

J P MORGAN CHASE & CO

Form 10-Q

August 11, 2008

Table of Contents

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

For the Quarterly Period Ended June 30, 2008 Commission file number 1-5805
JPMORGAN CHASE & CO.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-2624428
(I.R.S. Employer
Identification No.)

270 Park Avenue, New York, New York
(Address of principal executive offices)

10017
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of common stock outstanding as of July 31, 2008: 3,437,039,645

FORM 10-Q
TABLE OF CONTENTS

		Page
Part I Financial information		
Item 1	Consolidated Financial Statements JPMorgan Chase & Co.:	
	<u>Consolidated Statements of Income (unaudited) for the three and six months ended June 30, 2008 and 2007</u>	76
	<u>Consolidated Balance Sheets (unaudited) at June 30, 2008, and December 31, 2007</u>	77
	<u>Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income (unaudited) for the six months ended June 30, 2008 and 2007</u>	78
	<u>Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2008 and 2007</u>	79
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	80
	<u>Consolidated Average Balance Sheets, Interest and Rates (unaudited) for the three and six months ended June 30, 2008 and 2007</u>	128
	<u>Glossary of Terms and Line of Business Metrics</u>	130
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations:	
	<u>Consolidated Financial Highlights</u>	3
	<u>Introduction</u>	4
	<u>Executive Overview</u>	7
	<u>Consolidated Results of Operations</u>	11
	<u>Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures</u>	15
	<u>Business Segment Results</u>	18
	<u>Balance Sheet Analysis</u>	45
	<u>Capital Management</u>	48
	<u>Off-Balance Sheet Arrangements and Contractual Cash Obligations</u>	51
	<u>Risk Management</u>	53
	<u>Supervision and Regulation</u>	72

<u>Critical Accounting Estimates Used by the Firm</u>	72
<u>Accounting and Reporting Developments</u>	74
<u>Forward-Looking Statements</u>	135
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	136
<u>Item 4 Controls and Procedures</u>	136
<u>Part II Other information</u>	
<u>Item 1 Legal Proceedings</u>	136
<u>Item 1A Risk Factors</u>	139
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	140
<u>Item 3 Defaults Upon Senior Securities</u>	140
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	140
<u>Item 5 Other Information</u>	140
<u>Item 6 Exhibits</u>	140

EX-31.1: CERTIFICATION

EX-31.2: CERTIFICATION

EX-32: CERTIFICATION

Table of Contents

JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

	Six months					
(dollars in millions, except per share, headcount and ratio data)						
For the period ended,	2Q08	1Q08	4Q07	3Q07	2Q07	2008
Income statement data						
Net revenue	\$ 10,105	\$ 9,231	\$ 10,161	\$ 9,199	\$ 12,740	\$ 19,336
Net income	8,294	7,659	7,223	6,913	6,168	15,953
Net revenue	18,399	16,890	17,384	16,112	18,908	35,289
Provision for credit losses	3,455	4,424	2,542	1,785	1,529	7,879
Operating expense	12,177	8,931	10,720	9,327	11,028	21,108
Income before income tax expense	2,767	3,535	4,122	5,000	6,351	6,302
Income tax expense	764	1,162	1,151	1,627	2,117	1,926
Net income	\$ 2,003	\$ 2,373	\$ 2,971	\$ 3,373	\$ 4,234	\$ 4,376
Per share						
Net income per share: Basic	\$ 0.56	\$ 0.70	\$ 0.88	\$ 1.00	\$ 1.24	\$ 1.26
Dividends declared per share	0.54	0.68	0.86	0.97	1.20	1.22
Book value per share	0.38	0.38	0.38	0.38	0.38	0.76
Price per share	37.02	36.94	36.59	35.72	35.08	
Shares outstanding						
Basic	3,426	3,396	3,367	3,376	3,415	3,411
Weighted average	3,531	3,495	3,472	3,478	3,522	3,513
Shares at period end	3,436	3,401	3,367	3,359	3,399	
Book value per share ^(a)	\$ 49.95	\$ 49.29	\$ 48.02	\$ 50.48	\$ 53.25	\$ 49.95
Market value per share	33.96	36.01	40.15	42.16	47.70	33.96
Dividend yield	34.31	42.95	43.65	45.82	48.45	
Capitalization	117,881	146,066	146,986	153,901	164,659	
Ratios						
Return on common equity (ROE)	6%	8%	10%	11%	14%	7%
Return on assets (ROA)	0.48	0.61	0.77	0.91	1.19	0.54
Efficiency ratio	66	53	62	58	58	60
Capital ratio	9.2	8.3	8.4	8.4	8.4	
Asset ratio	13.4	12.5	12.6	12.5	12.0	
Coverage ratio	6.4	5.9	6.0	6.0	6.2	
Balance sheet data (period-end)						
Assets	\$ 531,997	\$ 485,280	\$ 491,409	\$ 453,711	\$ 450,546	
Loans	119,173	101,647	85,450	97,706	95,984	
Equity	538,029	537,056	519,374	486,320	465,037	
Liabilities	1,775,670	1,642,862	1,562,147	1,479,575	1,458,042	
Debt	722,905	761,626	740,728	678,091	651,370	
Capital	260,192	189,995	183,862	173,696	159,493	

stockholders equity	127,176	125,627	123,221	119,978	119,211	
stockholders equity	133,176	125,627	123,221	119,978	119,211	
total	195,594	182,166	180,667	179,847	179,664	
Quality metrics						
allowance for credit losses	\$ 13,932	\$ 12,601	\$ 10,084	\$ 8,971	\$ 8,399	
allowance for credit losses on performing assets ^(b)	6,233	5,143	3,933	3,009	2,423	
allowance for loan losses to total loans ^(c)	2.57%	2.29%	1.88%	1.76%	1.71%	
charge-offs	\$ 2,130	\$ 1,906	\$ 1,429	\$ 1,221	\$ 985	\$ 4,036
charge-off rate ^(c)	1.67%	1.53%	1.19%	1.07%	0.90%	1.60%
net charge-off (recovery) rate ^(c)	0.08	0.18	0.05	0.19	(0.07)	0.13
Card net charge-off rate	4.98	4.37	3.89	3.64	3.62	4.68

(a) *J P M o r g a n C h a s e & C o 's common stock is listed and traded on the New York Stock Exchange, the London Stock Exchange Limited and the Tokyo Stock Exchange. The high, low and closing prices of J P M o r g a n C h a s e & C o 's common stock are from The New York Stock Exchange Composite Transaction Tape.*

(b) *E x c l u d e s p u r c h a s e d h e l d - f o r - s a l e w h o l e s a l e l o a n s .*

(c) *E n d - o f - p e r i o d a n d a v e r a g e l o a n s a c c o u n t e d f o r a t f a i r v a l u e a n d l o a n s h e l d - f o r - s a l e w e r e e x c l u d e d w h e n c a l c u l a t i n g t h e a l l o w a n c e c o v e r a g e r a t i o s .*

*a n d n e t
charge-off rates,
respectively.*

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This section of the Form 10-Q provides management's discussion and analysis (MD&A) of the financial condition and results of operations for JPMorgan Chase. See the Glossary of Terms on pages 130-133 for definitions of terms used throughout this Form 10-Q. The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase's results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking Statements on page 135 and Item 1A: Risk Factors on page 139 of this Form 10-Q), as well as in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Annual Report or 2007 Form 10-K), including Part I, Item 1A: Risk factors, and the JPMorgan Chase quarterly report on Form 10-Q for the quarter ended March 31, 2008, including Part II, Item 1A thereof, to which reference is hereby made.

INTRODUCTION

JPMorgan Chase & Co. (JPMorgan Chase or the Firm), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America (U.S.), with \$1.8 trillion in assets, \$133.2 billion in total stockholders' equity and operations in more than 60 countries. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the JPMorgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

JPMorgan Chase's principal bank subsidiaries are JPMorgan Chase Bank, National Association (JPMorgan Chase Bank, N.A.), a national banking association with branches in 17 states; and Chase Bank USA, National Association (Chase Bank USA, N.A.), a national bank that is the Firm's credit card issuing bank. JPMorgan Chase's principal nonbank subsidiaries are J.P. Morgan Securities Inc. and Bear, Stearns & Co., Inc. (Bear Stearns & Co.), the Firm's U.S. investment banking firms, and Bear, Stearns International Limited, a full service broker-dealer based in London, England. The Firm plans to merge J.P. Morgan Securities Inc. and Bear Stearns & Co. on or about October 1, 2008.

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

Investment Bank

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

Retail Financial Services

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

Card Services

With more than 157 million cards in circulation and more than \$155 billion in managed loans, Card Services (CS) is

one of the nation's largest credit card issuers. Customers used Chase cards to meet \$179 billion worth of their spending needs in the six months ended June 30, 2008.

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

Table of Contents

Chase Paymentech Solutions, LLC, a joint venture between JPMorgan Chase and First Data Corporation, is a processor of MasterCard and Visa payments, which handled more than 10 billion transactions in the six months ended June 30, 2008. On May 27, 2008, the termination of Chase Paymentech Solutions was announced. The dissolution is expected to be completed by year-end 2008 and JPMorgan Chase will retain approximately 51% of the business under the Chase Paymentech name.

