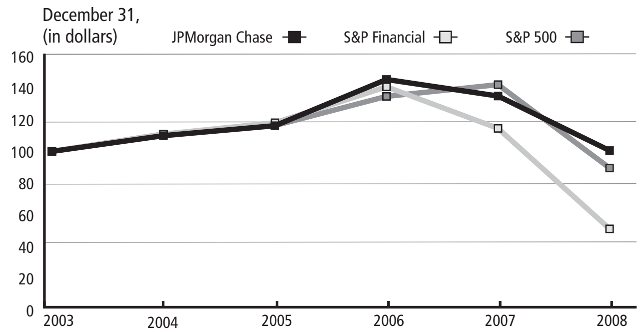
FIVE-YEAR STOCK PERFORMANCE

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

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

December 31, (in dollars)	2003	2004	2005	2006	2007	**2008**
JPMorgan Chase	$ 100.00	$ 109.92	$ 116.02	$ 145.36	$ 134.91	**$ 100.54**
S&P Financial Index	100.00	110.89	118.07	140.73	114.51	**51.17**
S&P 500	100.00	110.88	116.33	134.70	142.10	**89.53**



This section of the JPMorgan Chase's Annual Report for the year ended December 31, 2008 ("Annual Report") provides management's discussion and analysis of the financial condition and results of operations ("MD&A") of JPMorgan Chase. See the Glossary of terms on pages 230–233 for definitions of terms used throughout this Annual Report. The MD&A included in this Annual Report contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase's results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking statements on page 127 of this Annual Report) and in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2008 ("2008 Form 10-K"), in Part I, Item 1A: Risk factors, to which reference is hereby made.

INTRODUCTION

JPMorgan Chase & Co., a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with $2.2 trillion in assets, $166.9 billion in stockholders' equity and operations in more than 60 countries as of December 31, 2008. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

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

JPMorgan Chase's activities are organized, for management reporting purposes, into six business segments, as well as Corporate/Private Equity. The Firm's wholesale businesses comprise the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management segments. The Firm's consumer businesses comprise the Retail Financial Services and Card Services segments. A description of the Firm's business segments, and the products and services they provide to their respective client bases, follows.

Investment Bank

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

Retail Financial Services

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

Card Services

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

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

Commercial Banking

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

Treasury & Securities Services

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

Asset Management

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

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

Financial performance of JPMorgan Chase

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

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

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

(c) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the merger with The Bear Stearns Companies, Inc. was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm's results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 135–140 of this Annual Report.

Business overview

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

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

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

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

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

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

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

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

The discussion that follows highlights the performance of each business segment compared with the prior year, and discusses results on a managed basis unless otherwise noted. For more information about managed basis, see Explanation and reconciliation of the Firm's use of non-GAAP financial measures on pages 50–51 of this Annual Report.

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

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

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

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

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

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

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

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

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

2009 Business outlook

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

JPMorgan Chase's outlook for 2009 should be viewed against the backdrop of the global and U.S. economies, financial markets activity, the geopolitical environment, the competitive environment and client activity levels. Each of these linked factors will affect the performance of the Firm and its lines of business. In addition, as a result of recent market conditions and events, Congress and regulators have increased their focus on the regulation of financial institutions. The Firm's current expectations are for the global and U.S. economic environments to weaken further and potentially faster, capital markets to remain under stress, for there to be continued decline in U.S. housing prices, and for Congress and regulators to continue to adopt legislation and regulations that could limit or restrict the Firm's operations, or impose additional costs upon the Firm in order to comply with such new laws or rules. These factors are likely to continue to adversely impact the Firm's revenue, credit costs, overall business volumes and earnings.

Given the potential stress on the consumer from rising unemployment, the continued downward pressure on housing prices and the elevated national inventory of unsold homes, management remains extremely cautious with respect to the credit outlook for home equity, mortgage and credit card portfolios. Management expects continued deterioration in credit trends for the home equity, mortgage and credit card portfolios, which will likely require additions to the consumer loan loss allowance in 2009 or beyond. Economic data released in early 2009 indicated that housing prices and the labor market have weakened further since year-end, and that deterioration could continue into late 2009. Based on management's current economic outlook, quarterly net charge-offs could, over the next several quarters, reach $1.0 billion to $1.4 billion for the home equity portfolio, $375 million to $475 million for the prime mortgage portfolio, and $375 million to $475 million for the subprime mortgage portfolio. Management expects the managed net charge-off rate for Card Services (excluding the impact resulting from the acquisition of Washington Mutual's banking operations) to approach 7% in the first quarter of 2009 and likely higher by the end of the year depending on unemployment levels. These charge-off rates could increase even further if the economic environment continues to deteriorate further than management's current expectations. The wholesale provision for credit losses and nonperforming assets are likely to increase over time as a result of the deterioration in underlying credit conditions. Wholesale net charge-offs in 2008 increased from historic lows in 2007 and are likely to increase materially in 2009 as a result of increasing weakness in the credit environment.

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

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

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

Recent developments

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

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three-year period ended December 31, 2008. Factors that related primarily to a single business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates Used by the Firm that affect the Consolidated Results of Operations, see pages 119–123 of this Annual Report.

Revenue

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

(a) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm's results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 135–140 of this Annual Report.

2008 compared with 2007

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

Investment banking fees were down from the record level of the prior year due to lower debt underwriting fees, as well as lower advisory and equity underwriting fees, both of which were at record levels in 2007. These declines were attributable to reduced market activity. For a further discussion of investment banking fees, which are primarily recorded in IB, see IB segment results on pages 54–56 of this Annual Report.

In 2008, principal transactions revenue, which consists of revenue from the Firm's trading and private equity investing activities, declined by $19.7 billion from the prior year. Trading revenue decreased $14.5 billion to a negative $9.8 billion compared with a positive $4.7 billion in 2007. The decline in trading revenue was largely driven by higher net markdowns of $5.9 billion on mortgage-related exposures compared with $1.4 billion in the prior year; higher net markdowns of $4.7 billion on leveraged lending funded and unfunded commitments compared with $1.3 billion in the prior year; losses of $1.1 billion on preferred securities of Fannie Mae and Freddie Mac; and weaker equity trading results compared with a record level in 2007. In addition, trading revenue was adversely impacted by the Bear Stearns merger. Partially offsetting the decline in trading revenue were record results in rates and currencies, credit trading, commodities and emerging markets, as well as strong equity client revenue across products and total gains of $2.0 billion from the widening of the Firm's credit spread on certain structured liabilities and derivatives, compared with $1.3 billion in 2007. Private equity results also declined substantially from the prior year, swinging to losses of $908 million in 2008 from gains of $4.3 billion in 2007. In addition, the first quarter of 2007 included a fair value adjustment related to the adoption of SFAS 157. For a further discussion of principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 54–56 and 73–75, respectively, and Note 6 on pages 158–160 of this Annual Report.

Lending & deposit-related fees rose from the prior year, predominantly resulting from higher deposit-related fees and the impact of the Washington Mutual transaction. For a further discussion of lending & deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 57–62, the TSS segment results on pages 68–69, and the CB segment results on pages 66–67 of this Annual Report.

The decline in asset management, administration and commissions revenue compared with 2007 was driven by lower asset management fees in AM due to lower performance fees and the effect of lower markets on assets under management. This decline was partially offset by an increase in commissions revenue related predominantly to higher brokerage transaction volume within IB's equity markets revenue, which included additions from Bear Stearns' Prime Services business; and higher administration fees in TSS driven by wider spreads in securities lending and increased product usage by new and existing clients. For additional information on these fees and commissions, see the segment discussions for IB on pages 54–56, RFS on pages 57–62, TSS on pages 68–69, and AM on pages 70–72 of this Annual Report.

The increase in securities gains compared with the prior year was due to the repositioning of the Corporate investment securities portfolio as a result of lower interest rates as part of managing the structural interest rate risk of the Firm, and higher gains from the sale of MasterCard shares. For a further discussion of securities gains, which are mostly recorded in the Firm's Corporate business, see the Corporate/Private Equity segment discussion on pages 73–75 of this Annual Report.

Mortgage fees and related income increased from the prior year, driven by higher net mortgage servicing revenue, which benefited from an improvement in MSR risk management results and increased loan servicing revenue. Mortgage production revenue increased slightly, as the impact of growth in originations was predominantly offset by markdowns on the mortgage warehouse and increased reserves related to the repurchase of previously sold loans. For a discussion of mortgage fees and related income, which is recorded primarily in RFS's Consumer Lending business, see the Consumer Lending discussion on pages 59–62 of this Annual Report.

Credit card income rose compared with the prior year, driven by increased interchange income due to higher customer charge volume in CS and higher debit card transaction volume in RFS, the impact of the Washington Mutual transaction, and increased servicing fees resulting from a higher level of securitized receivables. These results were partially offset by increases in volume-driven payments to partners and expense related to rewards programs. For a further discussion of credit card income, see CS' segment results on pages 63–65 of this Annual Report.

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

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

2007 compared with 2006

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

Investment banking fees grew in 2007 to a level higher than the previous record set in 2006. Record advisory and equity underwriting fees drove the results, partially offset by lower debt underwriting fees. For a further discussion of investment banking fees, which are primarily recorded in IB, see IB segment results on pages 54–56 of this Annual Report.

Principal transactions revenue consists of trading revenue and private equity gains. Trading revenue declined significantly from the 2006 level, primarily due to net markdowns in IB of $1.4 billion on subprime positions, including subprime collateralized debt obligations ("CDOs"), and $1.3 billion on leveraged lending funded loans and unfunded commitments. Also in IB, markdowns of securitized products related to nonsubprime mortgages and weak credit trading performance more than offset record revenue in currencies and strong revenue in both rates and equities. Equities benefited from strong client activity and record trading results across all products. IB's Credit Portfolio results increased compared with the prior year, primarily driven by higher revenue from risk management activities. The increase in private equity gains from 2006 reflected a significantly higher level of gains, the classification of certain private equity carried interest as compensation expense and a fair value adjustment in the first quarter of 2007 on nonpublic private equity investments resulting from the adoption of SFAS 157 ("Fair Value Measurements"). For a further discussion of principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 54–56 and 73–75, respectively, and Note 6 on pages 158–160 of this Annual Report.

Lending & deposit-related fees rose from the 2006 level, driven primarily by higher deposit-related fees and the Bank of New York transaction. For a further discussion of lending & deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 57–62, the TSS segment results on pages 68–69, and the CB segment results on pages 66–67 of this Annual Report.

Asset management, administration and commissions revenue reached a level higher than the previous record set in 2006. Increased assets under management and higher performance and placement fees in AM drove the record results. The 18% growth in assets under management from year-end 2006 came from net asset inflows and market appreciation across all segments: Institutional, Retail, Private Bank and Private Wealth Management. TSS also contributed to the rise in asset management, administration and commissions revenue, driven by increased product usage by new and existing clients and market appreciation on assets under custody. Finally, commissions revenue increased, due mainly to higher brokerage transaction volume (primarily included within Fixed Income and Equity Markets revenue of IB), which more than offset the sale of the insurance business by RFS in the third quarter of 2006 and a charge in the first quarter of 2007 resulting from accelerated surrenders of customer annuities. For additional information on these fees and commissions, see the segment discussions for IB on pages 54–56, RFS on pages 57–62, TSS on pages 68–69, and AM on pages 70–72 of this Annual Report.

The favorable variance resulting from securities gains in 2007 compared with securities losses in 2006 was primarily driven by improvements in the results of repositioning of the Corporate investment securities portfolio. Also contributing to the positive variance was a $234 million gain from the sale of MasterCard shares. For a further discussion of securities gains (losses), which are mostly recorded in the Firm's Corporate business, see the Corporate/Private Equity segment discussion on pages 73–75 of this Annual Report.

Mortgage fees and related income increased from the prior year as MSRs asset valuation adjustments and growth in third-party mortgage loans serviced drove an increase in net mortgage servicing revenue. Production revenue also grew, as an increase in mortgage loan originations and the classification of certain loan origination costs as expense (loan origination costs previously netted against revenue commenced being recorded as an expense in the first quarter of 2007 due to the adoption of SFAS 159) more than offset markdowns on the mortgage warehouse and pipeline. For a discussion of mortgage fees and related income, which is recorded primarily in RFS' Consumer Lending business, see the Consumer Lending discussion on pages 59–62 of this Annual Report.

Credit card income remained relatively unchanged from the 2006 level, as lower servicing fees earned in connection with securitization activities, which were affected unfavorably by higher net credit losses and narrower loan margins, were offset by increases in net interchange income earned on the Firm's credit and debit cards. For further discussion of credit card income, see CS' segment results on pages 63–65 of this Annual Report.

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

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

Provision for credit losses

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

(a) 2008 included adjustments to the provision for credit losses to conform the Washington Mutual loan loss reserve methodologies to the Firm's methodologies in connection with the Washington Mutual transaction.
(b) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm's results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 135–140 of this Annual Report.

2008 compared with 2007

The provision for credit losses in 2008 rose by $14.1 billion compared with the prior year due to increases in both the consumer and wholesale provisions. The increase in the consumer provision reflected higher estimated losses for home equity and mortgages resulting from declining housing prices; an increase in estimated losses for the auto, student and business banking loan portfolios; and an increase in the allowance for loan losses and higher charge-offs of credit card loans. The increase in the wholesale provision was driven by a higher allowance resulting from a weakening credit environment and growth in retained loans. The wholesale provision in the first quarter of 2008 also included the effect of the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from held-for-sale. In addition, in 2008 both the consumer and wholesale provisions were affected by a $1.5 billion charge to conform assets acquired from Washington Mutual to the Firm's loan loss methodologies. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 57–62, CS on pages 63–65, IB on pages 54–56 and CB on pages 66–67, and the Credit Risk Management section on pages 92–111 of this Annual Report.

2007 compared with 2006

The provision for credit losses in 2007 rose $3.6 billion from the prior year due to increases in both the consumer and wholesale provisions. The increase in the consumer provision from the prior year was largely due to an increase in estimated losses related to home equity, credit card and subprime mortgage loans. Credit card net charge-offs in 2006 benefited following the change in bankruptcy legislation in the fourth quarter of 2005. The increase in the wholesale provision from the prior year primarily reflected an increase in the allowance for credit losses due to portfolio activity, which included the effect of a weakening credit environment and portfolio growth. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 57–62, CS on pages 63–65, IB on pages 54–56, CB on pages 66–67 and Credit Risk Management on pages 92–111 of this Annual Report.

Noninterest expense

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

(a) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm's results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 135–140 of this Annual Report.

2008 compared with 2007

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

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

Noncompensation expense increased from the prior year as a result of the Bear Stearns merger and Washington Mutual transaction. Excluding the effect of these transactions, noncompensation expense decreased due to a net reduction in other expense related to litigation; lower credit card and consumer lending marketing expense; and a decrease in the amortization of intangibles as certain purchased credit card relationships were fully amortized in 2007 and the amortization rate for core deposit intangibles declined in accordance with the amortization schedule. These decreases were offset partially by increases in professional & outside services, driven by investments in new product platforms in TSS, business and volume growth in CS credit card processing and IB brokerage, clearing and exchange transaction processing. Also contributing to the increases were an increase in other expense due to higher mortgage reinsurance losses and mortgage servicing expense due to increased delinquencies and defaults in RFS; an increase in technology, communications and equipment expense reflecting higher depreciation expense on owned automobiles subject to operating leases in RFS, and other technology-related investments across the businesses; and, an increase in occupancy expense partly for the expansion of RFS' retail distribution network. For a further discussion of amortization of intangibles, refer to Note 18 on pages 198–201 of this Annual Report.

For information on merger costs, refer to Note 11 on page 170 of this Annual Report.

2007 compared with 2006

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

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

Noncompensation expense increased from 2006 due to higher professional & outside services primarily reflecting higher brokerage expense and credit card processing costs resulting from growth in transaction volume, as well as investments in the businesses and acquisitions. Also contributing to the increase was higher other expense due to increased net legal-related costs, reflecting a lower level of insurance recoveries and increased costs of credit card-related litigation, and other increases driven by business growth and investments in the businesses. Other noncompensation expense increases also included higher occupancy expense driven by ongoing investments in the businesses, in particular, the retail distribution network and the Bank of New York transaction; and higher technology, communications and equipment expense due primarily to higher depreciation expense on owned automobiles subject to operating leases in RFS, and other technology-related investments in the businesses to support business growth. These increases were offset partially by lower credit card marketing expense; decreases due to the sale of the insurance business at the beginning of the third quarter of 2006 and lower credit card fraud-related losses, both in other expense. In addition, expense in general was reduced by the effect of continuing business efficiencies. For a discussion of amortization of intangibles, refer to Note 18 on pages 198–201 of this Annual Report.

For information on merger costs, refer to Note 11 on page 170 of this Annual Report.

Income tax expense

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

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

(a) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm's results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 135–140 of this Annual Report.

2008 compared with 2007

The decrease in the effective tax rate in 2008 compared with the prior year was the result of significantly lower reported pretax income combined with changes in the proportion of income subject to U.S. federal taxes. Also contributing to the decrease in the effective tax rate was increased business tax credits and the realization of a $1.1 billion benefit from the release of deferred tax liabilities. These deferred tax liabilities were associated with the undistributed earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely. These decreases were partially offset by changes in state and local taxes, and equity losses representing the Firm's 49.4% ownership interest in Bear Stearns' losses from April 8 to May 30, 2008, for which no income tax benefit was recorded. For a further discussion of income taxes, see Critical Accounting Estimates Used by the Firm on pages 119–123 and Note 28 on pages 209–211 of this Annual Report.

2007 compared with 2006

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

Income from discontinued operations

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

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

Extraordinary gain

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

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 130–133 of this Annual Report. That presentation, which is referred to as "reported basis," provides the reader with an understanding of the Firm's results that can be tracked consistently from year to year and enables a comparison of the Firm's performance with other companies' U.S. GAAP financial statements.

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

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

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

Year ended December 31, (in millions, except per share and ratio data)	2008 Reported results	2008 Credit card[c]	2008 Fully tax-equivalent adjustments	2008 Managed basis	2007 Reported results	2007 Credit card[c]	2007 Fully tax-equivalent adjustments	2007 Managed basis
Revenue								
Investment banking fees	**$ 5,526**	**$ —**	**$ —**	**$ 5,526**	$ 6,635	$ —	$ —	$ 6,635
Principal transactions	**(10,699)**	**—**	**—**	**(10,699)**	9,015	—	—	9,015
Lending & deposit-related fees	**5,088**	**—**	**—**	**5,088**	3,938	—	—	3,938
Asset management, administration and commissions	**13,943**	**—**	**—**	**13,943**	14,356	—	—	14,356
Securities gains (losses)	**1,560**	**—**	**—**	**1,560**	164	—	—	164
Mortgage fees and related income	**3,467**	**—**	**—**	**3,467**	2,118	—	—	2,118
Credit card income	**7,419**	**(3,333)**	**—**	**4,086**	6,911	(3,255)	—	3,656
Other income	**2,169**	**—**	**1,329**	**3,498**	1,829	—	683	2,512
Noninterest revenue	**28,473**	**(3,333)**	**1,329**	**26,469**	44,966	(3,255)	683	42,394
Net interest income	**38,779**	**6,945**	**579**	**46,303**	26,406	5,635	377	32,418
Total net revenue	**67,252**	**3,612**	**1,908**	**72,772**	71,372	2,380	1,060	74,812
Provision for credit losses	**19,445**	**3,612**	**—**	**23,057**	6,864	2,380	—	9,244
Provision for credit losses – accounting conformity[a]	**1,534**	**—**	**—**	**1,534**	—	—	—	—
Noninterest expense	**43,500**	**—**	**—**	**43,500**	41,703	—	—	41,703
Income from continuing operations before income tax expense	**2,773**	**—**	**1,908**	**4,681**	22,805	—	1,060	23,865
Income tax expense (benefit)	**(926)**	**—**	**1,908**	**982**	7,440	—	1,060	8,500
Income from continuing operations	**3,699**	**—**	**—**	**3,699**	15,365	—	—	15,365
Income from discontinued operations	**—**	**—**	**—**	**—**	—	—	—	—
Income before extraordinary gain	**3,699**	**—**	**—**	**3,699**	15,365	—	—	15,365
Extraordinary gain	**1,906**	**—**	**—**	**1,906**	—	—	—	—
Net income	**$ 5,605**	**$ —**	**$ —**	**$ 5,605**	$ 15,365	$ —	$ —	$ 15,365
Diluted earnings per share[b]	**$ 0.84**	**$ —**	**$ —**	**$ 0.84**	$ 4.38	$ —	$ —	$ 4.38
Return on common equity[b]	**2%**	**—%**	**—%**	**2%**	13%	—%	—%	13%
Return on common equity less goodwill[b]	**4**	**—**	**—**	**4**	21	—	—	21
Return on assets[b]	**0.21**	**NM**	**NM**	**0.20**	1.06	NM	NM	1.01
Overhead ratio	**65**	**NM**	**NM**	**60**	58	NM	NM	56
Loans–Period-end	**$ 744,898**	**$85,571**	**$ —**	**$ 830,469**	$ 519,374	$ 72,701	$ —	$ 592,075
Total assets – average	**1,791,617**	**76,904**	**—**	**1,868,521**	1,455,044	66,780	—	1,521,824

(a) 2008 included an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual's banking operations.
(b) Based on income from continuing operations.
(c) Credit card securitizations affect CS. See pages 63–65 of this Annual Report for further information.

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 63–65 of this Annual Report. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 16 on pages 180–188 of this Annual Report.

Total net revenue for each of the business segments and the Firm is presented on a FTE basis. Accordingly, revenue from tax-exempt securities and investments that receive tax credits is presented in the managed results on a basis comparable to taxable securities and investments. This non-GAAP financial measure allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources. The corresponding income tax impact related to these items is recorded within income tax expense.

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

(Table continued from previous page)

2006			
Reported results	Credit card (c)	Fully tax-equivalent adjustments	Managed basis
$ 5,520	$ —	$ —	$ 5,520
10,778	—	—	10,778
3,468	—	—	3,468
11,855	—	—	11,855
(543)	—	—	(543)
591	—	—	591
6,913	(3,509)	—	3,404
2,175	—	676	2,851
40,757	(3,509)	676	37,924
21,242	5,719	228	27,189
61,999	2,210	904	65,113
3,270	2,210	—	5,480
—	—	—	—
38,843	—	—	38,843
19,886	—	904	20,790
6,237	—	904	7,141
13,649	—	—	13,649
795	—	—	795
14,444	—	—	14,444
—	—	—	—
$ 14,444	$ —	$ —	$ 14,444
$ 3.82	$ —	$ —	$ 3.82
12%	—%	—%	12%
20	—	—	20
1.04	NM	NM	1.00
63	NM	NM	60
$ 483,127	$ 66,950	$ —	$ 550,077
1,313,794	65,266	—	1,379,060

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

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

Return on common equity

Net income* / Average common stockholders' equity

Return on common equity less goodwill(d)

Net income* / Average common stockholders' equity less goodwill

Return on assets

Reported: Net income / Total average assets

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

Overhead ratio

Total noninterest expense / Total net revenue

* Represents net income applicable to common stock

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

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

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.

JPMorgan Chase

Investment Bank	Retail Financial Services	Card Services	Commercial Banking	Treasury & Securities Services	Asset Management
Businesses: • Investment Banking: - Advisory - Debt and equity underwriting • Market-Making and Trading: - Fixed income - Equities • Corporate Lending • Principal Investing • Prime Services • Research	**Businesses:** • Retail Banking: - Consumer and Business Banking (including Business Banking loans) • Consumer Lending: - Loan originations and balances (including home lending, student, auto and other loans) - Mortgage production and servicing	**Businesses:** • Credit Card • Merchant Acquiring	**Businesses:** • Middle-Market Banking • Commercial Term Lending • Mid-Corporate Banking • Real Estate Banking	**Businesses:** • Treasury Services • Worldwide Securities Services	**Businesses:** • Investment Management: - Institutional - Retail • Private Bank • Private Wealth Management • Bear Stearns Brokerage

Business segment changes

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

Description of business segment reporting methodology

Results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. The management reporting process that derives business segment results allocates income and expense using market-based methodologies.

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

Revenue sharing

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

Funds transfer pricing

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

Capital allocation

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. Line of business equity increased during the second quarter of 2008 in IB and AM due to the Bear Stearns merger and, for AM, the purchase of the additional equity interest in Highbridge. At the end of the third quarter of 2008, equity was increased for each line of business with a view toward the future implementation of the new Basel II capital rules. For further details on these rules, see Basel II on page 84 of this Annual Report. In addition, equity allocated to RFS, CS and CB was increased as a result of the Washington Mutual transaction. For a further discussion, see Capital management–Line of business equity on page 82 of this Annual Report.

Expense allocation

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

Segment results – Managed basis[a][b]

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

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

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

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

(b) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank. On May 30, 2008, the Bear Stearns merger was consummated. Each of these transactions was accounted for as a purchase and their respective results of operations are included in the Firm's results from each respective transaction date. For additional information on these transactions, see Note 2 on pages 135–140 of this Annual Report.

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

INVESTMENT BANK

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

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

Selected income statement data

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

(a) The 2008 results include net markdowns on mortgage-related exposures and leveraged lending funded and unfunded commitments of $5.9 billion and $4.7 billion, respectively, compared with $1.4 billion and $1.3 billion, respectively, in 2007.
(b) All other income for 2008 decreased from the prior year due to increased revenue sharing agreements with other business segments. All other income for 2007 decreased from the prior year due mainly to losses on loan sales and lower gains on sales of assets.
(c) Net interest income for 2008 increased from the prior year due to an increase in interest-earning assets, including the addition of the Bear Stearns' Prime Services business combined with wider spreads on certain fixed income products. The increase in 2007 from the prior year was due primarily to an increase in interest-earning assets.
(d) Total net revenue included tax-equivalent adjustments, predominantly due to income tax credits related to affordable housing investments and tax-exempt income from municipal bond investments of $1.7 billion, $927 million and $802 million for 2008, 2007 and 2006, respectively.
(e) TSS is charged a credit reimbursement related to certain exposures managed within IB credit portfolio on behalf of clients shared with TSS.
(f) The income tax benefit in 2008 includes the result of reduced deferred tax liabilities on overseas earnings.
(g) Results for 2008 include seven months of the combined Firm's (JPMorgan Chase's and Bear Stearns') results and five months of heritage JPMorgan Chase results. All prior periods reflect heritage JPMorgan Chase results.

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

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

(a) Fixed income markets include client and portfolio management revenue related to both market-making and proprietary risk-taking across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets.
(b) Equities markets include client and portfolio management revenue related to market-making and proprietary risk-taking across global equity products, including cash instruments, derivatives and convertibles.
(c) Credit portfolio revenue includes net interest income, fees and the impact of loan sales activity, as well as gains or losses on securities received as part of a loan restructuring, for IB's credit portfolio. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities, and changes in the credit valuation adjustment, which is the component of the fair value of a derivative that reflects the credit quality of the counterparty. Additionally, credit portfolio revenue incorporates an adjustment to the valuation of the Firm's derivative liabilities as a result of the adoption of SFAS 157 on January 1, 2007. See pages 92–111 of the Credit Risk Management section of this Annual Report for further discussion.
(d) Results for 2008 include seven months of the combined Firm's (JPMorgan Chase's and Bear Stearns') results and five months of heritage JPMorgan Chase results. All prior periods reflect heritage JPMorgan Chase results.

2008 compared with 2007

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

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

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

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

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

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

2007 compared with 2006

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

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

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

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

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

Selected metrics

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

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

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

(c) Adjusted assets, a non-GAAP financial measure, equals total assets minus (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of variable interest entities ("VIEs") consolidated under FIN 46R; (3) cash and securities segregated and on deposit for regulatory and other purposes; (4) goodwill and intangibles; (5) securities received as collateral; and (6) investments purchased under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility. The amount of adjusted assets is presented to assist the reader in comparing IB's asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company's capital adequacy. IB believes an adjusted asset amount that excludes the assets discussed above, which were considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

Selected metrics

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

(a) Nonperforming loans included loans held-for-sale and loans at fair value of $32 million, $50 million and $3 million at December 31, 2008, 2007 and 2006, respectively, which were excluded from the allowance coverage ratios. Nonperforming loans at December 31, 2006, excluded distressed loans held-for-sale that were purchased as part of IB's proprietary activities. As a result of the adoption of SFAS 159 in the first quarter of 2007, these loans were reclassified to trading assets.
(b) As a result of the adoption of SFAS 159 in the first quarter of 2007, $11.7 billion of loans were reclassified to trading assets.
(c) Loans held-for-sale and loans at fair value were excluded when calculating the allowance coverage ratio and net charge-off (recovery) rate.
(d) Results for 2008 include seven months of the combined Firm's (JPMorgan Chase's and Bear Stearns') results and five months of heritage JPMorgan Chase results. All prior periods reflect heritage JPMorgan Chase results. For a more complete description of value-at-risk ("VaR"), see pages 112–115 of this Annual Report.
(e) Average VaRs were less than the sum of the VaRs of their market risk components, which was due to risk offsets resulting from portfolio diversification. The diversification effect reflected the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is usually less than the sum of the risks of the positions themselves.
(f) Trading VaR includes predominantly all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example, correlation risk. Trading VaR does not include VaR related to held-for-sale funded loans and unfunded commitments, nor the debit valuation adjustments ("DVA") taken on derivative and structured liabilities to reflect the credit quality of the Firm. See the DVA Sensitivity table on page 115 of this Annual Report for further details. Trading VaR also does not include the MSR portfolio or VaR related to other corporate functions, such as Corporate/Private Equity. Beginning in the fourth quarter of 2008, trading VaR includes the estimated credit spread sensitivity of certain mortgage products.
(g) Included VaR on derivative credit valuation adjustments ("CVA"), hedges of the CVA and mark-to-market hedges of the retained loan portfolio, which were all reported in principal transactions revenue. This VaR does not include the retained loan portfolio.
(h) Excluding the impact of a loan originated in March 2008 to Bear Stearns, the adjusted ratio would be 4.84% for 2008. The average balance of the loan extended to Bear Stearns was $1.9 billion for 2008. The allowance for loan losses to period-end loans was 4.83% and 1.92% at December 31, 2008 and 2007, respectively.

