting a reduction of credit card-related litigation expense and the absence of prior-year merger expense.

Selected income statement and balance sheet data	Three months ended March 31,		
(in millions)	**2008**	2007	Change
Corporate			
Securities gains (losses)[(a)]	**$ 42**	$ (8)	NM%
Investment securities portfolio (average)	**80,443**	86,436	(7)
Investment securities portfolio (ending)	**91,323**	88,681	3
Mortgage loans (average)[(b)]	**39,096**	25,244	55
Mortgage loans (ending)[(b)]	**41,125**	26,499	55
Private equity			
Realized gains	**$ 1,113**	$ 723	54
Unrealized gains (losses)[(c)]	**(881)**	521	NM
Total direct investments	**232**	1,244	(81)
Third-party fund investments	**(43)**	34	NM
Total private equity gains[(d)]	**$ 189**	$ 1,278	(85)

Private equity portfolio information[(e)]

Direct investments	**March 31, 2008**	December 31, 2007	Change
Publicly held securities			
Carrying value	**$ 603**	$ 390	55%
Cost	**499**	288	73
Quoted public value	**720**	536	34
Privately held direct securities			
Carrying value	**5,191**	5,914	(12)
Cost	**4,973**	4,867	2
Third-party fund investments[(f)]			
Carrying value	**811**	849	(4)
Cost	**1,064**	1,076	(1)
Total private equity portfolio Carrying value	**$ 6,605**	$ 7,153	(8)
Total private equity portfolio Cost	**$ 6,536**	$ 6,231	5

(a) *Reflects repositioning of the Corporate investment securities portfolio. Excludes gains/losses on securities used to manage risk associated with MSRs.*

(b) *Held-for-investment prime mortgage loans were transferred from RFS and AM to the Corporate segment for risk management and reporting purposes. The initial transfers had no material impact on the financial results of Corporate.*

(c) *Unrealized gains (losses) contains 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 74 79 of this Form 10-Q.*

(f)

Unfunded commitments to third-party private equity funds were $869 million and $881 million at March 31, 2008, and December 31, 2007, respectively.

The carrying value of the private equity portfolio at March 31, 2008, was $6.6 billion, down $548 million from December 31, 2007. The portfolio decline was primarily due to sales activity. The portfolio represented 8.3% of the Firm s stockholders equity less goodwill at March 31, 2008, down from 9.2% at December 31, 2007.

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BALANCE SHEET ANALYSIS

Selected balance sheet data (in millions)	**March 31, 2008**	December 31, 2007
Assets		
Cash and due from banks	**$ 46,888**	$ 40,144
Deposits with banks	**12,414**	11,466
Federal funds sold and securities purchased under resale agreements	**203,176**	170,897
Securities borrowed	**81,014**	84,184
Trading assets:		
Debt and equity instruments	**386,170**	414,273
Derivative receivables	**99,110**	77,136
Securities	**101,647**	85,450
Loans	**537,056**	519,374
Allowance for loan losses	**(11,746)**	(9,234)
Loans, net of allowance for loan losses	**525,310**	510,140
Accrued interest and accounts receivable	**50,989**	24,823
Goodwill	**45,695**	45,270
Other intangible assets	**14,374**	14,731
Other assets	**76,075**	83,633
Total assets	**$ 1,642,862**	$ 1,562,147
Liabilities		
Deposits	**$ 761,626**	$ 740,728
Federal funds purchased and securities sold under repurchase agreements	**192,633**	154,398
Commercial paper and other borrowed funds	**79,032**	78,431
Trading liabilities:		
Debt and equity instruments	**78,982**	89,162
Derivative payables	**78,983**	68,705
Accounts payable, accrued expense and other liabilities	**106,088**	94,476
Beneficial interests issued by consolidated VIEs	**14,524**	14,016
Long-term debt and trust preferred capital debt securities	**205,367**	199,010
Total liabilities	**1,517,235**	1,438,926
Stockholders equity	**125,627**	123,221
Total liabilities and stockholders equity	**$ 1,642,862**	$ 1,562,147

Note - Rating agencies allow capital to be adjusted upward for deferred tax liabilities which have resulted from nontaxable business combinations. The Firm had deferred tax liabilities of this type totaling $1.9 billion at March 31, 2008, and $2.0 billion at December 31, 2007.

Consolidated Balance Sheets overview

The following is a discussion of the significant changes in the Consolidated Balance Sheet items from December 31,

2007.

Deposits with banks; federal funds sold and securities purchased under resale agreements; securities borrowed; federal funds purchased and securities 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 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. Securities purchased under resale agreements, in particular, also facilitate providing of funding or liquidity to clients through the Firm s purchasing of clients securities for the short term. Federal funds purchased and securities sold under repurchase agreements are used as short-term funding sources for the Firm. The increase from December 31, 2007, in securities purchased under resale agreements reflected a higher level of funds that were available for short-term investment opportunities, as well as growth in demand from clients for liquidity. The increase in federal funds purchased and securities sold under repurchase agreements was due primarily to higher short-term requirements to fulfill clients demand for liquidity and fund the Firm s AFS securities inventory levels. For additional information on the Firm s Liquidity Risk Management, see pages 46 48 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 primarily of fixed income securities, including government and corporate debt; equity, including convertible securities; loans (including certain prime mortgage and other loans warehoused by RFS and IB for sale or securitization purposes and accounted for at fair value under SFAS 159); and physical commodities inventories. The decreases in trading assets and liabilities from December 31, 2007, were due primarily to the more challenging capital markets environment, particularly for debt securities. For additional information, refer to Note 4 and Note 5 on pages 80 81 and 81 83, respectively, of this Form 10-Q.

Trading assets and liabilities   derivative receivables and payables

The Firm utilizes various interest rate, foreign exchange, equity, credit and commodity derivatives for market-making, proprietary risk-taking and risk-management purposes. Both derivative receivables and derivative payables increased from December 31, 2007, primarily driven by increases in foreign exchange and credit derivatives due to the decline in the U.S. dollar and increased credit spreads, respectively, as well as a decline in interest rates. For additional information, refer to derivative contracts and Note 5 on pages 53 55 and 81 83, respectively, of this Form 10-Q.

Securities

Almost all of the Firm s securities portfolio is classified as AFS and is used primarily to manage the Firm s exposure to interest rate movements. The AFS portfolio increased from December 31, 2007, primarily due to net purchases, partially offset by maturities of securities in Corporate. For additional information related to securities, refer to the Corporate/Private Equity segment discussion and to Note 10 on pages 36 37 and 85 86, respectively, of this Form 10-Q.

Loans and allowance for loan losses

The Firm provides loans to customers of all sizes, from large corporate and institutional clients to individual consumers. The Firm manages the risk/reward relationship of each portfolio and discourages the retention of loan assets that do not generate a positive return above the cost of risk-adjusted capital. Loans increased from December 31, 2007, primarily due to business growth in wholesale lending across all the wholesale businesses, as well as growth in the prime mortgage portfolio driven by the decision to retain, rather than sell, nonconforming mortgage loans. These increases were partly offset by seasonal declines in credit card receivables. The allowance for loan losses increased from December 31, 2007. Both the consumer and wholesale components of the allowance were higher, with the rise in the consumer portion driven by an increase in estimated losses for home equity, mortgage and auto loans. The increase in the wholesale portion was primarily due to the impact of the transfer of leveraged lending loans to retained loans from held-for-sale loans in IB and the effect of a weakening credit environment. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 48 61 of this Form 10-Q.

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 largely resulted from the purchase of an additional equity interest in Highbridge. For additional information, see Note 16 on pages 98 101 of this Form 10-Q.

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 all other intangibles. The decrease in other intangible assets reflects the amortization expense associated with credit card-related and core deposit intangibles. Also contributing to the decrease was a net decline in the fair value of MSRs, reflecting negative fair value adjustments and modeled servicing portfolio runoff, partially offset by additions from sales of originated loans and purchases of MSRs. These factors were partially offset by an increase in intangibles as a result of the purchase of an additional equity interest in Highbridge. For additional information on MSRs and other intangible assets, see Note 16 on pages 98 101 of this Form 10-Q.

Deposits

The Firm s deposits represent a liability to customers, both retail and wholesale, for funds held on their behalf. Deposits are generally classified by location (U.S. and non-U.S.), whether they are interest or noninterest-bearing, and by type (i.e., demand, money market deposit accounts, savings, time or negotiable order of withdrawal accounts). Deposits help provide a stable and consistent source of funding for the Firm. Deposits rose from December 31, 2007, due to increases in wholesale interest- and noninterest-bearing U.S. deposits in TSS, and in consumer deposits (in particular, interest-bearing deposits in RFS); both increases were driven by growth in business volumes. For more information on deposits, refer to the TSS and RFS segment discussions and the Liquidity Risk Management discussion on pages 31 32, 20 26, and 46 48, respectively, of this Form 10-Q. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 29 30 and 31 32, 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 preserve stable, reliable and cost-effective sources of funding as part of its longer-term liquidity and capital management activities. Long-term debt and trust preferred capital debt securities increased from December 31, 2007, primarily reflecting net new issuances. For additional information on the Firm s long-term debt activities, see the Liquidity Risk Management discussion on pages 46 48 of this Form 10-Q.

Stockholders equity

The increase in total stockholders equity from year-end 2007 was primarily the result of net income for the first three months of 2008 and net shares issued under the Firm s employee stock-based compensation plans; partially offset by the declaration of cash dividends. For a further discussion of capital, see the Capital Management section that follows.

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CAPITAL MANAGEMENT

The following discussion of JPMorgan Chase s capital management highlights developments since December 31, 2007, and should be read in conjunction with Capital Management on pages 63 65 of JPMorgan Chase s 2007 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 management s regulatory and debt rating objectives. The process of assigning equity to the lines of business is integrated into the Firm s capital framework and is overseen by the 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 equity is measured and internal targets for expected returns are established as a key measure of a business segment s performance. Line of business equity increased during the first quarter of 2008 primarily due to business growth, and for AM, the purchase of the additional equity interest in Highbridge. The Firm may revise its equity capital-allocation methodology in the future.

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 98 and 154, respectively, of JPMorgan Chase s 2007 Annual Report, and Note 16 on pages 98 99 of this Form 10-Q.

Line of business equity	Quarterly Averages		
(in billions)	**1Q08**	4Q07	1Q07
Investment Bank	**$ 22.0**	$ 21.0	$ 21.0
Retail Financial Services	**17.0**	16.0	16.0
Card Services	**14.1**	14.1	14.1
Commercial Banking	**7.0**	6.7	6.3
Treasury & Securities Services	**3.5**	3.0	3.0
Asset Management	**5.0**	4.0	3.8
Corporate/Private Equity	**56.0**	56.8	52.0
Total common stockholders equity	**$ 124.6**	$ 121.6	$ 116.2

Economic risk capital

JPMorgan Chase assesses its capital adequacy relative to the risks underlying the Firm s business activities, utilizing internal risk-assessment methodologies. The Firm assigns economic capital primarily based upon four risk factors: credit risk, market risk, operational risk and private equity risk, principally for the Firm s private equity business.

Economic risk capital	Quarterly Averages		
(in billions)	**1Q08**	4Q07	1Q07
Credit risk[(a)]	**$ 32.9**	$ 33.0	$ 27.7
Market risk	**8.7**	8.9	9.4
Operational risk	**5.6**	5.6	5.6
Private equity risk	**4.3**	3.9	3.6

Economic risk capital	**51.5**	51.4	46.3
Goodwill	**45.7**	45.3	45.1
Other[(b)]	**27.4**	24.9	24.8
Total common stockholders equity	**$ 124.6**	$ 121.6	$ 116.2

(a) *Incorporates a change to the wholesale credit risk methodology, which has been modified to include a through-the-cycle adjustment. The prior period has been revised to reflect this methodology change. For further discussion of this change, see Credit risk capital on page 63 of JPMorgan Chase s 2007 Annual Report.*

(b) *Reflects additional capital required, in management s view, to meet its regulatory and debt rating objectives.*

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Regulatory capital

The Board of Governors of the Federal Reserve System (the Federal Reserve Board) 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.