Commercial Banking

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

Treasury & Securities Services

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

Asset Management

With assets under supervision of \$1.6 trillion, Asset Management (AM) is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including both money market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

OTHER BUSINESS EVENTS**Merger with The Bear Stearns Companies Inc.**

Effective May 30, 2008, BSC Merger Corporation, a wholly-owned subsidiary of JPMorgan Chase, merged with The Bear Stearns Companies Inc. (Bear Stearns) pursuant to the Agreement and Plan of Merger, dated as of March 16, 2008, as amended March 24, 2008, and Bear Stearns became a wholly-owned subsidiary of JPMorgan Chase (the Merger). The Merger provides the Firm with a leading global prime brokerage platform; strengthens the Firm's equities and asset management businesses; enhances capabilities in mortgage origination, securitization and servicing; and expands the platform of the Firm's energy business. The Merger is being accounted for under the purchase method of accounting, which requires that the assets and liabilities of Bear Stearns be fair valued. The total purchase price to complete the Merger was \$1.5 billion.

The Merger was accomplished through a series of transactions that were reflected as step acquisitions in accordance with SFAS 141. On April 8, 2008, pursuant to the share exchange agreement, JPMorgan Chase acquired 95 million newly issued shares of Bear Stearns common stock (or 39.5% of Bear Stearns common stock after giving effect to the issuance) for 21 million shares of JPMorgan Chase common stock. Further, between March 24, 2008, and May 12, 2008, JPMorgan Chase acquired approximately 24 million shares of Bear Stearns common stock in the open market at an average purchase price of \$12.37 per share. The share exchange and cash purchase transactions resulted in JPMorgan Chase owning approximately 49.4% of Bear Stearns common stock immediately prior to consummation of the Merger. Finally, on May 30, 2008, JPMorgan Chase completed the Merger, and as a result of the Merger, each outstanding share of Bear Stearns common stock (other than shares then held by JPMorgan Chase) was converted into the right to receive 0.21753 shares of common stock of JPMorgan Chase. Also, on May 30, 2008, the shares of common stock that JPMorgan Chase and Bear Stearns acquired from each other in the share exchange transaction were cancelled. From April 8, 2008, through May 30, 2008, JPMorgan Chase accounted for the investment in Bear

Stearns under the equity method of accounting in accordance with APB 18. During this period, JPMorgan Chase recorded reductions to its investment in Bear Stearns representing its share of Bear Stearns net losses, which was recorded in other income and accumulated other comprehensive income.

Table of Contents

In conjunction with the Merger, in June 2008, the Federal Reserve Bank of New York (the FRBNY) took control, through a limited liability company (LLC) formed for this purpose, of a portfolio of \$30 billion in assets acquired from Bear Stearns, based on the value of the portfolio as of March 14, 2008. The assets of the LLC were funded by a \$28.85 billion, term loan from the FRBNY, and a \$1.15 billion, subordinated note from JPMorgan Chase. The JPMorgan Chase note is subordinated to the FRBNY loan and will bear the first \$1.15 billion of any losses of the portfolio. Any remaining assets in the portfolio after repayment of the FRBNY loan, the JPMorgan Chase note and the expenses of the LLC, will be for the account of the FRBNY.

For further discussion of the Merger, see Note 2 on pages 80 83 of this Form 10-Q.

Purchase of additional interest in Highbridge Capital Management

In January 2008, JPMorgan Chase purchased an additional equity interest in Highbridge Capital Management, LLC (Highbridge). As a result, the Firm owns 77.5% of Highbridge as of June 30, 2008. Highbridge is a manager of hedge funds with \$28 billion of assets under management at June 30, 2008. The Firm acquired a majority interest in Highbridge in 2004.

Table of Contents**EXECUTIVE OVERVIEW**

This overview of management's discussion and analysis highlights selected information and may not contain all of the information that is important to readers of this Form 10-Q. For a complete description of events, trends and uncertainties, as well as the capital, liquidity, credit and market risks, and the critical accounting estimates affecting the Firm and its various lines of business, this Form 10-Q should be read in its entirety.

Financial performance of JPMorgan Chase

(in millions, except per share and ratio data)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Selected income statement data						
Total net revenue	\$ 18,399	\$ 18,908	(3)%	\$ 35,289	\$ 37,876	(7)%
Provision for credit losses	3,455	1,529	126	7,879	2,537	211
Total noninterest expense	12,177	11,028	10	21,108	21,656	(3)
Net income	2,003	4,234	(53)	4,376	9,021	(51)
Earnings per share diluted	\$ 0.54	\$ 1.20	(55)%	\$ 1.22	\$ 2.55	(52)%
Return on common equity	6%	14%		7%	16%	

Business overview

As previously noted, on May 30, 2008, the Firm completed the merger with Bear Stearns. The Merger created an expanded platform to better serve institutional clients, with new capabilities in prime brokerage and clearing and improved strength in equities, mortgage trading, commodities and asset management. The Firm has made substantial progress towards full integration of Bear Stearns with the Firm's operations and in significantly reducing risk positions. The Firm reported 2008 second-quarter net income of \$2.0 billion, or \$0.54 per share, compared with net income of \$4.2 billion, or \$1.20 per share, for the second quarter of 2007. Return on common equity for the quarter was 6%, compared with 14% in the prior year. Results in the second quarter of 2008 included a net loss of \$540 million (after-tax) related to the merger with Bear Stearns. Excluding these merger-related items, net income would have been \$2.5 billion. Additional factors contributing to the decline in net income from the second quarter of 2007 were an increase in the provision for credit losses reflecting higher estimated losses and an increase in the allowance for credit losses, higher total noninterest expense and lower total net revenue. Total net revenue for the second quarter of 2008 reflected markdowns on legacy leveraged loans and certain mortgage-related positions in the Investment Bank, lower levels of private equity gains and lower investment banking fees offset partially by an increase in net interest income. The provision for credit losses in the second quarter of 2008 reflected increases in the allowance for credit losses predominantly related to subprime and prime mortgage, wholesale and credit card loans, as well as for higher estimated losses across all home-lending products. The increase in total noninterest expense for the quarter was driven by higher compensation expense and the effect of the merger with Bear Stearns (including merger-related costs). Net income for the first six months of 2008 was \$4.4 billion, or \$1.22 per share, compared with net income of \$9.0 billion, or \$2.55 per share, for the first six months of 2007. Return on common equity for the first six months of 2008 was 7%, compared with 16% for the same period in 2007. The lower results in the first half of 2008 were due to the same drivers highlighted for the second quarter: significantly higher credit provisions, markdowns on legacy leveraged loans and certain mortgage-related positions, lower private equity gains and the effect of the Bear Stearns merger, partially offset by lower total noninterest expense and higher net interest income. The increase in the provision for credit losses in the first six months of 2008 was the result of the same drivers as those highlighted for the second quarter of 2008, plus a significant increase in the allowance for home equity credit losses. Total noninterest expense for the first six months of 2008 declined compared to the prior year due to lower compensation expense. Although the U.S. economy strengthened modestly in the second quarter of 2008, partly in response to fiscal stimulus actions, the negative effects of the credit market turmoil, declining housing prices and rising energy prices remained severe. Labor markets remained weak as unemployment climbed to 5.5% by the end of the quarter up from 4.6% in the prior-year quarter and 5.1% in the first quarter of 2008. Financial markets remained under considerable stress and

funding markets continued to be affected by credit concerns. The S&P 500 stock index was down from both the end of the first quarter of 2008 and from the second quarter of 2007. Capital markets activity was generally consistent with the levels in the first quarter of 2008, but was down significantly compared with the levels in the first half of 2007. The Federal Reserve reduced the federal funds rate by 25 basis points in the quarter to 2.0%, a total reduction of 225 basis points year-to-date in 2008, while also providing increased term liquidity through the Primary Dealer Credit Facility. The global economy in the second quarter evolved along two different paths: the industrial economies

Table of Contents

continued to show signs of slowing growth, with some countries actually contracting in the quarter; conversely, developing economies continued to grow rapidly, although in many instances at slower rates than in 2007. During the second quarter of 2008, the Firm's performance was negatively affected by the overall global economic environment, as four of the Firm's six principal lines of business posted lower net income than in the second quarter of 2007. The decline in net income in the Investment Bank reflected additional markdowns related to legacy leveraged loans and mortgage-related exposures. Lower results in Retail Financial Services and Card Services were driven by a higher provision for credit losses in each business reflecting the weakening consumer credit environment and declining housing prices, resulting in higher estimated losses. Asset Management's net income decreased due to lower performance fees and the effects of lower markets. The lines of business did, however, continue to generate solid underlying business momentum, producing growth in balances, accounts and volumes. Commercial Banking and Treasury & Securities Services delivered record earnings and revenue, benefiting from continued double-digit growth in loans and deposits as well as increased client volumes, and RFS saw organic revenue growth as well. Notably the IB was ranked #1 for Global Investment Banking Fees and #1 for Global Debt, Equity and Equity-related volumes for the first half of 2008.