Market shares and rankings[a]

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

(a) Source: Thomson Reuters. The results for 2008 are pro forma for the Bear Stearns merger. The results for 2007 and 2006 represent heritage JPMorgan Chase only.
(b) Includes asset-backed securities, mortgage-backed securities and municipal securities.
(c) Includes rights offerings; U.S. domiciled equity and equity-related transactions.
(d) Global announced M&A is based upon rank value; all other rankings are based upon proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%. Global and U.S. announced M&A market share and rankings for 2007 and 2006 include transactions withdrawn since December 31, 2007 and 2006. U.S. announced M&A represents any U.S. involvement ranking.

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

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

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

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

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

Selected income statement data

Year ended December 31, (in millions, except ratios)	2008	2007	2006
Revenue			
Lending & deposit-related fees	**$ 2,546**	$ 1,881	$ 1,597
Asset management, administration and commissions	**1,510**	1,275	1,422
Securities gains (losses)	**—**	1	(57)
Mortgage fees and related income[(a)]	**3,621**	2,094	618
Credit card income	**939**	646	523
Other income	**739**	882	557
Noninterest revenue	**9,355**	6,779	4,660
Net interest income	**14,165**	10,526	10,165
Total net revenue	**23,520**	17,305	14,825
Provision for credit losses	**9,905**	2,610	561
Noninterest expense			
Compensation expense[(a)]	**5,068**	4,369	3,657
Noncompensation expense[(a)]	**6,612**	5,071	4,806
Amortization of intangibles	**397**	465	464
Total noninterest expense	**12,077**	9,905	8,927
Income before income tax expense	**1,538**	4,790	5,337
Income tax expense	**658**	1,865	2,124
Net income	**$ 880**	$ 2,925	$ 3,213
Financial ratios			
ROE	**5%**	18%	22%
Overhead ratio	**51**	57	60
Overhead ratio excluding core deposit intangibles[(b)]	**50**	55	57

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

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

2008 compared with 2007

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

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

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

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

2007 compared with 2006

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

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

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

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

Selected metrics

Year ended December 31, (in millions, except headcount and ratios)	**2008**	2007	2006
Selected balance sheet data – period-end			
Assets	**$419,831**	$256,351	$237,887
Loans:			
Loans retained	**368,786**	211,324	180,760
Loans held-for-sale and loans at fair value[a]	**9,996**	16,541	32,744
Total loans	**378,782**	227,865	213,504
Deposits	**360,451**	221,129	214,081
Equity	**25,000**	16,000	16,000
Selected balance sheet data (average)			
Assets	**$304,442**	$241,112	$231,566
Loans:			
Loans retained	**257,083**	191,645	187,753
Loans held-for-sale and loans at fair value[a]	**17,056**	22,587	16,129
Total loans	**274,139**	214,232	203,882
Deposits	**258,362**	218,062	201,127
Equity	**19,011**	16,000	14,629
Headcount	**102,007**	69,465	65,570
Credit data and quality statistics			
Net charge-offs	**$ 4,877**	$ 1,350	$ 576
Nonperforming loans[b][c][d][e]	**6,784**	2,828	1,677
Nonperforming assets[b][c][d][e]	**9,077**	3,378	1,902
Allowance for loan losses	**8,918**	2,668	1,392
Net charge-off rate[f]	**1.90%**	0.70%	0.31%
Net charge-off rate excluding credit-impaired loans[f][g]	**2.08**	0.70	0.31
Allowance for loan losses to ending loans[f]	**2.42**	1.26	0.77
Allowance for loan losses to ending loans excluding purchased credit-impaired loans[f][g]	**3.19**	1.26	0.77
Allowance for loan losses to nonperforming loans[f]	**136**	97	89
Nonperforming loans to total loans	**1.79**	1.24	0.79

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

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

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

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

(e) During the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all other home lending products. Amounts for 2007 have been revised to reflect this change. Amounts for 2006 have not been revised as the impact was not material.
(f) Loans held-for-sale and loans accounted for at fair value were excluded when calculating the allowance coverage ratio and the net charge-off rate.
(g) Excludes the impact of purchased credit-impaired loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction at December 31, 2008. These loans were accounted for at fair value on the acquisition date, which included the impact of credit losses over the remaining life of the portfolio. Accordingly, no allowance for loan losses has been recorded for these loans.

Retail Banking

Selected income statement data

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

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

2008 compared with 2007

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

2007 compared with 2006

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

Selected metrics

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

Retail branch business metrics

Year ended december 31,	2008	2007	2006
Investment sales volume (in millions)	**$ 17,640**	$ 18,360	$ 14,882
Number of:			
Branches	**5,474**	3,152	3,079
ATMs	**14,568**	9,186	8,506
Personal bankers(a)	**15,825**	9,650	7,573
Sales specialists(a)	**5,661**	4,105	3,614
Active online customers (in thousands)	**11,710**	5,918	4,909
Checking accounts (in thousands)	**24,499**	10,839	9,995

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

Consumer Lending

Selected income statement data

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

2008 compared with 2007

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

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

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

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

2007 compared with 2006

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

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

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

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

Selected metrics

Year ended December 31, (in billions)	**2008**	2007	2006
Business metrics			
Selected ending balances			
Loans excluding purchased credit-impaired			
End-of-period loans owned			
Home equity	**$ 114.3**	$ 94.8	$ 85.7
Prime mortgage	**65.2**	34.0	46.5
Subprime mortgage	**15.3**	15.5	13.2
Option ARMs	**9.0**	—	—
Student loans	**15.9**	11.0	10.3
Auto	**42.6**	42.3	41.0
Other	**1.3**	2.1	2.8
Total end-of-period loans	**$ 263.6**	$ 199.7	$ 199.5
Average loans owned			
Home equity	**$ 99.9**	$ 90.4	$ 78.3
Prime mortgage	**45.0**	30.4	43.3
Subprime mortgage	**15.3**	12.7	15.4
Option ARMs	**2.3**	—	—
Student loans	**13.6**	10.5	8.3
Auto	**43.8**	41.1	42.7
Other loans	**1.1**	2.3	2.4
Total average loans	**$ 221.0**	$ 187.4	$ 190.4

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

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

(a) Purchased credit-impaired loans represent loans acquired in the Washington Mutual transaction that are accounted for under SOP 03-3.
(b) Total average loans owned includes loans held-for-sale of $2.8 billion, $10.6 billion and $16.1 billion for the years ended December 31, 2008, 2007 and 2006, respectively.

Credit data and quality statistics

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

(a) Excludes the impact of purchased credit-impaired loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. Under SOP 03-3, these loans were accounted for at fair value on the acquisition date, which includes the impact of estimated credit losses over the remaining lives of the loans. Accordingly, no charge-offs and no allowance for loan losses has been recorded for these loans.
(b) Average loans included loans held-for-sale of $2.8 billion, $10.6 billion and $16.1 billion for the years ended December 31, 2008, 2007 and 2006, respectively. These amounts were excluded when calculating the net charge-off rate.
(c) Excluded loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $3.2 billion, $1.2 billion and $960 million, at December 31, 2008, 2007 and 2006, respectively. These amounts were excluded, as reimbursement is proceeding normally.
(d) Excluded loans that are 30 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $824 million, $663 million and $464 million at December 31, 2008, 2007 and 2006, respectively. These amounts are excluded as reimbursement is proceeding normally.
(e) Excludes purchased credit-impaired loans. The 30+ day delinquency rate for these loans was 17.89% at December 31, 2008. There were no purchased credit-impaired loans at December 31, 2007 and 2006.
(f) Nonperforming assets excluded (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $3.3 billion, $1.5 billion and $1.2 billion at December 31, 2008, 2007 and 2006, respectively, and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $437 million, $417 million and $387 million at December 31, 2008, 2007 and 2006, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.
(g) During the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all other home lending products. Amounts for 2007 have been revised to reflect this change. Amounts for 2006 have not been revised as the impact was not material.
(h) Excludes purchased credit-impaired loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis, and the pools are considered to be performing under SOP 03-3.

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

(a) Included $14.2 billion and $11.9 billion of prime mortgage loans at fair value for the years ended December 31, 2008 and 2007, respectively.

Mortgage origination channels comprise the following:

Retail – Borrowers who are buying or refinancing a home through direct contact with a mortgage banker employed by the Firm using a branch office, the Internet or by phone. Borrowers are frequently referred to a mortgage banker by real estate brokers, home builders or other third parties.

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

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

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

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

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

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

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

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

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

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

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

JPMorgan Chase uses the concept of "managed basis" to evaluate the credit performance of its credit card loans, both loans on the balance sheet and loans that have been securitized. For further information, see Explanation and reconciliation of the Firm's use of non-GAAP financial measures on pages 50–51 of this Annual Report. Managed results exclude the impact of credit card securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported net income; however, it does affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets.

The following discussion of CS' financial results reflects the acquisition of Washington Mutual's credit card operations, including $28.3 billion of managed credit card loans, as a result of the Washington Mutual transaction on September 25, 2008, and the dissolution of the Chase Paymentech Solutions joint venture on November 1, 2008. See Note 2 on pages 135–140 of this Annual Report for more information concerning these transactions.

Selected income statement data – managed basis

Year ended December 31, (in millions, except ratios)	2008	2007	2006
Revenue			
Credit card income	**$ 2,768**	$ 2,685	$ 2,587
All other income	**(49)**	361	357
Noninterest revenue	**2,719**	3,046	2,944
Net interest income	**13,755**	12,189	11,801
Total net revenue	**16,474**	15,235	14,745
Provision for credit losses	**10,059**	5,711	4,598
Noninterest expense			
Compensation expense	**1,127**	1,021	1,003
Noncompensation expense	**3,356**	3,173	3,344
Amortization of intangibles	**657**	720	739
Total noninterest expense	**5,140**	4,914	5,086
Income before income tax expense	**1,275**	4,610	5,061
Income tax expense	**495**	1,691	1,855
Net income	**$ 780**	$ 2,919	$ 3,206
Memo: Net securitization gains (amortization)	**$ (183)**	$ 67	$ 82
Financial ratios			
ROE	**5%**	21%	23%
Overhead ratio	**31**	32	34

2008 compared with 2007

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

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

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

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

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

2007 compared with 2006

Net income of $2.9 billion was down $287 million, or 9%, from the prior year. Prior-year results benefited from significantly lower net charge-offs following the change in bankruptcy legislation in the fourth quarter of 2005. The increase in net charge-offs was offset partially by higher revenue.

End-of-period managed loans of $157.1 billion increased $4.2 billion, or 3%, from the prior year. Average managed loans of $149.3 billion increased $8.2 billion, or 6%, from the prior year. The increases in both end-of-period and average managed loans resulted from organic growth.

Managed total net revenue was $15.2 billion, an increase of $490 million, or 3%, from the prior year. Net interest income was $12.2 billion, up $388 million, or 3%, from the prior year. The increase in net interest income was driven by a higher level of fees and higher average loan balances. These benefits were offset partially by narrower loan spreads, the discontinuation of certain billing practices (including the elimination of certain over-limit fees and the two-cycle billing method for calculating finance charges beginning in the second quarter of 2007) and the effect of higher revenue reversals associated with higher charge-offs. Noninterest revenue was $3.0 billion, an increase of $102 million, or 3%, from the prior year. The increase reflected a higher level of fee-based revenue and increased net interchange income, which benefited from higher charge volume. Charge volume growth was 4%, reflecting a 9% increase in sales volume, offset primarily by a lower level of balance transfers, the result of more targeted marketing efforts.

The managed provision for credit losses was $5.7 billion, an increase of $1.1 billion, or 24%, from the prior year. The increase was primarily due to a higher level of net charge-offs (the prior year benefited from the change in bankruptcy legislation in the fourth quarter of 2005) and an increase in the allowance for loan losses, driven by higher estimated net charge-offs in the portfolio. The managed net charge-off rate was 3.68%, up from 3.33% in the prior year. The 30-day managed delinquency rate was 3.48%, up from 3.13% in the prior year.

Noninterest expense was $4.9 billion, a decrease of $172 million, or 3%, compared with the prior year, primarily due to lower marketing expense and lower fraud-related expense, partially offset by higher volume-related expense.

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

- **Charge volume** – Represents the dollar amount of cardmember purchases, balance transfers and cash advance activity.
- **Net accounts opened** – Includes originations, purchases and sales.
- **Merchant acquiring business** – Represents a business that processes bank card transactions for merchants.
  –**Bank card volume** – Represents the dollar amount of transactions processed for merchants.
  –**Total transactions** – Represents the number of transactions and authorizations processed for merchants.

Selected metrics

Year ended December 31, (in millions, except headcount, ratios and where otherwise noted)	2008	2007	2006
Financial metrics			
% of average managed outstandings:			
Net interest income	**8.45%**	8.16%	8.36%
Provision for credit losses	**6.18**	3.82	3.26
Noninterest revenue	**1.67**	2.04	2.09
Risk adjusted margin[(a)]	**3.94**	6.38	7.19
Noninterest expense	**3.16**	3.29	3.60
Pretax income (ROO)[(b)]	**0.78**	3.09	3.59
Net income	**0.48**	1.95	2.27
Business metrics			
Charge volume (in billions)	**$ 368.9**	$ 354.6	$ 339.6
Net accounts opened (in millions)[(c)]	**27.9**	16.4	45.9
Credit cards issued (in millions)	**168.7**	155.0	154.4
Number of registered Internet customers (in millions)	**35.6**	28.3	22.5
Merchant acquiring business[(d)]			
Bank card volume (in billions)	**$ 713.9**	$ 719.1	$ 660.6
Total transactions (in billions)	**21.4**	19.7	18.2
Selected balance sheet data (period-end)			
Loans:			
Loans on balance sheets	**$ 104,746**	$ 84,352	$ 85,881
Securitized loans	**85,571**	72,701	66,950
Managed loans	**$ 190,317**	$ 157,053	$152,831
Equity	**$ 15,000**	$ 14,100	$ 14,100
Selected balance sheet data (average)			
Managed assets	**$ 173,711**	$ 155,957	$148,153
Loans:			
Loans on balance sheets	**$ 83,293**	$ 79,980	$ 73,740
Securitized loans	**79,566**	69,338	67,367
Managed average loans	**$ 162,859**	$ 149,318	$141,107
Equity	**$ 14,326**	$ 14,100	$ 14,100
Headcount	**24,025**	18,554	18,639
Managed credit quality statistics			
Net charge-offs	**$ 8,159**	$ 5,496	$ 4,698
Net charge-off rate[(e)]	**5.01%**	3.68%	3.33%
Managed delinquency ratios			
30+ day[(e)]	**4.97%**	3.48%	3.13%
90+ day[(e)]	**2.34**	1.65	1.50
Allowance for loan losses[(f)(i)]	**$ 7,692**	$ 3,407	$ 3,176
Allowance for loan losses to period-end loans[(f)]	**7.34%**	4.04%	3.70%
Key stats – Washington Mutual only[(g)]			
Managed loans	**$ 28,250**		
Managed average loans	**6,964**		
Net interest income[(h)]	**14.87%**		
Risk adjusted margin[(a)(h)]	**4.18**		
Net charge-off rate[(e)]	**7.11**		
30+ day delinquency rate[(e)]	**8.50**		
90+ day delinquency rate[(e)]	**3.75**		

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

(a) Represents total net revenue less provision for credit losses.
(b) Pretax return on average managed outstandings.
(c) Results for 2008 included approximately 13 million credit card accounts acquired in the Washington Mutual transaction. Results for 2006 included approximately 30 million accounts from loan portfolio acquisitions.
(d) The Chase Paymentech Solutions joint venture was dissolved effective November 1, 2008. For the period January 1, 2008 through October 31, 2008, the data presented represent activity for the Chase Paymentech Solutions joint venture and for the period November 1, 2008 through December 31, 2008, the data presented represent activity for Chase Paymentech Solutions.
(e) Results for 2008 reflect the impact of purchase accounting adjustments related to the Washington Mutual transaction.
(f) Based on loans on a reported basis.
(g) Statistics are only presented for periods after September 25, 2008, the date of the Washington Mutual transaction.
(h) As a percentage of average managed outstandings.
(i) The 2008 allowance for loan losses included an amount related to loans acquired in the Washington Mutual transaction.

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

Year ended December 31, (in millions)	2008	2007	2006
Income statement data[(a)]			
Credit card income			
Reported	**$ 6,082**	$ 5,940	$ 6,096
Securitization adjustments	**(3,314)**	(3,255)	(3,509)
Managed credit card income	**$ 2,768**	$ 2,685	$ 2,587
Net interest income			
Reported	**$ 6,838**	$ 6,554	$ 6,082
Securitization adjustments	**6,917**	5,635	5,719
Managed net interest income	**$ 13,755**	$ 12,189	$ 11,801
Total net revenue			
Reported	**$ 12,871**	$ 12,855	$ 12,535
Securitization adjustments	**3,603**	2,380	2,210
Managed total net revenue	**$ 16,474**	$ 15,235	$ 14,745
Provision for credit losses			
Reported	**$ 6,456**	$ 3,331	$ 2,388
Securitization adjustments	**3,603**	2,380	2,210
Managed provision for credit losses	**$ 10,059**	$ 5,711	$ 4,598
Balance sheet – average balances[(a)]			
Total average assets			
Reported	**$ 96,807**	$ 89,177	$ 82,887
Securitization adjustments	**76,904**	66,780	65,266
Managed average assets	**$173,711**	$155,957	$148,153
Credit quality statistics[(a)]			
Net charge-offs			
Reported	**$ 4,556**	$ 3,116	$ 2,488
Securitization adjustments	**3,603**	2,380	2,210
Managed net charge-offs	**$ 8,159**	$ 5,496	$ 4,698

(a) For a discussion of managed basis, see the non-GAAP financial measures discussion on pages 50–51 of this Annual Report.

COMMERCIAL BANKING

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

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

Selected income statement data

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

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

2008 compared with 2007

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

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

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

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

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

2007 compared with 2006

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

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

On a segment basis, Middle Market Banking revenue was $2.7 billion, an increase of $154 million, or 6%, primarily due to the Bank of New York transaction, higher deposit-related fees and growth in investment banking revenue. Mid-Corporate Banking revenue was $815 million, an increase of $159 million, or 24%, reflecting higher lending revenue, investment banking revenue, and gains on sales of securities acquired in the satisfaction of debt. Real Estate Banking revenue of $421 million decreased $37 million, or 8%.

Provision for credit losses was $279 million, compared with $160 million in the prior year. The increase in the allowance for credit losses reflected portfolio activity including slightly lower credit quality as well as growth in loan balances. The allowance for loan losses to average loans retained was 2.81%, compared with 2.86% in the prior year.

Noninterest expense was $2.0 billion, a decrease of $21 million, or 1%, largely due to lower compensation expense driven by the absence of prior-year expense from the adoption of SFAS 123R, partially offset by expense growth related to the Bank of New York transaction.

Selected metrics

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

Year ended December 31, (in millions, except headcount and ratios)	**2008**	2007	2006
Average loans by business:			
Middle Market Banking	**$ 42,193**	$ 37,333	$ 33,225
Commercial Term Lending[(b)]	**9,310**	—	—
Mid-Corporate Banking	**16,297**	12,481	8,632
Real Estate Banking[(b)]	**9,008**	7,116	7,566
Other[(b)]	**5,529**	4,164	4,173
Total Commercial Banking loans	**$ 82,337**	$ 61,094	$ 53,596
Headcount	**5,206**	4,125	4,459
Credit data and quality statistics:			
Net charge-offs	**$ 288**	$ 44	$ 27
Nonperforming loans[(d)]	**1,026**	146	121
Nonperforming assets	**1,142**	148	122
Allowance for credit losses:			
Allowance for loan losses[(e)]	**$ 2,826**	$ 1,695	$ 1,519
Allowance for lending-related commitments	**206**	236	187
Total allowance for credit losses	**$ 3,032**	$ 1,931	$ 1,706
Net charge-off rate[(f)]	**0.35%**	0.07%	0.05%
Allowance for loan losses to average loans[(d)(f)]	**3.04**[(g)]	2.81	2.86
Allowance for loan losses to nonperforming loans[(d)]	**275**	1,161	1,255
Nonperforming loans to average loans[(d)]	**1.10**[(g)]	0.24	0.23

(a) Represents the total revenue related to investment banking products sold to CB clients.
(b) Results for 2008 include total net revenue and average loans acquired in the Washington Mutual transaction.
(c) Liability balances include deposits and deposits swept to on-balance sheet liabilities such as commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements.
(d) Purchased credit-impaired wholesale loans accounted for under SOP 03-3 that were acquired in the Washington Mutual transaction are considered nonperforming loans because the timing and amount of expected cash flows are not reasonably estimable. These nonperforming loans were included when calculating the allowance coverage ratio, the allowance for loan losses to nonperforming loans ratio, and the nonperforming loans to average loans ratio. The carrying amount of these purchased credit-impaired loans was $224 million at December 31, 2008.
(e) Beginning in 2008, the allowance for loan losses included an amount related to loans acquired in the Washington Mutual transaction and the Bear Stearns merger.
(f) Loans held-for-sale and loans accounted for at fair value were excluded when calculating the allowance coverage ratio and the net charge-off rate.
(g) The September 30, 2008, ending loan balance of $44.5 billion acquired in the Washington Mutual transaction is treated as if it had been part of the loan balance for the entire third quarter of 2008.

TREASURY & SECURITIES SERVICES

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

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

Selected income statement data

Year ended December 31, (in millions, except ratio data)	2008	2007	2006
Revenue			
Lending & deposit-related fees	**$ 1,146**	$ 923	$ 735
Asset management, administration and commissions	**3,133**	3,050	2,692
All other income	**917**	708	612
Noninterest revenue	**5,196**	4,681	4,039
Net interest income	**2,938**	2,264	2,070
Total net revenue	**8,134**	6,945	6,109
Provision for credit losses	**82**	19	(1)
Credit reimbursement to IB[(a)]	**(121)**	(121)	(121)
Noninterest expense			
Compensation expense	**2,602**	2,353	2,198
Noncompensation expense	**2,556**	2,161	1,995
Amortization of intangibles	**65**	66	73
Total noninterest expense	**5,223**	4,580	4,266
Income before income tax expense	**2,708**	2,225	1,723
Income tax expense	**941**	828	633
Net income	**$ 1,767**	$ 1,397	$ 1,090
Revenue by business			
Treasury Services	**$ 3,555**	$ 3,013	$ 2,792
Worldwide Securities Services	**4,579**	3,932	3,317
Total net revenue	**$ 8,134**	$ 6,945	$ 6,109
Financial ratios			
ROE	**47%**	47%	48%
Overhead ratio	**64**	66	70
Pretax margin ratio[(b)]	**33**	32	28

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

(a) TSS is charged a credit reimbursement related to certain exposures managed within IB credit portfolio on behalf of clients shared with TSS. Beginning in first quarter 2009, income statement and balance sheet items for credit portfolio activity related to joint IB/TSS clients will be reflected proportionally in the respective IB and TSS financials. This will replace the previous approach whereby a credit reimbursement was charged to TSS by IB.
(b) Pretax margin represents income before income tax expense divided by total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its competitors.
(c) Loan balances include wholesale overdrafts, commercial card and trade finance loans.
(d) Liability balances include deposits and deposits swept to on-balance sheet liabilities such as commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements.

2008 compared with 2007

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

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

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

2007 compared with 2006

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

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

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

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

Selected metrics

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

Year ended December 31, (in millions, except ratio data and where otherwise noted)	2008	2007	2006
Firmwide business metrics			
Assets under custody (in billions)	**$ 13,205**	$ 15,946	$ 13,903
Number of:			
U.S.$ ACH transactions originated (in millions)	**4,000**	3,870	3,503
Total U.S.$ clearing volume (in thousands)	**115,742**	111,036	104,846
International electronic funds transfer volume (in thousands)[d]	**171,036**	168,605	145,325
Wholesale check volume (in millions)	**2,408**	2,925	3,409
Wholesale cards issued (in thousands)[e]	**22,784**	18,722	17,228
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ (2)**	$ —	$ 1
Nonperforming loans	**30**	—	—
Allowance for loan losses	**74**	18	7
Allowance for lending-related commitments	**63**	32	1
Net charge-off (recovery) rate	**(0.01)%**	—%	0.01%
Allowance for loan losses to average loans	**0.28**	0.09	0.04
Allowance for loan losses to nonperforming loans	**247**	NM	NM
Nonperforming loans to average loans	**0.11**	—	—

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

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

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

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

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

ASSET MANAGEMENT

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

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

Selected income statement data

Year ended December 31, (in millions, except ratios)	2008	2007	2006
Revenue			
Asset management, administration and commissions	**$6,004**	$6,821	$5,295
All other income	**62**	654	521
Noninterest revenue	**6,066**	7,475	5,816
Net interest income	**1,518**	1,160	971
Total net revenue	**7,584**	8,635	6,787
Provision for credit losses	**85**	(18)	(28)
Noninterest expense			
Compensation expense	**3,216**	3,521	2,777
Noncompensation expense	**2,000**	1,915	1,713
Amortization of intangibles	**82**	79	88
Total noninterest expense	**5,298**	5,515	4,578
Income before income tax expense	**2,201**	3,138	2,237
Income tax expense	**844**	1,172	828
Net income	**$1,357**	$1,966	$1,409
Revenue by client segment			
Private Bank[(a)]	**$2,565**	$2,362	$1,686
Institutional	**1,775**	2,525	1,972
Retail	**1,620**	2,408	1,885
Private Wealth Management[(a)]	**1,387**	1,340	1,244
Bear Stearns Brokerage	**237**	—	—
Total net revenue	**$7,584**	$8,635	$6,787
Financial ratios			
ROE	**24%**	51%	40%
Overhead ratio	**70**	64	67
Pretax margin ratio[(b)]	**29**	36	33

(a) In 2008, certain clients were transferred from Private Bank to Private Wealth Management. Prior periods have been revised to conform to this change.
(b) Pretax margin represents income before income tax expense divided by total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its competitors.

2008 compared with 2007

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

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

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

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

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

2007 compared with 2006

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

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

Institutional revenue grew 28% to $2.5 billion, due to net asset inflows and performance fees. Private Bank revenue grew 40% to $2.4 billion, due to higher assets under management, performance and placement fees, and increased loan and deposit balances. Retail revenue grew 28%, to $2.4 billion, primarily due to market appreciation and net asset inflows. Private Wealth Management revenue grew 8% to $1.3 billion, reflecting higher assets under management and higher deposit balances.

The provision for credit losses was a benefit of $18 million, compared with a benefit of $28 million in the prior year.

Noninterest expense was $5.5 billion, an increase of $937 million, or 20%, from the prior year. The increase was due primarily to higher performance-based compensation expense and investments in all business segments.

Selected metrics

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

(a) Derived from following rating services: Morningstar for the United States; Micropal for the United Kingdom, Luxembourg, Hong Kong and Taiwan; and Nomura for Japan.
(b) Derived from following rating services: Lipper for the United States and Taiwan; Micropal for the United Kingdom, Luxembourg and Hong Kong; and Nomura for Japan.
(c) Reflects the transfer in 2007 of held-for-investment prime mortgage loans transferred from AM to Corporate within the Corporate/Private Equity segment.

AM's client segments comprise the following:

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

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

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

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

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

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

- Percentage of assets under management in funds rated 4 and 5 stars (3 year). Mutual fund rating services rank funds based on their risk-adjusted performance over various periods. A 5 star rating is the best and represents the top 10% of industry wide ranked funds. A 4 star rating represents the next 22% of industry wide ranked funds. The worst rating is a 1 star rating.
- Percentage of assets under management in first- or second-quartile funds (one, three and five years). Mutual fund rating services rank funds according to a peer-based performance system, which measures returns according to specific time and fund classification (small, mid, multi and large cap).