Tier 1 capital was $89.6 billion at March 31, 2008, compared with $88.7 billion at December 31, 2007, an increase of $900 million. The increase was due primarily to net income of $2.4 billion and net issuances of common stock under the Firm s employee stock-based compensation plans of $954 million. These increases were offset partially by decreases in stockholders equity net of accumulated other comprehensive income (loss) due to dividends declared of $1.3 billion, a $453 million increase in the deduction for goodwill and other nonqualifying intangibles and an $887 million (after-tax) increase in the valuation adjustment to certain liabilities to reflect the credit quality of the Firm. Additional information regarding the Firm s capital ratios and the federal regulatory capital standards to which it is subject is presented in Note 28 on pages 166 167 of JPMorgan Chase s 2007 Annual Report.

The Federal Reserve has granted the Firm, for a period of 18 months following the acquisition of Bear Sterns, relief up to a certain specified amount and subject to certain conditions from the Federal Reserve s risk-based and leverage capital guidelines in respect to the Bear Stearns risk-weighted assets and other exposures to be acquired. The amount of such relief is subject to reduction by one-sixth each quarter subsequent to the acquisition and expires on October 1, 2009.

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at March 31, 2008, and December 31, 2007.

(in millions, except ratios)	Tier 1 capital	Total capital	Risk-weighted assets[c]	Adjusted average assets[d]	Tier 1 capital ratio	Total capital ratio	Tier 1 leverage ratio
March 31, 2008[a]							
JPMorgan Chase & Co.	**$ 89,646**	**$ 134,948**	**$ 1,075,697**	**$ 1,507,724**	**8.3%**	**12.5%**	**5.9%**
JPMorgan Chase Bank, N.A.	**80,059**	**116,734**	**974,918**	**1,315,137**	**8.2**	**12.0**	**6.1**
Chase Bank USA, N.A.	**11,234**	**12,534**	**68,688**	**60,903**	**16.4**	**18.2**	**18.4**
December 31, 2007[a]							
JPMorgan Chase & Co.	$ 88,746	$ 132,242	$ 1,051,879	$ 1,473,541	8.4%	12.6%	6.0%
JPMorgan Chase Bank, N.A.	78,453	112,253	950,001	1,268,304	8.3	11.8	6.2
Chase Bank USA, N.A.	9,407	10,720	73,169	60,905	12.9	14.7	15.5
Well-capitalized ratios[b]					6.0%	10.0%	5.0%[e]
Minimum capital ratios[b]					4.0	8.0	3.0[f]

(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 Board, OCC and Federal Deposit Insurance Corporation (FDIC).*

(c) *Includes off-balance sheet risk-weighted assets in the amounts of $350.5 billion, $334.5 billion and $11.3 billion, respectively, at March 31, 2008, and of $352.7 billion, $336.8 billion and $13.4 billion, respectively, at December 31, 2007, for JPMorgan Chase and its significant banking subsidiaries.*

(d) *Average adjusted 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.

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

(f) *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 Board and OCC.

Basel II

The minimum risk-based capital requirements adopted by the federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. In 2004, the Basel Committee published a revision to the Accord (Basel II), 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 the qualification period, starting any time between April 1, 2008, and April 1, 2010, followed by a minimum transition period of three years. During the transition period, Basel II risk-based capital requirements cannot fall below certain floors based on current (Basel I) regulations. JPMorgan Chase expects to be in compliance with all relevant Basel II rules within the established timelines. In addition, the Firm will continue to adopt Basel II rules in certain non-U.S. jurisdictions, as required. For additional information, see Basel II, on page 65 of JPMorgan Chase s 2007 Annual Report.

Dividends

The Firm s common stock dividend policy reflects JPMorgan Chase s earnings outlook, desired dividend payout ratios, need to maintain an adequate capital level and alternative investment opportunities. The Firm continues to target a dividend payout ratio of approximately 30 40% of net income over time. On March 18, 2008, the Firm declared a quarterly common stock dividend of $0.38 per share, payable on April 30, 2008, to shareholders of record at the close of business on April 4, 2008.

Issuance

On April 23, 2008, the Firm issued $6.0 billion of noncumulative, perpetual preferred stock. The proceeds will be used for general corporate purposes.

Stock repurchases

For a discussion of the Firm s current stock repurchase program, see Stock repurchases on page 65 of JPMorgan Chase s 2007 Annual Report. During the first quarter of 2008, under the current $10.0 billion stock repurchase program, the Firm did not repurchase any shares. During the first quarter of 2007, under the then effective stock repurchase program, the Firm repurchased 81 million shares for $4.0 billion at an average price per share of $49.45. As of March 31, 2008, $6.2 billion of authorized repurchase capacity remained under the current stock repurchase program.

The current $10.0 billion 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 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. 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 page 119 of this Form 10-Q.

OFF BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

JPMorgan Chase is involved with several types of off-balance sheet arrangements, including special purpose entities (SPEs) and lending-related financial instruments (e.g., commitments and guarantees). For further discussion of contractual cash obligations, see Off-Balance Sheet Arrangements and Contractual Cash Obligations on page 67 of JPMorgan Chase s 2007 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 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). This discussion focuses mostly on multi-seller conduits and investor intermediation. For a detailed discussion of all SPEs with which the Firm is involved, and the related accounting, see Note 1 on page 108, Note 16 on pages 139 145 and Note 17 on pages 146 154 of JPMorgan Chase s 2007 Annual Report.

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

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

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A., was downgraded below specific levels, primarily P-1 , A-1 and F1 for Moody Standard & Poor s and Fitch, respectively. The amount of these liquidity commitments was $87.8 billion and $94.0 billion at March 31, 2008, and December 31, 2007, respectively. Of these commitments, $54.2 billion and $61.2 billion had been funded at March 31, 2008, and December 31, 2007, respectively. Alternatively, if JPMorgan Chase Bank, N.A., were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitment, or in certain circumstances, the Firm could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity. These commitments are included in other unfunded commitments to extend credit and asset purchase agreements, as shown in the Off-balance sheet lending-related financial instruments and guarantees table on page 45 of this Form 10-Q.

Special-purpose entities revenue

The following table summarizes certain revenue information related to consolidated and nonconsolidated VIEs and QSPEs with which the Firm has significant involvement. The revenue reported in the table below primarily represents contractual servicing and credit fee income (i.e., 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	Three months ended March 31,	
(in millions)	**2008**	2007
VIEs:[a]		
Multi-seller conduits	**$ 57**	$ 38
Investor intermediation	**(3)**	9
Total VIEs	**54**	47
QSPEs	**898**	846

Total	**$ 952**	$ 893

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

American Securitization Forum subprime adjustable rate mortgage loans modifications

In December 2007, the American Securitization Forum (ASF) issued the Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans (the Framework). The Framework provides guidance for servicers to streamline evaluation procedures of borrowers with certain subprime adjustable rate mortgage (ARM) loans in order to more quickly and efficiently provide modification of such loans with terms that are more appropriate for the individual needs of such borrowers. The Framework applies to all first-lien subprime ARM loans that have a fixed rate of interest for an initial period of 36 months or less; are included in securitized pools; were originated between January 1, 2005, and July 31, 2007; and have an initial interest rate reset date between January 1, 2008, and July 31, 2010.

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JPMorgan Chase has adopted the Framework, and during the 2008 first quarter has modified $187 million of Segment 2 subprime mortgage loans. In addition, $41 million of Segment 3 loans were modified through the Firm s normal loss mitigation activities, and $33 million of Segment 3 loans were prepaid by the borrower. For additional discussion of the Framework, see Note 14 on pages 93 94 of this Form 10-Q and Note 16 on page 145 of JPMorgan Chase s 2007 Annual Report.

Off-balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down 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. Most of these commitments and guarantees expire without a default occurring or without being drawn. 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 Credit Risk Management on pages 73 89 and Note 31 on pages 170 173 of JPMorgan Chase s 2007 Annual Report.

The following table presents off-balance sheet lending-related financial instruments and guarantees (excluding those related to Bear Stearns) for the periods indicated.

	March 31, 2008					Dec. 31, 2007
By remaining maturity (in millions)	< 1 year	1-<3 years	3-5 years	> 5 years	Total	Total
Lending-related						
Consumer[(a)]	**$ 754,907**	**$ 1,953**	**$ 3,016**	**$ 69,313**	**$ 829,189**	$ 815,936
Wholesale:						
Unfunded commitments to extend credit[(b)(c)(d)(e)]	**99,686**	**65,087**	**74,178**	**17,457**	**256,408**	250,954
Asset purchase agreements[(f)]	**29,693**	**40,135**	**10,946**	**1,254**	**82,028**	90,105
Standby letters of credit and guarantees[(c)(g)(h)]	**26,724**	**25,844**	**34,908**	**7,038**	**94,514**	100,222
Other letters of credit[(c)]	**4,547**	**756**	**94**	**45**	**5,442**	5,371
Total wholesale	**160,650**	**131,822**	**120,126**	**25,794**	**438,392**	446,652
Total lending-related	**$ 915,557**	**$ 133,775**	**$ 123,142**	**$ 95,107**	**$ 1,267,581**	$ 1,262,588
Other guarantees						
Securities lending guarantees[(i)]	**$ 410,565**	**$**	**$**	**$**	**$ 410,565**	$ 385,758
Derivatives qualifying as guarantees[(j)]	**23,492**	**10,879**	**25,187**	**36,578**	**96,136**	85,262

(a) *Included credit card and home equity lending-related commitments of*

$730.5 billion and $73.0 billion, respectively, at March 31, 2008, and $714.8 billion and $74.2 billion, respectively, at December 31, 2007. These amounts for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. For credit card commitments and if certain conditions are met for home equity commitments, the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(b) Includes unused advised lines of credit totaling $37.7 billion at March 31, 2008, and $38.4 billion at December 31, 2007, which are not legally binding. In

regulatory filings with the Federal Reserve Board, unused advised lines are not reportable. See the Glossary of Terms on pages 109 111 of this Form 10-Q for the Firm s definition of advised lines of credit.

(c) *Represents contractual amount net of risk participations totaling $28.8 billion and $28.3 billion at March 31, 2008, and December 31, 2007, respectively.*

(d) *Excludes unfunded commitments to third-party private equity funds of $869 million and $881 million at March 31, 2008, and December 31, 2007, respectively. Also excludes unfunded commitments for other equity investments of $815 million and $903 million at March 31, 2008, and December 31, 2007, respectively.*

(e) *Included in other unfunded commitments to extend credit are commitments to investment and*

noninvestment grade counterparties in connection with leveraged acquisitions of $8.3 billion and $8.2 billion at March 31, 2008, and December 31, 2007, respectively.

(f) *Largely represents asset purchase agreements to the Firm s administered multi-seller, asset-backed commercial paper conduits. The maturity is based upon the weighted-average life of the underlying assets in the SPE, which are primarily asset purchase agreements to the Firm s administered multi-seller asset-backed commercial paper conduits. It also includes $860 million and $1.1 billion of asset purchase agreements to other third-party entities at March 31, 2008, and December 31, 2007, respectively.*

(g) *JPMorgan Chase held collateral relating to*

$17.1 billion and $15.8 billion of these arrangements at March 31, 2008, and December 31, 2007, respectively.

(h) *Included unused commitments to issue standby letters of credit of $44.4 billion and $50.7 billion at March 31, 2008, and December 31, 2007, respectively.*

(i) *Collateral held by the Firm in support of securities lending indemnification agreements was $415.0 billion at March 31, 2008, and $390.5 billion at December 31, 2007, respectively.*

(j) *Represents notional amounts of derivatives qualifying as guarantees. For further discussion of guarantees, see Note 31 on pages 170 173 of JPMorgan Chase s 2007 Annual Report.*

JPMorgan Chase agreed to guarantee certain obligations of Bear Stearns and its subsidiaries. The guarantees of Bear Stearns obligations are secured by liens on assets of Bear Stearns that are not otherwise pledged. These assets are comprised mainly of fixed assets and other nonfinancial assets. The carrying amount of the liability to stand ready to perform under the Bear Stearns guarantees was $669 million at March 31, 2008. These amounts are not included in the amounts disclosed above. It is not possible to calculate the maximum potential amount of future payments under the guarantees, or the extent to which proceeds from the liquidation of the assets pledged to JPMorgan Chase would be expected to cover the maximum potential amount of future payments under the guarantees since the underlying contract amounts that are guaranteed change on a daily basis. However, the Firm believes the risk of loss to be remote.