The discussion that follows highlights the current-quarter performance of each business segment, compared with the prior-year quarter, and discusses results on a managed basis unless otherwise noted. For more information about managed basis, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 15-18 of this Form 10-Q.

Investment Bank net income was lower compared with the second quarter of 2007, reflecting increased noninterest expense, lower total net revenue and a higher provision for credit losses. Total net revenue declined, driven largely by markdowns on legacy leveraged lending funded and unfunded commitments and certain mortgage-related positions. In addition, weak equities trading results and lower investment banking advisory fees contributed to the revenue decline. The decline was partially offset by strong performance in rates, currencies, emerging markets and credit trading, and strong client revenue in equities. The provision for credit losses reflected an increase in the allowance for credit losses due to the effect of a weakening credit environment. The increase in total noninterest expense was largely driven by higher compensation expense and the effect of the Merger.

Retail Financial Services net income declined due to a significant increase in the provision for credit losses, largely offset by revenue growth in all businesses within RFS. Higher total net revenue benefited from higher loan balances, higher net mortgage servicing revenue, higher mortgage production revenue, wider deposit spreads, increased deposit-related fees and higher deposit balances. The provision for credit losses increased substantially as housing price declines continued to result in significant increases in estimated losses, particularly for high loan-to-value home equity and mortgage loans. Total noninterest expense rose from the prior year, reflecting higher mortgage production and servicing expense, and investment in the retail distribution network.

Card Services net income decreased, driven by a higher provision for credit losses. Total managed net revenue increased slightly, as higher average managed loan balances, an increased level of fees and wider loan spreads were largely offset by the effect of higher revenue reversals associated with higher charge-offs. The managed provision for credit losses increased from the prior year due to a higher level of charge-offs and an increase in the allowance for loan losses reflecting higher estimated losses. Total noninterest expense was flat compared with the prior-year quarter.

Commercial Banking net income was a record, driven by record total net revenue and lower total noninterest expense. The increase in revenue resulted from double-digit growth in liability and loan balances and higher deposit-related fees, largely offset by spread compression in the liability and loan portfolios and a continued shift to narrower-spread liability products. The provision for credit losses largely reflected growth in loan balances. Total noninterest expense declined modestly compared with the prior year.

Treasury & Securities Services net income was a record, driven by record total net revenue, partially offset by higher total noninterest expense. Both Worldwide Securities Services and Treasury Services posted record revenue. Worldwide Securities Services revenue growth was driven by increased product usage by new and existing clients, wider spreads in securities lending and higher levels of market volatility in foreign exchange driven by recent market conditions. Partially offsetting these benefits was spread compression on liability products. Treasury Services revenue growth reflected higher liability balances and wider market-driven spreads as well as growth in electronic and trade

loan volumes. Total noninterest expense was up, reflecting higher expense related to business and volume growth, as well as continued investment in new product platforms.

Table of Contents

Asset Management net income decreased from the prior year reflecting lower revenue and higher noninterest expense. The decrease in revenue was driven by lower performance fees and the effect of lower markets. The lower revenue was predominantly offset by higher net asset flows, higher deposit and loan balances and the benefit of the Merger. The provision for credit losses increased from a benefit in the prior year, reflecting an increase in loan balances and a lower level of recoveries. The increase in total noninterest expense was largely driven by the effect of the Merger and increased headcount offset partially by lower performance-based compensation.

Corporate/Private Equity reported a net loss for the quarter compared with net income in the prior year. The net loss was driven by the after-tax effect of Bear Stearns merger-related items. These items included losses representing JPMorgan Chase's equity ownership in Bear Stearns from April 8 to May 30, 2008, and other merger-related expense and revenue items. Also contributing to the decline in net income from the prior year were lower results in Private Equity, reflecting a lower level of gains. Providing a partial offset to these lower results was improved performance in Corporate (excluding the Bear Stearns merger-related items), which benefited from a higher level of securities gains (including a gain from the sale of MasterCard shares), a wider net interest spread and a decline in total noninterest expense (largely reflecting a lower level of litigation expense). These benefits were partially offset by an increase in the provision for credit losses for prime mortgage.

The Firm's managed provision for credit losses was \$4.3 billion, up \$2.2 billion, or 102%, from the prior year, predominantly reflecting the effect of a weakening credit environment as well as loan growth. The total consumer-managed provision for credit losses was \$3.8 billion, compared with \$1.9 billion in the prior year. The current-quarter consumer provision reflected an increase in estimated losses across both the home-lending and credit card portfolios, including an increase to the allowance for credit losses predominantly related to subprime mortgage, prime mortgage and credit card loans. Consumer managed net charge-offs were \$2.9 billion, compared with \$1.6 billion in the second quarter of 2007, resulting in managed net charge-off rates of 3.08% and 1.90%, respectively. The wholesale provision for credit losses was \$505 million, compared with \$198 million in the prior year, reflecting an increase in the allowance for credit losses. Wholesale net charge-offs were \$41 million, compared with net recoveries of \$29 million, resulting in a net charge-off rate of 0.08% and a net recovery rate of 0.07%, respectively. The Firm had total nonperforming assets of \$6.2 billion at June 30, 2008, up from the prior-year level of \$2.4 billion. Total stockholders' equity at June 30, 2008, was \$133.2 billion, and the Tier 1 capital ratio was 9.2%, compared with 8.4% at June 30, 2007.

Business outlook

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

JPMorgan Chase's outlook for the third quarter of 2008 should be viewed against the backdrop of the global and U.S. economies, financial markets activity, the geopolitical environment, the competitive environment and client activity levels. Each of these linked factors will affect the performance of the Firm and its lines of business. The Firm's current expectations are for the global and U.S. economic environments to continue to be weak, for capital markets to remain under stress and for a continued decline in U.S. housing prices. These factors have affected, and are likely to continue to adversely impact, the Firm's credit losses, overall business volumes and earnings.

The consumer provision for credit losses could increase substantially as a result of a higher level of losses in Retail Financial Services' \$95.1 billion home equity loan portfolio, \$14.8 billion subprime mortgage loan portfolio, \$47.2 billion prime mortgage loan portfolio (mostly held in the Corporate/Private Equity segment), and in Card Services' \$155.4 billion managed credit card portfolio. Given the potential stress on the consumer from the continued downward pressure on housing prices and the elevated national inventory of unsold homes, management remains extremely cautious with respect to the home equity, mortgage and credit card portfolios. As described below, management expects continued deterioration in credit trends for the consumer portfolios which will likely require additions to the consumer loan loss allowance during the remainder of 2008. Housing price declines in specific geographic regions and slowing economic growth continue to drive higher estimated losses and nonperforming assets for the home equity and subprime mortgage segments and have increasingly affected the prime mortgage segment, due in part to the high concentration of more recent (2006 and later) originations in this portfolio. Based on

management's current economic outlook, quarterly net charge-offs in the home equity portfolio could continue to increase during the remainder of 2008; prime and subprime mortgage net charge-offs are expected to continue to rise significantly during the second half of 2008, with deterioration expected to continue into 2009. Continued housing price declines could also lead to increases in non-credit losses, including losses on repurchases of previously securitized loans

Table of Contents

and higher mortgage reinsurance losses. Management expects the managed net charge-off rate for Card Services to increase and potentially average 6% during 2009. These charge-off rates could increase if the economic environment continues to deteriorate. The wholesale provision for credit losses may also increase over time as a result of loan growth, portfolio activity and deterioration in underlying credit conditions.

The Investment Bank continues to be negatively affected by the disruption in the credit and mortgage markets, as well as by overall lower levels of liquidity and wider credit spreads. 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, the change in the fair value of certain trading liabilities would also negatively affect trading results. The Firm held \$16.3 billion (gross notional) of legacy leveraged loans and unfunded commitments as held-for-sale as of June 30, 2008. Markdowns averaging 20% of the gross notional value have been taken on these legacy positions as of June 30, 2008. 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 June 30, 2008, an aggregate \$19.5 billion of prime and Alt-A mortgage exposure and \$1.9 billion of subprime mortgage exposure. In addition, the Investment Bank had \$11.6 billion of Commercial Mortgage-Backed Securities (CMBS) exposure, which is substantially credit hedged. These mortgage exposures could be adversely affected by worsening market conditions, further deterioration in the housing market and market activity reflecting distressed sellers. For the third quarter to date, trading conditions have substantially deteriorated versus the second quarter. In particular, spreads on mortgage-backed securities and loans have sharply widened causing the company to incur losses (net of hedges) of approximately \$1.5 billion for the quarter to date.

Earnings in Treasury & Securities Services and Asset Management could deteriorate if business volumes or assets under management or supervision decline. Such declines could occur if the economy weakens, as a result of lower equity markets, lower volatility in certain products or the narrowing of spreads (which had recently been driven wider by market conditions). In addition, Treasury & Securities Services' third-quarter 2008 results will not include the benefit of the seasonally-strong second quarter securities lending and depositary receipts activity. Management believes remaining Bear Stearns merger-related costs will be approximately \$500 million (after-tax); these costs are expected to be largely incurred during the second half of 2008 (approximately \$150 million per quarter). Management continues to believe the net quarterly loss in Corporate could average over time approximately \$50 million to \$100 million, excluding trading results related to the Firm's investment portfolio and credit costs related to prime mortgage exposures which are expected to increase from second quarter levels (as discussed within the consumer outlook section above). Private Equity results, which are dependent upon the capital markets, could remain volatile and may be significantly lower in 2008 than 2007.