Assets under supervision

2008 compared with 2007

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

2007 compared with 2006

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

Assets under supervision[(a)]

As of or for the year ended December 31, (in billions)	**2008**	2007	2006
Assets by asset class			
Liquidity	**$ 613**	$ 400	$ 311
Fixed income	**180**	200	175
Equities & balanced	**240**	472	427
Alternatives	**100**	121	100
Total assets under management	**1,133**	1,193	1,013
Custody/brokerage/administration/deposits	**363**	379	334
Total assets under supervision	**$ 1,496**	$ 1,572	$ 1,347
Assets by client segment			
Institutional	**$ 681**	$ 632	$ 538
Private Bank[(b)]	**181**	183	142
Retail	**194**	300	259
Private Wealth Management[(b)]	**71**	78	74
Bear Stearns Brokerage	**6**	—	—
Total assets under management	**$ 1,133**	$ 1,193	$ 1,013
Institutional	**$ 682**	$ 633	$ 539
Private Bank[(b)]	**378**	403	328
Retail	**262**	394	343
Private Wealth Management[(b)]	**124**	142	137
Bear Stearns Brokerage	**50**	—	—
Total assets under supervision	**$ 1,496**	$ 1,572	$ 1,347

As of or for the year ended December 31, (in billions)	**2008**	2007	2006
Assets by geographic region			
U.S./Canada	**$ 798**	$ 760	$ 630
International	**335**	433	383
Total assets under management	**$ 1,133**	$ 1,193	$ 1,013
U.S./Canada	**$ 1,084**	$ 1,032	$ 889
International	**412**	540	458
Total assets under supervision	**$ 1,496**	$ 1,572	$ 1,347
Mutual fund assets by asset class			
Liquidity	**$ 553**	$ 339	$ 255
Fixed income	**41**	46	46
Equities	**99**	224	206
Total mutual fund assets	**$ 693**	$ 609	$ 507
Assets under management rollforward			
Beginning balance, January 1	**$ 1,193**	$ 1,013	$ 847
Net asset flows:			
Liquidity	**210**	78	44
Fixed income	**(12)**	9	11
Equities, balanced and alternative	**(47)**	28	34
Market/performance/other impacts[(c)]	**(211)**	65	77
Ending balance, December 31	**$ 1,133**	$ 1,193	$ 1,013
Assets under supervision rollforward			
Beginning balance, January 1	**$ 1,572**	$ 1,347	$ 1,149
Net asset flows	**181**	143	102
Market/performance/other impacts[(c)]	**(257)**	82	96
Ending balance, December 31	**$ 1,496**	$ 1,572	$ 1,347

(a) Excludes assets under management of American Century Companies, Inc., in which the Firm had a 43%, 44% and 43% ownership at December 31, 2008, 2007 and 2006, respectively.
(b) In 2008, certain clients were transferred from Private Bank to Private Wealth Management. Prior periods have been revised to conform to this change.
(c) Includes $15 billion for assets under management and $68 billion for assets under supervision from the Bear Stearns merger in the second quarter of 2008.

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

Selected income statement data

Year ended December 31, (in millions)	**2008**	2007	2006
Revenue			
Principal transactions[a][b]	**$ (3,588)**	$ 4,552	$ 1,181
Securities gains (losses)[c]	**1,637**	39	(608)
All other income[d]	**1,673**	465	485
Noninterest revenue	**(278)**	5,056	1,058
Net interest income (expense)	**347**	(637)	(1,044)
Total net revenue	**69**	4,419	14
Provision for credit losses	**447**[j][k]	(11)	(1)
Provision for credit losses – accounting conformity[e]	**1,534**	—	—
Noninterest expense			
Compensation expense	**2,340**	2,754	2,626
Noncompensation expense[f]	**1,841**	3,025	2,357
Merger costs	**432**	209	305
Subtotal	**4,613**	5,988	5,288
Net expense allocated to other businesses	**(4,641)**	(4,231)	(4,141)
Total noninterest expense	**(28)**	1,757	1,147
Income (loss) from continuing operations before income tax expense (benefit)	**(1,884)**	2,673	(1,132)
Income tax expense (benefit)[g]	**(535)**	788	(1,179)
Income (loss) from continuing operations	**(1,349)**	1,885	47
Income from discontinued operations[h]	**—**	—	795
Income before extraordinary gain	**(1,349)**	1,885	842
Extraordinary gain[i]	**1,906**	—	—
Net income	**$ 557**	$ 1,885	$ 842

(a) Included losses on preferred equity interests in Fannie Mae and Freddie Mac in 2008.
(b) The Firm adopted SFAS 157 in the first quarter of 2007. See Note 4 on pages 141–155 of this Annual Report for additional information.
(c) Included gain on sale of MasterCard shares in 2008.
(d) Included a gain from the dissolution of the Chase Paymentech Solutions joint venture and proceeds from the sale of Visa shares in its initial public offering in 2008.
(e) Represents an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual Bank's banking operations. For a further discussion, see Consumer Credit Portfolio on page 104 of this Annual Report.
(f) Included a release of credit card litigation reserves in 2008 and insurance recoveries related to settlement of the Enron and WorldCom class action litigations and for certain other material legal proceedings of $512 million for full year 2006.
(g) Includes tax benefits recognized upon resolution of tax audits.
(h) Included a $622 million gain from the sale of selected corporate trust businesses in 2006.
(i) Effective September 25, 2008, JPMorgan Chase acquired Washington Mutual's banking operations from the FDIC for $1.9 billion. The fair value of the Washington Mutual net assets acquired exceeded the purchase price, which resulted in negative goodwill. In accordance with SFAS 141, nonfinancial assets that are not held-for-sale were written down against that negative goodwill. The negative goodwill that remained after writing down nonfinancial assets was recognized as an extraordinary gain in 2008.
(j) In November 2008, the Firm transferred $5.8 billion of higher quality credit card loans from the legacy Chase portfolio to a securitization trust previously established by Washington Mutual ("the Trust"). As a result of converting higher credit quality Chase-originated on-book receivables to the Trust's seller's interest which has a higher overall loss rate reflective of the total assets within the Trust, approximately $400 million of incremental provision expense was recorded during the fourth quarter. This incremental provision expense was recorded in the Corporate segment as the action related to the acquisition of Washington Mutual's banking operations. For further discussion of credit card securitizations, see Note 16 on page 182 of this Annual Report.
(k) Includes $9 million for credit card securitizations related to the Washington Mutual transaction.

2008 compared with 2007

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

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

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

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

2007 compared with 2006

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

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

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

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

Selected metrics

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

(a) The Firm adopted SFAS 157 in the first quarter of 2007. See Note 4 on pages 141–155 of this Annual Report for additional information.
(b) Included a release of credit card litigation reserves in 2008 and insurance recoveries related to settlement of the Enron and WorldCom class action litigations and for certain other material legal proceedings of $512 million for full year 2006.
(c) Includes tax benefits recognized upon resolution of tax audits.
(d) Includes an accounting conformity loan loss reserve provision related to the Washington Mutual transaction in 2008. 2008 also reflects items related to the Bear Stearns merger, which included Bear Stearns' losses, merger costs, Bear Stearns asset management liquidation costs and Bear Stearns private client services broker retention expense. Prior periods represent costs related to the Bank One transaction in 2004 and the Bank of New York transaction in 2006.
(e) Included a $622 million gain from the sale of selected corporate trust business in 2006.

Private equity portfolio

2008 compared with 2007

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

2007 compared with 2006

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

Selected income statement and balance sheet data

Year ended December 31, (in millions)	2008	2007	2006
Corporate			
Securities gains (losses)[a]	**$ 1,652**	$ 37	$ (619)
Investment securities portfolio (average)[b]	**106,801**	85,517	63,361
Investment securities portfolio (ending)[b]	**166,662**	76,200	82,091
Mortgage loans (average)[c]	**7,059**	5,639	—
Mortgage loans (ending)[c]	**7,292**	6,635	—
Private equity			
Realized gains	**$ 1,717**	$ 2,312	$ 1,223
Unrealized gains (losses)[d][e]	**(2,480)**	1,607	(1)
Total direct investments	**(763)**	3,919	1,222
Third-party fund investments	**(131)**	165	77
Total private equity gains (losses)[f]	**$ (894)**	$ 4,084	$ 1,299
Private equity portfolio information[g]			
Direct investments			
Publicly held securities			
Carrying value	**$ 483**	$ 390	$ 587
Cost	**792**	288	451
Quoted public value	**543**	536	831
Privately held direct securities			
Carrying value	**5,564**	5,914	4,692
Cost	**6,296**	4,867	5,795
Third-party fund investments[h]			
Carrying value	**805**	849	802
Cost	**1,169**	1,076	1,080
Total private equity portfolio – Carrying value	**$ 6,852**	$ 7,153	$ 6,081
Total private equity portfolio – Cost	**$ 8,257**	$ 6,231	$ 7,326

(a) Results for 2008 included a gain on the sale of MasterCard shares. All periods reflect repositioning of the Corporate investment securities portfolio and exclude gains/losses on securities used to manage risk associated with MSRs.
(b) Includes Chief Investment Office investment securities only.
(c) Held-for-investment prime mortgage loans were transferred from AM to the Corporate/Private Equity segment for risk management and reporting purposes. The initial transfer in 2007 had no material impact on the financial results of Corporate/Private Equity.
(d) Unrealized gains (losses) contain reversals of unrealized gains and losses that were recognized in prior periods and have now been realized.
(e) The Firm adopted SFAS 157 in the first quarter of 2007. For additional information, see Note 4 on pages 141–155 of this Annual Report.
(f) Included in principal transactions revenue in the Consolidated Statements of Income.
(g) For more information on the Firm's policies regarding the valuation of the private equity portfolio, see Note 4 on pages 141–155 of this Annual Report.
(h) Unfunded commitments to third-party equity funds were $1.4 billion, $881 million and $589 million at December 31, 2008, 2007 and 2006, respectively.

BALANCE SHEET ANALYSIS

Selected balance sheet data

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

Consolidated Balance Sheets overview

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

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

The Firm utilizes deposits with banks, federal funds sold and securities purchased under resale agreements, securities borrowed, and federal funds purchased and securities loaned or sold under repurchase agreements as part of its liquidity management activities to manage the Firm's cash positions and risk-based capital requirements and to support the Firm's trading and risk management activities. In particular, the Firm uses securities purchased under resale agreements and securities borrowed to provide funding or liquidity to clients by purchasing and borrowing clients' securities for the short-term. Federal funds purchased and securities loaned or sold under repurchase agreements are used as short-term funding sources for the Firm and to make securities available to clients for their short-term purposes. The increase from December 31, 2007, in deposits with banks reflected a higher level of interbank lending; a reclassification of deposits with the Federal Reserve Bank from cash and due from banks to deposits with banks reflecting a policy change of the Federal Reserve Bank to pay interest to depository institutions on reserve balances, and assets acquired as a result of the Bear Stearns merger. The increase in securities borrowed and securities purchased under resale agreements was related to assets acquired as a result of the Bear Stearns merger and growth in demand from clients for liquidity. The increase in securities sold under repurchase agreements reflected higher short-term funding requirements to fulfill clients' demand for liquidity and finance the Firm's AFS securities inventory, and the effect of the liabilities assumed in connection with the Bear Stearns merger. For additional information on the Firm's Liquidity Risk Management, see pages 88–92 of this Annual Report.

Trading assets and liabilities – debt and equity instruments

The Firm uses debt and equity trading instruments for both market-making and proprietary risk-taking activities. These instruments consist predominantly of fixed income securities, including government and corporate debt; equity, including convertible securities; loans, including certain prime mortgage and other loans warehoused by RFS and IB for sale or securitization purposes and accounted for at fair value under SFAS 159; and physical commodities inventories. The decreases in trading assets and liabilities – debt and equity instruments from December 31, 2007, reflected the effect of the challenging capital markets environment, particularly for debt securities, partially offset by positions acquired as a result of the Bear Stearns merger. For additional information, refer to Note 4 and Note 6 on pages 141–155 and 158–160, respectively, of this Annual Report.

Trading assets and liabilities – derivative receivables and payables

Derivative instruments enable end-users to increase, reduce or alter exposure to credit or market risks. The value of a derivative is derived from its reference to an underlying variable or combination of variables such as interest rate, credit, foreign exchange, equity or commodity prices or indices. JPMorgan Chase makes markets in derivatives for customers, is an end-user of derivatives for its principal risk-taking activities, and is also an end-user of derivatives to hedge or manage risks of market and credit exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. The majority of the Firm's derivatives are entered into for market-making purposes. The increase in derivative receivables and payables from December 31, 2007, was primarily related to the decline in interest rates, widening credit spreads and volatile foreign exchange rates reflected in interest rate, credit and foreign exchange derivatives, respectively. The increase also included positions acquired in the Bear Stearns merger. For additional information, refer to derivative contracts, Note 4, Note 6 and Note 32 on pages 141–155, 158–160, and 214–217, respectively, of this Annual Report.

Securities

Almost all of the Firm's securities portfolio is classified as AFS and is used predominantly to manage the Firm's exposure to interest rate movements, as well as to make strategic longer-term investments. The AFS portfolio increased from December 31, 2007, predominantly as a result of purchases, partially offset by sales and maturities. For additional information related to securities, refer to the Corporate/Private Equity segment discussion, Note 4 and Note 12 on pages 73–75, 141–155 and 170–174, respectively, of this Annual Report.

Loans and allowance for loan losses

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

Both the consumer and wholesale components of the allowance for loan losses increased from the prior year reflecting the addition of noncredit-impaired loans acquired in the Washington Mutual transaction, including an increase to conform the allowance applicable to assets acquired from Washington Mutual to the Firm's loan loss methodologies. Excluding the Washington Mutual transaction the consumer allowance rose due to an increase in estimated losses for home equity, subprime mortgage, prime mortgage and credit card loans due to the effects of continued housing price declines, rising unemployment and a weakening economic environment. Excluding the Washington Mutual transaction, the increase in the wholesale allowance was due to the impact of the transfer of $4.9 billion of funded and unfunded leveraged lending loans in IB to the retained loan portfolio from the held-for-sale loan portfolio, the effect of a weakening credit environment and loan growth. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 92–111, and Notes 4, 5, 14 and 15 on pages 141–155, 156–158, 175–178 and 178–180, respectively, of this Annual Report.

Accrued interest and accounts receivable; accounts payable and other liabilities

The Firm's accrued interest and accounts receivable consist of accrued interest receivable from interest-earning assets; receivables from customers (primarily from activities related to IB's Prime Services business); receivables from brokers, dealers and clearing organizations; and receivables from failed securities sales. The Firm's accounts payable and other liabilities consist of accounts payable to customers (primarily from activities related to IB's Prime Services business), payables to brokers, dealers and clearing organizations; payables from failed securities purchases; accrued expense, including for interest-bearing liabilities; and all other liabilities, including obligations to return securities received as collateral. The increase in accrued interest and accounts receivable from December 31, 2007, was due largely to the Bear Stearns merger, reflecting higher customer receivables in IB's Prime Services business and the Washington Mutual transaction. The increase in accounts payable and other liabilities was predominantly due to the Bear Stearns merger, reflecting higher customer payables (primarily related to IB's Prime Services business), as well as higher obligations to return securities received as collateral. For additional information, see Note 22 on page 202 of this Annual Report.

Goodwill

Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed. The increase in goodwill was due predominantly to the dissolution of Chase Paymentech Solutions joint venture, the merger with Bear Stearns, the purchase of an additional equity interest in Highbridge and tax-related purchase accounting adjustments associated with the Bank One merger, which increased goodwill attributed to IB. These items were offset partially by a decrease in goodwill attributed to TSS predominantly resulting from the sale of a previously consolidated subsidiary. For additional information, see Note 18 on pages 198–201 of this Annual Report.

Other intangible assets

The Firm's other intangible assets consist of MSRs, purchased credit card relationships, other credit card-related intangibles, core deposit intangibles, and other intangibles. MSRs increased due to the Washington Mutual transaction and the Bear Stearns merger; sales in RFS of originated loans; and purchases of MSRs. These increases in MSRs were partially offset by markdowns of the fair value of the MSR asset due to changes to inputs and assumptions in the MSR valuation model, including updates to prepayment assumptions to reflect current expectations, and to servicing portfolio run-offs. The decrease in other intangible assets reflects amortization expense associated with credit card-related and core deposit intangibles, partially offset by increases due to the dissolution of the Chase Paymentech Solutions joint venture, the purchase of an additional equity interest in Highbridge, and the acquisition of an institutional global custody portfolio. For additional information on MSRs and other intangible assets, see Note 18 on pages 198–201 of this Annual Report.

Other assets

The Firm's other assets consist of private equity and other investments, collateral received, corporate and bank-owned life insurance policies, premises and equipment, assets acquired in loan satisfaction (including real estate owned), and all other assets. The increase in other assets from December 31, 2007, was due to the Bear Stearns merger, which partly resulted in a higher volume of collateral received from customers, the Washington Mutual transaction, and the purchase of asset-backed commercial paper from money market mutual funds in connection with the Federal Reserve's Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AML Facility"), which was established by the Federal Reserve on September 19, 2008, as a temporary lending facility to provide liquidity to eligible U.S. money market mutual funds. For additional information regarding the AML Facility, see Executive Overview and Note 21 on pages 41–44 and 202 respectively, of this Annual Report.

Deposits

The Firm's deposits represent a liability to customers, both retail and wholesale, related to non-brokerage funds held on their behalf. Deposits are generally classified by location (U.S. and non-U.S.), whether they are interest or noninterest-bearing, and by type (i.e., demand, money market deposit, savings, time or negotiable order of withdrawal accounts). Deposits help provide a stable and consistent source of funding for the Firm. Deposits were at a higher level compared with the level at December 31, 2007, predominantly from the deposits assumed in the Washington Mutual transaction, net increases in wholesale interest- and noninterest-bearing deposits in TSS, AM and CB. The increase in TSS was driven by both new and existing clients, and due to the deposit inflows related to the heightened volatility and credit concerns affecting the markets. For more information on deposits, refer to the TSS and RFS segment discussions on pages 68–69 and 57–62, respectively, and the Liquidity Risk Management discussion on pages 88–92 of this Annual Report. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 66–67 and 68–69 of this Annual Report.

Commercial paper and other borrowed funds

The Firm utilizes commercial paper and other borrowed funds as part of its liquidity management activities to meet short-term funding needs, and in connection with a TSS liquidity management product whereby excess client funds, are transferred into commercial paper overnight sweep accounts. The increase in other borrowed funds was predominantly due to advances from Federal Home Loan Banks of $70.2 billion (net of maturities of $10.4 billion) that were assumed as part of the Washington Mutual transaction and nonrecourse advances from the Federal Reserve Bank of Boston ("FRBB") to fund purchases of asset-backed commercial paper from money market mutual funds, and other borrowings from the Federal Reserve under the Term Auction Facility program. For additional information on the Firm's Liquidity Risk Management and other borrowed funds, see pages 88–92 and Note 21 on page 202 of this Annual Report.

Long-term debt and trust preferred capital debt securities

The Firm utilizes long-term debt and trust preferred capital debt securities to provide cost-effective and diversified sources of funds and as critical components of the Firm's liquidity and capital management. Long-term debt and trust preferred capital debt securities increased from December 31, 2007, predominantly due to debt assumed in both the Bear Stearns merger and the Washington Mutual transaction, and debt issuances of $20.8 billion, which are guaranteed by the FDIC under its TLG Program. These increases were partially offset by net maturities and redemptions, including IB structured notes, the issuances of which are generally client-driven. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 88–92 and Note 23 on pages 203–204 of this Annual Report.

Stockholders' equity

The increase in total stockholders' equity from December 31, 2007, was predominantly due to the issuance of preferred and common equity securities during 2008. In the fourth quarter of 2008, JPMorgan Chase participated in the Capital Purchase Program and issued preferred stock and a warrant to purchase common stock to the U.S. Treasury, resulting in a $25.0 billion increase to stockholders' equity. Additional preferred stock issuances and a common stock issuance during 2008 increased equity by $19.3 billion. Equity from issuances of stock awards under the Firm's employee stock-based compensation plans, the Bear Stearns merger, and net income for 2008 was more than offset by the declaration of cash dividends and net losses recorded within accumulated other comprehensive income related to AFS securities and defined benefit pension and other postretirement employee benefit plans. For a further discussion, see the Capital Management section that follows, and Note 24 and Note 27 on pages 205–206 and 208, respectively, of this Annual Report.

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

Special-purpose entities

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

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

JPMorgan Chase uses SPEs as a source of liquidity for itself and its clients by securitizing financial assets, and by creating investment products for clients. The Firm is involved with SPEs through multi-seller conduits and investor intermediation activities, and as a result of its loan securitizations, through qualifying special purpose entities ("QSPEs"). This discussion focuses mostly on multi-seller conduits and investor intermediation. For a detailed discussion of all SPEs with which the Firm is involved, and the related accounting, see Note 1, Note 16 and Note 17 on pages 134–145, 180–188 and 189–198, respectively of this Annual Report.

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

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

Implications of a credit rating downgrade to JPMorgan Chase Bank, N.A.
For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A., was downgraded below specific levels, primarily "P-1", "A-1" and "F1" for Moody's, Standard & Poor's and Fitch, respectively. The amount of these liquidity commitments was $61.0 billion and $94.0 billion at December 31, 2008 and 2007, respectively. Alternatively, if JPMorgan Chase Bank, N.A., were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitment, or in certain circumstances, the Firm could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity. These commitments are included in other unfunded commitments to extend credit and asset purchase agreements, as shown in the Off-balance sheet lending-related financial instruments and guarantees table on page 81 of this Annual Report.

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

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

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

Loan securitizations
JPMorgan Chase securitizes and sells a variety of loans, including residential mortgages, credit cards, automobile, student, and commercial loans (primarily related to real estate). JPMorgan Chase-sponsored securitizations utilize SPEs as part of the securitization process. These SPEs are structured to meet the definition of a QSPE (as discussed in Note 1 on page 134 of this Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected on the Firm's Consolidated Balance Sheets (except for retained interests, as described below). The primary purpose of these vehicles is to meet investor needs and generate liquidity for the Firm through the sale of loans to the QSPEs. These QSPEs are financed through the issuance of fixed or floating-rate asset-backed securities that are sold to third-party investors or held by the Firm.

Consolidation and consolidation sensitivity analysis on capital
For more information regarding these programs and the Firm's other SPEs, as well as the Firm's consolidation analysis for these programs, see Note 16 and Note 17 on pages 180–188 and 189–198, respectively, of this Annual Report.

Special-purpose entities revenue

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

Revenue from VIEs and QSPEs

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

(a) Includes revenue associated with consolidated VIEs and significant nonconsolidated VIEs.
(b) Excludes the markdown on subprime CDO assets that was recorded in principal transactions revenue in 2007.
(c) Excludes servicing revenue from loans sold to and securitized by third parties. Prior period amounts have been revised to conform to the current period presentation.

American Securitization Forum subprime adjustable rate mortgage loans modifications

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

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

For additional discussion of the Framework, see Note 16 on page 188 of this Annual Report.

Off-balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and the counterparty subsequently fail to perform according to the terms of the contract. These commitments and guarantees historically expire without being drawn and even higher proportions expire without a default. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. Further, certain commitments, primarily related to consumer financings, are cancelable, upon notice, at the option of the Firm. For further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see lending-related commitments in Credit Risk Management on page 102 and Note 33 on pages 218–222 of this Annual Report.

Contractual cash obligations

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

The accompanying table summarizes, by remaining maturity, JPMorgan Chase's off-balance sheet lending-related financial instruments and significant contractual cash obligations at December 31, 2008. Contractual purchases and capital expenditures in the table below reflect the minimum contractual obligation under legally enforceable contracts with terms that are both fixed and determinable. Excluded from the following table are a number of obligations to be settled in cash, primarily in under one year. These obligations are reflected on the Firm's Consolidated Balance Sheets and include federal funds purchased and securities loaned or sold under repurchase agreements; commercial paper; other borrowed funds; purchases of debt and equity instruments; derivative payables; and certain purchases of instruments that resulted in settlement failures. Also excluded are contingent payments associated with certain acquisitions that could not be estimated. For discussion regarding long-term debt and trust preferred capital debt securities, see Note 23 on pages 203–204 of this Annual Report. For discussion regarding operating leases, see Note 31 on page 213 of this Annual Report.

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

Off-balance sheet lending-related financial instruments and guarantees

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

Contractual cash obligations

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

(a) Includes credit card and home equity lending-related commitments of $623.7 billion and $95.7 billion, respectively, at December 31, 2008; and $714.8 billion and $74.2 billion, respectively, at December 31, 2007. These amounts for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. The Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(b) Includes unused advised lines of credit totaling $36.3 billion and $38.4 billion at December 31, 2008 and 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve, unused advised lines are not reportable. See the Glossary of terms, on page 230 of this Annual Report, for the Firm's definition of advised lines of credit.

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

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

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

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

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

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

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

(j) Represents notional amounts of derivatives qualifying as guarantees. For further discussion of guarantees, see Note 33 on pages 218–222 of this Annual Report.

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

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

(m) Includes deferred annuity contracts. Excludes the $1.3 billion discretionary contribution to the Firm's U.S. defined benefit pension plan that was made on January 15, 2009 (for further discussion, see Note 9 on pages 161–167), and contributions to the U.S. and non-U.S. other postretirement benefits plans, if any, as these contributions are not reasonably estimable at this time. Also excluded are unrecognized tax benefits of $5.9 billion and $4.8 billion at December 31, 2008 and 2007, respectively, as the timing and amount of future cash payments are not determinable at this time.

CAPITAL MANAGEMENT

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

Line of business equity

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

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

Equity for a line of business represents the amount the Firm believes the business would require if it were operating independently, incorporating sufficient capital to address economic risk measures, regulatory capital requirements and capital levels for similarly rated peers. Capital is also allocated to each line of business for, among other things, goodwill and other intangibles associated with acquisitions effected by the line of business. Return on common equity is measured and internal targets for expected returns are established as a key measure of a business segment's performance.

Relative to 2007, line of business equity increased during 2008, reflecting growth across the businesses. In addition, at the end of the third quarter of 2008, equity was increased for each line of business in anticipation of the future implementation of the new Basel II capital rules. For further details on these rules, see Basel II on page 84 of this Annual Report. Finally, during 2008, capital allocated to RFS, CS, and CB was increased as a result of the Washington Mutual transaction; capital allocated to AM was increased due to the Bear Stearns merger and the purchase of the additional equity interest in Highbridge; and capital allocated to IB was increased due to the Bear Stearns merger.

In accordance with SFAS 142, the lines of business perform the required goodwill impairment testing. For a further discussion of goodwill and impairment testing, see Critical Accounting Estimates Used by the Firm and Note 18 on pages 119–123 and 198–201, respectively, of this Annual Report.

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

Line of business equity	Yearly Average	
(in billions)	**2008**	2007
Investment Bank	**$ 26.1**	$ 21.0
Retail Financial Services	**19.0**	16.0
Card Services	**14.3**	14.1
Commercial Banking	**7.3**	6.5
Treasury & Securities Services	**3.8**	3.0
Asset Management	**5.6**	3.9
Corporate/Private Equity[a]	**53.0**	54.2
Total common stockholders' equity	**$129.1**	$ 118.7

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

Economic risk capital

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

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

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

Credit risk capital

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

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

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

Market risk capital

The Firm calculates market risk capital guided by the principle that capital should reflect the risk of loss in the value of portfolios and financial instruments caused by adverse movements in market variables, such as interest and foreign exchange rates, credit spreads, securities prices and commodities prices. Daily Value-at-Risk ("VaR"), biweekly stress-test results and other factors are used to determine appropriate capital levels. The Firm allocates market risk capital to each business segment according to a formula that weights that segment's VaR and stress-test exposures. See Market Risk Management on pages 111–116 of this Annual Report for more information about these market risk measures.

Operational risk capital

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

Private equity risk capital

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

Regulatory capital

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

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

JPMorgan Chase maintained a well-capitalized position, based upon Tier 1 and Total capital ratios at December 31, 2008 and 2007, as indicated in the tables below. For more information, see Note 30 on pages 212–213 of this Annual Report.

Risk-based capital components and assets

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

(a) The FASB has been deliberating certain amendments to both SFAS 140 and FIN 46R that may impact the accounting for transactions that involve QSPEs and VIEs. Based on the provisions of the current proposal and the Firm's interpretation of the proposal, the Firm estimates that the impact of consolidation could be up to $70 billion of credit card receivables, $40 billion of assets related to Firm-sponsored multi-seller conduits, and $50 billion of other loans (including residential mortgages); the decrease in the Tier 1 capital ratio could be approximately 80 basis points. The ultimate impact could differ significantly due to the FASB's continuing deliberations on the final requirements of the rule and market conditions.

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

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

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

Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject, and the capital ratios for the Firm's significant banking subsidiaries at December 31, 2008 and 2007, are presented in Note 30 on pages 212–213 of this Annual Report.

Capital Purchase Program

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

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

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

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

Basel II

The minimum risk-based capital requirements adopted by the U.S. federal banking agencies follow the Capital Accord of the Basel Committee on Banking Supervision. In 2004, the Basel Committee published a revision to the Accord ("Basel II"). The goal of the new Basel II Framework is to provide more risk-sensitive regulatory capital calculations and promote enhanced risk management practices among large, internationally active banking organizations. U.S. banking regulators published a final Basel II rule in December 2007, which will require JPMorgan Chase to implement Basel II at the holding company level, as well as at certain of its key U.S. bank subsidiaries.