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 risk, credit risk, market risk, interest rate risk, operational risk, legal and reputation risk, fiduciary risk and private equity risk.
For further discussion of these risks, see pages 69 95 of JPMorgan Chase s 2007 Annual Report.

LIQUIDITY RISK MANAGEMENT

The following discussion of JPMorgan Chase s liquidity management framework highlights developments since December 31, 2007, and should be read in conjunction with pages 70 73 of JPMorgan Chase s 2007 Annual Report.
Liquidity risk arises from the general funding needs of the Firm s activities and in the management of its assets and liabilities. JPMorgan Chase s liquidity management framework is intended to maximize liquidity access and minimize funding costs. Through active liquidity management, the Firm seeks to preserve stable, reliable and cost-effective sources of funding to meet actual and contingent liquidity needs over time. This access enables the Firm to replace maturing obligations when due and fund assets at appropriate maturities and rates. To accomplish this, management uses a variety of methods to mitigate liquidity and related risks, taking into consideration market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of liabilities, among other factors.

Funding

Sources of funds

As of March 31, 2008, the Firm s liquidity position remained strong based upon its liquidity metrics. JPMorgan Chase s long-dated funding, including core liabilities, exceeded illiquid assets, and the Firm believes its obligations can be met even if access to funding is impaired.
Consistent with its liquidity management policy, the Firm has raised funds at the parent holding company level sufficient to cover its obligations and those of its nonbank subsidiaries that mature over the next 12 months.
The diversity of the Firm s funding sources enhances financial flexibility and limits dependence on any one source, thereby minimizing the cost 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 March 31, 2008, total deposits for the Firm were $761.6 billion. A significant portion of the Firm s deposits are retail deposits, which are less sensitive to interest rate changes and therefore are considered more stable than market-based (i.e., wholesale) liability balances. The Firm also benefits from substantial liability balances originated by RFS, CB, TSS and AM through the normal course of business. Liability balances include deposits and deposits that are swept to on balance sheet liabilities (e.g., commercial paper, federal funds purchased and securities sold under repurchase agreements). These franchise-generated liability balances are also a stable and consistent source 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 15 35 and 38 40, respectively, of this Form 10-Q.

Additional sources of funds include a variety of both short- and long-term instruments, including federal funds purchased, commercial paper, bank notes, long-term debt, and trust preferred capital debt securities. This funding is managed centrally, using regional expertise and local market access, to ensure active participation by the Firm in the global financial markets while

maintaining consistent global pricing. These markets serve as cost-effective and diversified sources of funds and are critical components of the Firm s liquidity management. Decisions concerning the timing and tenor of accessing these markets are based upon relative costs, general market conditions, prospective views of balance sheet growth and a targeted liquidity profile.

Finally, funding flexibility is provided by the Firm s ability to access the repurchase and asset securitization markets. These markets are evaluated on an ongoing basis to achieve an appropriate balance of secured and unsecured funding. The ability to securitize loans, and the associated gains on those securitizations, are principally dependent upon the credit quality and yields of the assets securitized and are generally not dependent upon the credit ratings of the issuing entity. Transactions between the Firm and its securitization structures are reflected in JPMorgan Chase s consolidated financial statements and notes to the consolidated financial statements; these relationships include retained interests in securitization trusts, liquidity facilities and derivative transactions. For further details, see Off-Balance Sheet Arrangements and Contractual Cash Obligations and Notes 14 and 22 on pages 44 46, 89 94 and 103 105, respectively, of this Form 10-Q.

Issuance

During the first quarter of 2008, JPMorgan Chase issued approximately $19.5 billion of long-term debt and trust preferred capital debt securities. These issuances included $9.0 billion of IB structured notes, the issuances of which are generally client-driven and not for funding or capital management purposes as the proceeds from such transactions are generally used to purchase securities to mitigate the risk associated with structured note exposure. The issuances of long-term debt and trust preferred capital debt securities were offset partially by $17.5 billion of such securities that matured or were redeemed, including IB structured notes. In addition, during the first quarter of 2008, the Firm securitized $4.5 billion of credit card loans. The Firm did not securitize any other consumer or wholesale loans during the first quarter of 2008. For further discussion of loan securitizations, see Note 14 on pages 89 94 of this Form 10-Q.

In connection with the issuance of certain of its trust preferred capital debt securities as well as the preferred stock issued on April 23, 2008, the Firm has entered into Replacement Capital Covenants (RCCs) granting certain rights to the holder of covered debt, as defined in the RCCs, that prohibit the repayment, redemption or purchase of the trust preferred capital debt securities except, with limited exceptions, to the extent that JPMorgan Chase has received 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, which are filed with the U.S. Securities and Exchange Commission under cover of Forms 8-K.

Cash Flows

Cash and due from banks increased $6.7 billion during the first quarter of 2008, compared with a decrease of $8.6 billion during the first quarter of 2007. The following discussion highlights the major activities and transactions that affected JPMorgan Chase s cash flows during the first quarter of 2008 and 2007.

Cash Flows from Operating Activities

For the quarters ended March 31, 2008 and 2007, net cash used in operating activities was $2.4 billion and $51.5 billion, respectively. JPMorgan Chase s operating assets and liabilities vary significantly in the normal course of business due to the amount and timing of cash flows. In the first quarter of 2008 and 2007, net cash was used in operating activities to support the Firm s capital markets and lending activities, as well as to support loans originated or purchased with an initial intent to sell; however these activities were at a lower level in the first quarter of 2008 as a result of the turmoil in the markets that has continued since the last half of 2007. Management believes cash flows from operations, available cash balances and the Firm s ability to generate cash through short- and long-term borrowings will be sufficient to fund the Firm s operating liquidity needs.

Cash Flows from Investing Activities

The Firm s investing activities primarily include originating loans to be held to maturity, other receivables, and the available-for-sale investment portfolio. For the quarter ended March 31, 2008, net cash of $68.5 billion was used in investing activities, primarily for purchases of investment securities in Corporate s AFS portfolio to manage the Firm s exposure to interest rates; net additions to the wholesale loan portfolio, primarily from increased lending activities

across all the wholesale businesses; additions to the mortgage portfolio as a result of the decision to retain rather than sell new originations of prime mortgage loans; and an increase in securities purchased under resale agreements reflecting a higher level of available funds for short-term investment opportunities, as well as 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 acquisitions.

For the quarter ended March 31, 2007, net cash of $11.8 billion was used in investing activities. Net cash was invested primarily to fund purchases of Corporate s AFS securities in connection with repositioning the portfolio in response to changes in interest rates; and to increase deposits with banks as a result of the availability of excess funds for short-term investment opportunities. These uses of cash were partially offset by cash proceeds provided from sales and maturities of AFS securities, credit card and residential mortgage sales and securitization activities, and the seasonal decline in credit card loans.

Cash Flows from Financing Activities

The Firm s financing activities primarily include the issuance of debt and receipt of customer deposits. JPMorgan Chase pays quarterly dividends on its common stock and has an ongoing stock repurchase program. In the first quarter of 2008, net cash provided by financing activities was $77.3 billion due to increases in wholesale interest and noninterest-bearing deposits, largely in TSS, and in consumer deposits, in particular interest-bearing deposits in RFS; increases in federal funds purchased and securities sold under repurchase agreements in connection with higher short-term requirements to fulfill clients demand for liquidity and fund the Firm s AFS securities inventory levels; and net new issuances of long-term debt. Cash was used for the payment of cash dividends, but there were no stock repurchases.

In the first quarter of 2007, net cash provided by financing activities was $54.7 billion due to increases in securities sold under repurchase agreements in connection with the funding of trading and AFS securities positions; net new issuances of long-term debt and trust preferred capital debt securities; and growth in retail deposits, reflecting new account acquisitions, the ongoing expansion of the retail branch distribution network and seasonal tax-related increases. Cash was used to meet seasonally higher withdrawals by wholesale demand deposit customers, repurchases of common stock and the payment of cash dividends.

Credit ratings

The credit ratings of JPMorgan Chase s parent holding company and each of its significant banking subsidiaries as of March 31, 2008, 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+	Aa2	AA-	AA-
JPMorgan Chase Bank, N.A.	P-1	A-1+	F1+	Aaa	AA	AA-
Chase Bank USA, N.A.	P-1	A-1+	F1+	Aaa	AA	AA-

The cost and availability of unsecured financing are influenced by credit ratings. A reduction in these ratings could have an adverse effect on the Firm s access to liquidity sources, increase the cost of funds, trigger additional collateral requirements and decrease the number of investors and counterparties willing to lend. 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.

If the Firm s ratings were downgraded by one notch, the Firm estimates the incremental cost of funds and the potential loss of funding to be negligible. Additionally, the Firm estimates the additional funding requirements for VIEs and other third-party commitments would not be material. Currently, the Firm believes a downgrade is unlikely. For additional information on the impact of a credit ratings downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 44 and Ratings profile of derivative receivables marked-to-market (MTM) on page 54 of this Form 10-Q.

CREDIT RISK MANAGEMENT

The following discussion of JPMorgan Chase s credit portfolio as of March 31, 2008, highlights developments since December 31, 2007. This section should be read in conjunction with pages 73 89 and pages 96 97 and Notes 14, 15, 31, and 32 of JPMorgan Chase s 2007 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 13 14 of this Form 10-Q.

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CREDIT PORTFOLIO

The following table presents JPMorgan Chase s credit portfolio as of March 31, 2008, and December 31, 2007. Total credit exposure at March 31, 2008, increased $47.0 billion from December 31, 2007, reflecting increases of $31.9 billion and $15.1 billion in the wholesale and consumer portfolios, respectively. During the first quarter of 2008, derivative receivables increased $22.0 billion, managed loans increased $20.0 billion ($18.2 billion and $1.8 billion in the wholesale and consumer portfolios, respectively) and lending-related commitments increased $5.0 billion ($13.3 billion in the consumer portfolio offset by a decrease of $8.3 billion in the wholesale portfolio).
In the table below, reported loans include loans accounted for at fair value and loans held-for-sale, which are carried at the lower of cost or fair value with changes in value recorded in noninterest revenue. However, these held-for-sale loans and loans accounted for at fair value are excluded from the average loan balances used for the net charge-off rate calculations.

	Credit exposure		Nonperforming assets[h]	
(in millions, except ratios)	**March 31, 2008**	December 31, 2007	**March 31, 2008**	December 31, 2007
Total credit portfolio				
Loans retained[a]	**$ 512,245**	$ 491,736	**$ 4,631**[h]	$ 3,536[h]
Loans held-for-sale	**15,034**	18,899	**62**	45
Loans at fair value	**9,777**	8,739	**8**	5
Loans reported[a]	**$ 537,056**	$ 519,374	**$ 4,701**	$ 3,586
Loans securitized[b]	**75,062**	72,701		
Total managed loans[c]	**612,118**	592,075	**4,701**	3,586
Derivative receivables	**99,110**	77,136	**31**	29
Total managed credit-related assets	**711,228**	669,211	**4,732**	3,615
Lending-related commitments[d][e]	**1,267,581**	1,262,588	**NA**	NA
Assets acquired in loan satisfactions	**NA**	NA	**711**	622
Total credit portfolio	**$ 1,978,809**	$ 1,931,799	**$ 5,443**	$ 4,237
Net credit derivative hedges notional[f]	**$ (78,867)**	$ (67,999)	**$**	$ (3)
Collateral held against derivatives[g]	**(13,950)**	(9,824)	**NA**	NA

	Three months ended March 31,			
(in millions, except ratios)	Net charge-offs		Average annual net charge-off rate	
	2008	2007	**2008**	2007
Total credit portfolio				
Loans reported	**$ 1,906**	$ 903	**1.53%**	0.85%
Loans securitized[b]	**681**	593	**3.70**	3.56

Total managed loans	**$ 2,587**	$ 1,496	**1.81%**	1.22%

(a) Loans (other than those for which the SFAS 159 fair value option has been elected) are presented net of unearned income and net deferred loan fees of $811 million and $1.0 billion at March 31, 2008, and December 31, 2007, respectively.