Table of Contents**CONSOLIDATED RESULTS OF OPERATIONS**

The following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis. 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 72-74 of this Form 10-Q and pages 96-98 of JPMorgan Chase's 2007 Annual Report.

Total net revenue

The following table presents the components of total net revenue.

(in millions)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Investment banking fees	\$ 1,612	\$ 1,898	(15)%	\$ 2,828	\$ 3,637	(22)%
Principal transactions	752	3,713	(80)	(51)	8,200	NM
Lending & deposit-related fees	1,105	951	16	2,144	1,846	16
Asset management, administration and commissions	3,628	3,611		7,224	6,797	6
Securities gains (losses)	647	(223)	NM	680	(221)	NM
Mortgage fees and related income	696	523	33	1,221	999	22
Credit card income	1,803	1,714	5	3,599	3,277	10
Other income	(138)	553	NM	1,691	1,071	58
Noninterest revenue	10,105	12,740	(21)	19,336	25,606	(24)
Net interest income	8,294	6,168	34	15,953	12,270	30
Total net revenue	\$ 18,399	\$ 18,908	(3)	\$ 35,289	\$ 37,876	(7)

Total net revenue for the second quarter of 2008 was \$18.4 billion, down \$509 million, or 3%, from the prior year. The decline was due to lower principal transactions revenue, which reflected net markdowns on leveraged lending funded and unfunded commitments and mortgage-related net markdowns, and lower levels of private equity gains. In addition, the Firm's share of Bear Stearns' losses from April 8 to May 30, 2008, and lower investment banking fees contributed to the decline in revenue. Higher net interest income and a gain on the sale of MasterCard shares predominantly offset the decline. For the first six months of 2008, total net revenue was \$35.3 billion, down \$2.6 billion, or 7%, from the prior year, largely reflecting the same drivers as the quarter, as well as increases due to the proceeds from the sale of Visa shares in its initial public offering and higher asset management, administration and commissions revenue, which reflected higher brokerage commissions and growth in assets under custody and management.

Investment banking fees in the second quarter and first six months of 2008 declined from the record levels of the comparable periods last year. These results were predominantly driven by lower debt underwriting fees as well as lower advisory fees. For a further discussion of investment banking fees, which are primarily recorded in IB, see the IB segment results on pages 19-22 of this Form 10-Q.

Principal transactions revenue consists of trading revenue and private equity gains. The Firm's trading activities in the second quarter and first six months of 2008 decreased significantly from the comparable periods in 2007, which reflected strong performance in most of the fixed income and equities products. The decrease for the quarter was largely due to net markdowns of \$696 million on leveraged lending funded and unfunded commitments, as well as mortgage-related net markdowns of \$405 million. Also contributing to the decrease was weaker Equity Markets trading results. Partially offsetting these declines was strong performance in rates, currencies, emerging markets,

credit trading and equities client revenue, as well as a combined benefit of \$314 million from the widening of the Firm's credit spread on certain structured liabilities. The significant decrease in trading revenue for the first six months of 2008 was largely due to markdowns taken in the IB, including \$1.8 billion on leveraged lending funded and unfunded commitments and \$1.6 billion on mortgage-related positions. These markdowns were offset partially by strong performances in rates, currencies, emerging markets, credit trading and equities client revenue, as well as a combined benefit of \$1.3 billion from the widening of the Firm's credit spread on certain structured liabilities. Private equity gains also declined significantly compared with the second quarter and first six months of 2007, driven by lower gains. In addition, the first quarter of 2007 included a fair value adjustment related to the adoption of SFAS 157 (Fair Value Measurements). For a further discussion of principal transactions revenue, see the IB and Corporate/Private Equity segment results on pages 19-22 and 43-45, respectively, and Note 5 on pages 92-94 of this Form 10-Q.

Table of Contents

Lending & deposit-related fees rose from the second quarter and first six months of 2007, predominantly resulting from higher deposit-related fees. For a further discussion of lending & deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 23–29, the TSS segment results on pages 36–38, and the CB segment results on pages 34–36 of this Form 10-Q.

The increase in asset management, administration and commissions revenue compared with the second quarter and first six months of 2007 was largely due to increased commissions revenue due mainly to higher brokerage transaction volume (primarily included within equity markets revenue of IB) and the absence of a charge in RFS in the first quarter of 2007, resulting from accelerated surrenders of customer annuity contracts. TSS also contributed to the increase in asset management, administration and commissions, driven by increased product usage by new and existing clients (largely in custody, funds services and depository receipts). For the second quarter and first six months of 2008, asset management fees in AM were down slightly due to lower performance fees and the impact of market movements. This decline was largely offset by the impact of growth in assets under management, due to liquidity product inflows across all segments and alternative product inflows in the Institutional and Private Bank client segments. For additional information on these fees and commissions, see the segment discussions for IB on pages 19–22, RFS on pages 23–29, TSS on pages 36–38, and AM on pages 39–42, of this Form 10-Q.

The favorable variances resulting from securities gains for the second quarter and first six months of 2008, compared with securities losses in the same periods in 2007, were predominantly driven by a gain of \$668 million from the sale of MasterCard shares and a repositioning of the Corporate investment securities portfolio. For a further discussion of securities gains, which are mostly recorded in the Firm's Corporate business, see the Corporate/Private Equity segment discussion on pages 43–45 of this Form 10-Q.

Mortgage fees and related income increased from the second quarter of 2007, driven by higher net mortgage servicing revenue, which benefited from an improvement in mortgage servicing rights (MSR) risk management results and increased loan servicing revenue, and higher production revenue, which benefited from higher loan originations. Mortgage fees and related income also increased from the first six months of 2007, driven predominantly by increased production revenue and higher net mortgage servicing revenue. For a discussion of mortgage fees and related income, which is recorded primarily in RFS Mortgage Banking business, see the Mortgage Banking discussion on pages 27–28 of this Form 10-Q.

Credit card income increased from the second quarter and first six months of 2007, due to higher interchange income from higher credit card charge volume in CS and higher debit card transaction volume in RFS, and higher servicing fees earned in connection with CS securitization activities, predominantly reflecting wider loan margins. Also contributing to the increase was higher revenue from fee-based products. These were offset partially by increases in volume-driven payments to partners and expense related to reward programs. For a further discussion of credit card income, see CS segment results on pages 30–33 of this Form 10-Q.

The decrease in other income from the second quarter of 2007 was predominantly due to losses of \$423 million after tax reflecting the Firm's 49.4% ownership in Bear Stearns' losses from April 8 to May 30, 2008, markdowns on certain investments, higher losses on other real estate owned and lower gains related to the sale of securities acquired in the satisfaction of debt. These losses were partially offset by higher credit card net securitization gains and automobile operating lease revenue. For the first six months of 2008, other income increased due to the proceeds from the sale of Visa shares in its initial public offering (\$1.5 billion pretax), partially offset by the net unfavorable impact of the aforementioned items.

Net interest income rose from the second quarter and first six months of 2007, primarily due to the following: higher trading-related net interest income, wider spreads on higher balances of consumer loans, growth in liability and deposit balances in the wholesale and consumer businesses, and a wider net interest spread in the Corporate business. These benefits were offset partly by spread compression on deposit and liability products. The Firm's total average interest-earning assets for the second quarter of 2008 were \$1.3 trillion, up 15% from the second quarter of 2007. The increase was predominantly driven by higher loans, federal funds sold and securities purchased under resale agreements, deposits with banks, other assets and available-for-sale (AFS) securities. The net interest yield on these assets, on a fully taxable equivalent basis, was 2.71%, an increase of 41 basis points from the second quarter of 2007. The Firm's total average interest earning assets for the first six months of 2008 were \$1.2 trillion, up 15% from the first

six months of 2007, driven by the aforementioned items, as well as higher trading assets debt instruments. The net interest yield on these assets, on a fully taxable equivalent basis, was 2.65%, an increase of 31 basis points from the first six months of 2007.

Table of Contents

Provision for credit losses (in millions)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Provision for credit losses	\$ 3,455	\$ 1,529	126%	\$ 7,879	\$ 2,537	211%

Provision for credit losses

The provision for credit losses in the second quarter and first half of 2008 rose from the comparable prior-year periods, due to increases in both the consumer and wholesale provisions. The increase in the consumer provision reflected increases in estimated losses for the home equity, subprime mortgage, prime mortgage and credit card loan portfolios. The increase to wholesale provision for the second quarter and first half of 2008 compared with prior periods was primarily driven by the effect of a weakening credit environment. The first half of 2008 also included the effect of the transfer of funded and unfunded leverage lending commitments to retained loans from held-for-sale. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 23-29, CS on pages 30-33, IB on pages 19-22, CB on pages 34-36 and Credit Risk Management on pages 55-68 of this Form 10-Q.