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

Broker-dealer regulatory capital

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

JPMorgan Securities and J.P. Morgan Clearing Corp. have elected to compute their minimum net capital requirements in accordance with the "Alternative Net Capital Requirement" of the Net Capital Rule. At December 31, 2008, JPMorgan Securities' net capital, as defined by the Net Capital Rule, of $7.2 billion exceeded the minimum requirement by $6.6 billion. In addition to its net capital requirements, JPMorgan Securities is required to hold tentative net capital in excess of $1.0 billion and is also required to notify the Securities and Exchange Commission ("SEC") in the event that tentative net capital is less than $5.0 billion in accordance with the market and credit risk standards of Appendix E of the Net Capital Rule. As of December 31, 2008, JPMorgan Securities had tentative net capital in excess of the minimum and the notification requirements. On October 1, 2008, J.P. Morgan Securities Inc. merged with and into Bear, Stearns & Co. Inc., and the surviving entity changed its name to J.P. Morgan Securities Inc.

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

Dividends

On February 23, 2009, the Board of Directors reduced the Firm's quarterly common stock dividend from $0.38 to $0.05 per share, effective for the dividend payable April 30, 2009, to shareholders of record on April 6, 2009. JPMorgan Chase declared quarterly cash dividends on its common stock in the amount of $0.38 for each quarter of 2008 and the second, third and fourth quarters of 2007, and $0.34 per share for the first quarter of 2007 and for each quarter of 2006.

The Firm's common stock dividend policy reflects JPMorgan Chase's earnings outlook, desired dividend payout ratios, need to maintain an adequate capital level and alternative investment opportunities. The Firm's ability to pay dividends is subject to restrictions. For information regarding such restrictions, see page 84 and Note 24 and Note 29 on pages 205–206 and 211, respectively, of this Annual Report and for additional information regarding the reduction of the dividend, see page 44.

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

Common dividend payout ratio

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

Issuance

The Firm issued $6.0 billion and $1.8 billion of noncumulative perpetual preferred stock on April 23, 2008, and August 21, 2008, respectively. Pursuant to the Capital Purchase Program, on October 28, 2008, the Firm issued to the U.S. Treasury $25.0 billion of cumulative preferred stock and a warrant to purchase up to 88,401,697 shares of the Firm's common stock. For additional information regarding preferred stock, see Note 24 on pages 205–206 of this Annual Report.

On September 30, 2008, the Firm issued $11.5 billion, or 284 million shares, of common stock at $40.50 per share. For additional information regarding common stock, see Note 25 on pages 206–207 of this Annual Report.

Stock repurchases

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

The Board of Directors approved in April 2007, a stock repurchase program that authorizes the repurchase of up to $10.0 billion of the Firm's common shares, which superseded an $8.0 billion stock repurchase program approved in 2006. The $10.0 billion authorization includes shares to be repurchased to offset issuances under the Firm's employee stock-based plans. The actual number of shares that may be repurchased is subject to various factors, including market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation; and alternative potential investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases or privately negotiated transactions, or utilizing Rule 10b5-1 programs; and may be suspended at any time. A Rule 10b5-1 repurchase plan allows the Firm to repurchase shares during periods when it would not otherwise be repurchasing common stock – for example, during internal trading "black-out periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan that is established when the Firm is not aware of material nonpublic information.

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

For a discussion of restrictions on stock repurchases, see Capital Purchase Program on page 84 and Note 24 on pages 205–206 of this Annual Report.

For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 5, Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities, on page 17 of JPMorgan Chase's 2008 Form 10-K.

RISK MANAGEMENT

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

- Risk identification: The Firm's exposure to risk through its daily business dealings, including lending, trading and capital markets activities, is identified and aggregated through the Firm's risk management infrastructure. In addition, individuals who manage risk positions, particularly those positions that are complex, are responsible for identifying and estimating potential losses that could arise from specific or unusual events, that may not be captured in other models, and those risks are communicated to senior management.
- Risk measurement: The Firm measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that the Firm's risk estimates are reasonable and reflect underlying positions.
- Risk monitoring/control: The Firm's risk management policies and procedures incorporate risk mitigation strategies and include approval limits by customer, product, industry, country and business. These limits are monitored on a daily, weekly and monthly basis, as appropriate.
- Risk reporting: Risk reporting is executed on a line of business and consolidated basis. This information is reported to management on a daily, weekly and monthly basis, as appropriate. There are eight major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk.

Risk governance

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

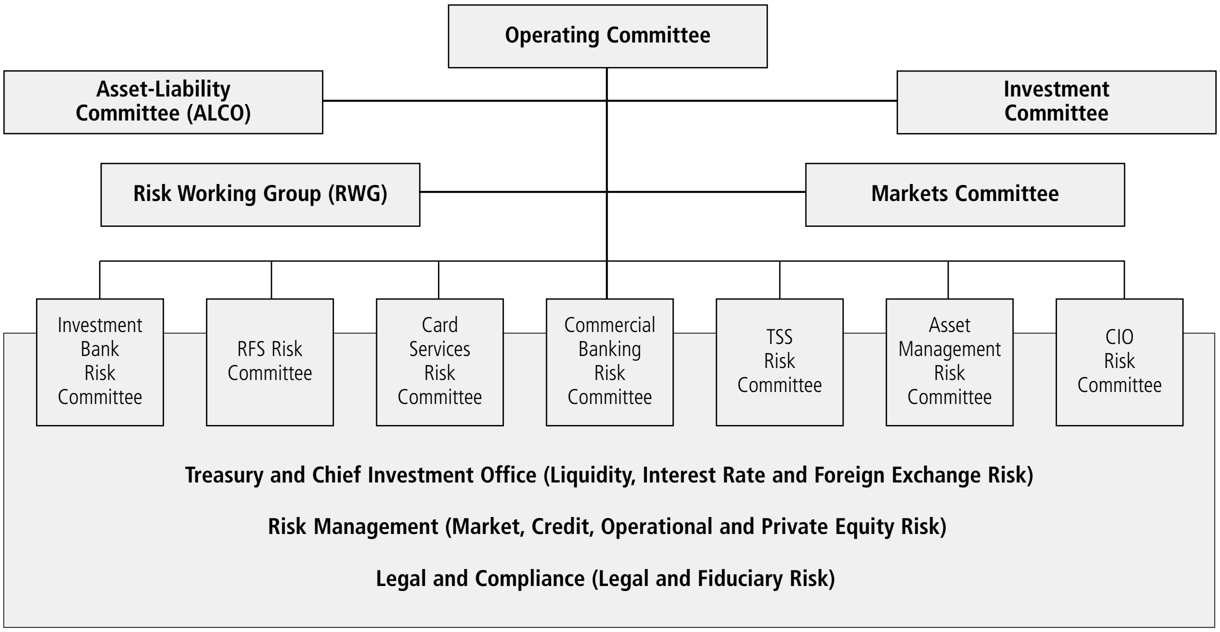
Overlaying the line of business risk management are four corporate functions with risk management–related responsibilities: Treasury, the Chief Investment Office, Legal and Compliance and Risk Management.

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

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

Legal and Compliance has oversight for legal and fiduciary risk.

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



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

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

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

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

LIQUIDITY RISK MANAGEMENT

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

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

Recent events

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

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

On May 30, 2008, JPMorgan Chase completed the merger with Bear Stearns. Due to the structure of the transaction and the de-risking of positions over time, the merger with Bear Stearns had no material impact on the Firm's liquidity. On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual from the FDIC. As part of the Washington Mutual transaction, JPMorgan Chase assumed Washington Mutual's deposits as well as its obligations to its credit card securitization-related master trusts, covered bonds, and liabilities to certain Federal Home Loan Banks. The Washington Mutual transaction had an insignificant impact on the Firm's overall liquidity position.

Both S&P and Moody's lowered the Firm's ratings one notch on December 19, 2008 and January 15, 2009, respectively. These rating actions did not have a material impact on the cost or availability of funding to the Firm. For a further discussion of credit ratings, see the Credit Ratings caption of this Liquidity Risk Management section on pages 91–92 of this Annual Report.

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

Governance

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

Liquidity monitoring

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

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

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

Funding

Sources of funds

The deposits held by the RFS, CB, TSS and AM lines of business are a generally consistent source of funding for JPMorgan Chase Bank, N.A. As of December 31, 2008, total deposits for the Firm were $1.0 trillion, compared with $740.7 billion at December 31, 2007. A significant portion of the Firm's deposits are retail deposits, which are less sensitive to interest rate changes or market volatility and therefore are considered more stable than market-based (i.e., wholesale) liability balances. The Washington Mutual transaction added approximately $159.9 billion of deposits to the Firm, a significant majority of which are retail deposits. In addition, through the normal course of business, the Firm benefits from substantial liability balances originated by RFS, CB, TSS and AM. These franchise-generated liability balances include deposits and funds that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements), a significant portion of which are considered to be stable and consistent sources of funding due to the nature of the businesses from which they are generated. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance sheet analysis on pages 54–72 and 76–78, respectively, of this Annual Report.

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

Issuance

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

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

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

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

Replacement Capital Covenants

In connection with the issuance of certain of its trust preferred capital debt securities and noncumulative perpetual preferred stock, the Firm entered into Replacement Capital Covenants ("RCCs") granting certain rights to the holders of "covered debt," as defined in the RCCs, that prohibit the repayment, redemption or purchase of the trust preferred capital debt securities and noncumulative perpetual preferred stock except, with limited exceptions, to the extent that JPMorgan Chase has received, in each such case, specified amounts of proceeds from the sale of certain qualifying securities. Currently the Firm's covered debt is its 5.875% Junior Subordinated Deferrable Interest Debentures, Series O, due in 2035. For more information regarding these covenants, reference is made to the respective RCCs entered into by the Firm in connection with the issuances of such trust preferred capital debt securities and noncumulative perpetual preferred stock, which are filed with the U.S. Securities and Exchange Commission under cover of Forms 8-K.

Cash flows

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

Cash Flows from Operating Activities

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

For the year ended December 31, 2008, net cash provided by operating activities was $23.1 billion, while for the years ended December 31, 2007 and 2006, net cash used in operating activities was $110.6 billion and $49.6 billion, respectively. In 2008, net cash generated from operating activities was higher than net income, largely as a result of adjustments for operating items such as the provision for credit losses, depreciation and amortization, stock-based compensation, and certain other expense. During 2006, 2007 and 2008, cash was used to fund loans held-for-sale, primarily in IB and RFS. During 2008, proceeds from sales of loans originated or purchased with an initial intent to sell were slightly higher than cash used to acquire such loans; but the cash flows from these activities were at a significantly lower level than for the same periods in 2007 and 2006 as a result of current market conditions. In 2007 and 2006, cash used to acquire such loans was slightly higher than proceeds from sales.

For the years ended December 31, 2007 and 2006, the net cash used in operating activities supported growth in the Firm's lending and capital markets activities. In 2007, when compared with 2006, there was a significant decline in cash flows from IB loan originations/purchases and sale/securitization activities as a result of the difficult wholesale securitization market and capital markets for leveraged financings, which were affected by a significant deterioration in liquidity in the second half of 2007. Cash flows in 2007 associated with RFS residential mortgage activities grew, reflecting an increase in originations.

Cash Flows from Investing Activities

The Firm's investing activities predominantly include originating loans to be held for investment, other receivables, the available-for-sale investment portfolio and other short-term investment vehicles. For the year ended December 31, 2008, net cash of $286.3 billion was used in investing activities, primarily for: purchases of investment securities in Corporate's AFS portfolio to manage the Firm's exposure to interest rate movements, as well as to make strategic longer-term investments; increased deposits with banks as the result of the availability of excess cash for short-term investment opportunities through interbank lending, and from deposits with the Federal Reserve (which is now an investing activity, reflecting a policy change of the Federal Reserve to pay interest to depository institutions on reserve balances); net additions to the wholesale loan portfolio, from organic growth in CB; additions to the consumer prime mortgage portfolio as a result of the decision to retain, rather than sell, new originations of nonconforming prime mortgage loans; an increase in securities purchased under resale agreements reflecting growth in demand from clients for liquidity; and net purchases of asset-backed commercial paper from money market mutual funds in connection with a temporary Federal Reserve Bank of Boston lending facility. Partially offsetting these uses of cash were proceeds from sales and maturities of AFS securities; loan sales and credit card securitization activities, which were at a lower level than for the same periods in 2007 as a result of the adverse market conditions that have continued since the last half of 2007; and net cash received from acquisitions and the sale of an investment. Additionally, in June 2008, in connection with the merger with Bear Stearns, the Firm sold assets acquired from Bear Stearns to the FRBNY and received cash proceeds of $28.85 billion (for additional information see Note 2 on pages 135–140 of this Annual Report).

For the year ended December 31, 2007, net cash of $73.1 billion was used in investing activities, primarily to fund purchases in the AFS securities portfolio to manage the Firm's exposure to interest rate movements; net additions to the wholesale retained loan portfolios in IB, CB and AM, mainly as a result of business growth; a net increase in the consumer retained loan portfolio, primarily reflecting growth in RFS in home equity loans and net additions to RFS' subprime mortgage loans portfolio (which was affected by management's decision in the third quarter to retain (rather than sell) new subprime mortgages), and growth in prime mortgage loans originated by RFS and AM that cannot be sold to U.S. government agencies or U.S. government-sponsored enterprises; and increases in securities purchased under resale agreements as a result of a higher level of cash that was available for short-term investment opportunities in connection with the Firm's efforts to build liquidity. These net uses of cash were partially offset by cash proceeds received from sales and maturities of AFS securities; and credit card, residential mortgage, student and wholesale loan sales and securitization activities, which grew in 2007 despite the difficult conditions in the credit markets.

For the year ended December 31, 2006, net cash of $99.6 billion was used in investing activities. Net cash was invested to fund net additions to the retained wholesale loan portfolio, mainly resulting from capital markets activity in IB leveraged financings; increases in CS loans reflecting strong organic growth; net additions in retail home equity loans; the acquisition of private-label credit card portfolios from Kohl's, BP and Pier 1 Imports, Inc.; the acquisition of Collegiate Funding Services; and purchases of AFS securities in connection with repositioning the portfolio in response to changes in interest rates. These uses of cash were partially offset by cash proceeds provided from credit card, residential mortgage, auto and wholesale loan sales and securitization activities; sales and maturities of AFS securities; the net decline in auto loans, which was caused partially by management's decision to de-emphasize vehicle leasing; and the sale of the insurance business at the beginning of the second quarter.

Cash Flows from Financing Activities

The Firm's financing activities primarily reflect cash flows related to customer deposits, issuances of long-term debt and trust preferred capital debt securities, and issuances of preferred and common stock. In 2008, net cash provided by financing activities was $250.5 billion due to: growth in wholesale deposits, in particular, interest- and noninterest-bearing deposits in TSS (driven by both new and existing clients, and due to the deposit inflows related to the heightened volatility and credit concerns affecting the global markets), as well as increases in AM and CB (due to organic growth); proceeds of $25.0 billion from the issuance of preferred stock and a warrant to the U.S. Treasury under the Capital Purchase Program; additional issuances of common stock and preferred stock used for general corporate purposes; an increase in other borrowings due to nonrecourse secured advances from the Federal Reserve Bank of Boston to fund the purchase of asset-backed commercial paper from money market mutual funds; increases in federal funds purchased and securities loaned or sold under repurchase agreements in connection with higher short-term requirements to fulfill client demand for liquidity and finance the Firm's AFS securities inventory; and a net increase in long-term debt due to a combination of non-FDIC guaranteed debt and trust preferred capital debt securities issued prior to December 4, 2008, and the issuance of $20.8 billion of FDIC-guaranteed long-term debt issued during the fourth quarter of 2008. The fourth-quarter FDIC-guaranteed issuance was offset partially by maturities of non-FDIC guaranteed long-term debt during the same period. The increase in long-term debt and trust preferred capital debt securities was used primarily to fund certain illiquid assets held by the parent holding company and build liquidity. Cash was also used to pay dividends on common and preferred stock. The Firm did not repurchase any shares of its common stock in the open market during 2008 in order to maintain its capital objectives.

In 2007, net cash provided by financing activities was $183.0 billion due to a net increase in wholesale deposits from growth in business volumes, in particular, interest-bearing deposits at TSS, AM and CB; net issuances of long-term debt and trust preferred capital debt securities primarily to fund certain illiquid assets held by the parent holding company and build liquidity, and by IB from client-driven structured notes transactions; and growth in commercial paper issuances and other borrowed funds due to growth in the volume of liability balances in sweep accounts in TSS and CB, and to fund trading positions and to further build liquidity. Cash was used to repurchase common stock and pay dividends on common stock, including an increase in the quarterly dividend in the second quarter of 2007.

In 2006, net cash provided by financing activities was $152.7 billion due to net cash received from growth in deposits, reflecting new retail account acquisitions and the ongoing expansion of the retail branch distribution network; higher wholesale business volumes; increases in securities sold under repurchase agreements to fund trading positions and higher AFS securities positions; and net issuances of long-term debt and trust preferred capital debt securities. The net cash provided was offset partially by the payment of cash dividends on stock and common stock repurchases.

Credit ratings

The cost and availability of financing are influenced by credit ratings. Reductions in these ratings could have an adverse effect on the Firm's access to liquidity sources, increase the cost of funds, trigger additional collateral or funding requirements and decrease the number of investors and counterparties willing to lend to the Firm. Additionally, the Firm's funding requirements for VIEs and other third-party commitments may be adversely affected. For additional information on the impact of a credit ratings downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on pages 79–80 and Ratings profile of derivative receivables marked to market ("MTM") on page 100 of this Annual Report.

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

The credit ratings of the parent holding company and each of the Firm's significant banking subsidiaries as of January 15, 2009, were as follows.

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

On December 19, 2008, S&P lowered the senior long-term debt ratings on JPMorgan Chase & Co. and its principal bank subsidiaries one notch from "AA-" and "AA", respectively; lowered the short-term debt rating of JPMorgan Chase & Co. from "A-1+"; and affirmed the short-term debt ratings of its principal bank subsidiaries. These actions were primarily the result of S&P's belief that the Firm's earnings are likely to decline over the next couple of years in response to increasing loan losses associated with the Firm's exposure to consumer lending, as well as declining business volumes. S&P's current outlook is negative. On January 15, 2009, Moody's lowered the senior long-term debt ratings on JPMorgan Chase & Co. and its principal bank subsidiaries from "Aa2" and "Aaa", respectively. These actions were primarily the result of Moody's view that, in the current economic environment, the Firm may experience difficulties generating capital and could face significant earnings pressure. Moody's affirmed the short-term debt ratings of JPMorgan Chase & Co. and its principal bank subsidiaries at "P-1". Moody's also revised the outlook to stable from negative due to the Firm's strong capital ratios, significant loan loss reserves, and strong franchise. Ratings from Fitch on JPMorgan Chase & Co. and its principal bank subsidiaries remained unchanged from December 31, 2007, and Fitch's outlook remained stable. The recent rating actions by S&P and Moody's did not have a material impact on the cost or availability of the Firm's funding. If the Firm's senior long-term debt ratings were downgraded by one additional notch, the Firm believes the incremental cost of funds or loss of funding would be manageable within the context of current market conditions and the Firm's liquidity resources. JPMorgan Chase's unsecured debt, other than in certain cases IB structured notes, does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, nor contain collateral provisions or the creation of an additional financial obligation, based on unfavorable changes in the Firm's credit ratings, financial ratios, earnings, cash flows or stock price. To the extent any IB structured notes do contain such provisions, the Firm believes that, in the event of an acceleration of payments or maturities or provision of collateral, the securities used by the Firm to risk manage such structured notes, together with other liquidity resources, are expected to generate funds sufficient to satisfy the Firm's obligations.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from obligor or counterparty default. The Firm provides credit (for example, through loans, lending-related commitments and derivatives) to a variety of customers, from large corporate and institutional clients to the individual consumer. For the wholesale business, credit risk management includes the distribution of syndicated loans originated by the Firm into the marketplace (primarily to IB clients), with exposure held in the retained portfolio averaging less than 10% of the total originated loans. Wholesale loans generated by CB and AM are generally retained on the balance sheet. With regard to the consumer credit market, the Firm focuses on creating a portfolio that is diversified from both a product and a geographic perspective. Loss mitigation strategies are being employed for all home lending portfolios. These strategies include rate reductions, principal forgiveness, forbearance and other actions intended to minimize the economic loss and avoid foreclosure. In the mortgage business, originated loans are either retained in the mortgage portfolio or securitized and sold to U.S. government agencies and U.S. government-sponsored enterprises.

Credit risk organization

Credit risk management is overseen by the Chief Risk Officer and implemented within the lines of business. The Firm's credit risk management governance consists of the following functions:

- establishing a comprehensive credit risk policy framework
- monitoring and managing credit risk across all portfolio segments, including transaction and line approval
- assigning and managing credit authorities in connection with the approval of all credit exposure
- managing criticized exposures
- calculating the allowance for credit losses and ensuring appropriate credit risk-based capital management

Risk identification

The Firm is exposed to credit risk through lending and capital markets activities. The credit risk management organization works in partnership with the business segments in identifying and aggregating exposures across all lines of business.

Risk measurement

To measure credit risk, the Firm employs several methodologies for estimating the likelihood of obligor or counterparty default. Methodologies for measuring credit risk vary depending on several factors, including type of asset (e.g., consumer installment versus wholesale loan), risk measurement parameters (e.g., delinquency status and credit bureau score versus wholesale risk rating) and risk management and collection processes (e.g., retail collection center versus centrally managed workout groups). Credit risk measurement is based upon the amount of exposure should the obligor or the counterparty default, the probability of default and the loss severity given a default event. Based upon these factors and related market-based inputs, the Firm estimates both probable and unexpected losses for the wholesale and consumer portfolios. Probable losses, reflected in the provision for credit losses, are based primarily upon statistical estimates of credit losses as a result of obligor or counterparty default. However, probable losses are not the sole indicators of risk. If losses were entirely predictable, the probable loss rate could be factored into pricing and covered as a normal and recurring cost of doing business. Unexpected losses, reflected in the allocation of credit risk capital, represent the potential volatility of actual losses relative to the probable level of losses. Risk measurement for the wholesale portfolio is assessed primarily on a risk-rated basis; for the consumer portfolio, it is assessed primarily on a credit-scored basis.

Risk-rated exposure
For portfolios that are risk-rated (generally held in IB, CB, TSS and AM), probable and unexpected loss calculations are based upon estimates of probability of default and loss given default. Probability of default is the expected default calculated on an obligor basis. Loss given default is an estimate of losses given a default event and takes into consideration collateral and structural support for each credit facility. Calculations and assumptions are based upon management information systems and methodologies which are under continual review. Risk ratings are assigned to differentiate risk within the portfolio and are reviewed on an ongoing basis by credit risk management and revised, if needed, to reflect the borrowers' current risk profiles and the related collateral and structural positions.

Credit-scored exposure
For credit-scored portfolios (generally held in RFS and CS), probable loss is based upon a statistical analysis of inherent losses over discrete periods of time. Probable losses are estimated using sophisticated portfolio modeling, credit scoring and decision-support tools to project credit risks and establish underwriting standards. In addition, common measures of credit quality derived from historical loss experience are used to predict consumer losses. Other risk characteristics evaluated include recent loss experience in the portfolios, changes in origination sources, portfolio seasoning, loss severity and underlying credit practices, including charge-off policies. These analyses are applied to the Firm's current portfolios in order to estimate delinquencies and severity of losses, which determine the amount of probable losses. These factors and analyses are updated at least on a quarterly basis or more frequently as market conditions dictate.

Risk monitoring
The Firm has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision making of extending credit and are intended to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposure. Wholesale credit risk is monitored regularly on both an aggregate portfolio level and on an individual customer basis. Management of the Firm's wholesale exposure is accomplished through a number of means including loan syndication and participations, loan sales, securitizations, credit derivatives, use of master netting agreements and collateral and other risk-reduction techniques, which are further discussed in the following risk sections. For consumer credit risk, the key focus items are trends and concentrations at the portfolio level, whereby potential problems can be remedied through changes in underwriting policies and portfolio guidelines. Consumer Credit Risk Management monitors trends against business expectations and industry benchmarks.

Risk reporting
To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit quality forecasts, concentrations levels and risk profile changes are reported regularly to senior credit risk management. Detailed portfolio reporting of industry, customer and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, senior management, for further information, see page 86 of this Annual Report.

2008 Credit risk overview
During 2008, credit markets experienced deterioration and increased defaults and downgrades reflecting, among other things, reduced liquidity. The liquidity and credit crisis has adversely affected many financial institutions, resulting in the failure of some in both the U.S. and Europe, and has impacted the functioning of credit markets, particularly, the loan syndication and asset-backed securitization markets. The Firm's credit portfolio was affected by these market conditions and experienced deteriorating credit quality, especially in the latter part of the year, generally consistent with the market. In 2008, for the wholesale portfolio, criticized assets and NPAs increased, from historical lows, 301% and 525%, respectively, from the previous year. Charge-offs, which typically lag other portfolio deterioration, have increased from historical lows by 458% over 2007. The Firm has remained focused on aggressively managing the portfolio, including ongoing, in-depth reviews of credit quality, as well as of revisions of industry, product and client concentrations. Risk levels are adjusted as needed to reflect the Firm's risk tolerance. Underwriting standards across all areas of lending have been strengthened, consistent with evolving market conditions in order to permit the Firm to lend in a safe and prudent manner. In light of the current market conditions, the wholesale allowance for loan loss coverage ratio has been strengthened to 2.64%, from 1.67% at the end of 2007.

Consumer portfolio credit performance continues to be negatively affected by the economic environment, particularly the weak labor market and the decline in housing prices which occurred nationally. As a result, the Firm took actions throughout the year to reduce risk exposure by tightening underwriting and loan qualification standards in those markets most affected by the housing downturn. In the fourth quarter of 2008, the Firm announced plans to significantly expand loss mitigation efforts related to its mortgage and home equity portfolios. During the implementation period of these expanded loss mitigation efforts, which was substantially in place in early 2009, the Firm did not place loans into foreclosure. These loss mitigation efforts are expected to result in additional increases in the balance of modified loans carried on the Firm's balance sheet, including loans accounted for as troubled debt restructurings, while minimizing the economic loss to the Firm and assisting homeowners to remain in their homes.

More detailed discussion of the domestic consumer credit environment can be found on pages 103–108 of this Annual Report.

CREDIT PORTFOLIO

The following table presents JPMorgan Chase's credit portfolio as of December 31, 2008 and 2007. Total credit exposure at December 31, 2008, increased $198.8 billion from December 31, 2007, reflecting an increase of $115.0 billion in the consumer credit portfolio and $83.8 billion in the wholesale credit portfolio. The increase in total credit exposure from the prior year reflects $319.2 billion and $54.3 billion of additional credit exposure acquired in connection with the Washington Mutual and Bear Stearns transactions, respectively. The exposure from the Washington Mutual transaction consisted of $271.7 billion in the consumer portfolio and $47.5 billion in the wholesale portfolio, which was primarily commercial lending. The exposure from the Bear Stearns acquisition was included in the wholesale portfolio. Excluding these two transactions, there was a decrease of $174.7 billion in overall credit exposure, which was largely driven by decreases in lending-related commitments, partly offset by increases in derivative receivables and managed loans.

While overall portfolio exposure declined when excluding the Washington Mutual and Bear Stearns transactions, the Firm provided over $150 billion in new loans and lines of credit to retail and wholesale clients in the fourth quarter of 2008, including individual consumers, small businesses, large corporations, not-for-profit organizations, states and municipalities, and other financial institutions.

In the table below, reported loans include loans accounted for at fair value and loans held-for-sale, which are carried at lower of cost or fair value, with changes in value recorded in noninterest revenue. However, these held-for-sale loans and loans accounted for at fair value are excluded from the average loan balances used for the net charge-off rate calculations.