(b) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Card Services on pages 26 28 of this Form 10-Q.

(c) Loans past due 90 days and over and accruing includes credit card receivables-reported of $1.6 billion and $1.5 billion at March 31, 2008, and December 31, 2007, respectively, and related credit card securitizations of $1.2 billion and $1.1 billion at March 31, 2008, and December 31, 2007, respectively.

(d) Included credit card and home equity lending-related commitments of $730.5 billion and $73.0 billion, respectively, at March 31, 2008; and $714.8 billion and

$74.2 billion, respectively, at December 31, 2007. These amounts for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. For credit card commitments and if certain conditions are met for home equity commitments, the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(e) *Includes wholesale unused advised lines of credit totaling $37.7 billion and $38.4 billion at March 31, 2008, and December 31, 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.*

(f) *Represents the net notional amount of protection purchased and sold of single-name and*

portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. Includes $33.9 billion and $31.1 billion at March 31, 2008, and December 31, 2007, respectively, which represents the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.

(g) Represents other liquid securities collateral held by the Firm as of March 31, 2008, and December 31, 2007, respectively.

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(h) *Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $1.8 billion and $1.5 billion at March 31, 2008, and December 31, 2007, respectively, and (2) education 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 $252 million and $279 million at March 31, 2008, and December 31, 2007, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.*

WHOLESALE CREDIT PORTFOLIO

As of March 31, 2008, wholesale exposure (IB, CB, TSS and AM) increased $31.9 billion from December 31, 2007, due to increases in derivative receivables of $22.0 billion and loans of $18.2 billion. These increases were partially offset by a decrease in lending-related commitments of $8.3 billion. The increase in derivative receivables was primarily driven by increases in foreign exchange and credit derivatives due to the decline in the U.S. dollar and increased credit spreads, respectively, as well as a decline in interest rates. The increase in loans was primarily due to lending activity across all wholesale businesses and other portfolio growth. The decrease in lending-related commitments is mainly due to the cancellation of primarily investment-grade commitments as well as other portfolio activity.

	Credit exposure		Nonperforming assets	
(in millions)	**March 31, 2008**	December 31, 2007	**March 31, 2008**	December 31, 2007
Loans retained[a]	**$ 211,020**	$ 189,427	**$ 711**	$ 464
Loans held-for-sale	**10,500**	14,910	**62**	45
Loans at fair value	**9,777**	8,739	**8**	5
Loans reported[a]	**$ 231,297**	$ 213,076	**$ 781**	$ 514
Derivative receivables	**99,110**	77,136	**31**	29
Total wholesale credit-related assets	**330,407**	290,212	**812**	543
Lending-related commitments[b]	**438,392**	446,652	**NA**	NA
Assets acquired in loan satisfactions	**NA**	NA	**94**	73
Total wholesale credit exposure	**$ 768,799**	$ 736,864	**$ 906**	$ 616
Net credit derivative hedges notional[c]	**$ (78,867)**	$ (67,999)	**$**	$ (3)
Collateral held against derivatives[d]	**(13,950)**	(9,824)	**NA**	NA

(a) Includes loans greater or equal to 90 days past due that continue to accrue interest. The principal balance of these loans totaled $78 million and $75 million at March 31, 2008, and December 31, 2007, respectively. Also, see Note 4 on pages 80 81 and Note 12 on

pages 86 88 respectively, of this Form 10-Q.

(b) *Includes unused advised lines of credit totaling $37.7 billion and $38.4 billion at March 31, 2008, and December 31, 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.*

(c) *Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit risk of credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. Includes $33.9 billion and $31.1 billion at March 31, 2008, and December 31, 2007, respectively, which*

represents the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.

(d) *Represents other liquid securities collateral held by the Firm as of March 31, 2008, and December 31, 2007, respectively.*

Net charge-offs/(recoveries)
Wholesale

(in millions, except ratios)	Three months ended March 31, **2008**	2007
Loans reported		
Net charge-offs (recoveries)	**$ 92**	$ (6)
Average annual net charge-off (recovery) rate[(a)]	**0.18%**	(0.02)%

(a) *Excludes average wholesale loans held-for-sale and loans at fair value of $20.1 billion and $14.2 billion for the quarters ended March 31, 2008 and 2007, respectively.*

Net charge-offs (recoveries) do not include gains and losses from sales of nonperforming loans that were sold as shown in the following table. There were no gains or losses during the first quarters of 2008 and 2007, respectively.

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Nonperforming loan activity
Wholesale

(in millions)	Three months ended March 31, 2008	2007
Beginning balance at January 1	**$ 514**	$ 391
Additions	**590**	134
Reductions		
Paydowns and other	**(177)**	(225)
Charge-offs	**(130)**	(17)
Returned to performing	**(9)**	(16)
Sales	**(7)**	
Total reductions	**(323)**	(258)
Net additions (reductions)	**267**	(124)
Ending balance	**$ 781**	$ 267

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of March 31, 2008, and December 31, 2007. The ratings scale is based upon the Firm s internal risk ratings and generally correspond to the ratings as defined by S&P and Moody s.

Wholesale credit exposure maturity and ratings profile

At March 31, 2008	Maturity profile[c]				Ratings profile			
(in billions, except ratios)	<1 year	1 - 5 years	> 5 years	Total	Investment-grade (IG) AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans	**42%**	**43%**	**15%**	**100%**	**$ 139**	**$ 73**	**$ 212**	**66%**
Derivative receivables	**20**	**41**	**39**	**100**	**80**	**19**	**99**	**81**
Lending-related commitments	**37**	**57**	**6**	**100**	**371**	**67**	**438**	**85**
Total excluding loans held-for-sale and loans at fair value	**36%**	**52%**	**12%**	**100%**	**$ 590**	**$ 159**	**$ 749**	**79%**
Loans held-for-sale and loans at fair value[a]							**20**	

Total exposure							**$ 769**	
Net credit derivative hedges notional[(b)]	**22%**	**73%**	**5%**	**100%**	**$ (79)**	**$**	**$ (79)**	**100%**

	Maturity profile[(c)]				Ratings profile			
At December 31, 2007					Investment-grade (IG) AAA/Aaa to	Noninvestment-grade BB+/Ba1		Total %
(in billions, except ratios)	<1 year	1 - 5 years	> 5 years	Total	BBB-/Baa3	& below	Total	of IG
Loans	44%	45%	11%	100%	$ 127	$ 62	$ 189	67%
Derivative receivables	17	39	44	100	64	13	77	83
Lending-related commitments	35	59	6	100	380	67	447	85
Total excluding loans held-for-sale and loans at fair value	36%	53%	11%	100%	$ 571	$ 142	$ 713	80%
Loans held-for-sale and loans at fair value[(a)]							24	
Total exposure							$ 737	
Net credit derivative hedges notional[(b)]	39%	56%	5%	100%	$ (68)	$	$ (68)	100%

(a) *Loans held-for-sale relate primarily to syndication 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. Includes $33.9 billion and $31.1 billion at March 31, 2008, and December 31, 2007, respectively, which represents the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio. Prior periods have been revised to reflect the current presentation.

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(c) *The maturity profile of loans and lending-related commitments is based upon the remaining contractual maturity. The maturity profile of derivative receivables is based upon the maturity profile of average exposure. See page 80 of JPMorgan Chase s 2007 Annual Report for further discussion of average exposure.*

Wholesale credit exposure selected industry concentration

The Firm focuses on the management and diversification of its industry concentrations, with particular attention paid to industries with actual or potential credit concerns. At March 31, 2008, the top 10 industries were the same as those at December 31, 2007.

	March 31, 2008		December 31, 2007	
Top 10 industries[a] (in millions, except ratios)	Credit exposure[d]	% of portfolio	Credit exposure[d]	% of portfolio
Banks and finance companies	**$ 72,487**	**10%**	$ 65,288	9%
Asset managers	**44,291**	**6**	38,554	6
Real estate	**39,500**	**5**	38,295	5
Consumer products	**35,685**	**5**	29,941	4
Healthcare	**34,303**	**4**	30,746	4
State and municipal governments	**31,910**	**4**	31,425	5
Utilities	**30,862**	**4**	28,679	4
Securities firms and exchanges	**30,789**	**4**	23,274	3
Retail and consumer services	**27,563**	**4**	23,969	3
Oil and gas	**26,634**	**4**	26,082	4
All other[b]	**374,498**	**50**	376,962	53
Total excluding loans held-for-sale and loans at fair value	**$ 748,522**	**100%**	$ 713,215	100%
Loans held-for-sale and loans at fair value[c]	**20,277**		23,649	

Total	**$ 768,799**	$ 736,864

(a) Rankings are based upon exposure at March 31, 2008.

(b) For more information on exposures to SPEs included in all other, see Note 15 on pages 94 98 of this Form 10-Q.

(c) Loans held-for-sale relate primarily to syndication loans and loans transferred from the retained portfolio.

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

Wholesale criticized exposure

Exposures deemed criticized generally represent a ratings profile similar to a rating of CCC+ / Caa1 and lower, as defined by S&P and Moody s. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, increased to $10.3 billion, at March 31, 2008, from $6.8 billion at year-end 2007. The increase was primarily related to downgrades to select names within the portfolio, mainly in the IB.

Wholesale criticized exposure industry concentrations

	March 31, 2008		December 31, 2007	
Top 10 industries[(a)]	Credit	% of	Credit	% of
(in millions, except ratios)	exposure	portfolio	exposure	portfolio
Real estate	**$ 1,811**	**18%**	$ 1,070	16%
Automotive	**1,437**	**14**	1,338	20
Banks and finance companies	**1,139**	**11**	498	7
Building materials/construction	**765**	**7**	345	5
Asset managers	**681**	**7**	212	3

Retail and consumer services	**562**	**5**	550	8
State and municipal government	**461**	**4**	12	
Media	**393**	**4**	303	4
Utilities	**303**	**3**	212	3
Consumer products	**300**	**3**	239	4
All other	**2,460**	**24**	2,059	30
Total excluding loans held-for-sale and loans at fair value	**$ 10,312**	**100%**	$ 6,838	100%
Loans held-for-sale and loans at fair value[(b)]	**1,615**		205	
Total	**$ 11,927**		$ 7,043	

(a) *Rankings are based upon exposure at March 31, 2008.*

(b) *Loans held-for-sale relate primarily to syndication loans and loans transferred from the retained portfolio.*

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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, see Note 21 on page 103 of this Form 10-Q, and derivative contracts on pages 79 82 and Note 30 on pages 168 169 of JPMorgan Chase s 2007 Annual Report.

The following table summarizes the aggregate notional amounts and the net derivative receivables MTM for the periods presented.

Notional amounts of derivative contracts

	Notional amounts[a]	
(in billions)	**March 31, 2008**	December 31, 2007
Interest rate contracts		
Interest rate and currency swaps[b]	**$ 56,730**	$ 53,458
Futures and forwards	**5,311**	4,548
Purchased options	**5,076**	5,349
Total interest rate contracts	**67,117**	63,355
Credit derivatives	**$ 8,225**	$ 7,967
Commodity contracts		
Swaps	**$ 286**	$ 275
Futures and forwards	**130**	91
Purchased options	**225**	233
Total commodity contracts	**641**	599
Foreign exchange contracts		
Futures and forwards	**$ 3,794**	$ 3,424
Purchased options	**1,231**	906
Total foreign exchange contracts	**5,025**	4,330
Equity contracts		
Swaps	**$ 102**	$ 105
Futures and forwards	**80**	72
Purchased options	**764**	821
Total equity contracts	**946**	998
Total derivative notional amounts	**$ 81,954**	$ 77,249

(a) *Represents the sum of gross long and gross*

short third-party notional derivative contracts, excluding written options and foreign exchange spot contracts.