Noninterest expense

The following table presents the components of noninterest expense.

(in millions)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Compensation expense	\$ 6,913	\$ 6,309	10%	\$ 11,864	\$ 12,543	(5)%
Occupancy expense	669	652	3	1,317	1,292	2
Technology, communications and equipment expense	1,028	921	12	1,996	1,843	8
Professional & outside services	1,450	1,259	15	2,783	2,459	13
Marketing	413	457	(10)	959	939	2
Other expense	1,233	1,013	22	1,402	1,748	(20)
Amortization of intangibles	316	353	(10)	632	706	(10)
Merger costs	155	64	142	155	126	23
Total noninterest expense	\$ 12,177	\$ 11,028	10	\$ 21,108	\$ 21,656	(3)

Total noninterest expense for the second quarter of 2008 was \$12.2 billion, up \$1.1 billion, or 10%, from the second quarter of 2007. The increase was driven by higher compensation expense, the merger with Bear Stearns (including merger-related costs) and higher mortgage production and servicing expense. For the first six months of 2008, total noninterest expense was \$21.1 billion, down \$548 million, or 3%, from the prior year, primarily due to lower performance-based incentives.

The increase in compensation expense from the second quarter of 2007 was predominantly driven by the merger with Bear Stearns and additional headcount due to investment in the businesses. Compensation expense for the first six months of 2008 decreased from the prior-year period, primarily due to lower performance-based compensation, partially offset by the aforementioned items.

The increases in occupancy expense from the second quarter and first six months of 2007 were driven by the merger with Bear Stearns.

Technology, communications and equipment expense increased compared with the second quarter and first six months of 2007, due to higher technology expense related to business growth, the merger with Bear Stearns and higher depreciation expense on owned automobiles subject to operating leases in the Auto Finance business.

Professional & outside services rose from the second quarter and first six months of 2007, reflecting the merger with Bear Stearns, higher expense related to business and volume growth, including higher brokerage expense in IB and continued investment in new product platforms in TSS.

Marketing expense decreased compared with the second quarter of 2007, reflecting lower retail and credit card marketing expense. The increase in marketing expense from the first six months of 2007 was due to higher credit card marketing expense, partly offset by lower retail marketing expense.

Table of Contents

The increase in other expense from the second quarter of 2007 was due to higher mortgage production and servicing expense, the merger with Bear Stearns and higher litigation expense. For the first six months of 2008, other expense decreased due largely to a net reduction of litigation expense, offset partially by higher mortgage production and servicing expense and the merger with Bear Stearns.

For a discussion of amortization of intangibles and merger costs, refer to Note 18 and Note 10 on pages 114 116 and 97, respectively, of this Form 10-Q.

Income tax expense

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

(in millions, except rate)	Three months ended June		Six months ended June	
	2008	30, 2007	2008	30, 2007
Income before income tax expense	\$ 2,767	\$ 6,351	\$ 6,302	\$ 13,683
Income tax expense	764	2,117	1,926	4,662
Effective tax rate	27.6%	33.3%	30.6%	34.1%

The decrease in the effective tax rate for the second quarter and first six months of 2008, compared with the same periods for 2007, was the result of lower reported pretax income combined with an increased proportion of income that was not subject to U.S. federal income taxes, and a benefit from the release of deferred tax liabilities associated with earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely. These benefits were partially offset by losses representing the Firm's 49.4% ownership in Bear Stearns' losses from April 8 to May 30, 2008, for which no income tax benefit was recorded.

Table of Contents

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 76 79 of this Form 10-Q. That presentation, which is referred to as reported basis, provides the reader with an understanding of the Firm's results that can be tracked consistently from year to year and enables a comparison of the Firm's performance with other companies' U.S. GAAP financial statements.

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

The presentation of CS results on a managed basis assumes that credit card loans that have been securitized and sold in accordance with SFAS 140 remain on the Consolidated Balance Sheets and that the earnings on the securitized loans are classified in the same manner as the earnings on retained loans recorded on the Consolidated Balance Sheets. JPMorgan Chase uses the concept of managed basis to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations are funded and decisions are made about allocating resources, such as employees and capital, based upon managed financial information. In addition, the same underwriting standards and ongoing risk monitoring are used for both loans on the Consolidated Balance Sheets and securitized loans. Although securitizations result in the sale of credit card receivables to a trust, JPMorgan Chase retains the ongoing customer relationships, as the customers may continue to use their credit cards; accordingly, the customer's credit performance will affect both the securitized loans and the loans retained on the Consolidated Balance Sheets. JPMorgan Chase believes managed basis information is useful to investors, enabling them to understand both the credit risks associated with the loans reported on the Consolidated Balance Sheets and the Firm's retained interests in securitized loans. For a reconciliation of reported to managed basis results for CS, see CS segment results on pages 30 33 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 16 on pages 103 109 of this Form 10-Q.

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

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

Table of Contents

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

(in millions, except per share and ratio data)	Three months ended June 30, 2008			
	Reported results	Credit card ^(a)	Fully tax- equivalent adjustments	Managed basis
Revenue				
Investment banking fees	\$ 1,612	\$	\$	\$ 1,612
Principal transactions	752			752
Lending & deposit-related fees	1,105			1,105
Asset management, administration and commissions	3,628			3,628
Securities gains	647			647
Mortgage fees and related income	696			696
Credit card income	1,803	(843)		960
Other income	(138)		247	109
Noninterest revenue	10,105	(843)	247	9,509
Net interest income	8,294	1,673	202	10,169
Total net revenue	18,399	830	449	19,678
Provision for credit losses	3,455	830		4,285
Noninterest expense	12,177			12,177
Income before income tax expense	2,767		449	3,216
Income tax expense	764		449	1,213
Net income	\$ 2,003	\$	\$	\$ 2,003
Diluted earnings per share	\$ 0.54	\$	\$	\$ 0.54
Return on common equity	6%	%	%	6%
Return on equity less goodwill	10			10
Return on assets	0.48	NM	NM	0.46
Overhead ratio	66	NM	NM	62

(in millions, except per share and ratio data)	Three months ended June 30, 2007			
	Reported results	Credit card ^(a)	Fully tax- equivalent adjustments	Managed basis
Revenue				
Investment banking fees	\$ 1,898	\$	\$	\$ 1,898
Principal transactions	3,713			3,713
Lending & deposit-related fees	951			951
Asset management, administration and commissions	3,611			3,611
Securities gains	(223)			(223)
Mortgage fees and related income	523			523

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Credit card income	1,714	(788)		926
Other income	553		199	752
Noninterest revenue	12,740	(788)	199	12,151
Net interest income	6,168	1,378	122	7,668
Total net revenue	18,908	590	321	19,819
Provision for credit losses	1,529	590		2,119
Noninterest expense	11,028			11,028
Income before income tax expense	6,351		321	6,672
Income tax expense	2,117		321	2,438
Net income	\$ 4,234	\$	\$	\$ 4,234
Diluted earnings per share	\$ 1.20	\$	\$	\$ 1.20
Return on common equity	14%	%	%	14%
Return on equity less goodwill	23			23
Return on assets	1.19	NM	NM	1.13
Overhead ratio	58	NM	NM	56

Table of Contents

(in millions, except per share and ratio data)	Six months ended June 30, 2008			
	Reported results	Credit card ^(a)	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	\$ 2,828	\$	\$	\$ 2,828
Principal transactions	(51)			(51)
Lending & deposit-related fees	2,144			2,144
Asset management, administration and commissions	7,224			7,224
Securities gains	680			680
Mortgage fees and related income	1,221			1,221
Credit card income	3,599	(1,780)		1,819
Other income	1,691		450	2,141
Noninterest revenue	19,336	(1,780)	450	18,006
Net interest income	15,953	3,291	326	19,570
Total net revenue	35,289	1,511	776	37,576
Provision for credit losses	7,879	1,511		9,390
Noninterest expense	21,108			21,108
Income before income tax expense	6,302		776	7,078
Income tax expense	1,926		776	2,702
Net income	\$ 4,376	\$	\$	\$ 4,376
Diluted earnings per share	\$ 1.22	\$	\$	\$ 1.22
Return on common equity	7%	%	%	7%
Return on equity less goodwill	11			11
Return on assets	0.54	NM	NM	0.52
Overhead ratio	60	NM	NM	56

(in millions, except per share and ratio data)	Six months ended June 30, 2007			
	Reported results	Credit card ^(a)	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	\$ 3,637	\$	\$	\$ 3,637
Principal transactions	8,200			8,200
Lending & deposit-related fees	1,846			1,846
Asset management, administration and commissions	6,797			6,797
Securities gains	(221)			(221)
Mortgage fees and related income	999			999
Credit card income	3,277	(1,534)		1,743