Total credit portfolio

As of or for the year ended December 31,	Credit exposure		Nonperforming assets[(h)(i)(j)(k)]		90 days past due and still accruing		Net charge-offs		Average annual net charge-off rate	
(in millions, except ratios)	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007	**2008**	2007
Total credit portfolio										
Loans retained[(a)]	**$ 728,915**	$ 491,736	**$ 8,921[(j)]**	$ 3,232[(j)]	**$3,275**	$ 2,043	**$ 9,835**	$ 4,538	**1.73%**	1.00%
Loans held-for-sale	**8,287**	18,899	**12**	45	**—**	—	**NA**	NA	**NA**	NA
Loans at fair value	**7,696**	8,739	**20**	5	**—**	—	**NA**	NA	**NA**	NA
Loans – reported[(a)]	**$ 744,898**	$ 519,374	**$ 8,953**	$ 3,282	**$3,275**	$ 2,043	**$ 9,835**	$ 4,538	**1.73%**	1.00%
Loans – securitized[(b)]	**85,571**	72,701	**—**	—	**1,802**	1,050	**3,612**	2,380	**4.53**	3.43
Total managed loans	**830,469**	592,075	**8,953**	3,282	**5,077**	3,093	**13,447**	6,918	**2.08**	1.33
Derivative receivables	**162,626**	77,136	**1,079**	29	**—**	—	**NA**	NA	**NA**	NA
Receivables from customers[(c)]	**16,141**	—	**—**	—	**—**	—	**NA**	NA	**NA**	NA
Total managed credit-related assets	**1,009,236**	669,211	**10,032**	3,311	**5,077**	3,093	**13,447**	6,918	**2.08**	1.33
Lending-related commitments[(d)(e)]	**1,121,378**	1,262,588	**NA**	NA	**NA**	NA	**NA**	NA	**NA**	NA
Assets acquired in loan satisfactions										
Real estate owned	**NA**	NA	**2,533[(k)]**	546	**NA**	NA	**NA**	NA	**NA**	NA
Other	**NA**	NA	**149[(k)]**	76	**NA**	NA	**NA**	NA	**NA**	NA
Total assets acquired in loan satisfactions	**NA**	NA	**2,682**	622	**NA**	NA	**NA**	NA	**NA**	NA
Total credit portfolio	**$ 2,130,614**	$ 1,931,799	**$12,714**	$ 3,933	**$5,077**	$ 3,093	**$ 13,447**	$ 6,918	**2.08%**	1.33%
Net credit derivative hedges notional[(f)]	**$ (91,451)**	$ (67,999)	**$ —**	$ (3)	**NA**	NA	**NA**	NA	**NA**	NA
Collateral held against derivatives[(g)]	**(19,816)**	(9,824)	**NA**	NA	**NA**	NA	**NA**	NA	**NA**	NA

(a) Loans (other than those for which the SFAS 159 fair value option has been elected) are presented net of unearned income and net deferred loan fees of $694 million and $1.0 billion at December 31, 2008 and 2007, respectively.
(b) Represents securitized credit card receivables. For further discussion of credit card securitizations, see Card Services on pages 63–65 of this Annual Report.
(c) Primarily represents margin loans to prime and retail brokerage customers included in accrued interest and accounts receivable on the Consolidated Balance Sheets.
(d) Includes credit card and home equity lending-related commitments of $623.7 billion and $95.7 billion, respectively, at December 31, 2008, and $714.8 billion and $74.2 billion, respectively, at December 31, 2007. These amounts for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, nor does it anticipate, all available lines of credit being used at the same time. The Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.
(e) Includes unused advised lines of credit totaling $36.3 billion and $38.4 billion at December 31, 2008 and 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve, unused advised lines are not reportable. See the Glossary of Terms on page 230 of this Annual Report for the Firm's definition of advised lines of credit.
(f) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. For additional information, see page 101 of this Annual Report.
(g) Represents other liquid securities collateral held by the Firm as of December 31, 2008 and 2007, respectively.
(h) Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $3.3 billion and $1.5 billion at December 31, 2008, and 2007, respectively, and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $437 million and $417 million at December 31, 2008 and 2007, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.
(i) During the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all other home lending products. Amounts for 2007 have been revised to reflect this change.
(j) Excludes home lending purchased credit-impaired home loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis and the pools are considered to be performing under SOP 03-3. Also excludes loans held-for-sale and loans at fair value.
(k) Includes $1.5 billion of assets acquired in the Washington Mutual transaction.

WHOLESALE CREDIT PORTFOLIO

As of December 31, 2008, wholesale exposure (IB, CB, TSS and AM) increased $83.8 billion from December 31, 2007, primarily due to the Bear Stearns merger, which added $54.3 billion of wholesale exposure in the second quarter of 2008 ($26.0 billion of receivables from customers, $18.9 billion of derivative receivables, $5.0 billion of lending-related commitments and $4.4 billion of loans) and the Washington Mutual transaction (which added $47.5 billion of wholesale exposure in the third quarter of 2008, mainly consisting of loans). Excluding these two transactions, the portfolio decreased $18.0 billion, largely driven by decreases of $73.7 billion in lending-related commitments and $9.9 billion in receivables from customers. Partly offsetting these decreases was an increase of $65.5 billion in derivative receivables. The decrease in lending-related commitments was largely related to a reduction in multi-seller conduit-related commitments. The increase in derivative receivables was primarily related to the decline in interest rates, widening credit spreads and volatile foreign exchange rates reflected in interest rate, credit and foreign exchange derivatives, respectively. For additional information regarding conduit-related commitments, see Note 17 on pages 189–198 of this Annual Report.

Excluding the Washington Mutual and Bear Stearns transactions, retained loans increased $11.0 billion reflecting increases in traditional lending activity while loans held-for-sale and loans at fair value decreased reflecting sales, reduced carrying values and lower volumes in the syndication market.

Wholesale

As of or for the year ended December 31, (in millions)	Credit exposure		Nonperforming loans[f]		90 days past due and accruing	
	2008	2007	**2008**	2007	**2008**	2007
Loans retained[a]	**$ 248,089**	$ 189,427	**$ 2,350**	$ 464	**$ 163**	$ 75
Loans held-for-sale	**6,259**	14,910	**12**	45	**—**	—
Loans at fair value	**7,696**	8,739	**20**	5	**—**	—
Loans – reported	**$ 262,044**	$ 213,076	**$ 2,382**	$ 514	**$ 163**	$ 75
Derivative receivables	**162,626**	77,136	**1,079**	29	**—**	—
Receivables from customers[b]	**16,141**	—	**—**	—	**—**	—
Total wholesale credit-related assets	**440,811**	290,212	**3,461**	543	**163**	75
Lending-related commitments[c]	**379,871**	446,652	**NA**	NA	**NA**	NA
Total wholesale credit exposure	**$ 820,682**	$ 736,864	**$ 3,461**	$ 543	**$ 163**	$ 75
Credit derivative hedges notional[d]	**$ (91,451)**	$ (67,999)	**$ —**	$ (3)	**NA**	NA
Collateral held against derivatives[e]	**(19,816)**	(9,824)	**NA**	NA	**NA**	NA

(a) Includes $224 million of purchased credit-impaired loans at December 31, 2008, which are accounted for in accordance with SOP 03-3. They are considered nonperforming loans because the timing and amount of expected future cash flows is not reasonably estimable. For additional information, see Note 14 on pages 175–178 of this Annual Report.
(b) Primarily represents margin loans to prime and retail brokerage customers, which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.
(c) Includes unused advised lines of credit totaling $36.3 billion and $38.4 billion at December 31, 2008 and 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve, unused advised lines are not reportable.
(d) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. For additional information, see page 101 of this Annual Report.
(e) Represents other liquid securities collateral held by the Firm as of December 31, 2008 and 2007, respectively.
(f) Assets acquired in loan satisfactions have been excluded in this presentation. See the wholesale nonperforming assets by line of business segment table for additional information.

The following table presents net charge-offs (excluding gains from sales of nonperforming loans), for the years ended December 31, 2008 and 2007.

Net charge-offs

Wholesale

Year ended December 31, (in millions, except ratios)	**2008**	2007
Loans – reported		
Net charge-offs	**$ 402**	$ 72
Average annual net charge-off rate[a]	**0.18%**	0.04%

(a) Excludes average wholesale loans held-for-sale and loans at fair value of $18.9 billion and $18.6 billion for the years ended December 31, 2008 and 2007, respectively.

The following table presents the change in the wholesale nonperforming loan portfolio for the years ended December 31, 2008 and 2007.

Nonperforming loan activity

Wholesale

Year ended December 31, (in millions)	**2008**	2007
Beginning balance	**$ 514**	$ 391
Additions	**3,381**	1,107
Reductions:		
Paydowns and other	**859**	576
Charge-offs	**521**	185
Returned to performing	**93**	136
Sales	**40**	87
Total reductions	**1,513**	984
Net additions	**1,868**	123
Ending balance	**$ 2,382**	$ 514

The following table presents the wholesale nonperforming assets by business segment as of December 31, 2008 and 2007.

As of December 31, (in millions)	2008 Nonperforming loans	2008 Assets acquired in loan satisfactions: Real estate owned	2008 Assets acquired in loan satisfactions: Other	2008 Nonperforming assets	2007 Nonperforming loans	2007 Assets acquired in loan satisfactions: Real estate owned	2007 Assets acquired in loan satisfactions: Other	2007 Nonperforming assets
Investment Bank	**$ 1,175**	**$ 247**	**$ 1,079**[(a)]	**$ 2,501**	$ 353	$ 67	$ 33[(a)]	$ 453
Commercial Banking	**1,026**	**102**	**14**	**1,142**	146	2	—	148
Treasury & Securities Services	**30**	**—**	**—**	**30**	—	—	—	—
Asset Management	**147**	**—**	**25**	**172**	12	—	—	12
Corporate/Private Equity	**4**	**—**	**—**	**4**	3	—	—	3
Total	**$ 2,382**	**$ 349**	**$ 1,118**	**$ 3,849**	$ 514	$ 69	$ 33	$ 616

(a) Includes derivative receivables of $1.1 billion and $29 million as of December 31, 2008 and 2007, respectively.

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of December 31, 2008 and 2007. The increase in the proportion of loans maturing after five years was predominantly due to the Washington Mutual transaction. The ratings scale is based upon the Firm's internal risk ratings and generally correspond to the ratings as defined by S&P and Moody's.

Wholesale credit exposure – maturity and ratings profile

December 31, 2008 (in billions, except ratios)	Maturity profile[(c)]: Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Ratings profile: Investment-grade ("IG") AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans	**32%**	**43%**	**25%**	**100%**	**$ 161**	**$ 87**	**$ 248**	**65%**
Derivative receivables	**31**	**36**	**33**	**100**	**127**	**36**	**163**	**78**
Lending-related commitments	**37**	**59**	**4**	**100**	**317**	**63**	**380**	**83**
Total excluding loans held-for-sale and loans at fair value	**34%**	**50%**	**16%**	**100%**	**$ 605**	**$ 186**	**791**	**77%**
Loans held-for-sale and loans at fair value[(a)]							**14**	
Receivables from customers							**16**	
Total exposure							**$ 821**	
Net credit derivative hedges notional[(b)]	**47%**	**47%**	**6%**	**100%**	**$ (82)**	**$ (9)**	**$ (91)**	**90%**

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

(a) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.
(b) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133.
(c) The maturity profile of loans and lending-related commitments is based upon the remaining contractual maturity. The maturity profile of derivative receivables is based upon the maturity profile of average exposure. See page 99 of this Annual Report for a 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 December 31, 2008, the top 15 industries to which the Firm is exposed remained largely unchanged from December 31, 2007. The Firm's real estate industry exposure increased from the prior year due to the Washington Mutual transaction. Customer receivables of $16.1 billion in the table below represents primarily margin loans to prime and retail brokerage clients acquired in the Bear Stearns merger. These margin loans are generally fully collateralized by cash or highly liquid securities to satisfy daily minimum collateral requirements. For additional information on industry concentrations, see Note 34 on pages 222–223 of this Annual Report.

Wholesale credit exposure – selected industry concentration

December 31, 2008 (in millions, except ratios)	Credit exposure[d]	Investment grade	Noninvestment-grade Noncriticized	Noninvestment-grade Criticized	Net charge-offs/ (recoveries)	Credit derivative hedges[e]	Collateral held against derivative receivables[f]
Exposure by industry[a]							
Real estate	**$ 83,799**	**68%**	**$ 19,346**	**$ 7,737**	**$ 212**	**$ (2,677)**	**$ (48)**
Banks and finance companies	**75,577**	**79**	**12,953**	**2,849**	**28**	**(5,016)**	**(9,457)**
Asset managers	**49,256**	**85**	**6,418**	**819**	**15**	**(115)**	**(5,303)**
Healthcare	**38,032**	**83**	**6,092**	**436**	**2**	**(5,338)**	**(199)**
State and municipal governments	**35,954**	**94**	**1,278**	**847**	**—**	**(677)**	**(134)**
Utilities	**34,246**	**83**	**5,844**	**114**	**3**	**(9,007)**	**(65)**
Retail and consumer services	**32,714**	**67**	**9,546**	**1,311**	**(6)**	**(6,120)**	**(1,214)**
Consumer products	**29,766**	**65**	**9,504**	**792**	**32**	**(8,114)**	**(54)**
Securities firms and exchanges	**25,590**	**81**	**4,744**	**138**	**—**	**(151)**	**(898)**
Oil and gas	**24,746**	**75**	**5,940**	**231**	**15**	**(6,627)**	**(7)**
Insurance	**17,744**	**78**	**3,138**	**712**	**—**	**(5,016)**	**(846)**
Technology	**17,555**	**68**	**5,420**	**230**	**—**	**(4,209)**	**(3)**
Media	**17,254**	**56**	**5,994**	**1,674**	**26**	**(4,238)**	**(7)**
Central government	**15,259**	**98**	**276**	**—**	**—**	**(4,548)**	**(35)**
Metals/mining	**14,980**	**61**	**5,579**	**262**	**(7)**	**(3,149)**	**(3)**
All other[b]	**278,114**	**77**	**57,307**	**7,845**	**82**	**(26,449)**	**(1,543)**
Subtotal	**$ 790,586**	**77%**	**$ 159,379**	**$25,997**	**$ 402**	**$ (91,451)**	**$ (19,816)**
Loans held-for-sale and loans at fair value[c]	**13,955**						
Receivables from customers	**16,141**						
Total	**$ 820,682**						

December 31, 2007 (in millions, except ratios)	Credit exposure[d]	Investment grade	Noninvestment-grade Noncriticized	Noninvestment-grade Criticized	Net charge-offs/ (recoveries)	Credit derivative hedges[e]	Collateral held against derivative receivables[f]
Exposure by industry[a]							
Real estate	$ 38,295	54%	$ 16,626	$ 1,070	$ 36	$ (2,906)	$ (73)
Banks and finance companies	65,288	83	10,385	498	5	(6,368)	(1,793)
Asset managers	38,554	90	3,518	212	—	(293)	(2,148)
Healthcare	30,746	84	4,741	246	—	(4,241)	(10)
State and municipal governments	31,425	98	591	12	10	(193)	(3)
Utilities	28,679	89	3,021	212	1	(6,371)	(43)
Retail and consumer services	23,969	68	7,149	550	3	(3,866)	(55)
Consumer products	29,941	74	7,492	239	5	(4,710)	(13)
Securities firms and exchanges	23,274	87	3,083	1	—	(467)	(1,321)
Oil and gas	26,082	72	7,166	125	—	(4,007)	—
Insurance	16,782	93	1,104	17	—	(4,277)	(1,000)
Technology	18,335	70	5,418	77	1	(3,636)	(1)
Media	16,253	58	6,561	303	3	(2,707)	(31)
Central government	9,075	99	112	—	—	(2,536)	(7)
Metals/mining	17,714	70	5,119	111	—	(2,486)	—
All other[b]	298,803	80	52,897	3,165	8	(18,935)	(3,326)
Subtotal	$ 713,215	80%	$ 134,983	$ 6,838	$ 72	$ (67,999)	$ (9,824)
Loans held-for-sale and loans at fair value[c]	23,649						
Receivables from customers	—						
Total	$ 736,864						

(a) Rankings are based upon exposure at December 31, 2008. The industries presented in 2007 table reflect the rankings in the 2008 table.
(b) For more information on exposures to SPEs included in all other, see Note 17 on pages 189–198 of this Annual Report.
(c) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.
(d) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against derivative receivables or loans.
(e) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133.
(f) Represents other liquid securities collateral held by the Firm as of December 31, 2008 and 2007, respectively.

Wholesale criticized exposure

Exposures deemed criticized generally represent a ratings profile similar to a rating of "CCC+"/"Caa1" and lower, as defined by S&P and Moody's. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, increased to $26.0 billion at December 31, 2008, from $6.8 billion at year-end 2007. The increase was driven primarily by downgrades in the wholesale portfolio.

Industry concentrations for wholesale criticized exposure as of December 31, 2008 and 2007, were as follows.

	2008		2007	
December 31, (in millions, except ratios)	Credit exposure	% of portfolio	Credit exposure	% of portfolio
Exposure by industry[(a)]				
Real estate	**$ 7,737**	**30%**	$ 1,070	16%
Banks and finance companies	**2,849**	**11**	498	7
Automotive	**1,775**	**7**	1,338	20
Media	**1,674**	**6**	303	4
Building materials/construction	**1,363**	**5**	345	5
Retail and consumer services	**1,311**	**5**	550	8
State and municipal government	**847**	**3**	12	—
Asset managers	**819**	**3**	212	3
Consumer products	**792**	**3**	239	4
Agriculture/paper manufacturing	**726**	**3**	138	2
Insurance	**712**	**3**	17	—
Chemicals/plastics	**591**	**2**	288	4
Healthcare	**436**	**2**	246	4
Transportation	**319**	**1**	74	1
Metals/mining	**262**	**1**	111	2
All other	**3,784**	**15**	1,397	20
Total excluding loans held-for-sale and loans at fair value	**$25,997**	**100%**	$ 6,838	100%
Loans held-for-sale and loans at fair value[(b)]	**2,258**		205	
Receivables from customers	**—**		—	
Total	**$28,255**		$ 7,043	

(a) Rankings are based upon exposure at December 31, 2008. The industries presented in the 2007 table reflect the rankings in the 2008 table.
(b) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.

Presented below is a discussion of several industries to which the Firm has significant exposure, as well as industries the Firm continues to monitor because of actual or potential credit concerns. For additional information, refer to the tables above and on the preceding page.

- Real estate: Exposure to this industry grew in 2008 due to the Washington Mutual transaction, with approximately 70% of this increase consisting of exposure to multi-family lending. Approximately 45% of the real estate exposure is to large real estate companies and institutions (e.g. REITS), professional real estate developers, owners, or service providers, and generally involves real estate leased to third-party tenants. Commercial construction and development accounted for approximately 13% of the real estate portfolio at 2008 year-end. Exposure to national and regional single family homebuilders decreased 31% from 2007 and represented 5% of the portfolio at 2008 year-end. The increase in criticized exposure was largely a result of downgrades to select names within the portfolio, primarily in IB, reflecting the weakening credit environment. The remaining increase in criticized exposure reflected exposures acquired in the Washington Mutual transaction.
- Banks and finance companies: Exposure to this industry increased primarily as a result of higher derivative exposure to commercial banks due to higher volatility and greater trade volume and to the addition of derivative positions from the Bear Stearns merger. The percentage of the portfolio that is investment grade has declined slightly from 2007 as a result of the impact of the weakening credit environment on financial counterparties. The growth in criticized exposure was primarily a result of downgrades to specialty finance companies, reflected in loans and lending-related commitments.
- Automotive: Industry conditions deteriorated significantly in 2008, particularly in North America, and are expected to remain under pressure in 2009. The largest percentage of the Firm's wholesale criticized exposure in this segment is related to Original Equipment Manufacturers. However, a majority of the year-over-year increase in criticized exposure related to automotive suppliers which were negatively affected by significant declines in automotive production. Most of the Firm's criticized exposure in this segment remains performing and is substantially secured.
- Asset Managers: Exposure in this industry grew from 2007 as a result of increased derivative exposure to primarily investment grade funds and the acquisition of loans and lending-related commitments to this industry due to the Bear Stearns merger.
- All other: All other in the wholesale credit exposure concentration table on page 97 of this Annual Report at December 31, 2008 included $278.1 billion of credit exposure to 17 industry segments. Exposures related to SPEs and high-net-worth individuals were 37% and 19%, respectively, of this category. SPEs provide secured financing (generally backed by receivables, loans or

bonds on a bankruptcy-remote, nonrecourse or limited-recourse basis) originated by a diverse group of companies in industries that are not highly correlated. For further discussion of SPEs, see Note 17 on pages 189–198 of this Annual Report. The remaining all other exposure is well-diversified across industries and none comprise more than 2% of total exposure.

Derivative contracts

In the normal course of business, the Firm uses derivative instruments to meet the needs of customers; generate revenue through trading activities; manage exposure to fluctuations in interest rates, currencies and other markets; and manage the Firm's credit exposure. The notional amount of the Firm's derivative contracts outstanding significantly exceeded, in the Firm's view, the possible credit losses that could arise from such transactions. For most derivative transactions, the notional amount does not change hands; it is used simply as a reference to calculate payments. For further discussion of these contracts, see Note 32 and Note 34 on pages 214–217 and 222–223 of this Annual Report.

The following tables summarize the aggregate notional amounts and the net derivative receivables MTM for the periods presented.

Notional amounts of derivative contracts

December 31, (in billions)	Notional amounts[a] 2008	2007
Interest rate contracts		
Interest rate and currency swaps[b]	**$ 56,206**	$ 53,458
Future and forwards	**6,277**	4,548
Written options[c]	**4,803**	5,742
Purchased options	**4,656**	5,349
Total interest rate contracts	**71,942**	69,097
Credit derivatives	**8,388**	7,967
Foreign exchange contracts		
Future and forwards	**3,354**	3,424
Foreign exchange spot contracts	**389**	40
Written options[c]	**972**	909
Purchased options	**959**	906
Total foreign exchange contracts	**5,674**	5,279
Commodity contracts		
Swaps	**234**	275
Future and forwards	**115**	91
Written options[c]	**206**	228
Purchased options	**198**	233
Total commodity contracts	**753**	827
Equity contracts		
Swaps	**77**	105
Future and forwards	**56**	72
Written options[c]	**628**	739
Purchased options	**652**	821
Total equity contracts	**1,413**	1,737
Total derivative notional amounts	**$ 88,170**	$ 84,907

(a) Represents the sum of gross long and gross short third-party notional derivative contracts.
(b) Includes cross currency swap contract notional amounts of $1.7 trillion and $1.4 trillion at December 31, 2008 and 2007, respectively.
(c) Written options do not result in counterparty credit risk.

Derivative receivables marked to market ("MTM")

December 31, (in millions)	Derivative receivables MTM 2008	2007
Interest rate contracts	**$ 64,101**	$ 36,020
Credit derivatives	**44,695**	22,083
Foreign exchange contracts	**24,715**	5,616
Commodity contracts	**14,830**	9,419
Equity contracts	**14,285**	3,998
Total, net of cash collateral	**162,626**	77,136
Liquid securities collateral held against derivative receivables	**(19,816)**	(9,824)
Total, net of all collateral	**$ 142,810**	$ 67,312

The amount of derivative receivables reported on the Consolidated Balance Sheets of $162.6 billion and $77.1 billion at December 31, 2008 and 2007, respectively, is the amount of the mark-to-market value ("MTM") or fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by the Firm. These amounts represent the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in management's view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of $19.8 billion and $9.8 billion at December 31, 2008 and 2007, respectively, resulting in total exposure, net of all collateral, of $142.8 billion and $67.3 billion at December 31, 2008 and 2007, respectively. Derivative receivables, net of collateral, increased $75.5 billion from December 31, 2007, primarily related to the decline in interest rates, widening credit spreads and volatile foreign exchange rates reflected in interest rate, credit and foreign exchange derivatives, respectively. The increase in 2008 also included positions acquired in the Bear Stearns merger.

The Firm also holds additional collateral delivered by clients at the initiation of transactions, and although this collateral does not reduce the balances noted in the table above, it is available as security against potential exposure that could arise should the MTM of the client's transactions move in the Firm's favor. As of December 31, 2008 and 2007, the Firm held $22.2 billion and $17.4 billion of this additional collateral, respectively. The derivative receivables MTM also do not include other credit enhancements in the form of letters of credit.

While useful as a current view of credit exposure, the net MTM value of the derivative receivables does not capture the potential future variability of that credit exposure. To capture the potential future variability of credit exposure, the Firm calculates, on a client-by-client basis, three measures of potential derivatives-related credit loss: Peak, Derivative Risk Equivalent ("DRE"), and Average exposure ("AVG"). These measures all incorporate netting and collateral benefits, where applicable.

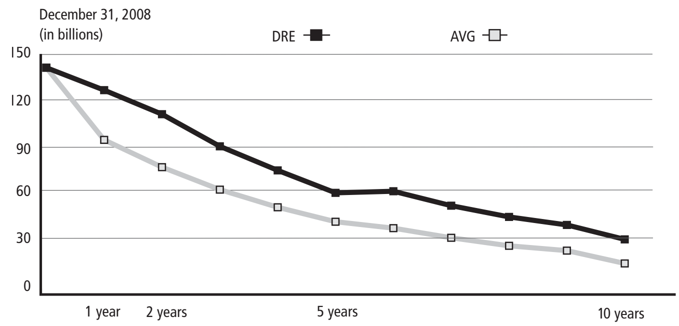
Peak exposure to a counterparty is a measure of exposure calculated at a 97.5% confidence level. Derivative Risk Equivalent exposure is a measure that expresses the risk of derivative exposure on a basis intended to be equivalent to the risk of loan exposures. The measurement is done by equating the unexpected loss in a derivative counterparty exposure (which takes into consideration both the loss volatility and the credit rating of the counterparty) with the unexpected loss in a loan exposure (which takes into consideration only the credit rating of the counterparty). DRE is a less extreme measure of potential credit loss than Peak and is the primary measure used by the Firm for credit approval of derivative transactions.

Finally, AVG is a measure of the expected MTM value of the Firm's derivative receivables at future time periods, including the benefit of collateral. AVG exposure over the total life of the derivative contract is used as the primary metric for pricing purposes and is used to calculate credit capital and the Credit Valuation Adjustment ("CVA"), as further described below. Average exposure was $83.7 billion and $47.1 billion at December 31, 2008 and 2007, respectively, compared with derivative receivables MTM, net of all collateral, of $142.8 billion and $67.3 billion at December 31, 2008 and 2007, respectively.

The MTM value of the Firm's derivative receivables incorporates an adjustment, the CVA, to reflect the credit quality of counterparties. The CVA is based upon the Firm's AVG to a counterparty and the counterparty's credit spread in the credit derivatives market. The primary components of changes in CVA are credit spreads, new deal activity or unwinds, and changes in the underlying market environment. The Firm believes that active risk management is essential to controlling the dynamic credit risk in the derivatives portfolio. In addition, the Firm takes into consideration the potential for correlation between the Firm's AVG to a counterparty and the counterparty's credit quality within the credit approval process. The Firm risk manages exposure to changes in CVA by entering into credit derivative transactions, as well as interest rate, foreign exchange, equity and commodity derivative transactions.

The graph below shows exposure profiles to derivatives over the next ten years as calculated by the DRE and AVG metrics. The two measures generally show declining exposure after the first year, if no new trades were added to the portfolio.

Exposure profile of derivatives measures



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

Ratings profile of derivative receivables MTM

Rating equivalent	**2008**		2007	
December 31, (in millions, except ratios)	Exposure net of all collateral	% of exposure net of all collateral	Exposure net of all collateral	% of exposure net of all collateral
AAA/Aaa to AA-/Aa3	**$ 68,708**	**48%**	$ 38,314	57%
A+/A1 to A-/A3	**24,748**	**17**	9,855	15
BBB+/Baa1 to BBB-/Baa3	**15,747**	**11**	9,335	14
BB+/Ba1 to B-/B3	**28,186**	**20**	9,451	14
CCC+/Caa1 and below	**5,421**	**4**	357	—
Total	**$ 142,810**	**100%**	$ 67,312	100%

The increase in noninvestment grade derivative receivables reflects a weakening credit environment. The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm's derivatives transactions subject to collateral agreements was 83% as of December 31, 2008, largely unchanged from 82% at December 31, 2007.

The Firm posted $99.1 billion and $33.5 billion of collateral at December 31, 2008 and 2007, respectively.

Certain derivative and collateral agreements include provisions that require the counterparty and/or the Firm, upon specified downgrades in their respective credit ratings, to post collateral for the benefit of the other party. The impact of a single-notch ratings downgrade to JPMorgan Chase Bank, N.A., from its rating of "AA-" to "A+" at December 31, 2008, would have required $2.2 billion of additional collateral to be posted by the Firm. The impact of a six-notch ratings downgrade (from "AA-" to "BBB-") would have required $6.4 billion of additional collateral. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

Credit derivatives are financial contracts that isolate credit risk from an underlying instrument (such as a loan or security) and transfer that risk from one party (the buyer of credit protection) to another (the seller of credit protection). The Firm is both a purchaser and seller of credit protection. As a purchaser of credit protection, the Firm has risk that the counterparty providing the credit protection will default. As a seller of credit protection, the Firm has risk that the underlying instrument referenced in the contract will be subject to a credit event. Of the Firm's $162.6 billion of total derivative receivables MTM at December 31, 2008, $44.7 billion, or 27%, was associated with credit derivatives, before the benefit of liquid securities collateral.

One type of credit derivatives the Firm enters into with counterparties are credit default swaps ("CDS"). For further detailed discussion of these and other types of credit derivatives, see Note 32 on pages 214–217 of this Annual Report. The large majority of CDS are subject to collateral arrangements to protect the Firm from counterparty credit risk. In 2008, the frequency and size of defaults for both trading counterparties and the underlying debt referenced in credit derivatives were well above historical norms. The use of collateral to settle against defaulting counterparties generally performed as designed in significantly mitigating the Firm's exposure to these counterparties.

During 2008, the Firm worked with other significant market participants to develop mechanisms to reduce counterparty credit risk, including the cancellation of offsetting trades. In 2009, it is anticipated that one or more central counterparties for CDS will be established and JPMorgan Chase will face these central counterparties, or clearing houses, for an increasing portion of its CDS business.

The Firm uses credit derivatives for two primary purposes: first, in its capacity as a market-maker in the dealer/client business to meet the needs of customers; and second, in order to mitigate the Firm's own credit risk associated with its overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments), as well as its exposure to residential and commercial mortgages.

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold as of December 31, 2008 and 2007, distinguishing between dealer/client activity and credit portfolio activity.

	Notional amount				
	Dealer/client		Credit portfolio		
December 31, (in billions)	Protection purchased[(a)]	Protection sold[(a)]	Protection purchased[(b)]	Protection sold	**Total**
2008	**$4,097**	**$4,198**	**$92**	**$1**	**$8,388**
2007	$ 3,999	$ 3,896	$ 70	$ 2	$ 7,967

(a) Includes $3.9 trillion at December 31, 2008, of notional exposure within protection purchased and protection sold where the underlying reference instrument is identical. The remaining exposure includes single name and index CDS which the Firm purchased to manage the remaining net protection sold. For a further discussion on credit derivatives, see Note 32 on pages 214–217 of this Annual Report.