(b) *Includes cross currency swap contract notional amounts of $1.5 trillion and $1.4 trillion at March 31, 2008, and December 31, 2007, respectively.*

Derivative receivables marked-to-market

	Derivative receivables MTM	
(in millions)	**March 31, 2008**	December 31, 2007
Interest rate contracts	**$ 40,371**	$ 36,020
Credit derivatives	**27,551**	22,083
Commodity contracts	**12,395**	9,419
Foreign exchange	**12,280**	5,616
Equity contracts	**6,513**	3,998
Total, net of cash collateral	**$ 99,110**	$ 77,136
Liquid securities collateral held against derivative receivables	**(13,950)**	(9,824)
Total, net of all collateral	**$ 85,160**	$ 67,312

The amount of derivative receivables reported on the Consolidated Balance Sheets of $99.1 billion and $77.1 billion at March 31, 2008, and December 31, 2007, respectively, is the amount of the mark-to-market (MTM) or fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by the Firm. These amounts represent the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in management s view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of $14.0 billion and $9.8 billion at March 31, 2008, and December 31, 2007, respectively, resulting in total exposure, net of all collateral, of $85.2 billion and $67.3 billion at March 31, 2008, and December 31, 2007, respectively. Derivative receivables increased $17.8 billion from

December 31, 2007, primarily driven by increases in foreign exchange and credit derivatives due to the decline in the U.S. dollar and increased credit spreads, respectively, as well as a decline in interest rates.

The Firm also holds additional collateral delivered by clients at the initiation of transactions, but this collateral does not reduce the credit risk of the derivative receivables in the table above. This additional collateral secures potential exposure that could arise in the derivatives portfolio should the MTM of the client s transactions move in the Firm s favor. As of March 31, 2008, and December 31, 2007, the Firm held $19.7 billion and $17.4 billion of this additional collateral, respectively. The derivative receivables MTM, net of all collateral, also does not include other credit enhancements in the forms of letters of credit.

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

	March 31, 2008		December 31, 2007	
Rating equivalent (in millions, except ratios)	**Exposure net of all collateral**	**% of exposure net of all collateral**	Exposure net of all collateral	% of exposure net of all collateral
AAA/Aaa to AA-/Aa3	**$ 42,113**	**50%**	$ 38,314	57%
A+/A1 to A-/A3	**15,124**	**18**	9,855	15
BBB+/Baa1 to BBB-/Baa3	**13,066**	**15**	9,335	14
BB+/Ba1 to B-/B3	**13,682**	**16**	9,451	14
CCC+/Caa1 and below	**1,175**	**1**	357	
Total	**$ 85,160**	**100%**	$ 67,312	100%

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 decreased slightly to 80% as of March 31, 2008, from 82% at December 31, 2007.

The Firm posted $48.5 billion and $33.5 billion of collateral at March 31, 2008, and December 31, 2007, respectively. Certain derivative and collateral agreements include provisions that require the counterparty and/or the Firm, upon specified downgrades in their respective credit ratings, to post collateral for the benefit of the other party. The impact of a single-notch ratings downgrade to JPMorgan Chase Bank, N.A., from its rating of AA to AA- at March 31, 2008, would have required $274 million of additional collateral to be posted by the Firm. The impact of a six-notch ratings downgrade (from AA to BBB) would have required $3.4 billion of additional collateral. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

The following table presents the Firm s notional amounts of credit derivatives protection purchased and sold as of March 31, 2008, and December 31, 2007.

Credit derivatives positions

	Notional amount				
	Credit portfolio		Dealer/client		
(in billions)	Protection purchased[(a)]	Protection sold	Protection purchased	Protection sold	Total
March 31, 2008	**$ 80**	**$ 1**	**$ 4,118**	**$ 4,026**	**$ 8,225**
December 31, 2007	70	2	3,999	3,896	7,967

(a) Included $33.9 billion and $31.1 billion at March 31, 2008, and December 31, 2007, respectively, that represented the notional amount for structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.

JPMorgan Chase has counterparty exposure as a result of credit derivatives transactions. Of the $99.1 billion of total derivative receivables MTM at March 31, 2008, $27.6 billion, or 28%, was associated with credit derivatives, before the benefit of liquid securities collateral.

Dealer/client

At March 31, 2008, the total notional amount of protection purchased and sold in the dealer/client business increased $249 billion from year-end 2007 as a result of increased trade volume in the market. The risk positions are largely matched with residual default exposure and spread risk actively managed by the Firm s various trading desks.

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Credit portfolio management activities
Use of single-name and portfolio credit derivatives

	Notional amount of protection purchased	
(in millions)	**March 31, 2008**	December 31, 2007
Credit derivatives used to manage		
Loans and lending-related commitments	**$ 73,131**	$ 63,645
Derivative receivables	**6,566**	6,462
Total[(a)]	**$ 79,697**	$ 70,107

(a) Included $33.9 billion and $31.1 billion at March 31, 2008, and December 31, 2007, respectively, that represented the notional amount for structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.

The credit derivatives used by JPMorgan Chase for credit portfolio management activities do not qualify for hedge accounting under SFAS 133, and therefore, effectiveness testing under SFAS 133 is not performed. These derivatives are reported at fair value, with gains and losses recognized in principal transactions revenue. The MTM value incorporates both the cost of credit derivative premiums and changes in value due to movement in spreads and credit events; in contrast, the loans and lending-related commitments being risk-managed are accounted for on an accrual basis. Loan interest and fees are generally recognized in net interest income, and impairment is recognized in the provision for credit losses. This asymmetry in accounting treatment, between loans and lending-related commitments and the credit derivatives utilized in credit portfolio management activities, causes earnings volatility that is not representative, in the Firm s view, of the true changes in value of the Firm s overall credit exposure. The MTM related to the Firm s credit derivatives used for managing credit exposure, as well as the MTM related to the credit valuation adjustment (CVA), which reflects the credit quality of derivatives counterparty exposure, are included 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 marked to market (MTM) on pages 80 81 of JPMorgan Chase s 2007 Annual Report.

	Three months ended March 31,			
(in millions)		**2008**		2007
Hedges of lending-related commitments[(a)]	**$**	**387**	$	(9)
CVA and hedges of CVA[(a)]		**(734)**		7
Net gains (losses)[(b)]	**$**	**(347)**	$	(2)

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

(b) Excludes gains of $1.3 billion and gains of $146 million for the quarters ended March 31, 2008 and 2007, respectively, of other principal transaction revenue that are not associated with hedging activities. The amounts incorporate an adjustment to the valuation of the Firm s derivative liabilities as a result of the adoption of SFAS 157 on January 1, 2007.

The Firm also actively manages wholesale credit exposure through IB and CB loan and commitment sales. During the first quarter of 2008 and 2007, the Firm sold $1.1 billion and $1.6 billion of loans and commitments, respectively, recognizing losses of $5 million and $6 million, respectively. These results include any gains or losses on sales of nonperforming loans as discussed on page 50 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 14 on pages 46 48, and 89 94, respectively, of this Form 10-Q.

Lending-related commitments

Wholesale lending-related commitments were $438.4 billion at March 31, 2008, compared with $446.7 billion at

December 31, 2007. See page 50 of this Form 10-Q for an explanation of the decrease in exposure. In the Firm s view, the total contractual amount of these instruments is not representative of the Firm s actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these instruments, the Firm has established a loan-equivalent amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based upon average portfolio historical experience, to become outstanding in the event of a default by an obligor. The loan-equivalent amount of the Firm s lending-related commitments was $233.9 billion and $238.7 billion as of March 31, 2008, and December 31, 2007, respectively.

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Emerging markets country exposure

The Firm has a comprehensive internal process for measuring and managing exposures to emerging markets countries. There is no common definition of emerging markets but the Firm generally, though not exclusively, includes in its definition those countries whose sovereign debt ratings are equivalent to A+ or lower. Exposures to a country include all credit-related lending, trading and investment activities, whether cross-border or locally funded. In addition to monitoring country exposures, the Firm uses stress tests to measure and manage the risk of extreme loss associated with sovereign crises.

The table below presents the Firm s exposure to the top five emerging markets countries. The selection of countries is based solely on the Firm s largest total exposures by country and not the Firm s view of any actual or potentially adverse credit conditions. Exposure is reported based 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 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 5 emerging markets country exposure

At March 31, 2008	Cross-border					
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Local[(d)]	**Total exposure**
South Korea	**$ 3.0**	**$ 3.2**	**$ 0.8**	**$ 7.0**	**$ 2.8**	**$ 9.8**
India	**2.7**	**1.5**	**0.9**	**5.1**	**1.1**	**6.2**
Brazil	**1.5**	**(0.4)**	**0.4**	**1.5**	**4.6**	**6.1**
Russia	**2.9**	**1.9**	**0.2**	**5.0**	**0.2**	**5.2**
China	**2.7**	**0.5**	**0.4**	**3.6**	**1.2**	**4.8**

At December 31, 2007	Cross-border					
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Local[(d)]	**Total exposure**
South Korea	$ 3.2	$ 2.6	$ 0.7	$ 6.5	$ 3.4	$ 9.9
India	1.9	0.8	0.8	3.5	0.6	4.1
Brazil	1.1	(0.7)	1.2	1.6	5.0	6.6
Russia	2.9	1.0	0.2	4.1	0.4	4.5
China	2.2	0.3	0.4	2.9	0.3	3.2

(a) Lending includes loans and accrued interest receivable, interest-bearing deposits with banks, acceptances, other monetary assets, issued letters of credit

net of participations, and undrawn commitments to extend credit.

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

(c) *Other represents mainly local exposure funded cross-border.*

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

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CONSUMER CREDIT PORTFOLIO

JPMorgan Chase s consumer portfolio consists primarily of residential mortgages, home equity loans, credit cards, auto loans and leases, education loans and business banking loans, and reflects the benefit of diversification from both a product and a geographic perspective. The primary focus is serving the prime consumer credit market. RFS offers home equity lines of credit and mortgage loans with interest-only payment options to predominantly prime borrowers; there are no products in the real estate portfolios that result in negative amortization.

The continued deterioration in residential real estate values has negatively impacted all consumer credit asset classes. Geographic areas that have experienced the most significant declines in home prices have exhibited higher delinquency and losses across the consumer credit product spectrum.

Actions continue to be taken to tighten credit underwriting and loan qualification standards. These actions have resulted in significant reductions in new loan originations of risk layered loans, and improved alignment of loan pricing with the embedded risk.

The following table presents managed consumer credit related information for the dates indicated.

	Credit exposure		Nonperforming assets[f]	
(in millions, except ratios)	**March 31, 2008**	December 31, 2007	**March 31, 2008**	December 31, 2007
Consumer loans reported[a]				
Home equity	**$ 94,968**	$ 94,832	**$ 948**	$ 810
Mortgage	**60,480**	55,461	**2,537**	1,798
Auto loans and leases[b]	**44,714**	42,350	**94**	116
Credit card reported[c]	**75,888**	84,352	**6**	7
All other loans	**25,175**	25,314	**335**	341
Loans held-for-sale	**4,534**	3,989		
Total consumer loans reported	**305,759**	306,298	**3,920**	3,072
Credit card securitized[c][d]	**75,062**	72,701		
Total consumer loans managed[a]	**380,821**	378,999	**3,920**	3,072
Assets acquired in loan satisfactions	**NA**	NA	**617**	549
Total consumer-related assets managed	**380,821**	378,999	**4,537**	3,621
Consumer lending-related commitments:				
Home equity[e]	**73,049**	74,191	**NA**	NA
Mortgage	**8,193**	7,410	**NA**	NA
Auto loans and leases	**7,220**	8,058	**NA**	NA
Credit card[e]	**730,458**	714,848	**NA**	NA
All other loans	**10,269**	11,429	**NA**	NA
Total lending-related commitments	**829,189**	815,936	**NA**	NA
Total consumer credit portfolio	**$ 1,210,010**	$ 1,194,935	**$ 4,537**	$ 3,621
Memo: Credit card managed	**$ 150,950**	$ 157,053	**$ 6**	$ 7

	Three months ended March 31,			
	Net charge-offs		Average annual net charge-off rate[g]	
(in millions, except ratios)	**2008**	2007	**2008**	2007
Home equity	**$ 447**	$ 68	**1.89%**	0.32%
Mortgage	**199**	23	**1.38**	0.25
Auto loans and leases[b]	**118**	59	**1.10**	0.59
Credit card reported	**989**	721	**5.01**	3.57
All other loans	**61**	38	**0.98**	0.64
Total consumer loans reported	**1,814**	909	**2.43**	1.37
Credit card securitized[d]	**681**	593	**3.70**	3.56
Total consumer loans managed	**$ 2,495**	$ 1,502	**2.68%**	1.81%
Memo: Credit card managed	**$ 1,670**	$ 1,314	**4.37%**	3.57%

(a) Includes RFS, CS and residential mortgage loans reported in the Corporate/Private Equity segment.