Other income	1,071		309	1,380
Noninterest revenue	25,606	(1,534)	309	24,381
Net interest income	12,270	2,717	192	15,179
Total net revenue	37,876	1,183	501	39,560
Provision for credit losses	2,537	1,183		3,720
Noninterest expense	21,656			21,656
Income before income tax expense	13,683		501	14,184
Income tax expense	4,662		501	5,163
Net income	\$ 9,021	\$	\$	\$ 9,021
Diluted earnings per share	\$ 2.55	\$	\$	\$ 2.55
Return on common equity	16%	%	%	16%
Return on equity less goodwill	25			25
Return on assets	1.29	NM	NM	1.24
Overhead ratio	57	NM	NM	55

(a) *Credit card securitizations affect CS. See pages 30-33 of this Form 10-Q for further information.*

Table of Contents

Three months ended June 30, (in millions)	2008			2007		
	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans Period-end	\$ 538,029	\$ 79,120	\$ 617,149	\$ 465,037	\$ 67,506	\$ 532,543
Total assets average	1,668,699	74,580	1,743,279	1,431,986	65,920	1,497,906

Six months ended June 30, (in millions)	2008			2007		
	Reported	Securitized	Managed	Reported	Securitized	Managed
Loans Period-end	\$ 538,029	\$ 79,120	\$ 617,149	\$ 465,037	\$ 67,506	\$ 532,543
Total assets average	1,619,248	73,084	1,692,332	1,405,597	65,519	1,471,116

BUSINESS SEGMENT RESULTS

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

As part of the Bear Stearns merger integration, the businesses of Bear Stearns were reviewed and aligned with the business segments of JPMorgan Chase. The Merger predominantly affected the IB and AM lines of business. The impact of the Merger on the JPMorgan Chase business segments is discussed in the segment results of the applicable line of business.

Description of business segment reporting methodology

Results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. The management reporting process that derives business segment results allocates income and expense using market-based methodologies. For a further discussion of those methodologies, see Business Segment Results Description of business segment reporting methodology on page 38 of JPMorgan Chase's 2007 Annual Report. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

Segment Results Managed Basis¹⁾

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

Three months ended June 30, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income (loss)			Return on equity	
	2008	2007	Change	2008	2007	Change	2008	2007	Change	2008	2007
Investment Bank	\$ 5,470	\$ 5,798	(6)%	\$ 4,734	\$ 3,854	23%	\$ 394	\$ 1,179	(67)%	7%	23%
Retail Financial Services	5,015	4,357	15	2,670	2,484	7	606	785	(23)	14	20
Card Services	3,775	3,717	2	1,185	1,188		250	759	(67)	7	22
Commercial Banking	1,106	1,007	10	476	496	(4)	355	284	25	20	18
Treasury & Securities Services	2,019	1,741	16	1,317	1,149	15	425	352	21	49	47

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Asset Management	2,064	2,137	(3)	1,400	1,355	3	395	493	(20)	31	53
Corporate/Private Equity	229	1,062	(78)	395	502	(21)	(422)	382	NM	NM	NM
Total	\$ 19,678	\$ 19,819	(1)%	\$ 12,177	\$ 11,028	10%	\$ 2,003	\$ 4,234	(53)%	6%	14%

Six months ended June 30, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income			Return on equity	
	2008	2007	Change	2008	2007	Change	2008	2007	Change	2008	2007
Investment Bank	\$ 8,481	\$ 12,052	(30)%	\$ 7,287	\$ 7,685	(5)%	\$ 307	\$ 2,719	(89)%	3%	26%
Retail Financial Services	9,717	8,463	15	5,240	4,891	7	379	1,644	(77)	4	21
Card Services	7,679	7,397	4	2,457	2,429	1	859	1,524	(44)	12	22
Commercial Banking	2,173	2,010	8	961	981	(2)	647	588	10	19	19
Treasury & Securities Services	3,932	3,267	20	2,545	2,224	14	828	615	35	48	41
Asset Management	3,965	4,041	(2)	2,723	2,590	5	751	918	(18)	30	49
Corporate/Private Equity	1,629	2,330	(30)	(105)	856	NM	605	1,013	(40)	NM	NM
Total	\$ 37,576	\$ 39,560	(5)%	\$ 21,108	\$ 21,656	(3)%	\$ 4,376	\$ 9,021	(51)%	7%	16%

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

Table of Contents**INVESTMENT BANK**

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

Selected income statement data (in millions, except ratios)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Revenue						
Investment banking fees	\$ 1,735	\$ 1,900	(9)%	\$ 2,941	\$ 3,629	(19)%
Principal transactions	838	2,325	(64)	40	5,467	(99)
Lending & deposit-related fees	105	93	13	207	186	11
Asset management, administration and commissions	709	643	10	1,453	1,284	13
All other income	(226)	122	NM	(292)	164	NM
Noninterest revenue	3,161	5,083	(38)	4,349	10,730	(59)
Net interest income	2,309	715	223	4,132	1,322	213
Total net revenue^(a)	5,470	5,798	(6)	8,481	12,052	(30)
Provision for credit losses	398	164	143	1,016	227	348
Credit reimbursement from TSS ^(b)	30	30		60	60	
Noninterest expense						
Compensation expense	3,132	2,589	21	4,373	5,226	(16)
Noncompensation expense	1,602	1,265	27	2,914	2,459	19
Total noninterest expense	4,734	3,854	23	7,287	7,685	(5)
Income (loss) before income tax expense	368	1,810	(80)	238	4,200	(94)
Income tax expense (benefit)	(26)	631	NM	(69)	1,481	NM
Net income (loss)	\$ 394	\$ 1,179	(67)	\$ 307	\$ 2,719	(89)
Financial ratios						
ROE	7%	23%		3%	26%	
ROA	0.19	0.68		0.08	0.81	
Overhead ratio	87	66		86	64	
Compensation expense as a % of total net revenue	57	45		52	43	
Revenue by business						
Investment banking fees:						
Advisory	\$ 370	\$ 560	(34)	\$ 853	\$ 1,032	(17)
Equity underwriting	542	509	6	901	902	
Debt underwriting	823	831	(1)	1,187	1,695	(30)

Total investment banking fees	1,735	1,900	(9)	2,941	3,629	(19)
Fixed income markets	2,347	2,445	(4)	2,813	5,037	(44)
Equity markets	1,079	1,249	(14)	2,055	2,788	(26)
Credit portfolio	309	204	51	672	598	12
Total net revenue	\$ 5,470	\$ 5,798	(6)	\$ 8,481	\$ 12,052	(30)
Revenue by region						
Americas	\$ 3,165	\$ 2,655	19	\$ 3,701	\$ 6,021	(39)
Europe/Middle East/Africa	1,512	2,327	(35)	3,153	4,578	(31)
Asia/Pacific	793	816	(3)	1,627	1,453	12
Total net revenue	\$ 5,470	\$ 5,798	(6)	\$ 8,481	\$ 12,052	(30)

(a) *Total net revenue included tax-equivalent adjustments, predominantly due to tax-exempt income from municipal bond investments and income tax credits related to affordable housing investments, of \$404 million and \$290 million for the quarters ended June 30, 2008 and 2007, respectively, and \$693 million and \$442 million for year-to-date 2008 and 2007, respectively.*

(b) *TSS is charged a credit reimbursement related to certain exposures*

*managed within
the IB credit
portfolio on
behalf of clients
shared with
TSS.*

Table of Contents**Quarterly results**

Net income was \$394 million, a decrease from \$1.2 billion in the prior year. The lower results reflected increased noninterest expense, a decline in total net revenue and a higher provision for credit losses, partially offset by the benefit of reduced deferred tax liabilities.

Total net revenue was \$5.5 billion, a decrease of \$328 million, or 6%, from the prior year. Investment banking fees were \$1.7 billion (the second-highest quarter ever), down 9% from the prior year. Advisory fees of \$370 million were down 34% from the prior year, reflecting reduced levels of activity. Debt underwriting fees of \$823 million were down 1%, driven by a decline in loan syndication fees reflecting market conditions offset by higher bond underwriting fees. Equity underwriting fees were \$542 million, up 6% from the prior year. Fixed Income Markets revenue was \$2.3 billion, down \$98 million, or 4%, from the prior year, driven largely by net markdowns of \$696 million on leveraged lending funded and unfunded commitments, as well as mortgage-related net markdowns of \$405 million. These marks were partially offset by strong performance in rates, currencies, emerging markets, and credit trading, as well as gains of \$165 million from the widening of the Firm's credit spread on certain structured liabilities. Equity Markets revenue was \$1.1 billion, down \$170 million, or 14% from the prior year, driven by weak trading results offset partially by strong client revenue and a gain of \$149 million from the widening of the Firm's credit spread on certain structured liabilities. Credit Portfolio revenue was \$309 million, up \$105 million, or 51% from the prior year, reflecting increased net interest income on higher loan balances.

The provision for credit losses was \$398 million, compared with \$164 million in the prior year. The current-quarter provision reflects a weakening credit environment. Net recoveries were \$8 million, compared with net recoveries of \$16 million in the prior year. The allowance for loan losses to total loans retained was 3.19% for the current quarter, an increase from 1.76% in the prior year.

Average loans retained were \$76.2 billion, an increase of \$17.2 billion, or 29%, from the prior year, largely driven by growth in acquisition finance activity, including leveraged lending, and a facility extended to Bear Stearns. Average fair value and held-for-sale loans were \$20.4 billion, up \$5.6 billion, or 38%, from the prior year.