(b) Includes $34.9 billion and $31.1 billion at December 31, 2008 and 2007, respectively, that represented the notional amount for structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.

Dealer/client business

Within the dealer/client business, the Firm actively utilizes credit derivatives by buying and selling credit protection, predominantly on corporate debt obligations, in response to client demand for credit risk protection on the underlying reference instruments. Protection may be bought or sold by the Firm on single reference debt instruments ("single-name" credit derivatives), portfolios of referenced instruments ("portfolio" credit derivatives) or quoted indices ("indexed" credit derivatives).The risk positions are largely matched as the Firm's exposure to a given reference entity under a contract to sell protection to a counterparty may be offset partially, or entirely, with a contract to purchase protection from another counterparty on the same underlying instrument. Any residual default exposure and spread risk is actively managed by the Firm's various trading desks.

At December 31, 2008, the total notional amount of protection purchased and sold increased $421 billion from year-end 2007. The increase was primarily as a result of the merger with Bear Stearns, partially offset by the impact of industry efforts to reduce offsetting trade activity.

Credit portfolio activities

In managing its wholesale credit exposure the Firm purchases protection through single-name and portfolio credit derivatives to manage the credit risk associated with loans, lending-related commitments and derivative receivables. Gains or losses on the credit derivatives are expected to offset the unrealized increase or decrease in credit risk on the loans, lending-related commitments or derivative receivables. This activity does not reduce the reported level of assets on the balance sheet or the level of reported off-balance sheet commitments, though it does provide the Firm with credit risk protection. The Firm also diversifies its exposures by selling credit protection, which increases exposure to industries or clients where the Firm has little or no client-related exposure, however, this activity is not material to the Firm's overall credit exposure.

Use of single-name and portfolio credit derivatives

December 31,	Notional amount of protection purchased	
(in millions)	**2008**	2007
Credit derivatives used to manage:		
Loans and lending-related commitments	**$ 81,227**	$ 63,645
Derivative receivables	**10,861**	6,462
Total[(a)]	**$ 92,088**	$ 70,107

(a) Included $34.9 billion and $31.1 billion at December 31, 2008 and 2007, respectively, that represented the notional amount for structured portfolio protection; the Firm retains a first risk of loss on this portfolio.

The credit derivatives used by JPMorgan Chase for credit portfolio management activities do not qualify for hedge accounting under SFAS 133, and therefore, effectiveness testing under SFAS 133 is not performed. Loan interest and fees are generally recognized in net interest income, and impairment is recognized in the provision for credit losses. This asymmetry in accounting treatment between loans and lending-related commitments and the credit derivatives utilized in credit portfolio management activities causes earnings volatility that is not representative, in the Firm's view, of the true changes in value of the Firm's overall credit exposure. The MTM related to the Firm's credit derivatives used for managing credit exposure, as well as the MTM related to the CVA, which reflects the credit quality of derivatives counterparty exposure, are included in the table below. These results can vary from period to period due to market conditions that impact specific positions in the portfolio. For a further discussion of credit derivatives, see Note 32 on pages 214–217 of this Annual Report.

Year ended December 31, (in millions)	**2008**	2007	2006
Hedges of lending-related commitments[(a)]	**$ 2,216**	$ 350	$ (246)
CVA and hedges of CVA[(a)]	**(2,359)**	(363)	133
Net gains (losses)[(b)]	**$ (143)**	$ (13)	$ (113)

(a) These hedges do not qualify for hedge accounting under SFAS 133.
(b) Excludes gains of $530 million, $373 million and $56 million for the years ended December 31, 2008, 2007 and 2006, respectively, of other principal transactions revenue that are not associated with hedging activities. The amount for 2008 and 2007 incorporates an adjustment to the valuation of the Firm's derivative liabilities as a result of the adoption of SFAS 157 on January 1, 2007.

The Firm also actively manages wholesale credit exposure through IB and CB loan and commitment sales. During 2008, 2007 and 2006, these sales of $3.9 billion, $4.9 billion and $4.0 billion of loans and commitments, respectively, resulted in losses of $41 million and $7 million in 2008 and 2007 and gains of $83 million in 2006, respectively. These results include gains on sales of nonperforming loans, as discussed on page 95 of this Annual Report. These activities are not related to the Firm's securitization activities, which are undertaken for liquidity and balance sheet management purposes. For a further discussion of securitization activity, see Liquidity Risk Management and Note 16 on pages 88–92 and 180–188, respectively, of this Annual Report.

Lending-related commitments

Wholesale lending-related commitments were $379.9 billion at December 31, 2008, compared with $446.7 billion at December 31, 2007. The decrease was largely related to a reduction in multi-seller conduit-related commitments. In the Firm's view, the total contractual amount of these instruments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these instruments, the Firm has established a "loan-equivalent" amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based upon average portfolio historical experience, to become outstanding in the event of a default by an obligor. The loan-equivalent amount of the Firm's lending-related commitments was $204.3 billion and $238.7 billion as of December 31, 2008 and 2007, respectively.

Emerging markets country exposure

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

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

Top 5 emerging markets country exposure

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

At December 31, 2007	Cross-border					
(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
Brazil	1.1	(0.7)	1.2	1.6	5.0	6.6
Russia	2.9	1.0	0.2	4.1	0.4	4.5
India	1.9	0.8	0.8	3.5	0.6	4.1
China	2.2	0.3	0.4	2.9	0.3	3.2

(a) Lending includes loans and accrued interest receivable, interest-bearing deposits with banks, acceptances, other monetary assets, issued letters of credit net of participations, and undrawn commitments to extend credit.
(b) Trading includes: (1) issuer exposure on cross-border debt and equity instruments, held both in trading and investment accounts, adjusted for the impact of issuer hedges, including credit derivatives; and (2) counterparty exposure on derivative and foreign exchange contracts as well as security financing trades (resale agreements and securities borrowed).
(c) Other represents mainly local exposure funded cross-border.
(d) Local exposure is defined as exposure to a country denominated in local currency, booked and funded locally. Any exposure not meeting these criteria is defined as cross-border exposure.

CONSUMER CREDIT PORTFOLIO

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

A substantial portion of the consumer loans acquired in the Washington Mutual transaction were identified as credit-impaired in the third quarter of 2008 based on a preliminary analysis of the acquired portfolio. In addition, as of the acquisition date, a $1.4 billion accounting conformity provision was recorded to reflect the Firm's preliminary estimate of incurred losses related to the portion of the acquired consumer loans that were not considered to be credit-impaired. During the fourth quarter of 2008, the analysis of acquired loans was substantially completed, resulting in a $12.4 billion increase in the credit-impaired loan balances and a corresponding decrease in the non-credit-impaired loan balances. In addition, the estimate of incurred losses related to the non-credit-impaired portfolio was finalized, resulting in a $476 million decrease in the accounting conformity provision for these loans. The purchased credit-impaired loans, which were identified as impaired based on an analysis of risk characteristics, including product type, loan-to-value ratios, FICO scores and delinquency status, are accounted for under SOP 03-3 and were recorded at fair value under SOP 03-3 as of the acquisition date. The fair value of these loans includes an estimate of losses that are expected to be incurred over the estimated remaining lives of the loans, and therefore no allowance for loan losses was recorded for these loans as of the transaction date.

The credit performance of the consumer portfolio across the entire consumer credit product spectrum continues to be negatively affected by the economic environment. High unemployment and weaker overall economic conditions have resulted in increased delinquencies, and continued weak housing prices have driven a significant increase in loss severity. Nonperforming loans and assets continued to increase through year-end 2008, a key indicator that charge-offs will continue to rise in 2009. Additional deterioration in the overall economic environment, including continued deterioration in the labor market, could cause delinquencies to increase beyond the Firm's current expectations, resulting in significant increases in losses in 2009.

Over the past year, the Firm has taken actions to reduce risk exposure by tightening both underwriting and loan qualification standards for real estate lending, as well as for consumer lending for non-real estate products. Tighter income verification, more conservative collateral valuation, reduced loan-to-value maximums and higher FICO and custom risk score requirements are just some of the actions taken to date to mitigate risk. These actions have resulted in significant reductions in new originations of "risk layered" loans (e.g., loans with high loan-to-value ratios to borrowers with low FICO scores) and improved alignment of loan pricing. New originations of subprime mortgage loans, option ARMs and broker originated-mortgage and home equity loans have been eliminated entirely.

In the fourth quarter of 2008, the Firm announced plans to significantly expand loss mitigation efforts related to its mortgage and home equity portfolios, including a systematic review of the real estate portfolio to identify homeowners most in need of assistance. In addition, the Firm announced plans to open regional counseling centers, hire additional loan counselors, introduce new financing alternatives, proactively reach out to borrowers to offer pre-qualified modifications, and commence a new process to independently review each loan before moving it into the foreclosure process. During the implementation period of these loss mitigation efforts, which were substantially complete in early 2009, the Firm did not place loans into foreclosure. These loss mitigation efforts, which generally represent various forms of term extensions, rate reductions and forbearances, are expected to result in additional increases in the balances of modified loans carried on the Firm's balance sheet, including loans accounted for as troubled debt restructurings, while minimizing the economic loss to the Firm and assisting homeowners to remain in their homes.

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

Consumer portfolio

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure 2008	Credit exposure 2007	Nonperforming loans(g)(h)(i) 2008	Nonperforming loans(g)(h)(i) 2007	90 days past due and still accruing 2008	90 days past due and still accruing 2007	Net charge-offs 2008	Net charge-offs 2007	Average annual net charge-off rate(j) 2008	Average annual net charge-off rate(j) 2007
Consumer loans – excluding purchased credit-impaired(a)										
Home equity	**$ 114,335**	$ 94,832	**$ 1,394**	$ 786	**$ —**	$ —	**$ 2,391**	$ 564	**2.39%**	0.62%
Prime mortgage	**72,266**	39,988	**1,895**	501	**—**	—	**526**	33	**1.02**	0.10
Subprime mortgage	**15,330**	15,473	**2,690**	1,017	**—**	—	**933**	157	**6.10**	1.55
Option ARMs	**9,018**	—	**10**	—	**—**	—	**—**	—	**—**	—
Auto loans(b)	**42,603**	42,350	**148**	116	**—**	—	**568**	354	**1.30**	0.86
Credit card – reported	**104,746**	84,352	**4**	7	**2,649**	1,547	**4,556**	3,116	**5.47**	3.90
All other loans	**33,715**	25,314	**430**	341	**463**	421	**459**	242	**1.58**	1.01
Loans held-for-sale(c)	**2,028**	3,989	**—**	—	**—**	—	**NA**	NA	**NA**	NA
Total consumer loans – excluding purchased credit-impaired(d)	**394,041**	306,298	**6,571**	2,768	**3,112**	1,968	**9,433**	4,466	**2.90**	1.61
Consumer loans – purchased credit impaired(d)										
Home equity	**28,555**	NA	**NA**	NA	**—**	—	**NA**	NA	**NA**	NA
Prime mortgage	**21,855**	NA	**NA**	NA	**—**	—	**NA**	NA	**NA**	NA
Subprime mortgage	**6,760**	NA	**NA**	NA	**—**	—	**NA**	NA	**NA**	NA
Option ARMs	**31,643**	NA	**NA**	NA	**—**	—	**NA**	NA	**NA**	NA
Total purchased credit-impaired	**88,813**	NA	**NA**	NA	**—**	—	**NA**	NA	**NA**	NA
Total consumer loans – reported	**482,854**	306,298	**6,571**	2,768	**3,112**	1,968	**9,433**	4,466	**2.71**	1.61
Credit card – securitized(e)	**85,571**	72,701	**—**	—	**1,802**	1,050	**3,612**	2,380	**4.53**	3.43
Total consumer loans – managed	**568,425**	378,999	**6,571**	2,768	**4,914**	3,018	**13,045**	6,846	**3.06**	1.97
Consumer lending-related commitments:										
Home equity(f)	**95,743**	74,191								
Prime mortgage	**5,079**	7,394								
Subprime mortgage	**—**	16								
Option ARMs	**—**	—								
Auto loans	**4,726**	8,058								
Credit card(f)	**623,702**	714,848								
All other loans	**12,257**	11,429								
Total lending-related commitments	**741,507**	815,936								
Total consumer credit portfolio	**$ 1,309,932**	$ 1,194,935								
Memo: Credit card – managed	**$ 190,317**	$ 157,053	**$ 4**	$ 7	**$ 4,451**	$ 2,597	**$ 8,168**	$ 5,496	**5.01%**	3.68%

(a) Includes RFS, CS and residential mortgage loans reported in the Corporate/Private Equity segment, as well as approximately $80.0 billion in non-credit-impaired consumer loans acquired in the Washington Mutual transaction.
(b) Excludes operating lease-related assets of $2.2 billion and $1.9 billion for December 31, 2008 and 2007, respectively.
(c) Includes loans for prime mortgage and other (largely student loans) of $206 million and $1.8 billion at December 31, 2008, respectively, and $570 million and $3.4 billion at December 31, 2007, respectively.
(d) Purchased credit-impaired loans represent loans acquired in the Washington Mutual transaction that were considered credit-impaired under SOP 03-3, and include $6.4 billion of loans that were considered nonperforming by Washington Mutual prior to the transaction closing. Under SOP 03-3, these loans are considered to be performing loans as of the transaction date and accrete interest income over the estimated life of the loan when cash flows are reasonably estimable, even if the underlying loans are contractually past due. For additional information, see Note 14 on pages 175–178 of this Annual Report.
(e) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see CS on pages 63–65 of this Annual Report.
(f) The credit card and home equity lending-related commitments represent the total available lines of credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit will be utilized at the same time. For credit card commitments and home equity commitments (if certain conditions are met), the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.
(g) Excludes purchased credit-impaired loans accounted for under SOP 03-3 that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis and the pools are considered to be performing under SOP 03-3.
(h) Excludes nonperforming assets related to: (1) loans eligible for repurchase, as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $3.3 billion for December 31, 2008 and $1.5 billion for December 31, 2007; and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $437 million and $417 million as of December 31, 2008 and 2007, respectively. These amounts for GNMA and student loans are excluded, as reimbursement is proceeding normally.
(i) During the second quarter of 2008, the Firm's policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all the other home lending products. Amounts for 2007 have been revised to reflect this change.
(j) Net charge-off rates exclude average loans held-for-sale of $2.8 billion and $10.6 billion for 2008 and 2007, respectively.

The following table presents the consumer nonperforming assets by business segment as of December 31, 2008 and 2007.

	2008				2007			
		Assets acquired loan satisfactions				Assets acquired in loan satisfactions		
As of December 31, (in millions)	Nonperforming loans	Real estate owned	Other	Nonperforming assets	Nonperforming loans	Real estate owned	Other	Nonperforming assets
Retail Financial Services	**$ 6,548**	**$ 2,183**	**$ 110**	**$ 8,841**	$ 2,760	$ 477	$ 72	$ 3,309
Card Services	**4**	**—**	**—**	**4**	7	—	—	7
Corporate/Private Equity	**19**	**1**	**—**	**20**	1	—	—	1
Total	**$ 6,571**	**$ 2,184**	**$ 110**	**$ 8,865**	$ 2,768	$ 477	$ 72	$ 3,317

The Firm regularly evaluates market conditions and overall economic returns and makes an initial determination of whether new originations will be held-for-investment or sold within the foreseeable future. The Firm also periodically evaluates the expected economic returns of previously originated loans under prevailing market conditions to determine whether their designation as held-for-sale or held-for-investment continues to be appropriate. When the Firm determines that a change in this designation is appropriate, the loans are transferred to the appropriate classification. During the third and fourth quarters of 2007, in response to changes in market conditions, the Firm designated as held-for-investment all new originations of subprime mortgage loans, as well as subprime mortgage loans that were previously designated held-for-sale. In addition, all new prime mortgage originations that cannot be sold to U.S. government agencies and U.S. government-sponsored enterprises have been designated as held-for-investment. Prime mortgage loans originated with the intent to sell are accounted for at fair value under SFAS 159 and are classified as trading assets in the Consolidated Balance Sheets.

The following discussion relates to the specific loan and lending-related categories within the consumer portfolio. Information regarding combined loan-to-value ratios ("CLTVs") and loan-to-value ratios ("LTVs") were estimated based on the initial appraisal obtained at the time of origination, adjusted using relevant market indicies for housing price changes that have occurred since origination. The estimated value of the homes could vary from actual market values due to changes in condition of the underlying property, variations in housing price changes within metropolitan statistical areas ("MSAs") and other factors.

Home equity: Home equity loans at December 31, 2008, were $114.3 billion, excluding purchased credit-impaired loans, an increase of $19.5 billion from year-end 2007, primarily reflecting the addition of loans acquired in the Washington Mutual transaction. The 2008 provision for credit losses for the home equity portfolio includes net increases of $2.2 billion to the allowance for loan losses for 2008 for the heritage JPMorgan Chase portfolio as a result of the economic environment noted above. The Firm estimates that loans with effective CLTVs in excess of 100% represented approximately 22% of the home equity portfolio. In response to continued economic weakness, loan underwriting and account management criteria have been tightened, with a particular focus on MSAs with the most significant housing price declines. New originations of home equity loans have decreased significantly, as additional loss mitigation strategies have been employed; these strategies include the elimination of stated income and broker originated loans, a significant reduction of maximum CLTVs for new originations, which now range from 50% to 70%, and additional restrictions on new originations in geographic areas experiencing the greatest housing price depreciation and highest unemployment. Other loss mitigation strategies include the reduction or closure of outstanding credit lines for borrowers who have experienced significant increases in CLTVs or decreases in creditworthiness (e.g. declines in FICO scores.)

Mortgage: Mortgage loans at December 31, 2008, which include prime mortgages, subprime mortgages, option ARMs and loans held-for-sale, were $96.8 billion, excluding purchased credit-impaired loans, reflecting a $40.8 billion increase from year-end 2007, primarily reflecting the addition of loans acquired in the Washington Mutual transaction.

Prime mortgages of $72.5 billion increased $31.9 billion from December 2007 as a result of loans acquired in the Washington Mutual transaction and, to a lesser extent, additional originations into the portfolio. The 2008 provision for credit losses includes a net increase of $1.1 billion to the allowance for loan losses for the heritage JPMorgan Chase portfolio as a result of the economic environment noted above. The Firm estimates that loans with effective LTVs in excess of 100% represented approximately 18% of the prime mortgage portfolio. The Firm has tightened underwriting standards for nonconforming prime mortgages in recent quarters, including eliminating stated income products, reducing LTV maximums, and eliminating the broker origination channel.

Subprime mortgages of $15.3 billion, excluding purchased credit-impaired loans, decreased slightly from December 31, 2007, as the discontinuation of new originations was predominantly offset by loans acquired in the Washington Mutual transaction. The year-to-date provision for credit losses includes a net increase of $1.4 billion to the allowance for loan losses for the heritage JPMorgan Chase portfolio as a result of the economic environment noted above. The Firm estimates that loans with effective LTVs in excess of 100% represented approximately 27% of the subprime mortgage portfolio.

Option ARMs of $9.0 billion, excluding purchased credit-impaired loans, were acquired in the Washington Mutual transaction. New originations of option ARMs were discontinued by Washington

Mutual prior to the date of the Washington Mutual transaction. This portfolio is primarily comprised of loans with low LTVs and high borrower FICOs and for which the Firm currently expects substantially lower losses in comparison with the purchased credit-impaired portfolio. The Firm has not, and does not, originate option ARMs.

Option ARMs are adjustable-rate mortgage products that provide the borrower with the option to make a fully amortizing, interest-only, or minimum payment. The minimum payment is based upon the interest rate charged during the introductory period. This introductory rate is typically well below the fully indexed rate. The fully indexed rate is calculated using an index rate plus a margin. Once the introductory period ends, the contractual interest rate charged on the loan increases to the fully indexed rate. If the borrower continues to make the minimum monthly payment after the introductory period ends, the payment may not be sufficient to cover interest accrued in the previous month. In this case, the loan will "negatively amortize" as unpaid interest is deferred and added to the principal balance of the loan. Option ARMs typically become fully amortizing loans upon reaching a negative amortization cap or on dates specified in the borrowing agreement, at which time the required monthly payment generally increases substantially.

Auto loans: As of December 31, 2008, auto loans of $42.6 billion increased slightly from year-end 2007. The allowance for loan losses for the auto loan portfolio was increased during 2008, reflecting an increase in estimated losses due to an increase in loss severity and further deterioration of older vintage loans as a result of the worsening credit environment and declines in auto resale values. The auto loan portfolio reflects a high concentration of prime quality credits. In response to recent increases in loan delinquencies and credit losses, particularly in MSAs experiencing the greatest housing price depreciation and highest unemployment, credit underwriting criteria have been tightened, which has resulted in the reduction of both extended-term and high loan-to-value financing.

Credit card: JPMorgan Chase analyzes its credit card portfolio on a managed basis, which includes credit card receivables on the Consolidated Balance Sheets and those receivables sold to investors through securitization. Managed credit card receivables were $190.3 billion at December 31, 2008, an increase of $33.3 billion from year-end 2007, reflecting the acquisition of credit card loans as part of the Washington Mutual transaction, as well as organic growth in the portfolio.

The managed credit card net charge-off rate increased to 5.01% for 2008 from 3.68% in 2007. This increase was due primarily to higher charge-offs as a result of the current economic environment, especially in areas experiencing the greatest housing price depreciation and highest unemployment. The 30-day managed delinquency rate increased to 4.97% at December 31, 2008, from 3.48% at December 31, 2007, partially as a result of the addition of credit card loans acquired in the Washington Mutual transaction. Excluding the Washington Mutual portfolio, the 30-day managed delinquency rate was 4.36%. The Allowance for loan losses was increased due to higher estimated net charge-offs in the portfolio. As a result of continued weakness in housing markets, account acquisition credit criteria and account management credit practices have been tightened, particularly in MSAs experiencing significant home price declines. The managed credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification.

All other loans: All other loans primarily include business banking loans (which are highly collateralized loans, often with personal loan guarantees), student loans, and other secured and unsecured consumer loans. As of December 31, 2008, other loans, including loans held-for-sale, of $35.5 billion were up $6.8 billion from year-end 2007, primarily as a result of organic growth in business banking loans and student loans, as well as an increase in business banking loans as a result of the Washington Mutual transaction.

Purchased credit-impaired loans: Purchased credit-impaired loans of $88.8 billion in the home lending portfolio represent loans acquired in the Washington Mutual transaction that were recorded at fair value at the time of acquisition under SOP 03-3. The fair value of these loans includes an estimate of losses that are expected to be incurred over the estimated remaining lives of the loans, and therefore no allowance for loan losses was recorded for these loans as of the transaction date. Through year-end 2008, the credit performance of these loans has generally been consistent with the assumptions used in determining the initial fair value of these loans, and the Firm's original expectations regarding the amounts and timing of future cash flows has not changed. A probable decrease in management's expectation of future cash collections related to these loans could result in the need to record an allowance for credit losses related to these loans in the future. A significant and probable increase in expected cash flows would generally result in an increase in interest income recognized over the remaining life of the underlying pool of loans.

Other real estate owned: As part of the residential real estate foreclosure process, loans are written down to net realizable value less a cost to sell the asset. In those instances where the Firm gains title, ownership and possession of individual properties at the completion of the foreclosure process, these Other Real Estate Owned (OREO) assets are managed for prompt sale and disposition at the best possible economic value. Any further gain or loss on sale of the disposition of OREO assets are recorded as part of other income.

The following tables present the geographic distribution of consumer credit outstandings by product as of December 31, 2008 and 2007, excluding purchased credit-impaired loans.

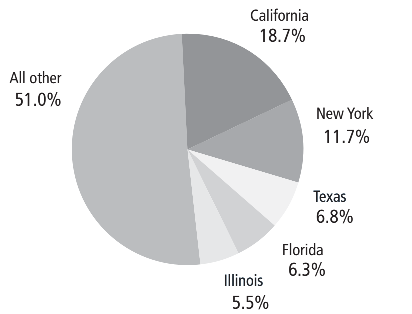
Consumer loans by geographic region

December 31, 2008 (in billions)	Home equity	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans– reported	Card securitized	Total consumer loans– managed
Excluding purchased credit-impaired											
California	**$ 23.2**	**$ 22.8**	**$ 2.2**	**$ 3.8**	**$ 52.0**	**$ 4.7**	**$ 14.8**	**$ 2.0**	**$ 73.5**	**$ 12.5**	**$ 86.0**
New York	**16.3**	**10.4**	**1.7**	**0.9**	**29.3**	**3.7**	**8.3**	**4.7**	**46.0**	**6.6**	**52.6**
Texas	**8.1**	**2.7**	**0.4**	**0.2**	**11.4**	**3.8**	**7.4**	**4.1**	**26.7**	**6.1**	**32.8**
Florida	**6.3**	**6.0**	**2.3**	**0.9**	**15.5**	**1.5**	**6.8**	**0.9**	**24.7**	**5.2**	**29.9**
Illinois	**7.2**	**3.3**	**0.7**	**0.3**	**11.5**	**2.2**	**5.3**	**2.5**	**21.5**	**4.6**	**26.1**
Ohio	**4.6**	**0.7**	**0.4**	**—**	**5.7**	**3.3**	**4.1**	**3.3**	**16.4**	**3.4**	**19.8**
New Jersey	**5.0**	**2.5**	**0.8**	**0.3**	**8.6**	**1.6**	**4.2**	**0.9**	**15.3**	**3.6**	**18.9**
Michigan	**3.6**	**1.3**	**0.4**	**—**	**5.3**	**1.5**	**3.4**	**2.8**	**13.0**	**2.8**	**15.8**
Arizona	**5.9**	**1.6**	**0.4**	**0.2**	**8.1**	**1.6**	**2.3**	**1.9**	**13.9**	**1.8**	**15.7**
Pennsylvania	**1.6**	**0.7**	**0.5**	**0.1**	**2.9**	**1.7**	**3.9**	**0.7**	**9.2**	**3.2**	**12.4**
Washington	**3.8**	**2.3**	**0.3**	**0.5**	**6.9**	**0.6**	**2.0**	**0.4**	**9.9**	**1.6**	**11.5**
Colorado	**2.4**	**1.9**	**0.3**	**0.3**	**4.9**	**0.9**	**2.1**	**0.9**	**8.8**	**2.1**	**10.9**
All other	**26.3**	**16.3**	**4.9**	**1.5**	**49.0**	**15.5**	**40.1**	**10.5**	**115.1**	**32.1**	**147.2**
Total – excluding purchased credit-impaired	**$114.3**	**$ 72.5**	**$15.3**	**$ 9.0**	**$ 211.1**	**$42.6**	**$104.7**	**$ 35.6**	**$ 394.0**	**$ 85.6**	**$ 479.6**

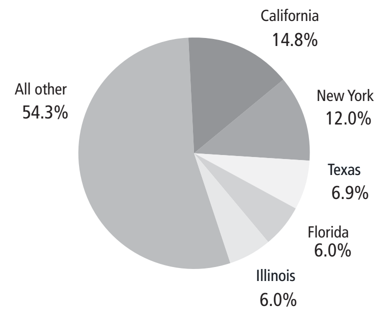
Consumer loans by geographic region

December 31, 2007 (in billions)	Home equity	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans– reported	Card securitized	Total consumer loans– managed
Excluding purchased credit-impaired											
California	$14.9	$11.4	$ 2.0	$ —	$ 28.3	$ 5.0	$11.0	$ 1.0	$ 45.3	$ 9.6	$ 54.9
New York	14.4	6.4	1.6	—	22.4	3.6	6.6	4.2	36.8	5.6	42.4
Texas	6.1	1.7	0.3	—	8.1	3.7	5.8	3.5	21.1	5.4	26.5
Florida	5.3	3.9	2.5	—	11.7	1.6	4.7	0.5	18.5	4.2	22.7
Illinois	6.7	2.2	0.8	—	9.7	2.2	4.5	1.9	18.3	3.9	22.2
Ohio	4.9	0.5	0.5	—	5.9	2.9	3.3	2.6	14.7	3.1	17.8
New Jersey	4.4	1.4	0.8	—	6.6	1.7	3.3	0.5	12.1	3.1	15.2
Michigan	3.7	1.0	0.6	—	5.3	1.3	2.9	2.3	11.8	2.5	14.3
Arizona	5.7	1.1	0.4	—	7.2	1.8	1.7	1.8	12.5	1.4	13.9
Pennsylvania	1.6	0.4	0.5	—	2.5	1.7	3.2	0.5	7.9	2.9	10.8
Washington	1.6	0.4	0.3	—	2.3	0.6	1.4	0.2	4.5	1.3	5.8
Colorado	2.3	1.0	0.3	—	3.6	1.0	2.0	0.8	7.4	1.7	9.1
All other	23.2	9.2	4.8	—	37.2	15.3	34.0	8.9	95.4	28.0	123.4
Total – excluding purchased credit-impaired	$94.8	$40.6	$15.4	$ —	$150.8	$ 42.4	$84.4	$28.7	$306.3	$ 72.7	$ 379.0

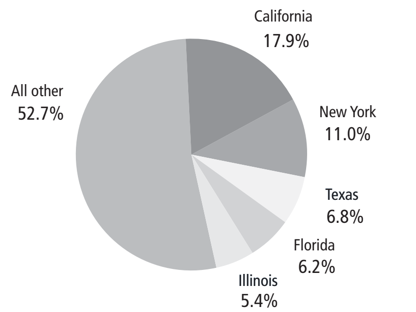
Top 5 States Total Consumer Loans - Reported[a]
(at December 31, 2008)



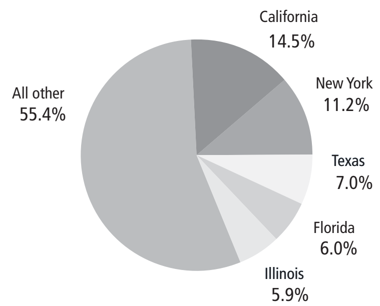
Top 5 States Total Consumer Loans - Reported
(at December 31, 2007)



Top 5 States Consumer Loans - Managed[a]
(at December 31, 2008)



Top 5 States Consumer Loans - Managed
(at December 31, 2007)



(a) Excluding the purchased credit-impaired loans acquired in the Washington Mutual transaction.