(b) Excludes operating lease-related assets of $2.0 billion and $1.9 billion for March 31, 2008, and December 31, 2007, respectively.

(c) Loans past due 90 days and over and accruing includes credit card receivables-reported of $1.6 billion and $1.5 billion for March 31, 2008, and December 31, 2007, respectively, and related credit card securitizations of $1.2 billion and $1.1 billion for March 31, 2008, and December 31, 2007, respectively.

(d) Represents securitized credit

card receivables. For a further discussion of credit card securitizations, see CS on pages 26 28 of this Form 10-Q.

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(e) 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 if certain conditions are met for home equity commitments, 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.

(f) Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of

$1.8 billion and $1.5 billion for March 31, 2008, and December 31, 2007, respectively, and (2) education 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 $252 million and $279 million as of March 31, 2008, and December 31, 2007, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally .

(g) *Net charge-off rates exclude average loans held-for-sale of $4.4 billion and $21.7 billion for the quarters ended March 31, 2008 and 2007, respectively.*

The Firm regularly evaluates market conditions and overall economic returns and makes an initial determination of whether new originations will be held-for-investment or sold within the foreseeable future. The Firm also periodically evaluates the expected economic returns of previously originated loans under prevailing market conditions to determine whether their designation as held-for-sale or held-for-investment continues to be appropriate. When the Firm determines that a change in this designation is appropriate, the loans are transferred to the appropriate

classification. In response to changes in market conditions in the second half of 2007, the Firm has designated as held-for-investment all new originations of subprime mortgage loans, as well as subprime mortgage loans that were previously designated held-for-sale. In addition, all new nonconforming prime mortgage loan originations have been designated as held-for-investment. Prime mortgage loans originated with the intent to sell are accounted for at fair value under SFAS 159 and are classified as trading assets in the Consolidated Balance Sheets.

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

Home equity: Home equity loans at March 31, 2008 were $95.0 billion, relatively unchanged from year-end 2007. The provision for credit losses for the Home equity portfolio includes a net increase of $1.1 billion to the allowance for loan losses for the quarter ended March 31, 2008, as risk layered loans, continued weak housing prices and slowing economic growth continue to result in higher nonperforming assets and estimated losses for this product segment. Losses are particularly concentrated in loans with high combined effective loan-to-value ratios in specific geographic regions that have experienced significant declines in housing prices. The decline in housing prices and the second lien position for these types of loans results in minimal proceeds upon foreclosure, increasing the severity of losses. In response to continued weakness in housing markets, loan underwriting and account management criteria have been tightened, with a particular focus on metropolitan statistical areas (MSAs) with the most significant housing price declines.

Mortgage: Prior to the third quarter of 2007, subprime mortgage loans and substantially all of the Firm s prime mortgages, both fixed-rate and adjustable-rate, were originated with the intent to sell. Prime mortgage loans originated into the held-for-investment portfolio consisted primarily of adjustable-rate products. As a result of the decision to retain rather than sell subprime mortgage loans and new originations of nonconforming prime mortgage loans, both fixed-rate and adjustable-rate products are now being originated into the held-for-investment portfolio. Mortgages, irrespective of whether they are originated with the intent to sell or hold-for-investment, are underwritten to the same standards applicable to the respective type of mortgage. In response to continued weakness in housing markets, loan underwriting and account management criteria have been tightened at the MSA level.

Mortgage loans including loans that are held-for-sale at March 31, 2008 were $60.9 billion, reflecting a $4.8 billion increase from year-end 2007; the increase was primarily due to the decision to retain rather than sell new originations of nonconforming prime mortgage loans. As of March 31, 2008, mortgage loans on the Consolidated Balance Sheets included $15.8 billion of subprime mortgage loans, representing 26% of the total mortgage loan balance, and $45.1 billion of prime mortgage loans. The provision for credit losses includes a net increase to the allowance for loan losses of $417 million for subprime mortgages and $256 million for prime mortgages, as housing price declines in specific geographic regions and slowing economic growth continue to increase estimated losses for all mortgage segments and to have a negative impact on nonperforming assets. Subprime mortgage net charge-offs were $149 million (3.82% net charge-off rate), compared with $20 million (0.92% net charge-off rate) in the prior year. Prime mortgage net charge-offs were $50 million (0.48% net charge-off rate), compared with $3 million (0.04% net charge-off rate) in the prior year.

Auto loans and leases: As of March 31, 2008, auto loans and leases of $44.7 billion increased $2.4 billion from year-end 2007. The auto loan portfolio reflects a high concentration of prime and near-prime quality credits. The allowance for loan losses for the auto loan portfolio was increased $50 million for the quarter ending March 31, 2008, reflecting an increase in estimated losses due to deterioration in recently-originated loans as a result of the worsening credit environment. In response to recent increases in loan delinquencies and credit losses, particularly in geographic areas experiencing significant housing price declines, credit underwriting criteria has been tightened, which has resulted in the reduction of both extended-term and high loan-to-value financing.

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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 $150.9 billion at March 31, 2008, a decrease of $6.1 billion from year-end 2007, reflecting the typical seasonal decrease of outstanding loans.

The managed credit card net charge-off rate increased to 4.37% for the first quarter of 2008, from 3.57% in the first quarter of 2007. The 30-day managed delinquency rate increased to 3.66% at March 31, 2008, from 3.48% at December 31, 2007, and 3.07% at March 31, 2007. The increase in net charge-off and delinquency rate reflects a slight deterioration in underlying credit quality, partially a result of weakness in the current economic environment including continued weakness in housing markets. 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), and education loans. As of March 31, 2008, other loans, including loans held-for-sale, were $29.3 billion, compared with $28.7 billion at year-end 2007.

The following tables present the geographic distribution of consumer credit outstandings by product as of March 31, 2008, and December 31, 2007.

March 31, 2008 (in billions)	Home equity	Mortgage	Auto	Card reported	All other loans	Total consumer loans reported	Card securitized	Total consumer loans managed
Top 12 states								
California	**$ 15.2**	**$15.0**	**$ 5.2**	**$10.0**	**$ 1.2**	**$ 46.6**	**$10.0**	**$ 56.6**
New York	**14.5**	**8.6**	**3.7**	**5.9**	**3.7**	**36.4**	**5.9**	**42.3**
Texas	**6.0**	**2.2**	**4.0**	**5.2**	**3.3**	**20.7**	**5.5**	**26.2**
Florida	**5.3**	**6.7**	**1.6**	**4.3**	**0.7**	**18.6**	**4.4**	**23.0**
Illinois	**6.7**	**3.2**	**2.4**	**4.0**	**1.8**	**18.1**	**4.0**	**22.1**
Ohio	**4.9**	**1.0**	**3.1**	**3.0**	**2.6**	**14.6**	**3.2**	**17.8**
New Jersey	**4.5**	**2.4**	**1.8**	**2.9**	**0.8**	**12.4**	**3.2**	**15.6**
Michigan	**3.7**	**1.6**	**1.4**	**2.6**	**2.3**	**11.6**	**2.6**	**14.2**
Arizona	**5.8**	**1.6**	**1.8**	**1.6**	**1.6**	**12.4**	**1.5**	**13.9**
Pennsylvania	**1.6**	**0.9**	**1.8**	**2.9**	**0.6**	**7.8**	**3.0**	**10.8**
Colorado	**2.3**	**1.4**	**1.0**	**1.8**	**0.8**	**7.3**	**1.7**	**9.0**
Indiana	**2.4**	**0.6**	**1.2**	**1.6**	**1.1**	**6.9**	**1.6**	**8.5**
All other	**22.1**	**15.7**	**15.7**	**30.1**	**8.8**	**92.4**	**28.4**	**120.8**
Total	**$ 95.0**	**$60.9**	**$44.7**	**$75.9**	**$29.3**	**$ 305.8**	**$75.0**	**$ 380.8**

December 31, 2007 (in billions)	Home equity	Mortgage	Auto	Card reported	All other loans	Total consumer loans reported	Card securitized	Total consumer loans managed
Top 12 states								
California	$ 14.9	$13.4	$ 5.0	$11.0	$ 1.0	$ 45.3	$ 9.6	$ 54.9
New York	14.4	8.0	3.6	6.6	4.2	36.8	5.6	42.4
Texas	6.1	2.0	3.7	5.8	3.5	21.1	5.4	26.5
Florida	5.3	6.4	1.6	4.7	0.5	18.5	4.2	22.7

Illinois	6.7	3.0	2.2	4.5	1.9	18.3	3.9	22.2
Ohio	4.9	1.0	2.9	3.3	2.6	14.7	3.1	17.8
New Jersey	4.4	2.2	1.7	3.3	0.5	12.1	3.1	15.2
Michigan	3.7	1.6	1.3	2.9	2.3	11.8	2.5	14.3
Arizona	5.7	1.5	1.8	1.7	1.8	12.5	1.4	13.9
Pennsylvania	1.6	0.9	1.7	3.2	0.5	7.9	2.9	10.8
Colorado	2.3	1.3	1.0	2.0	0.8	7.4	1.7	9.1
Indiana	2.4	0.6	1.2	1.8	1.1	7.1	1.5	8.6
All other	22.4	14.1	14.7	33.6	8.0	92.8	27.8	120.6
Total	$ 94.8	$ 56.0	$ 42.4	$ 84.4	$ 28.7	$ 306.3	$ 72.7	$ 379.0

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 pages 65 67 and Note 13 on pages 88 89 of this Form 10-Q, and page 96 and Note 15 on pages 138 139 of JPMorgan Chase s 2007 Annual Report. At March 31, 2008, management deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including losses that are not specifically identified or for which the size of the loss has not yet been fully determined).

Summary of changes in the allowance for credit losses

Three months ended March 31,		**2008**			2007	
(in millions)	Wholesale	Consumer	Total	Wholesale	Consumer	Total
Loans:						
Beginning balance at January 1,	**$ 3,154**	**$ 6,080**	**$ 9,234**	$ 2,711	$ 4,568	$ 7,279
Cumulative effect of changes in accounting principles[a]				(56)		(56)
Beginning balance at January 1, adjusted	**3,154**	**6,080**	**9,234**	2,655	4,568	7,223
Gross charge-offs	**(130)**	**(2,024)**	**(2,154)**	(17)	(1,088)	(1,105)
Gross recoveries	**38**	**210**	**248**	23	179	202
Net (charge-offs) recoveries	**(92)**	**(1,814)**	**(1,906)**	6	(909)	(903)
Provision for loan losses	**742**	**3,677**	**4,419**	48	931	979
Other	**33**[b]	**(34)**[b]	**(1)**	(16)[c]	17[c]	1
Ending balance at March 31	**$ 3,837**[d]	**$ 7,909**[e]	**$ 11,746**	$ 2,693[d]	$ 4,607[e]	$ 7,300
Components:						
Asset specific[f]	**$ 146**	**$ 75**	**$ 221**	$ 54	$ 70	$ 124
Formula-based[f]	**3,691**	**7,834**	**11,525**	2,639	4,537	7,176
Total allowance for loan losses	**$ 3,837**	**$ 7,909**	**$ 11,746**	$ 2,693	$ 4,607	$ 7,300
Lending-related commitments:						
Beginning balance at January 1,	**$ 835**	**$ 15**	**$ 850**	$ 499	$ 25	$ 524
Provision for lending-related commitments	**5**		**5**	29		29
Other	**6**[b]	**(6)**[b]				
Ending balance at March 31	**$ 846**	**$ 9**	**$ 855**	$ 528	$ 25	$ 553
Components:						
Asset specific	**$ 23**	**$**	**$ 23**	$ 40	$	$ 40
Formula-based	**823**	**9**	**832**	488	25	513
	$ 846	**$ 9**	**$ 855**	$ 528	$ 25	$ 553

Total allowance for lending-related commitments						
Total allowance for credit losses	**$ 4,683**	**$ 7,918**	**$ 12,601**	$ 3,221	$ 4,632	$ 7,853

(a) Reflects the effect of the adoption of SFAS 159 at January 1, 2007. For a further discussion of SFAS 159, see Note 4 on pages 80 81 of this Form 10-Q.