Noninterest expense was \$4.7 billion, an increase of \$880 million, or 23%, from the prior year, largely driven by higher compensation expense and the Merger.

Year-to-date results

Net income was \$307 million, down 89%, or \$2.4 billion, from the prior year. The lower results reflected a decline in total net revenue and a higher provision for credit losses, partially offset by lower noninterest expense.

Total net revenue was \$8.5 billion, a decrease of \$3.6 billion, or 30%, from the prior year. Investment banking fees were \$2.9 billion, down 19% from the prior year, predominantly reflecting lower debt underwriting and advisory fees. Advisory fees of \$853 million were down 17% from the prior year reflecting reduced levels of activity. Debt underwriting fees of \$1.2 billion were down 30%, driven by lower loan syndication and bond underwriting fees, reflecting market conditions. Equity underwriting fees of \$901 million were flat to the prior year. Fixed Income Markets revenue was \$2.8 billion, down \$2.2 billion, or 44%, from the prior year driven largely by net markdowns of \$1.8 billion on leveraged lending funded and unfunded commitments and mortgage-related net markdowns of approximately \$1.6 billion. These marks were partially offset by strong performance in rates, currencies, credit trading, and emerging markets as well as gains of \$827 million from the widening of the Firm's credit spread on certain structured liabilities. Equity Markets revenue was \$2.1 billion, down \$733 million, or 26% from the prior year, driven by weak trading results offset partially by strong client revenue and a gain of \$436 million from the widening of the Firm's credit spread on certain structured liabilities. Credit Portfolio revenue was \$672 million, up \$74 million, or 12% from the prior year, reflecting higher net interest income on higher loan balances.

The provision for credit losses was \$1.0 billion, compared with \$227 million in the prior year, primarily reflecting an increase in the allowance for credit losses due to the effect of a weakening credit environment as well as the effect of the transfer of funded and unfunded leverage lending commitments to retained loans from held-for-sale. The allowance for loan losses to total loans retained was 3.23% compared with 1.76% in the prior year.

Total average loans retained were \$75.2 billion, an increase of \$16.2 billion, or 27%, from the prior year, principally driven by growth in acquisition finance activity, including leveraged lending, as well as liquidity financing and the Bear Stearns financing. Average fair value and held-for-sale loans were \$20.0 billion, up \$5.8 billion, or 41%, from

the prior year.

Noninterest expense was \$7.3 billion, a decrease of \$398 million, or 5%, from the prior year, driven by lower compensation expense, partially offset by higher noncompensation expense and the Merger.

Table of Contents

Selected metrics (in millions, except headcount and ratio data)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Selected average balances						
Total assets	\$ 814,860	\$ 696,230	17%	\$ 785,344	\$ 677,581	16%
Trading assets-debt and equity instruments	367,184	359,387	2	368,320	347,320	6
Trading assets-derivatives receivables	99,395	58,520	70	94,814	57,465	65
Loans:						
Loans retained ^(a)	76,239	59,065	29	75,173	59,019	27
Loans held-for-sale and loans at fair value	20,440	14,794	38	20,026	14,242	41
Total loans	96,679	73,859	31	95,199	73,261	30
Adjusted assets ^(b)	676,777	603,839	12	669,598	588,016	14
Equity	23,319	21,000	11	22,659	21,000	8
Headcount	37,057	25,356	46	37,057	25,356	46
Credit data and quality statistics						
Net charge-offs (recoveries)	\$ (8)	\$ (16)	50	\$ 5	\$ (22)	NM
Nonperforming assets:						
Nonperforming loans ^(c)	313	72	335	313	72	335
Other nonperforming assets	177	47	277	177	47	277
Allowance for credit losses:						
Allowance for loan losses	2,429	1,037	134	2,429	1,037	134
Allowance for lending-related commitments	469	487	(4)	469	487	(4)
Total allowance for credit losses	2,898	1,524	90	2,898	1,524	90
Net charge-off (recovery) rate ^{(c)(d)}	(0.04)%	(0.11)%		0.01%	(0.08)%	
Allowance for loan losses to average loans ^{(c)(d)}	3.19_(i)	1.76		3.23_(i)	1.76	
Allowance for loan losses to nonperforming loans ^(c)	843	2,206		843	2,206	
Nonperforming loans to average loans	0.32	0.10		0.33	0.10	
Market risk-average trading and credit portfolio VAR^(e)						
By risk type:						
Fixed income	\$ 155	\$ 74	109	\$ 137	\$ 60	128
Foreign exchange	26	20	30	30	19	58
Equities	30	51	(41)	31	46	(33)
Commodities and other	31	40	(23)	29	37	(22)
Diversification ^(f)	(92)	(73)	(26)	(91)	(65)	(40)
Total trading VAR^(g)	150	112	34	136	97	40
Credit portfolio VAR ^(h)	35	12	192	33	12	175
Diversification ^(f)	(36)	(14)	(157)	(34)	(12)	(183)
Total trading and credit portfolio VAR	\$ 149	\$ 110	35	\$ 135	\$ 97	39

(a) Loans retained included credit

*portfolio loans,
leveraged leases
and other
accrual loans,
and excluded
loans at fair
value.*

*(b) Adjusted assets,
a non-GAAP
financial
measure, equals
total assets
minus
(1) securities
purchased
under resale
agreements and
securities
borrowed less
securities sold,
not yet
purchased;
(2) assets of
variable interest
entities
(VIEs)
consolidated
under FIN 46R;
(3) cash and
securities
segregated and
on deposit for
regulatory and
other purposes;
and (4) goodwill
and intangibles.
The amount of
adjusted assets
is presented to
assist the reader
in comparing
IB s asset and
capital levels to
other investment
banks in the
securities
industry.
Asset-to-equity
leverage ratios
are commonly
used as one*

measure to assess a company's capital adequacy. IB believes an adjusted asset amount that excludes the assets discussed above, which were considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

- (c) *Nonperforming loans include loans held-for-sale and loans at fair value of \$25 million at both June 30, 2008, and June 30, 2007, which were excluded from the allowance coverage ratios. Nonperforming loans excluded distressed loans held-for-sale that were purchased as part of IB's proprietary activities.*
- (d) *Loans held-for-sale and loans accounted for at fair value were excluded when calculating the*

- allowance
coverage ratio
and net
charge-off
(recovery) rate.*
- (e) *Results for
second quarter
2008 include
one month of the
combined
Firm s results
and two 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 69-70 of
this Form 10-Q.*
- (f) *Average VARs
were less than
the sum of the
VARs of their
market risk
components,
which was due
to risk offsets
resulting from
portfolio
diversification.
The
diversification
effect reflected
the fact that the
risks were not
perfectly
correlated. The
risk of a
portfolio of
positions is
usually less than
the sum of the
risks of the*

*positions
themselves.*

Table of Contents

- (g) *Trading VAR includes predominantly all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example, correlation risk or the credit spread sensitivity of certain mortgage products. Trading VAR does not include VAR related to held-for-sale funded loans and unfunded commitments, nor the debit valuation adjustments (DVA) taken on derivative and structured liabilities to reflect the credit quality of the Firm. See the DVA Sensitivity table on page 71 of this Form 10-Q for further details. Trading VAR also does not include the MSR portfolio or VAR related to other corporate functions, such as Corporate/Private Equity.*
- (h) *Included VAR on derivative credit valuation adjustments, hedges of the*

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

- (i) Excluding the impact of a loan originated in March, 2008 to Bear Stearns, the adjusted ratio would be 3.46% for the quarter ended June 30, 2008, and 3.40% for year-to-date 2008. The average balance of the loan extended to Bear Stearns was \$6.0 billion for the quarter ended June 30, 2008, and \$3.8 billion for year-to-date 2008. The allowance for loan losses to period-end loans was 3.35% at June 30, 2008.

According to Thomson Reuters, for the first six months of 2008, the Firm was ranked #1 in Global Debt, Equity and Equity-Related; #1 in Global Equity and Equity-Related; #1 in Global Syndicated Loans; #1 in Global Long-term Debt and #3 in Global Announced M&A based upon volume.