ALLOWANCE FOR CREDIT LOSSES

JPMorgan Chase's allowance for credit losses is intended to cover probable credit losses, including losses where the asset is not specifically identified or the size of the loss has not been fully determined. At least quarterly, the allowance for credit losses is reviewed by the Chief Executive Officer, the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm, and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. The allowance is reviewed relative to the risk profile of the Firm's credit portfolio and current economic conditions and is adjusted if, in management's judgment, changes are warranted. The allowance includes an asset-specific and a formula-based component. For further discussion of the components of the allowance for credit losses, see Critical Accounting Estimates Used by the Firm on pages 119–123 and Note 15 on pages 178–180 of this Annual Report. At December 31, 2008, management deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including losses that are not specifically identified or for which the size of the loss has not yet been fully determined).

Summary of changes in the allowance for credit losses

Year ended December 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 change in accounting principles[a]	**—**	**—**	**—**	(56)	—	(56)
Beginning balance at January 1, adjusted	**3,154**	**6,080**	**9,234**	2,655	4,568	7,223
Gross charge-offs	**521**	**10,243**	**10,764**	185	5,182	5,367
Gross recoveries	**(119)**	**(810)**	**(929)**	(113)	(716)	(829)
Net charge-offs	**402**	**9,433**	**9,835**	72	4,466	4,538
Provision for loan losses:						
Provision excluding accounting conformity	**2,895**	**16,765**	**19,660**	598	5,940	6,538
Accounting conformity[b]	**641**	**936**	**1,577**	—	—	—
Total provision for loan losses	**3,536**	**17,701**	**21,237**	598	5,940	6,538
Acquired allowance resulting from Washington Mutual transaction	**229**	**2,306**	**2,535**	—	—	—
Other	**28**[c]	**(35)**[c]	**(7)**	(27)[i]	38[i]	11
Ending balance at December 31	**$ 6,545**	**$16,619**	**$23,164**	$ 3,154	$ 6,080	$ 9,234
Components:						
Asset-specific	**$ 712**	**$ 74**	**$ 786**	$ 108	$ 80	$ 188
Formula-based	**5,833**	**16,545**	**22,378**	3,046	6,000	9,046
Total allowance for loan losses	**$ 6,545**	**$16,619**	**$23,164**	$ 3,154	$ 6,080	$ 9,234
Lending-related commitments:						
Beginning balance at January 1,	**$ 835**	**$ 15**	**$ 850**	$ 499	$ 25	$ 524
Provision for lending-related commitments						
Provision excluding accounting conformity	**(214)**	**(1)**	**(215)**	336	(10)	326
Accounting conformity[b]	**5**	**(48)**	**(43)**	—	—	—
Total provision for lending-related commitments	**(209)**	**(49)**	**(258)**	336	(10)	326
Acquired allowance resulting from Washington Mutual transaction	**—**	**66**	**66**	—	—	—
Other	**8**[c]	**(7)**[c]	**1**	—	—	—
Ending balance at December 31	**$ 634**	**$ 25**	**$ 659**	$ 835	$ 15	$ 850
Components:						
Asset-specific	**$ 29**	**$ —**	**$ 29**	$ 28	$ —	$ 28
Formula-based	**605**	**25**	**630**	807	15	822
Total allowance for lending-related commitments	**$ 634**	**$ 25**	**$ 659**	$ 835	$ 15	$ 850
Total allowance for credit losses	**$ 7,179**	**$16,644**	**$23,823**	$ 3,989	$ 6,095	$10,084
Allowance for loan losses to loans	**2.64%**[d]	**3.46%**[e][h]	**3.18%**[d][e][h]	1.67%[d]	2.01%[e]	1.88%[d][e]
Allowance for loan losses to loans excluding purchased credit-impaired loans	**2.64**[d]	**4.24**[e]	**3.62**[d][e]	1.67[d]	2.01[e]	1.88[d][e]
Net charge-off rates	**0.18**[f]	**2.71**[g][h]	**1.73**[f][g][h]	0.04[f]	1.61[g]	1.00[f][g]
Net charge-off rates excluding purchased credit-impaired loans	**0.18**[f]	**2.90**[g]	**1.81**[f][g]	0.04[f]	1.61[g]	1.00[f][g]

(a) Reflects the effect of the adoption of SFAS 159 at January 1, 2007. For a further discussion of SFAS 159, see Note 5 on pages 156–158 of this Annual Report.
(b) Related to the Washington Mutual transaction in 2008.
(c) Primarily related to the transfer of loans and lending-related commitments from RFS to CB during the first quarter of 2008.
(d) Wholesale loans held-for-sale and loans at fair value were $14.0 billion and $23.6 billion at December 31, 2008 and 2007, respectively. These amounts were excluded when calculating the allowance coverage ratios.
(e) Consumer loans held-for-sale were $2.0 billion and $4.0 billion at December 31, 2008 and 2007, respectively. These amounts were excluded when calculating the allowance coverage ratios.
(f) Average wholesale loans held-for-sale and loans at fair value were $18.9 billion and $18.6 billion for the years ended December 31, 2008 and 2007, respectively. These amounts were excluded when calculating the net charge-off rates.
(g) Average consumer (excluding card) loans held-for-sale and loans at fair value were $2.8 billion and $10.6 billion for the years ended December 31, 2008 and 2007, respectively. These amounts were excluded when calculating the net charge-off rates.
(h) Includes $88.8 billion of home lending credit-impaired loans acquired in the Washington Mutual transaction and accounted for under SOP 03-3 at December 31, 2008. These loans were accounted for at fair value on the acquisition date, which reflected expected cash flows (including credit losses) over the remaining life of the portfolio. No allowance for loan losses has been recorded for these loans as of December 31, 2008.
(i) Partially related to the transfer of allowance between wholesale and consumer in conjunction with prime mortgages transferred to the Corporate/Private Equity sector.

The allowance for credit losses increased $13.7 billion from the prior year to $23.8 billion. The increase included $4.1 billion of allowance related to noncredit-impaired loans acquired in the Washington Mutual transaction and the related accounting conformity provision. Excluding held-for-sale loans, loans carried at fair value, and purchased credit-impaired consumer loans, the allowance for loan losses represented 3.62% of loans at December 31, 2008, compared with 1.88% at December 31, 2007.

The consumer allowance for loan losses increased $10.5 billion from the prior year as a result of the Washington Mutual transaction and increased allowance for loan loss in residential real estate and credit card. The increase included additions to the allowance for loan losses of $4.7 billion driven by higher estimated losses for residential mortgage and home equity loans as the weak labor market and weak overall economic conditions have resulted in increased delinquencies, while continued weak housing prices have driven a significant increase in loss severity. The allowance for loan losses related to credit card increased $4.3 billion from the prior year primarily due to the acquired allowance and subsequent conforming provision for loan loss related to the Washington Mutual Bank acquisition and an increase in provision for loan losses of $2.3 billion in 2008 over 2007, as higher estimated net charge-offs are expected in the portfolio resulting from the current economic conditions.

The wholesale allowance for loan losses increase of $3.4 billion from December 31, 2007, reflected the effect of a weakening credit environment and the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from held-for-sale.

To provide for the risk of loss inherent in the Firm's process of extending credit, an allowance for lending-related commitments is held for both wholesale and consumer, which is reported in other liabilities. The wholesale component is computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown and has an asset-specific component and a formula-based component. For a further discussion on the allowance for lending-related commitment see Note 15 on pages 178–180 of this Annual Report. The allowance for lending-related commitments for both wholesale and consumer was $659 million and $850 million at December 31, 2008 and 2007, respectively. The decrease reflects the reduction in lending-related commitments at December 31, 2008. For more information, see page 102 of this Annual Report.

The following table presents the allowance for loan losses and net charge-offs (recoveries) by business segment at December 31, 2008 and 2007.

December 31, (in millions)	Allowance for loan losses 2008	Allowance for loan losses 2007	Net charge-offs (recoveries) year ended 2008	Net charge-offs (recoveries) year ended 2007
Investment Bank	**$ 3,444**	$ 1,329	**$ 105**	$ 36
Commercial Banking	**2,826**	1,695	**288**	44
Treasury & Securities Services	**74**	18	**(2)**	—
Asset Management	**191**	112	**11**	(8)
Corporate/Private Equity	**10**	—	**—**	—
Total Wholesale	**6,545**	3,154	**402**	72
Retail Financial Services	**8,918**	2,668	**4,877**	1,350
Card Services	**7,692**	3,407	**4,556**	3,116
Corporate/Private Equity	**9**	5	**—**	—
Total Consumer – reported	**16,619**	6,080	**9,433**	4,466
Credit card – securitized	**—**	—	**3,612**	2,380
Total Consumer – managed	**16,619**	6,080	**13,045**	6,846
Total	**$ 23,164**	$ 9,234	**$ 13,477**	$ 6,918

Provision for credit losses

The managed provision for credit losses includes amounts related to credit card securitizations. For the year ended December 31, 2008, the increase in the provision for credit losses was due to year-over-year increase in the allowance for credit losses largely related to the home equity, subprime mortgage, prime mortgage and credit card loan portfolios in the consumer businesses as well as in the allowance for credit losses related to the wholesale portfolio. The increase in the allowance for credit losses related to the wholesale provision for loan losses from the prior year was due to the weakening credit environment, loan growth and the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from held-for-sale. The decrease in provision for lending-related commitments from the prior year benefited from reduced balances of lending-related commitments.

Year ended December 31, (in millions)	Provision for loan losses 2008	2007	2006	Provision for lending-related commitments 2008	2007	2006	Total provision for credit losses 2008	2007	2006
Investment Bank	**$ 2,216**	$ 376	$ 112	**$ (201)**	$ 278	$ 79	**$ 2,015**	$ 654	$ 191
Commercial Banking	**505**	230	133	**(41)**	49	27	**464**	279	160
Treasury & Securities Services	**52**	11	(1)	**30**	8	—	**82**	19	(1)
Asset Management	**87**	(19)	(30)	**(2)**	1	2	**85**	(18)	(28)
Corporate/Private Equity[(a)(b)]	**676**	—	(1)	**5**	—	—	**681**	—	(1)
Total Wholesale	**3,536**	598	213	**(209)**	336	108	**3,327**	934	321
Retail Financial Services	**9,906**	2,620	552	**(1)**	(10)	9	**9,905**	2,610	561
Card Services – reported	**6,456**	3,331	2,388	**—**	—	—	**6,456**	3,331	2,388
Corporate/Private Equity[(a)(c)(d)]	**1,339**	(11)	—	**(48)**	—	—	**1,291**	(11)	—
Total Consumer	**17,701**	5,940	2,940	**(49)**	(10)	9	**17,652**	5,930	2,949
Total provision for credit losses – reported	**21,237**	6,538	3,153	**(258)**	326	117	**20,979**	6,864	3,270
Credit card – securitized	**3,612**	2,380	2,210	**—**	—	—	**3,612**	2,380	2,210
Total provision for credit losses – managed	**$ 24,849**	$ 8,918	$ 5,363	**$ (258)**	$ 326	$117	**$ 24,591**	$ 9,244	$ 5,480

(a) Includes accounting conformity provisions related to the Washington Mutual transaction in 2008.
(b) Includes provision expense related to loans acquired in the Bear Stearns merger in the second quarter of 2008.
(c) Includes amounts related to held-for-investment prime mortgages transferred from AM to the Corporate/Private Equity segment.
(d) In November 2008, the Firm transferred $5.8 billion of higher quality credit card loans from the legacy Chase portfolio to a securitization trust previously established by Washington Mutual ("the Trust"). As a result of converting higher credit quality Chase-originated on-book receivables to the Trust's seller's interest which has a higher overall loss rate reflective of the total assets within the Trust, approximately $400 million of incremental provision expense was recorded during the fourth quarter. This incremental provision expense was recorded in the Corporate segment as the action related to the acquisition of Washington Mutual's banking operations. For further discussion of credit card securitizations, see Note 16 on pages 180–188 of this Annual Report.

MARKET RISK MANAGEMENT

Market risk is the exposure to an adverse change in the market value of portfolios and financial instruments caused by a change in market prices or rates.

Market risk management

Market risk is identified, measured, monitored, and controlled by Market Risk, a corporate risk governance function independent of the lines of business. Market Risk seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and make the Firm's market risk profile transparent to senior management, the Board of Directors and regulators. Market Risk is overseen by the Chief Risk Officer and performs the following functions:

- Establishment of a comprehensive market risk policy framework
- Independent measurement, monitoring and control of business segment market risk
- Definition, approval and monitoring of limits
- Performance of stress testing and qualitative risk assessments

Risk identification and classification

Market Risk works in partnership with the business segments to identify market risks throughout the Firm and define and monitor market risk policies and procedures. All business segments are responsible for the comprehensive identification and verification of market risks within their units. Risk-taking businesses have functions that act independently from trading personnel and are responsible for verifying risk exposures that the business takes. In addition to providing independent oversight for market risk arising from the business segments, Market Risk is also responsible for identifying exposures which may not be large within individual business segments but which may be large for the Firm in the aggregate. Regular meetings are held between Market Risk and the heads of risk-taking businesses to discuss and decide on risk exposures in the context of the market environment and client flows.

Positions that expose the Firm to market risk can be classified into two categories: trading and nontrading risk. Trading risk includes positions that are held by the Firm as part of a business segment or unit, the main business strategy of which is to trade or make markets. Unrealized gains and losses in these positions are generally reported in principal transactions revenue. Nontrading risk includes securities and other assets held for longer-term investment, mortgage servicing rights, and securities and derivatives used to manage the Firm's asset/liability exposures. Unrealized gains and losses in these positions are generally not reported in principal transactions revenue.

Trading risk
The Firm makes markets and trades its products across several different asset classes. These asset classes include primarily fixed income (which includes interest rate risk and credit spread risk), foreign exchange, equities and commodities. Trading risk arises from positions in these asset classes and may lead to the potential decline in net income (i.e., economic sensitivity) due to adverse changes in market rates, whether arising from client activities or proprietary positions taken by the Firm.

Nontrading risk
Nontrading risk arises from execution of the Firm's core business strategies, the delivery of products and services to its customers, and the positions the Firm undertakes to risk-manage its exposures.

These exposures can result from a variety of factors, including differences in the timing among the maturity or repricing of assets, liabilities and off-balance sheet instruments. Changes in the level and shape of market interest rate curves also may create interest rate risk, since the repricing characteristics of the Firm's assets do not necessarily match those of its liabilities. The Firm is also exposed to basis risk, which is the difference in the repricing characteristics of two floating-rate indices, such as the prime rate and 3-month LIBOR. In addition, some of the Firm's products have embedded optionality that impact pricing and balances.

The Firm's mortgage banking activities give rise to complex interest rate risks, as well as option and basis risk. Option risk arises primarily from prepayment options embedded in mortgages and changes in the probability of newly originated mortgage commitments actually closing. Basis risk results from different relative movements between mortgage rates and other interest rates.

Risk measurement

Tools used to measure risk
Because no single measure can reflect all aspects of market risk, the Firm uses various metrics, both statistical and nonstatistical, including:

- Nonstatistical risk measures
- Value-at-risk ("VaR")
- Loss advisories
- Drawdowns
- Economic value stress testing
- Earnings-at-risk stress testing
- Risk identification for large exposures ("RIFLE")

Nonstatistical risk measures
Nonstatistical risk measures other than stress testing include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Firm's market risk exposure. They are aggregated by line of business and by risk type, and are used for monitoring limits, one-off approvals and tactical control.

Value-at-risk ("VaR")
JPMorgan Chase's primary statistical risk measure, VaR, estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VaR is used for comparing risks across businesses, monitoring limits, and as an input to economic capital calculations. VaR provides risk transparency in a normal trading environment. Each business day the Firm undertakes a comprehensive VaR calculation that includes both its trading and its nontrading risks. VaR for nontrading risk measures the amount of potential change in the fair values of the exposures related to these risks; however, for such risks, VaR is not a measure of reported revenue since nontrading activities are generally not marked to market through net income. Hedges of nontrading activities may be included in trading VaR since they are marked to market.

To calculate VaR, the Firm uses historical simulation, based on a one-day time horizon and an expected tail-loss methodology, which measures risk across instruments and portfolios in a consistent and comparable way. The simulation is based upon data for the previous 12 months. This approach assumes that historical changes in market values are representative of future changes; this is an assumption that may not always be accurate, particularly given the volatility in the current market environment. For certain products, an actual price time series is not available. In such cases, the historical simulation is done using a proxy time series to estimate the risk. It is likely that using an actual price time series for these products, if available, would impact the VaR results presented. In addition, certain risk parameters, such as correlation risk among certain IB trading instruments, are not fully captured in VaR.

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

99% Confidence Level VaR

IB trading VaR by risk type and credit portfolio VaR

As of or for the year ended December 31,[a] (in millions)	2008 Average	2008 Minimum	2008 Maximum	2007 Average	2007 Minimum	2007 Maximum	At December 31, 2008	At December 31, 2007
By risk type:								
Fixed income	**$ 181**	**$ 99**	**$ 409**	$ 80	$ 25	$ 135	**$ 253**	$ 106
Foreign exchange	**34**	**13**	**90**	23	9	44	**70**	22
Equities	**57**	**19**	**187**	48	22	133	**69**	27
Commodities and other	**32**	**24**	**53**	33	21	66	**26**	27
Diversification	**(108)**[b]	**NM**[c]	**NM**[c]	(77)[b]	NM[c]	NM[c]	**(152)**[b]	(82)[b]
Trading VaR	**$ 196**	**$ 96**	**$ 420**	$ 107	$ 50	$ 188	**$ 266**	$ 100
Credit portfolio VaR	**69**	**20**	**218**	17	8	31	**171**	22
Diversification	**(63)**[b]	**NM**[c]	**NM**[b]	(18)[b]	NM[c]	NM[c]	**(120)**[b]	(19)[b]
Total trading and credit portfolio VaR	**$ 202**	**$ 96**	**$ 449**	$ 106	$ 50	$ 178	**$ 317**	$ 103

(a) The results for the year ended December 31, 2008, include five months of heritage JPMorgan Chase only results and seven months of results for the combined JPMorgan Chase and Bear Stearns; 2007 reflects heritage JPMorgan Chase results only.
(b) Average and period-end VaRs were less than the sum of the VaRs of its market risk components, which is due to risk offsets resulting from portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.
(c) Designated as not meaningful ("NM") because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio diversification effect.

Trading VaR includes substantially all trading activities in IB. Beginning in the fourth quarter of 2008, the credit spread sensitivities of certain mortgage products were included in trading VaR. This change had an insignificant net impact on the average fourth quarter 2008 VaR. However, trading VaR does not include: held-for-sale funded loan and unfunded commitments positions (however, it does include hedges of those positions); the debit valuation adjustments ("DVA") taken on derivative and structured liabilities to reflect the credit quality of the Firm; the MSR portfolio; and securities and instruments held by corporate functions, such as Corporate/Private Equity. See the DVA Sensitivity table on page 115 of this Annual Report for further details. For a discussion of MSRs and the corporate functions, see Note 4 on pages 141–155, Note 18 on pages 198–201 and Corporate/ Private Equity on pages 73–75 of this Annual Report.

2008 VaR results

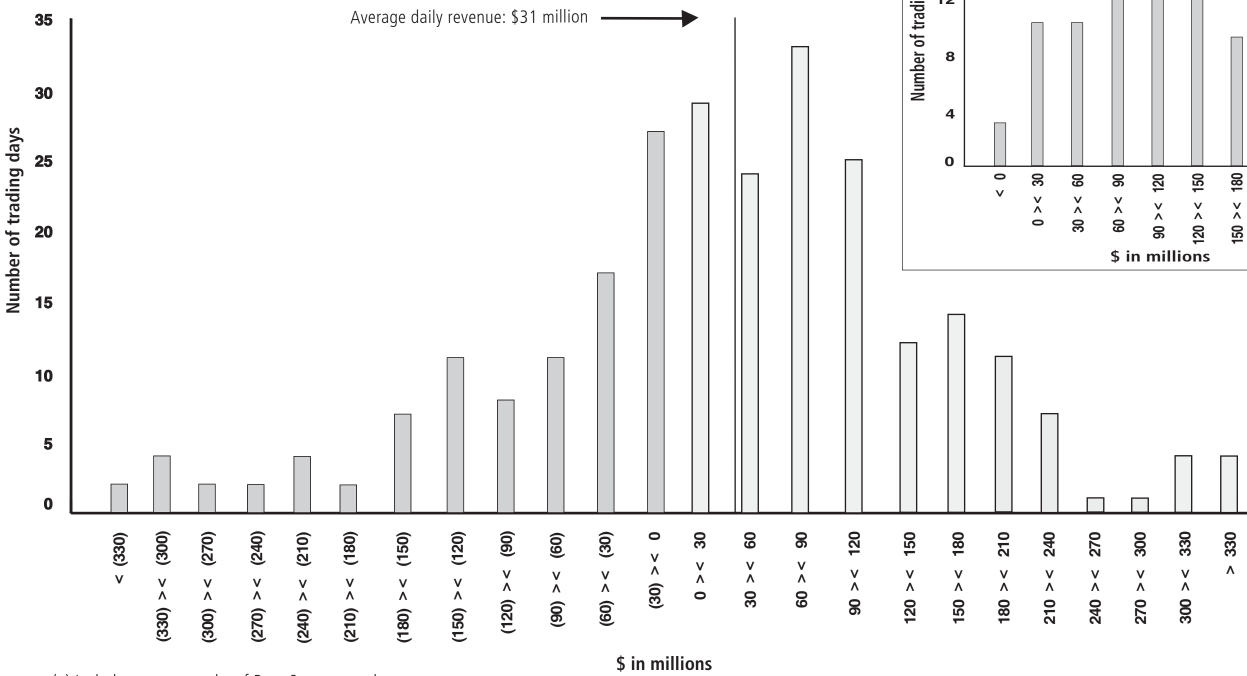
IB's average total trading and credit portfolio VaR was $202 million for 2008, compared with $106 million for 2007, and includes the positions from the Bear Stearns merger since May 31, 2008. The increase in average and maximum VaR during 2008 compared with the prior year was primarily due to increased volatility across virtually all asset classes. In addition, increased hedges of positions not specifically captured in VaR – for example, macro hedge strategies that have been deployed to mitigate the consequences of a systemic risk event and hedges of loans held-for-sale – significantly increased the VaR compared with the prior period.

For 2008, compared with the prior year, average trading VaR diversification increased to $108 million from $77 million, reflecting the impact of the Bear Stearns merger. In general, over the course of the year, VaR exposures can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

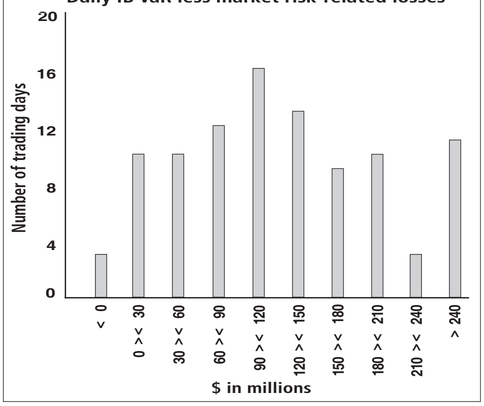
VaR backtesting

To evaluate the soundness of its VaR model, the Firm conducts daily back-testing of VaR against daily IB market risk-related revenue, which is defined as the change in value of principal transactions revenue (less Private Equity gains/losses) plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. The daily IB market risk-related revenue excludes gains and losses on held-for-sale funded loans and unfunded commitments and from DVA. The following histogram illustrates the daily market risk-related gains and losses for IB trading businesses for the year ended 2008. The chart shows that IB posted market risk-related gains on 165 of the 262 days in this period, with 54 days exceeding $120 million. The inset graph looks at those days on which IB experienced losses and depicts the amount by which 99% confidence level VaR exceeded the actual loss on each of those days. During the year ended December 31, 2008, losses were sustained on 97 days; losses exceeded the VaR measure on three of those days compared with eight days for the year ended 2007. The Firm would expect to incur losses greater than those predicted by the 99% confidence level VaR estimates once in every 100 trading days, or about two to three times a year.

Daily IB market risk-related gains and losses
Year ended December 31, 2008[a]



Daily IB VaR less market risk-related losses



(a) Includes seven months of Bear Stearns results.

95% Confidence Level VaR

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

(in millions)	Six months ended December 31, 2008 Average	At December 31
IB VaR by risk type:		
Fixed income	$ 162	$ 180
Foreign exchange	23	38
Equities	47	39
Commodities and other	23	25
Diversification benefit to IB trading VaR	(88)	(108)
IB Trading VaR	$ 167	$ 174
Credit portfolio VaR	45	77
Diversification benefit to IB trading and credit portfolio VaR	(36)	(57)
Total IB trading and credit portfolio VaR	$ 176	$ 194
Consumer Lending VaR	37	112
Corporate Risk Management VaR	48	114
Diversification benefit to total other VaR	(19)	(48)
Total other VaR	$ 66	$ 178
Diversification benefit to total IB and other VaR	(40)	(86)
Total IB and other VaR	$ 202	$ 286

The Firm's new 95% VaR measure includes all the risk positions taken into account under the 99% confidence level VaR measure, as well as syndicated lending facilities the Firm intends to distribute (and, beginning in the fourth quarter of 2008, the credit spread sensitivities of certain mortgage products). The Firm utilizes proxies to estimate the VaR for these mortgage and credit products since daily time series are largely not available. In addition, the new VaR measure includes certain actively managed positions utilized as part of the Firm's risk management function within Corporate and in the Consumer Lending businesses to provide a total IB and other VaR measure. In the Firm's view, including these items in VaR produces a more complete perspective of the Firm's risk profile for items with market risk that can impact the income statement. The Consumer Lending VaR includes the Firm's mortgage pipeline and warehouse loans, MSRs and all related hedges.

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

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

The following table provides information about the sensitivity of DVA to a one basis point increase in JPMorgan Chase's credit spreads. The sensitivity of DVA at December 31, 2008, represents the Firm (including Bear Stearns), while the sensitivity of DVA for December 31, 2007, represents heritage JPMorgan Chase only.

Debit Valuation Adjustment Sensitivity

(in millions)	1 Basis Point Increase in JPMorgan Chase Credit Spread
December 31, 2008	**$ 32**
December 31, 2007	$ 38

Loss advisories and drawdowns

Loss advisories and drawdowns are tools used to highlight to senior management trading losses above certain levels and initiate discussion of remedies.

Economic value stress testing

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

Earnings-at-risk stress testing

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

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

The Firm manages interest rate exposure related to its assets and liabilities on a consolidated, corporate-wide basis. Business units transfer their interest rate risk to Treasury through a transfer-pricing system, which takes into account the elements of interest rate exposure that can be risk-managed in financial markets. These elements include asset and liability balances and contractual rates of interest, contractual principal payment schedules, expected prepayment experience, interest rate reset dates and maturities, rate indices used for re-pricing, and any interest rate ceilings or floors for adjustable rate products. All transfer-pricing assumptions are dynamically reviewed.

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

Immediate changes in interest rates present a limited view of risk, and so a number of alternative scenarios are also reviewed. These scenarios include the implied forward curve, nonparallel rate shifts and severe interest rate shocks on selected key rates. These scenarios are intended to provide a comprehensive view of JPMorgan Chase's earnings-at-risk over a wide range of outcomes.

JPMorgan Chase's 12-month pretax earnings sensitivity profile as of December 31, 2008 and 2007, is as follows.

	Immediate change in rates			
(in millions)	+200bp	+100bp	-100bp	-200bp
December 31, 2008	**$ 336**	**$ 672**	**$ NM[(a)]**	**$ NM[(a)]**
December 31, 2007	$ (26)	$ 55	$ (308)	$ (664)

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

The change in earnings-at-risk from December 31, 2007, results from a higher level of AFS securities and lower market interest rates. The benefit to the Firm of an increase in rates results from a widening of deposit margins which are currently compressed due to very low short-term interest rates. This benefit would be partially offset by the effect of reduced mortgage prepayments. The impact to the Firm's pretax earnings of reduced mortgage prepayments would become more pronounced under a +200 bp parallel shock.