(b) Primarily related to the transfer of loans from RFS to CB during the first quarter of 2008.

(c) Partially related to the transfer of allowance between wholesale and consumer in conjunction with prime mortgages transferred to the Corporate/Private Equity sector.

(d) The ratio of the wholesale allowance for loan losses to total wholesale loans was 1.82% and 1.76%, excluding wholesale held-for-sale loans and loans accounted for at fair value at March 31, 2008 and 2007, respectively.

(e) The ratio of the consumer allowance for loan losses to total consumer loans was 2.63% and

1.72%, excluding consumer held-for-sale loans and loans accounted for at fair value at March 31, 2008 and 2007, respectively.

(f) *Prior periods have been revised to reflect the current presentation.*

The allowance for credit losses increased $2.5 billion from December 31, 2007. Excluding held-for-sale loans and loans carried at fair value, the allowance for loan losses represented 2.29% of loans at March 31, 2008, compared with 1.88% at December 31, 2007. Consumer allowance for loan losses increased $1.8 billion from 4Q07, primarily as a result of increased allowance for loan loss in residential real estate. The increase in consumer allowance for loan losses for the quarter ended March 31, 2008, included $1.1 billion for home equity loans, as risk layered loans, continued weak housing prices and slowing economic growth continue to result in increased estimated losses for this product segment and higher nonperforming assets. The allowance for loan loss increased $417 million for subprime mortgages and $256 million for prime mortgages, as housing price declines in specific geographic regions and slowing economic growth continue to increase estimated losses for all mortgage product segments and to have a negative impact on nonperforming assets. The increase in wholesale allowance reflected the transfer of funded and unfunded leverage lending commitments to retained loans from held-for-sale, other volume and other portfolio activity related to the effect of a weakening credit environment.

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To provide for the risk of loss inherent in the Firm s process of extending credit, management computes an asset-specific component and a formula-based component for wholesale lending-related commitments. These components are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown. This allowance, which is reported in other liabilities, was $855 million and $850 million at March 31, 2008, and December 31, 2007, respectively.

Provision for credit losses

For a discussion of the reported provision for credit losses, see page 11 of this Form 10-Q. The managed provision for credit losses was $5.1 billion, up $3.5 billion, or 219%, from the prior year. The total consumer managed provision for credit losses was $4.4 billion in the current quarter compared with $1.5 billion in the prior year. The wholesale provision for credit losses was $747 million compared with a provision of $77 million in the prior year, reflecting an increase in the allowance for credit losses, primarily related to the transfer of funded and unfunded leverage lending commitments to retained loans from held-for-sale as well as the effect of a weakening credit environment. The credit performance of residential real estate loans continues to be negatively impacted by deterioration in housing values across many geographic markets. Management has taken significant actions to reduce risk exposure by tightening underwriting and account management criteria for real estate lending as well as consumer lending for non-real estate products in those markets most impacted by the recent housing downturn. Tighter income verification, more conservative collateral valuation, reduced loan-to-value maximums, higher FICO and custom risk score requirements are just some of the actions taken to date to mitigate risk.

	Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses	
Three months ended March 31, (in millions)	**2008**	2007	**2008**	2007	**2008**	2007
Investment Bank	**$ 571**	$ 35	**$ 47**	$ 28	**$ 618**	$ 63
Commercial Banking	**143**	17	**(42)**		**101**	17
Treasury & Securities Services	**11**	4	**1**	2	**12**	6
Asset Management	**17**	(8)	**(1)**	(1)	**16**	(9)
Total wholesale	**742**	48	**5**	29	**747**	77
Retail Financial Services	**2,492**	292			**2,492**	292
Card Services reported	**989**	636			**989**	636
Corporate/Private Equity	**196**	3			**196**	3
Total consumer	**3,677**	931			**3,677**	931
Total provision for credit losses reported	**4,419**	979	**5**	29	**4,424**	1,008
Card Services securitized	**681**	593			**681**	593
Total provision for credit losses managed	**$ 5,100**	$ 1,572	**$ 5**	$ 29	**$ 5,105**	$ 1,601

MARKET RISK MANAGEMENT

For discussion of the Firm s market risk management organization, see pages 90 94 of JPMorgan Chase s 2007 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, one-off approvals, and as an input to economic capital calculations. VAR provides risk transparency in a normal trading environment. Each business day the Firm undertakes a comprehensive VAR calculation that includes both its trading and its nontrading risks. VAR for nontrading risk measures the amount of potential change in the fair values of the exposures related to these risks; however, for such risks, VAR is not a measure of reported revenue since nontrading activities are generally not marked to market through net income.

To calculate VAR, the Firm uses historical simulation, which measures risk across instruments and portfolios in a consistent and comparable way. This approach assumes that historical changes in market values are representative of future changes. The simulation is based upon data for the previous 12 months. The Firm calculates VAR using a one-day time horizon and an expected tail-loss methodology, which approximates a 99% confidence level. This means the Firm would expect to incur losses greater than that predicted by VAR estimates only once in every 100 trading days, or about

two to three times a year. For a further discussion of the Firm s VAR methodology, see Market Risk Management Value-at-risk, on pages 91 92 of JPMorgan Chase s 2007 Annual Report.

IB trading and credit portfolio VAR

IB trading VAR by risk type and credit portfolio VAR

	Three months ended March 31,						At March 31,	
	2008			2007				
(in millions)	**Avg**	**Min**	**Max**	Avg	Min	Max	**2008**	2007
By risk type:								
Fixed income	**$ 120**	**$ 99**	**$ 149**	$ 45	$ 25	$ 68	**$ 138**	$ 65
Foreign exchange	**35**	**17**	**78**	19	9	38	**37**	19
Equities	**31**	**22**	**58**	42	31	58	**25**	43
Commodities and other	**28**	**24**	**34**	34	25	47	**33**	36
Diversification	**(92)**(a)	**NM**(b)	**NM**(b)	(58)(a)	NM(b)	NM(b)	**(80)**(a)	(64)(a)
Trading VAR	**$ 122**	**$ 96**	**$ 163**	$ 82	$ 50	$ 111	**$ 153**	$ 99
Credit portfolio VAR	**30**	**20**	**45**	13	12	15	**38**	14
Diversification	**(30)**(a)	**NM**(b)	**NM**(b)	(12)(a)	NM(b)	NM(b)	**(45)**(a)	(16)(a)
Total trading and credit portfolio VAR	**$ 122**	**$ 96**	**$ 149**	$ 83	$ 50	$ 113	**$ 146**	$ 97

(a) *Average and period-end VARs are 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 are 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.

Trading VAR includes substantially all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example, correlation risk or the credit spread sensitivity of certain mortgage products. 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 63 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 and Private Equity. For a discussion of MSRs and the corporate functions, see Note 3 on pages 74 79, Note 16 on pages 99 100 and Corporate/Private Equity on pages 36 37 of this Form 10-Q, and Note 18 on pages 154 156, Note 4 on page 113 and Corporate/Private Equity on pages 59 60 of JPMorgan Chase s 2007 Annual Report.

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 111 118 of JPMorgan Chase s 2007 Annual Report. This VAR does not include the retained loan portfolio, which is not marked-to-market.

The IB s average total trading and credit portfolio VAR for the first quarter of 2008 was $122 million compared with $83 million in the first quarter of 2007. The increase in VAR was due to increases in the fixed income and foreign exchange VAR components as a result of positions changes and increased market volatility, which also led to an increase in portfolio diversification for trading VAR. Average trading VAR diversification increased to $92 million, or 43% of the sum of the components, from $58 million, or 41% of the sum of the components. In general, over the course of the year VAR exposures can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VAR backtesting

To evaluate the soundness of its VAR model, the Firm conducts daily back-testing of VAR against daily IB market risk-related revenue, which is defined as the change in value of principal transactions revenue less Private Equity gains/losses plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. The daily IB market risk-related revenue excludes gains and losses on held-for-sale funded loans and unfunded commitments and from DVA. The following histogram illustrates the daily market risk-related gains and losses for IB trading businesses for the quarter ended March 31, 2008. The chart shows that IB posted market risk-related gains on 42 out of 65 days in this period, with 10 days exceeding $100 million. The inset graph looks at those days on which IB experienced losses and depicts the amount by which VAR exceeded the actual loss on each of those days. Losses were sustained on 23 days during the three months ended March 31, 2008. For the first quarter of 2008, losses exceed the

VAR measure on two

days due to the high market volatility experienced during the period. No losses exceeded the VAR measure during the first quarter of 2007.

The Firm does not include the impact of DVA taken on derivative and structured liabilities to reflect the credit quality of the Firm in its trading VAR. The following table provides information about the sensitivity of DVA to a one basis point increase in JPMorgan Chase credit spreads.

Debit Valuation Adjustment Sensitivity

(in millions)	1 Basis Point Increase in JPMorgan Chase Credit Spread
March 31, 2008	**$ 36**
December 31, 2007	38

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 its nontrading activities at least once a month using multiple scenarios that assume credit spreads widen significantly, equity prices decline and interest rates rise in the major currencies. Additional scenarios focus on the risks predominant in individual business segments and include scenarios that focus on the potential for adverse moves in complex portfolios. Periodically, scenarios are reviewed and updated to reflect changes in the Firm s risk profile and economic events. Along with VAR, stress testing is important in measuring and controlling risk. Stress testing enhances the understanding of the Firm s risk profile and loss potential, and stress losses are monitored against limits. Stress testing is also utilized in one-off approvals and cross-business risk measurement, as well as an input to economic capital allocation. Stress-test results, trends and explanations are provided each month 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 also is 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. 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 over the next 12 months and 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.

Earnings-at-risk also can result from changes in the slope of the yield curve, because the Firm has the ability to lend at fixed rates and borrow at variable or short-term fixed rates. Based upon these scenarios, the Firm s earnings would be affected negatively by a sudden and unanticipated increase in short-term rates without a corresponding increase in long-term rates. Conversely, higher long-term rates generally are beneficial to earnings, particularly when the increase is not accompanied by rising short-term rates.

Immediate changes in interest rates present a limited view of risk, and so a number of alternative scenarios also are 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 March 31, 2008, and December 31, 2007, were as follows.

	Immediate change in rates			
(in millions)	+200bp	+100bp	-100bp	-200bp
March 31, 2008	**$ (525)**	**$ (131)**	**$ (481)**	**$ (1,455)**
December 31, 2007	(26)	55	(308)	(664)

The change in earnings-at-risk from December 31, 2007 results from a higher level of AFS securities and lower market interest rates. The Firm is exposed to both rising and falling rates. The Firm s risk to rising rates is largely the result of increased funding costs. In contrast, the exposure to falling rates is the result of higher anticipated levels of loan and securities prepayments, as well as spread compression on deposit products.

PRIVATE EQUITY RISK MANAGEMENT

For a discussion of Private Equity Risk Management, see page 94 of JPMorgan Chase s 2007 Annual Report. At March 31, 2008, and December 31, 2007, the carrying value of the Private Equity portfolio was $6.6 billion and $7.2 billion, respectively, of which $603 million and $390 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 94 95 of JPMorgan Chase s 2007 Annual Report.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

For a discussion of the Firm s Reputation and Fiduciary Risk Management, see page 95 of JPMorgan Chase s 2007 Annual Report.

SUPERVISION AND REGULATION

The following discussion should be read in conjunction with the Supervision and Regulation section on pages 1 3 of JPMorgan Chase s 2007 Form 10-K.

Dividends

At March 31, 2008, JPMorgan Chase s bank subsidiaries could pay, in the aggregate, $19.8 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 valuation 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 is managed in an appropriate manner. The Firm believes its estimates for determining the valuation of its assets and liabilities are appropriate. The following is a brief description of the Firm s critical accounting estimates involving significant valuation judgments.

Allowance for credit losses

JPMorgan Chase s allowance for credit losses covers the 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 for 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 15 on pages 138 139 of JPMorgan Chase s 2007 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 96 97 of JPMorgan Chase s 2007 Annual Report; for amounts recorded as of March 31, 2008 and 2007, see Allowance for Credit Losses on page 60 and Note 13 on pages 88 89 of this Form 10-Q.

As noted on page 96 of JPMorgan Chase s 2007 Annual Report, the Firm s wholesale allowance is sensitive to the risk rating assigned to a loan. Assuming a one-notch downgrade in the Firm s internal risk ratings for its entire Wholesale portfolio, the allowance for loan losses for the Wholesale portfolio would increase by approximately $1.8 billion as of March 31, 2008. This sensitivity analysis is hypothetical. In the Firm s view, the likelihood of a one-notch downgrade for all wholesale loans within a short timeframe is remote. The purpose of this analysis is to provide an indication of the impact of risk ratings on the estimate of the allowance for loan losses for wholesale loans. It is not intended to imply management s expectation of future deterioration in risk ratings. Given the process the Firm follows in determining the risk ratings of its loans, management believes the risk ratings currently assigned to wholesale loans are appropriate.

For consumer loans, the allowance for loan losses is sensitive to changes in the economic environment, delinquency status, credit bureau scores, the realizable value of collateral, borrower behavior and other risk factors. Significant differences in management s expectations for these factors could have significant impact on the estimation of the allowance for loan losses.

Fair value of financial instruments, MSRs and commodities inventory

A portion of JPMorgan Chase s assets and liabilities are carried at fair value, including trading assets and liabilities, AFS securities, certain loans, MSRs, private equity investments, structured notes, and certain repurchase and resale agreements. Physical commodities are carried at the lower of cost or fair value and reported within the recurring fair value disclosures. Held-for-sale loans are carried at the lower of cost or fair value on a nonrecurring basis. At March 31, 2008, and December 31, 2007, $646.0 billion and $635.5 billion, respectively, of the Firm s assets, and $253.4 billion and $254.3 billion, respectively, of the Firm s liabilities were recorded at fair value on a recurring basis.

Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that primarily use as inputs market-based or independently sourced market parameters. The Firm ensures that all applicable inputs are appropriately calibrated to market data, 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. Fair value adjustments, including credit (counterparties and the Firm s), liquidity, and input parameter uncertainty are included, as appropriate, to the model value to arrive at a fair value measurement. During the first quarter of 2008, no material changes were made to the Firm s valuation models. For a further description of assets and liabilities carried at fair value, see Note 4

and Note 5 on pages 111 118, and 119 121, respectively, of JPMorgan Chase s 2007 Annual Report. In addition, for a further discussion of the significant judgments and estimates involved in the determination of the fair value of the above instruments, as well as the process to validate valuation models, see Fair value of financial instruments, MSRs and commodities inventory on pages 97 98, and Model review on page 94 of JPMorgan Chase s 2007 Annual Report.

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The following tables summarize the Firm s assets accounted for at fair value on a recurring basis by level within the valuation hierarchy at March 31, 2008, and December 31, 2007.

March 31, 2008 (in billions)	Debt and equity securities	Derivative receivables	AFS securities	Mortgage servicing rights	Private equity	Other[(b)]	Total
Level 1	**43%**	**%**[(a)]	**79%**	**%**	**4%**	**23%**	**13%**[(a)]
Level 2	**46**	**98**[(a)]	**21**		**5**	**51**	**82**[(a)]
Level 3	**11**	**2**[(a)]		**100**	**91**	**26**	**5**[(a)]
Assets held at fair value	**$ 386.2**	**$ 99.1**	**$ 101.6**	**$ 8.4**	**$ 6.6**	**$ 44.1**	**$ 646.0**

Level 3 assets[(c)] as a percentage of total Firm:	
Assets at fair value	**15%**
Assets	**6**

December 31, 2007 (in billions)	Debt and equity securities	Derivative receivables	AFS securities	Mortgage servicing rights	Private equity	Other[(b)]	Total
Level 1	49%	2%[(a)]	84%	%	1%	25%	21%[(a)]
Level 2	45	96[(a)]	16		5	48	74[(a)]
Level 3	6	2[(a)]		100	94	27	5[(a)]
Assets held at fair value	$ 414.3	$ 77.1	$ 85.4	$ 8.6	$ 7.2	$ 42.9	$ 635.5

Level 3 assets[(c)] as a percentage of total Firm:	
Assets at fair value	13%
Assets	5

(a) Based upon the fair value of the Firm s derivatives portfolio prior to FIN 39 netting to reflect the legally enforceable master netting agreements and

cash collateral held by the Firm, as cross-product netting is not relevant to an analysis based upon valuation methodologies.

(b) Includes certain securities purchased under resale agreements, certain loans (excluding loans classified within trading assets debt and equity instruments), and certain retained interests in securitizations. For further information, see Note 3 on pages 74 79 of this Form 10-Q.

(c) Includes level 3 assets accounted for at fair value on a recurring basis and at the lower of cost or fair value.

Level 3 assets (including assets measured at the lower of cost or fair value) were 15% of total Firm assets measured at fair value and 6% of total Firm assets at March 31, 2008, compared with 13% and 5%, respectively, at December 31, 2007. Level 3 liabilities (including liabilities measured at the lower of cost or fair value) were 17% of total Firm liabilities measured at fair value at both March 31, 2008, and December 31, 2007.

Level 3 assets increased during the first quarter of 2008, principally due to transfers of mortgage-related and certain auction rate securities with low maximum reset rates. Continued deterioration in market conditions during the first quarter of 2008 resulted in a significant reduction in new deal issuance and limited the Firm s ability to obtain independent quotes for certain mortgage instruments. Liquidity in certain auction rate securities markets was significantly reduced in the first quarter of 2008 due to credit concerns with monoline bond insurers. In addition to transfers, the level 3 balance increased as a result of the Firm s purchase of reverse mortgages for which there is a lack of market liquidity and limited availability of external pricing data. These increases in level 3 assets were partially offset by the transfer of certain leveraged loans from the loans held-for-sale portfolio to the loans held-for-investment portfolio and sales of investments within the private equity portfolio. For a further discussion of changes in level 3 instruments, see Note 3 on pages 74 79 of this Form 10-Q.

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 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 111 118 of JPMorgan Chase s 2007 Annual Report.

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Goodwill impairment

For a description of the significant valuation judgments associated with goodwill impairment, see Goodwill impairment on page 98 of JPMorgan Chase s 2007 Annual Report.

Income taxes

JPMorgan Chase is subject to the income tax laws of the various jurisdictions in which it operates, including U.S. federal, state and non-U.S. jurisdictions. These laws are often complex and may be subject to different interpretations. To determine the financial statement impact of its accounting for income taxes, including the provision for income tax expense and its unrecognized tax benefits, JPMorgan Chase must make assumptions and judgments about how to interpret and apply these complex tax laws to numerous transactions and business events. For a further description of accounting estimates related to income taxes, see Income taxes on page 98 of JPMorgan Chase s 2007 Annual Report.

ACCOUNTING AND REPORTING DEVELOPMENTS

Derivatives netting amendment of FASB Interpretation No. 39

In April 2007, the FASB issued FSP FIN 39-1, which permits offsetting of cash collateral receivables or payables with net derivative positions under certain circumstances. The Firm adopted FSP FIN 39-1 effective January 1, 2008. The FSP did not have a material impact on the Firm s Consolidated Balance Sheets.

Accounting for income tax benefits of dividends on share-based payment awards

In June 2007, the FASB ratified EITF 06-11, which must be applied prospectively for dividends declared in fiscal years beginning after December 15, 2007. EITF 06-11 requires that realized tax benefits from dividends or dividend equivalents paid on equity-classified share-based payment awards that are charged to retained earnings should be recorded as an increase to additional paid-in capital and included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. Prior to the issuance of EITF 06-11, the Firm did not include these tax benefits as part of this pool of excess tax benefits. The Firm adopted EITF 06-11 on January 1, 2008. The adoption of this consensus did not have an impact on the Firm s Consolidated Balance Sheets or results of operations.

Fair value measurements written loan commitments

On November 5, 2007, the Securities and Exchange Commission (SEC) issued SAB 109, which revises and rescinds portions of SAB 105, Application of Accounting Principles to Loan Commitments. Specifically, SAB 109 states that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The provisions of SAB 109 are applicable to written loan commitments issued or modified beginning on January 1, 2008. The Firm adopted SAB 109 on January 1, 2008. The adoption of this pronouncement did not have a material impact on the Firm s Consolidated Balance Sheets or results of operations.

Business combinations / Noncontrolling interests in consolidated financial statements

On December 4, 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. JPMorgan Chase is currently evaluating the impact that SFAS 141R and SFAS 160 will have on its consolidated financial statements. For JPMorgan Chase, SFAS 141R is effective for business combinations that close on or after January 1, 2009. SFAS 160 is effective for JPMorgan Chase for fiscal years beginning on or after December 15, 2008.

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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 or in contemplation of the initial transfer to be evaluated together as a linked transaction under SFAS 140 unless certain criteria are met. FSP FAS 140-3 is effective for fiscal years beginning after November 15, 2008, and will be applied to new transactions entered into after the date of adoption. The Firm is currently evaluating the impact, if any, the adoption of FSP FAS 140-3 will have on the Firm s consolidated financial statements.

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

On March 19, 2008, the FASB issued SFAS 161, which amends the disclosure requirements of SFAS 133. SFAS 161 requires increased disclosures about derivative instruments and hedging activities and their effects on an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years beginning after November 15, 2008, with early adoption permitted. SFAS 161 will only affect JPMorgan Chase s disclosures of derivative instruments and related hedging activities, and not its consolidated financial position, financial performance or cash flows.

Investment companies

In June 2007, the AICPA issued SOP 07-1. SOP 07-1 provides guidance for determining whether an entity is within the scope of the AICPA Audit and Accounting Guide *Investment Companies* (the Guide), and therefore qualifies to use the Guide s specialized accounting principles (referred to as investment company accounting). Additionally, SOP 07-1 provides guidelines for determining whether investment company accounting should be retained by a parent company in consolidation or by an equity method investor in an investment. In May 2007, the FASB issued FSP FIN 46(R)-7, which amends FIN 46R to permanently exempt entities within the scope of the Guide from applying the provisions of FIN 46R to their investments. In February 2008, the FASB agreed to an indefinite delay of the effective date of SOP 07-1 in order to address implementation issues, which effectively delays FSP FIN 46(R)-7 as well for those companies, such as the Firm, that have not adopted SOP 07-1.

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JPMORGAN CHASE & CO.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three months ended March 31,	
(in millions, except per share data)	**2008**	2007
Revenue		
Investment banking fees	**$ 1,216**	$ 1,739
Principal transactions	**(803)**	4,487
Lending & deposit-related fees	**1,039**	895
Asset management, administration and commissions	**3,596**	3,186
Securities gains (losses)	**33**	2
Mortgage fees and related income	**525**	476
Credit card income	**1,796**	1,563
Other income	**1,829**	518
Noninterest revenue	**9,231**	12,866
Interest income	**17,532**	16,620
Interest expense	**9,873**	10,518
Net interest income	**7,659**	6,102
Total net revenue	**16,890**	18,968
Provision for credit losses	**4,424**	1,008
Noninterest expense		
Compensation expense	**4,951**	6,234
Occupancy expense	**648**	640
Technology, communications and equipment expense	**968**	922
Professional & outside services	**1,333**	1,200
Marketing	**546**	482
Other expense	**169**	735
Amortization of intangibles	**316**	353
Merger costs		62
Total noninterest expense	**8,931**	10,628
Income before income tax expense	**3,535**	7,332
Income tax expense	**1,162**	2,545
Net income	**$ 2,373**	$ 4,787
Net income applicable to common stock	**$ 2,373**	$ 4,787

Net income per common share data