Additionally, another sensitivity involving a steeper yield curve, with long-term rates rising 100 basis points and short-term rates staying at current levels, results in a 12-month pretax earnings benefit of $740 million. The increase in earnings is due to reinvestment of maturing assets at the higher long-term rates with funding costs remaining unchanged.

Risk identification for large exposures ("RIFLE")
Individuals who manage risk positions, particularly those that are complex, are responsible for identifying potential losses that could arise from specific, unusual events, such as a potential tax change, and estimating the probabilities of losses arising from such events. This information is entered into the Firm's RIFLE database. Management of trading businesses control RIFLE entries, thereby permitting the Firm to monitor further earnings vulnerability not adequately covered by standard risk measures.

Risk monitoring and control

Limits
Market risk is controlled primarily through a series of limits. Limits reflect the Firm's risk appetite in the context of the market environment and business strategy. In setting limits, the Firm takes into consideration factors such as market volatility, product liquidity, business trends and management experience.

Market risk management regularly reviews and updates risk limits. Senior management, including the Firm's Chief Executive Officer and Chief Risk Officer, is responsible for reviewing and approving risk limits at least once a year.

The Firm maintains different levels of limits. Corporate-level limits include VaR and stress limits. Similarly, line-of-business limits include VaR and stress limits and may be supplemented by loss advisories, nonstatistical measurements and instrument authorities. Businesses are responsible for adhering to established limits, against which exposures are monitored and reported. Limit breaches are reported in a timely manner to senior management, and the affected business segment is required to reduce trading positions or consult with senior management on the appropriate action.

Qualitative review
The Market Risk Management group also performs periodic reviews as necessary of both businesses and products with exposure to market risk to assess the ability of the businesses to control their market risk. Strategies, market conditions, product details and risk controls are reviewed, and specific recommendations for improvements are made to management.

Model review
Some of the Firm's financial instruments cannot be valued based upon quoted market prices but are instead valued using pricing models. Such models are used for management of risk positions, such as reporting against limits, as well as for valuation. The Model Risk Group, independent of the businesses and market risk management, reviews the models the Firm uses and assesses model appropriateness and consistency. The model reviews consider a number of factors about the model's suitability for valuation and risk management of a particular product, including whether it accurately reflects the characteristics of the transaction and its significant risks, the suitability and convergence properties of numerical algorithms, reliability of data sources, consistency of the treatment with models for similar products, and sensitivity to input parameters and assumptions that cannot be priced from the market.

Reviews are conducted of new or changed models, as well as previously accepted models, to assess whether there have been any changes in the product or market that may impact the model's validity and whether there are theoretical or competitive developments that may require reassessment of the model's adequacy. For a summary of valuations based upon models, see Critical Accounting Estimates Used by the Firm on pages 119–123 of this Annual Report.

Risk reporting

Nonstatistical exposures, value-at-risk, loss advisories and limit excesses are reported daily for each trading and nontrading business. Market risk exposure trends, value-at-risk trends, profit and loss changes, and portfolio concentrations are reported weekly. Stress-test results are reported at least every two weeks to business and senior management.

PRIVATE EQUITY RISK MANAGEMENT

Risk management

The Firm makes direct principal investments in private equity. The illiquid nature and long-term holding period associated with these investments differentiates private equity risk from the risk of positions held in the trading portfolios. The Firm's approach to managing private equity risk is consistent with the Firm's general risk governance structure. Controls are in place establishing expected levels for total and annual investment in order to control the overall size of the portfolio. Industry and geographic concentration limits are in place and intended to ensure diversification of the portfolio. All investments are approved by an investment committee that includes executives who are not part of the investing businesses. An independent valuation function is responsible for reviewing the appropriateness of the carrying values of private equity investments in accordance with relevant accounting policies. At December 31, 2008 and 2007, the carrying value of the private equity businesses was $6.9 billion and $7.2 billion, respectively, of which $483 million and $390 million, respectively, represented publicly traded positions. For further information on the Private equity portfolio, see page 75 of this Annual Report.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events.

Overview

Operational risk is inherent in each of the Firm's businesses and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, inappropriate behavior of employees, or vendors that do not perform in accordance with their arrangements. These events could result in financial losses and other damage to the Firm, including reputational harm.

To monitor and control operational risk, the Firm maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in light of the Firm's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject. Notwithstanding these control measures, the Firm incurs operational losses.

The Firm's approach to operational risk management is intended to mitigate such losses by supplementing traditional control-based approaches to operational risk with risk measures, tools and disciplines that are risk-specific, consistently applied and utilized firmwide. Key themes are transparency of information, escalation of key issues and accountability for issue resolution.

The Firm's operational risk framework is supported by Phoenix, an internally designed operational risk software tool. Phoenix integrates the individual components of the operational risk management framework into a unified, web-based tool. Phoenix enhances the capture, reporting and analysis of operational risk data by enabling risk identification, measurement, monitoring, reporting and analysis to be done in an integrated manner, thereby enabling efficiencies in the Firm's monitoring and management of its operational risk.

For purposes of identification, monitoring, reporting and analysis, the Firm categorizes operational risk events as follows:

- Client service and selection
- Business practices
- Fraud, theft and malice
- Execution, delivery and process management
- Employee disputes
- Disasters and public safety
- Technology and infrastructure failures

Risk identification and measurement

Risk identification is the recognition of the operational risk events that management believes may give rise to operational losses. All businesses utilize the Firm's standard self-assessment process and supporting architecture as a dynamic risk management tool. The goal of the self-assessment process is for each business to identify the key operational risks specific to its environment and assess the degree to which it maintains appropriate controls. Action plans are developed for control issues identified, and businesses are held accountable for tracking and resolving these issues on a timely basis.

Risk monitoring

The Firm has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis, performed both at a line-of-business level and by risk-event type, enables identification of the causes associated with risk events faced by the businesses. Where available, the internal data can be supplemented with external data for comparative analysis with industry patterns. The data reported enables the Firm to back-test against self-assessment results. The Firm is a founding member of the Operational Riskdata eXchange Association, a not-for-profit industry association formed for the purpose of collecting operational loss data, sharing data in an anonymous form and benchmarking results back to members. Such information supplements the Firm's ongoing operational risk measurement and analysis.

Risk reporting and analysis

Operational risk management reports provide timely and accurate information, including information about actual operational loss levels and self-assessment results, to the lines of business and senior management. The purpose of these reports is to enable management to maintain operational risk at appropriate levels within each line of business, to escalate issues and to provide consistent data aggregation across the Firm's businesses and support areas.

Audit alignment

Internal Audit utilizes a risk-based program of audit coverage to provide an independent assessment of the design and effectiveness of key controls over the Firm's operations, regulatory compliance and reporting. This includes reviewing the operational risk framework, the effectiveness and accuracy of the business self-assessment process and the loss data collection and reporting activities.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

A firm's success depends not only on its prudent management of the liquidity, credit, market and operational risks that are part of its business risks, but equally on the maintenance among many constituents – clients, investors, regulators, as well as the general public – of a reputation for business practices of the highest quality. Attention to reputation always has been a key aspect of the Firm's practices, and maintenance of the Firm's reputation is the responsibility of everyone at the Firm. JPMorgan Chase bolsters this individual responsibility in many ways, including through the Firm's Code of Conduct, training, maintaining adherence to policies and procedures, and oversight functions that approve transactions. These oversight functions include a Conflicts Office, which examines wholesale transactions with the potential to create conflicts of interest for the Firm, and regional reputation risk review committees, which review certain transactions with clients, especially complex derivatives and structured finance transactions, that have the potential to affect adversely the Firm's reputation. These regional committees, whose members are senior representatives of businesses and control functions in the region, focus on the purpose and effect of the transactions from the client's point of view, with the goal that these transactions are not used to mislead investors or others.

Fiduciary risk management

The risk management committees within each line of business include in their mandate the oversight of the legal, reputational and, where appropriate, fiduciary risks in their businesses that may produce significant losses or reputational damage. The Fiduciary Risk Management function works with the relevant line-of-business risk committees with the goal of ensuring that businesses providing investment or risk management products or services that give rise to fiduciary duties to clients perform at the appropriate standard relative to their fiduciary relationship with a client. Of particular focus are the policies and practices that address a business' responsibilities to a client, including client suitability determination; disclosure obligations and communications; and performance expectations with respect to risk management products or services being provided. In this way, the relevant line-of-business risk committees, together with the Fiduciary Risk Management function, provide oversight of the Firm's efforts to monitor, measure and control the risks that may arise in the delivery of the products or services to clients that give rise to such fiduciary duties, as well as those stemming from any of the Firm's fiduciary responsibilities to employees under the Firm's various employee benefit plans.

CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

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

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the wholesale and consumer loan portfolios, as well as the Firm's portfolio of lending-related commitments. The allowance for credit losses is intended to adjust the value of the Firm's loan assets for probable credit losses as of the balance sheet date. For further discussion of the methodologies used in establishing the Firm's allowance for credit losses, see Note 15 on pages 178–180 of this Annual Report.

Wholesale loans and lending-related commitments

The methodology for calculating both the allowance for loan losses and the allowance for lending-related commitments involves significant judgment. First and foremost, it involves the early identification of credits that are deteriorating. Second, it involves judgment in establishing the inputs used to estimate the allowances. Third, it involves management judgment to evaluate certain macroeconomic factors, underwriting standards, and other relevant internal and external factors affecting the credit quality of the current portfolio and to refine loss factors to better reflect these conditions.

The Firm uses a risk-rating system to determine the credit quality of its wholesale loans. Wholesale loans are reviewed for information affecting the obligor's ability to fulfill its obligations. In assessing the risk rating of a particular loan, among the factors considered are the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength and the industry and geography in which the obligor operates. These factors are based upon an evaluation of historical and current information, and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could impact the risk rating assigned by the Firm to that loan.

The Firm applies its judgment to establish loss factors used in calculating the allowances. Wherever possible, the Firm uses independent, verifiable data or the Firm's own historical loss experience in its models for estimating the allowances. Many factors can affect estimates of loss, including volatility of loss given default, probability of default and rating migrations. Consideration is given as to whether the loss estimates should be calculated as an average over the entire credit cycle or at a particular point in the credit cycle, as well as to which external data should be used and when they should be used. Choosing data that are not reflective of the Firm's specific loan portfolio characteristics could also affect loss estimates. The application of different inputs would change the amount of the allowance for credit losses determined appropriate by the Firm.

Management also applies its judgment to adjust the loss factors derived, taking into consideration model imprecision, external factors and economic events that have occurred but are not yet reflected in the loss factors by establishing ranges using historical experience of both loss given default and probability of default. Factors related to concentrated and deteriorating industries also are incorporated where relevant. These estimates are based upon management's view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards and other relevant internal and external factors affecting the credit quality of the current portfolio.

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

Consumer loans and lending-related commitments

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

The allowance is calculated by applying statistical loss factors and other risk indicators to pools of loans with similar risk characteristics to arrive at an estimate of incurred losses in the portfolio. Management applies judgment to the statistical loss estimates for each loan portfolio category using delinquency trends and other risk characteristics to estimate charge-offs. Management utilizes additional statistical methods and considers portfolio and collateral valuation trends to review the appropriateness of the primary statistical loss estimate.

The statistical calculation is adjusted to take into consideration model imprecision, external factors and current economic events that have occurred but are not yet reflected in the factors used to derive the statistical calculation, and is accomplished in part by analyzing the historical loss experience for each major product segment. In the current economic environment, it is difficult to predict whether historical loss experience is indicative of future loss levels. Management applies judgment within estimated ranges in determining this adjustment, taking into account the numerous uncertainties inherent in the current economic environment. The estimated ranges and the determination of the appropriate point within the range are based upon management's judgment related to uncertainties associated with current macroeconomic and political conditions, quality of underwriting standards, and other relevant internal and external factors affecting the credit quality of the portfolio.

Fair value of financial instruments, MSRs and commodities inventory

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

On January 1, 2007, the Firm adopted SFAS 157, which established a three-level valuation hierarchy for disclosure of fair value measurements. An instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Therefore, for instruments classified in levels 1 and 2 of the hierarchy, where inputs are principally based on observable market data, there is less judgment applied in arriving at a fair value measurement. For instruments classified within level 3 of the hierarchy, judgments are more significant. The Firm reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels.

Assets carried at fair value

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

December 31,	2008		2007	
(in billions)	Total at fair value	Level 3 total	Total at fair value	Level 3 total
Trading debt and equity securities[(a)]	**$ 347.4**	**$ 41.4**	$ 414.3	$ 24.1
Derivative receivables – gross	**2,741.7**	**53.0**	909.8	20.2
Netting adjustment	**(2,579.1)**	**—**	(832.7)	—
Derivative receivables – net	**162.6**	**53.0**[(e)]	77.1	20.2[(e)]
AFS Securities	**205.9**	**12.4**	85.4	0.1
Loans	**7.7**	**2.7**	8.7	8.4
MSRs	**9.4**	**9.4**	8.6	8.6
Private equity investments	**6.9**	**6.4**	7.2	6.8
Other[(b)]	**46.5**	**5.0**	34.2	3.1
Total assets carried at fair value on a recurring basis	**786.4**	**130.3**	635.5	71.3
Total assets carried at fair value on a nonrecurring basis[(c)]	**11.0**	**4.3**	14.9	11.8
Total assets carried at fair value	**$ 797.4**	**$ 134.6**[(f)]	$ 650.4	$ 83.1
Less: level 3 assets for which the Firm does not bear economic exposure[(d)]		**21.2**		
Total level 3 assets for which the Firm bears economic exposure		**$ 113.4**		
Total Firm assets	**$ 2,175.1**		$ 1,562.1	
Level 3 assets as a percentage of total Firm assets		**6%**		5%
Level 3 assets for which the Firm bears economic exposure as a percentage of total Firm assets		**5**		
Level 3 assets as a percentage of total Firm assets at fair value		**17**		13
Level 3 assets for which the Firm bears economic exposure as a percentage of total assets at fair value		**14**		

(a) Includes physical commodities carried at the lower of cost or fair value.
(b) Includes certain securities purchased under resale agreements, certain securities borrowed and certain other investments.
(c) Predominantly consists of debt financing and other loan warehouses held-for-sale and other assets.
(d) Balances for which the Firm did not bear economic exposure at December 31, 2007, were not significant.
(e) The Firm does not allocate the FIN 39 netting adjustment across the levels of the fair value hierarchy. As such, the level 3 derivative receivables balance included in the level 3 total balance is reported gross of any netting adjustments.
(f) Included in the table above are $95.1 billion of level 3 assets, consisting of recurring and nonrecurring assets, carried by IB at December 31, 2008. This includes $21.2 billion of assets for which the Firm serves as an intermediary between two parties and does not bear economic exposure.

Valuation

For instruments classified within level 3 of the hierarchy, judgments may be significant. In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, due to the lack of observability of significant inputs, management must assess all relevant empirical data in deriving valuation inputs including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Finally, management judgment must be applied to assess the appropriate level of valuation adjustments to reflect counterparty credit quality, the Firm's creditworthiness, constraints on liquidity and unobservable parameters, where relevant. The judgments made are typically affected by the type of product and its specific contractual terms and the level of liquidity for the product or within the market as a whole.

Imprecision in estimating unobservable market inputs can impact the amount of revenue or loss recorded for a particular position. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value for individual financial instruments, see Note 4 on pages 141–145 of this Annual Report. In addition, for a further discussion of the significant judgments and estimates involved in the determination of the Firm's mortgage-related exposures, see "Mortgage-related exposures carried at fair value" in Note 4 on pages 151–153 of this Annual Report.

Purchased credit-impaired loans

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

Determining which loans are included in the scope of SOP 03-3 is highly subjective and requires the application of significant judgment. In the Washington Mutual transaction, consumer loans with certain attributes (e.g., higher loan-to-value ratios, borrowers with lower FICO scores, delinquencies) were determined to be credit-impaired, provided that those attributes arose subsequent to loan origination. Wholesale loans were determined to be credit-impaired if they met the definition of an impaired loan under SFAS 114 at the acquisition date. Applying SOP 03-3 to the appropriate population of loans is important because loans that are not within the scope of SOP 03-3 are subject to different accounting standards. Choosing different attributes in making the management assessment of which loans were credit-impaired and within the scope of SOP 03-3 could have resulted in a different (i.e., larger or smaller) population of loans deemed credit-impaired at the transaction date.

Loans determined to be within the scope of SOP 03-3 are initially recorded at fair value. The Firm has estimated the fair value of these loans by discounting the cash flows expected to be collected at a market observable discount rate, when available, adjusted for factors that a market participant would consider in determining fair value. The initial estimate of cash flows expected to be collected entails significant management judgment, as such cash flows were derived from assumptions such as default rates, loss severities and the amount and timing of prepayments. Particularly in the current economic environment, estimating the initial fair value of these loans was highly subjective. The application of different assumptions by management would have resulted in different initial fair values.

The Firm has elected to aggregate the purchased credit-impaired consumer loans into pools of loans with common risk characteristics. Significant judgment is required in evaluating whether individual loans have common risk characteristics for purposes of establishing these pools. Each resulting pool is considered one loan with a composite interest rate and estimation of cash flows expected to be collected for purposes of applying SOP 03-3 subsequent to acquisition. The process of estimating cash flows expected to be collected subsequent to acquisition is both subjective and judgmental and may have an impact on the recognition and measurement of impairment losses and/or interest income. In addition, the decision to pool these loans and the manner in which they were pooled may have an impact on the recognition, measurement and/or classification of interest income and/or impairment losses.

Goodwill impairment

Under SFAS 142, goodwill must be allocated to reporting units and tested for impairment. SFAS 142 defines reporting units of an entity as either SFAS 131 operating segments (i.e., one level below the SFAS 131 reportable segments as disclosed in Note 37 of this Annual Report) or one level below the SFAS 131 operating segments. JPMorgan Chase generally determined its reporting units to be one level below the six major business segments identified in Note 37 on pages 226–227 of this Annual Report, plus Private Equity which is included in Corporate. This determination was based on how the Firm's operating segments are managed and how they are reviewed by the Firm's Operating Committee.

The Firm tests goodwill for impairment at least annually or more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. The first part of the test is a comparison, at the reporting unit level, of the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared with the carrying amount of goodwill recorded in the Firm's financial records. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, then the Firm would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against net income.

If the fair value of the reporting unit in the first part of the test is determined to be greater than the carrying amount of the reporting unit including goodwill, then and in accordance with SFAS 142 goodwill is deemed not to be impaired. During the fourth quarter of 2008, the Firm performed its annual goodwill impairment testing and concluded that the fair value of each of its reporting units was in excess of their respective carrying values including goodwill. Accordingly, the Firm concluded that its goodwill was not impaired at December 31, 2008.

The Firm considers discounted cash flow models to be its primary method of determining the fair value of its reporting units. The models project levered cash flows for five years and use the perpetuity growth method to calculate terminal values. The first year's projected cash flows are based on the reporting units' internal budget forecasts for the upcoming calendar year (which are reviewed with the Operating Committee of the Firm). To assess the reasonableness of the valuations derived from the discounted cash flow models, the Firm also analyzes market-based trading and transaction multiples, where available. These trading and transaction comparables are used to assess the reasonableness of the estimated fair values, as observable market information is generally not available.

JPMorgan Chase's stock price, consistent with stock prices in the broader financial services sector, declined significantly during the last half of 2008. JPMorgan Chase's market capitalization fell below its recorded book value, principally during the fourth quarter of 2008. Although the Firm believes it is reasonable to conclude that market capitalization could be an indicator of fair value over time, the Firm is of the view that short-term fluctuations in market capitalization do not reflect the long-term fair value of its reporting units.

Management applies significant judgment when determining the fair value of its reporting units. Imprecision in estimating the future cash flows of the Firm's reporting units as well as the appropriate cost of equity used to discount those cash flows can impact their estimated fair values. If JPMorgan Chase's common stock were to trade at the level it was at the end of 2008 over a sustained period and weak economic market conditions persist, these factors could indicate that the long-term earnings potential of the Firm's reporting units could be adversely affected – which could result in supplemental impairment testing during interim reporting periods and possible impairment of goodwill in the future.

Income taxes

JPMorgan Chase is subject to the income tax laws of the various jurisdictions in which it operates, including U.S. federal, state and non-U.S. jurisdictions. These laws are often complex and may be subject to different interpretations. To determine the financial statement impact of its accounting for income taxes, including the provision for income tax expense and its unrecognized tax benefits, JPMorgan Chase must make assumptions and judgments about how to interpret and apply these complex tax laws to numerous transactions and business events. Disputes over interpretations with the various taxing authorities may be settled upon audit or administrative appeals. In some cases, the Firm's interpretations of tax laws may be subject to adjudication by the court systems of the tax jurisdictions in which it operates. JPMorgan Chase regularly reviews whether the Firm may be assessed additional income taxes as a result of the resolution of these matters, and the Firm records additional reserves as appropriate.

The Firm does not anticipate that current market events will adversely impact the realizability of its deferred tax assets.

The Firm adjusts its unrecognized tax benefits as necessary when additional information becomes available. The reassessment of JPMorgan Chase's unrecognized tax benefits may have a material impact on its effective tax rate in the period in which it occurs.

ACCOUNTING AND REPORTING DEVELOPMENTS

Derivatives netting – amendment of FASB Interpretation No. 39

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

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

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

Fair value measurements – written loan commitments

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

Business combinations/noncontrolling interests in consolidated financial statements

In December 2007, the FASB issued SFAS 141R and SFAS 160, which amend the accounting and reporting of business combinations, as well as noncontrolling (i.e., minority) interests. For JPMorgan Chase, SFAS 141R is effective for business combinations that close on or after January 1, 2009. SFAS 160 is effective for JPMorgan Chase for fiscal years beginning on or after December 15, 2008.

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

SFAS 160 requires that noncontrolling interests be accounted for and presented as equity, rather than as a liability or mezzanine equity. Changes to how the income statement is presented will also result. SFAS 160 presentation and disclosure requirements are to be applied retrospectively. The adoption of this pronouncement is not expected to have a material impact on the Firm's Consolidated Balance Sheets, results of operations or ratios.

Accounting for transfers of financial assets and repurchase financing transactions

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

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

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

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

In June 2008, the FASB issued FSP EITF 03-6-1, which addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Adoption of FSP EITF 03-6-1 does not affect net income or results of operations but may result in a reduction of basic and/or diluted earnings per share in certain periods.

Disclosures about credit derivatives and certain guarantees

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4. The FSP requires enhanced disclosures about credit derivatives and guarantees to address the potential adverse effects of changes in credit risk on the financial position, financial performance and cash flows of the sellers of these instruments. The FSP is effective for reporting periods ending after November 15, 2008, with earlier application permitted. The disclosures required by this FSP are incorporated in this Annual Report. FSP FAS 133-1 and FIN 45-4 only affects JPMorgan Chase's disclosures of credit derivatives and guarantees and not its Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows.

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

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

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

The FASB has been deliberating certain amendments to both SFAS 140 and FIN 46R that may impact the accounting for transactions that involve QSPEs and VIEs. Among other things, the FASB is proposing to eliminate the concept of QSPEs from both SFAS 140 and FIN 46R and make key changes to the consolidation model of FIN 46R that will change the method of determining which party to a VIE should consolidate the VIE. A final standard is expected to be issued in the second quarter of 2009, with an expected effective date in January 2010. Entities expected to be impacted include revolving securitization entities, bank-administered asset-backed commercial paper conduits, and certain mortgage securitization entities. The Firm is monitoring the FASB's deliberations on these proposed amendments and continues to evaluate their potential impact. The ultimate impact of the Firm will depend upon the guidance issued by the FASB in a final statement amending SFAS 140 and FIN 46R.

Determining the fair value of an asset when the market for that asset is not active

In October 2008, the FASB issued FSP FAS 157-3, which clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial instrument when the market for that financial asset is not active. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. The application of this FSP did not have an impact on the Firm's Consolidated Balance Sheets or results of operations.

Disclosure about transfers of financial assets and interests in VIEs

On December 11, 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, which requires additional disclosures relating to transfers of financial assets and interests in securitization entities and other variable interest entities. The purpose of this FSP is to require improved disclosure by public enterprises prior to the effective dates of the proposed amendments to SFAS 140 and FIN 46(R). The effective date for the FSP is for reporting periods (interim and annual) beginning with the first reporting period that ends after December 15, 2008. The disclosures required by this FSP are incorporated in this Annual Report. FSP SFAS 140-4 and FIN 46(R)-8 only affects JPMorgan Chase's disclosure of transfers of financial assets and interests in securitization entities and other variable interest entities and not its Consolidated Balance Sheets, Consolidated Statements of Income or Consolidated Statements of Cash Flows.

Employers' disclosures about postretirement benefit plan assets

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

Amendments to the impairment guidance of EITF Issue No. 99-20

In January 2009, the FASB issued FSP EITF 99-20-1, which amends the impairment guidance in EITF 99-20 to make the investment security impairment model in EITF 99-20 more consistent with the securities impairment model in SFAS 115. FSP EITF 99-20-1 removes the requirement that a holder's best estimate of cash flows be based exclusively upon those that a market participant would use and allows for reasonable judgment to be applied in considering whether an adverse change in cash flows has occurred based on all available information relevant to the collectibility of the security. FSP EITF 99-20-1 is effective for interim and annual periods ending after December 15, 2008, and therefore the Firm has adopted FSP EITF 99-20-1 as of December 31, 2008. The adoption of this FSP did not have a material impact on the Firm's Consolidated Balance Sheets or results of operations.

NONEXCHANGE-TRADED COMMODITY DERIVATIVE CONTRACTS AT FAIR VALUE

In the normal course of business, JPMorgan Chase trades nonexchange-traded commodity derivative contracts. To determine the fair value of these contracts, the Firm uses various fair value estimation techniques, primarily based upon internal models with significant observable market parameters. The Firm's nonexchange-traded commodity derivative contracts are primarily energy-related.

The following table summarizes the changes in fair value for nonexchange-traded commodity derivative contracts for the year ended December 31, 2008.

For the year ended December 31, 2008 (in millions)	Asset position	Liability position
Net fair value of contracts outstanding at January 1, 2008	$ 8,090	$ 5,809
Effect of legally enforceable master netting agreements	26,108	25,957
Gross fair value of contracts outstanding at January 1, 2008	34,198	31,766
Contracts realized or otherwise settled	(12,773)	(12,802)
Fair value of new contracts	40,916	39,194
Changes in fair values attributable to changes in valuation techniques and assumptions	—	—
Other changes in fair value	(6,818)	(4,293)
Gross fair value of contracts outstanding at December 31, 2008	55,523	53,865
Effect of legally enforceable master netting agreements	(48,091)	(48,726)
Net fair value of contracts outstanding at December 31, 2008	$ 7,432	$ 5,139

The following table indicates the schedule of maturities of nonexchange-traded commodity derivative contracts at December 31, 2008.

December 31, 2008 (in millions)	Asset position	Liability position
Maturity less than 1 year	$ 27,282	$ 24,381
Maturity 1–3 years	22,463	20,047
Maturity 4–5 years	3,954	3,609
Maturity in excess of 5 years	1,824	5,828
Gross fair value of contracts outstanding at December 31, 2008	55,523	53,865
Effects of legally enforceable master netting agreements	(48,091)	(48,726)
Net fair value of contracts outstanding at December 31, 2008	$ 7,432	$ 5,139

FORWARD-LOOKING STATEMENTS

From time to time, the Firm has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipate," "target," "expect," "estimate," "intend," "plan," "goal," "believe," or other words of similar meaning. Forward-looking statements provide JPMorgan Chase's current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase's disclosures in this Annual Report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the SEC. In addition, the Firm's senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

All forward-looking statements are, by their nature, subject to risks and uncertainties, many of which are beyond the Firm's control. JPMorgan Chase's actual future results may differ materially from those set forth in its forward-looking statements. While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ from those in the forward-looking statements.

- local, regional and international business, economic and political conditions and geopolitical events;
- changes in trade, monetary and fiscal policies and laws;
- securities and capital markets behavior, including changes in market liquidity and volatility;
- changes in investor sentiment or consumer spending or saving behavior;
- ability of the Firm to manage effectively its liquidity;
- credit ratings assigned to the Firm or its subsidiaries;
- the Firm's reputation;
- ability of the Firm to deal effectively with an economic slowdown or other economic or market difficulty;
- technology changes instituted by the Firm, its counterparties or competitors;
- mergers and acquisitions, including the Firm's ability to integrate acquisitions;
- ability of the Firm to develop new products and services;
- acceptance of the Firm's new and existing products and services by the marketplace and the ability of the Firm to increase market share;
- ability of the Firm to attract and retain employees;
- ability of the Firm to control expense;
- competitive pressures;
- changes in the credit quality of the Firm's customers and counterparties;
- adequacy of the Firm's risk management framework;
- changes in laws and regulatory requirements or adverse judicial proceedings;
- changes in applicable accounting policies;
- ability of the Firm to determine accurate values of certain assets and liabilities;
- occurrence of natural or man-made disasters or calamities or conflicts, including any effect of any such disasters, calamities or conflicts on the Firm's power generation facilities and the Firm's other commodity-related activities;
- the other risks and uncertainties detailed in Part 1, Item 1A: Risk Factors in the Firm's Annual Report on Form 10-K for the year ended December 31, 2008.

Any forward-looking statements made by or on behalf of the Firm speak only as of the date they are made, and JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. The reader should, however, consult any further disclosures of a forward-looking nature the Firm may make in any subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K.