Market shares and rankings ^(a)	Six months ended June 30, 2008		Full Year 2007	
	Market Share	Rankings	Market Share	Rankings
Global debt, equity and equity-related	9%	#1	8%	#2
Global syndicated loans	13	#1	13	#1
Global long-term debt ^(b)	9	#1	7	#3
Global equity and equity-related ^(c)	11	#1	9	#2

Global announced M&A ^(d)	27	#3	27	#4
U.S. debt, equity and equity-related	15	#1	10	#2
U.S. syndicated loans	30	#1	24	#1
U.S. long-term debt ^(b)	15	#1	10	#2
U.S. equity and equity-related ^(c)	13	#3	11	#5
U.S. announced M&A ^(d)	41	#3	28	#3

(a) *Source: Thomson Reuters. The results for the six months ended June 30, 2008, are pro forma for the merger with Bear Stearns. Full-year 2007 results 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
included
transactions
withdrawn since
December 31,
2007. U.S.
announced M&A
represents any
U.S. involvement
ranking.*

Table of Contents**RETAIL FINANCIAL SERVICES**

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

Selected income statement data (in millions, except ratios)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Revenue						
Lending & deposit-related fees	\$ 497	\$ 470	6%	\$ 958	\$ 893	7%
Asset management, administration and commissions	375	344	9	752	607	24
Mortgage fees and related income	696	495	41	1,221	977	25
Credit card income	194	163	19	368	305	21
Other income	198	212	(7)	352	391	(10)
Noninterest revenue	1,960	1,684	16	3,651	3,173	15
Net interest income	3,055	2,673	14	6,066	5,290	15
Total net revenue	5,015	4,357	15	9,717	8,463	15
Provision for credit losses	1,332	587	127	3,824	879	335
Noninterest expense						
Compensation expense	1,184	1,104	7	2,344	2,169	8
Noncompensation expense	1,386	1,264	10	2,696	2,488	8
Amortization of intangibles	100	116	(14)	200	234	(15)
Total noninterest expense	2,670	2,484	7	5,240	4,891	7
Income (loss) before income tax expense						
	1,013	1,286	(21)	653	2,693	(76)
Income tax expense (benefit)	407	501	(19)	274	1,049	(74)
Net income (loss)	\$ 606	\$ 785	(23)	\$ 379	\$ 1,644	(77)
Financial ratios						
ROE	14%	20%		4%	21%	
Overhead ratio	53	57		54	58	
Overhead ratio excluding core deposit intangibles ^(a)	51	54		52	55	

(a) Retail Financial Services uses the overhead ratio (excluding the amortization

of core deposit intangibles (CDI), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excludes Regional Banking s core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of \$99 million and \$115 million for the quarters ended June 30, 2008 and 2007, respectively, and \$198 million

and \$231 million for year-to-date June 30, 2008 and 2007, respectively.

Quarterly results

Net income was \$606 million, a decrease of \$179 million, or 23%, from the prior year, as a significant increase in the provision for credit losses in Regional Banking was offset largely by revenue growth in all businesses.

Total net revenue was \$5.0 billion, an increase of \$658 million, or 15%, from the prior year. Net interest income was \$3.0 billion, up \$382 million, or 14%, due to higher loan balances, wider deposit spreads and higher deposit balances. Noninterest revenue was \$2.0 billion, up \$276 million, or 16%, driven by higher net mortgage servicing revenue, higher mortgage production revenue and increased deposit-related fees.

The provision for credit losses was \$1.3 billion, 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. Home equity net charge-offs were \$511 million (2.16% net charge-off rate), compared with \$98 million (0.44% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were \$192 million (4.98% net charge-off rate), compared with \$26 million (1.21% net charge-off rate) in the prior year. Prime mortgage net charge-offs (including net charge-offs reflected in the Corporate/Private Equity segment) were \$104 million (0.91% net charge-off rate), compared with \$4 million (0.05% net charge-off rate) in the prior year. The current-quarter provision includes an increase in the allowance for loan losses of \$430 million due to increases in estimated losses in the subprime and prime mortgage portfolios. An additional increase in the allowance for loan losses for prime mortgage loans of \$170 million has been reflected in the Corporate/Private Equity segment.

Table of Contents

Noninterest expense was \$2.7 billion, an increase of \$186 million, or 7%, from the prior year, reflecting higher mortgage production and servicing expense, and investment in the retail distribution network.

Year-to-date results

Net income was \$379 million, a decrease of \$1.3 billion, or 77%, from the prior year, as a significant increase in the provision for credit losses in Regional Banking was offset partially by revenue growth in all businesses.

Total net revenue was \$9.7 billion, an increase of \$1.3 billion, or 15%, from the prior year. Net interest income was \$6.1 billion, up \$776 million, or 15%, due to higher loan balances and spreads, wider deposit spreads, and higher deposit balances. These benefits were offset partially by a shift to narrower spread deposit products. Noninterest revenue was \$3.6 billion, up \$478 million, or 15%, driven by increased deposit-related fees, higher net mortgage servicing revenue, higher mortgage production revenue and the absence of a prior-year charge resulting from accelerated surrenders of customer annuity contracts.

The provision for credit losses was \$3.8 billion, 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. Home equity net charge-offs were \$958 million (2.03% net charge-off rate), compared with \$166 million (0.38% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were \$341 million (4.41% net charge-off rate), compared with \$46 million (1.09% net charge-off rate) in the prior year. Prime mortgage net charge-offs (including net charge-offs reflected in the Corporate/Private Equity segment) were \$154 million (0.70% net charge-off rate), compared with \$7 million (0.05% net charge-off rate) in the prior year. The year-to-date provision includes an increase in the allowance for loan losses of \$1.1 billion for Home Equity loans and \$943 million for the subprime and prime mortgage portfolios. An additional increase in the allowance for loan losses for prime mortgage loans of \$330 million has been reflected in the Corporate/Private Equity segment.

Noninterest expense was \$5.2 billion, an increase of \$349 million, or 7%, from the prior year, reflecting higher mortgage production and servicing expense, and investment in the retail distribution network.

Selected metrics (in millions, except headcount and ratios)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Selected ending balances						
Assets	\$ 230,695	\$ 217,421	6%	\$ 230,695	\$ 217,421	6%
Loans:						
Loans retained	187,595	166,992	12	187,595	166,992	12
Loans held-for-sale and loans at fair value ^(a)	16,282	23,501	(31)	16,282	23,501	(31)
Total loans	203,877	190,493	7	203,877	190,493	7
Deposits	223,121	217,689	2	223,121	217,689	2
Selected average balances						
Assets	\$ 232,725	\$ 216,692	7	\$ 230,143	\$ 216,912	6
Loans:						
Loans retained	185,993	165,136	13	184,106	163,946	12
Loans held-for-sale and loans at fair value ^(a)	20,492	25,166	(19)	19,167	26,692	(28)
Total loans	206,485	190,302	9	203,273	190,638	7
Deposits	226,487	219,171	3	226,021	218,058	4
Equity	17,000	16,000	6	17,000	16,000	6
Headcount	69,550	68,254	2	69,550	68,254	2

Credit data and quality statistics

Net charge-offs	\$ 941	\$ 270	249	\$ 1,730	\$ 455	280
Nonperforming loans ^{(b)(c)(d)}	3,515	1,597	120	3,515	1,597	120
Nonperforming assets ^{(b)(c)(d)}	4,123	1,936	113	4,123	1,936	113
Allowance for loan losses	4,475	1,772	153	4,475	1,772	153
Net charge-off rate ^{(e)(f)}	1.99%	0.66%		1.85%	0.56%	
Allowance for loan losses to ending loans ^(e)	2.39	1.06		2.39	1.06	
Allowance for loan losses to nonperforming loans ^(e)	134	125		134	125	
Nonperforming loans to total loans	1.72	0.84		1.72	0.84	

Table of Contents

- (a) *Loans included prime mortgage loans originated with the intent to sell, which were accounted for at fair value. These loans, classified as trading assets on the Consolidated Balance Sheets, totaled \$14.1 billion and \$15.2 billion at June 30, 2008 and 2007, respectively. Average loans included prime mortgage loans, classified as trading assets on the Consolidated Balance Sheets, of \$16.9 billion and \$13.5 billion for the three months ended June 30, 2008 and 2007, respectively, and \$15.2 billion and \$10.0 billion for the six months ended June 30, 2008 and 2007, respectively.*
- (b) *Nonperforming loans and assets included loans held-for-sale and loans accounted for at fair value of \$180 million and \$178 million at June 30, 2008 and 2007, respectively. Certain of these loans are classified as trading assets on*

- the Consolidated Balance Sheets.*
- (c) *Nonperforming loans and assets excluded (1) loans eligible for repurchase as well as loans repurchased from Governmental National Mortgage Association (GNMA) pools that are insured by U.S. government agencies of \$1.9 billion and \$1.2 billion at June 30, 2008 and 2007, respectively, and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$371 million and \$200 million at June 30, 2008 and 2007, respectively. These amounts were excluded, as reimbursement is proceeding normally.*
- (d) *For the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform with all other home*

lending products.

Prior period nonperforming assets have been revised to conform with this change.

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

(f) The net charge-off rate for the three and six months ended June 30, 2008, excluded \$19 million and \$33 million, respectively, of charge-offs related to prime mortgage loans held by the Corporate/Private Equity segment.

REGIONAL BANKING

Selected income statement data (in millions, except ratios)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Noninterest revenue	\$ 1,022	\$ 977	5%	\$ 1,900	\$ 1,770	7%
Net interest income	2,571	2,296	12	5,114	4,595	11
Total net revenue	3,593	3,273	10	7,014	6,365	10
Provision for credit losses	1,213	494	146	3,537	727	387
Noninterest expense	1,778	1,749	2	3,572	3,478	3
Income (loss) before income tax expense	602	1,030	(42)	(95)	2,160	NM
Net income (loss)	\$ 354	\$ 629	(44)	\$ (79)	\$ 1,319	NM
ROE	11%	21%		(1)%	23%	
Overhead ratio	49	53		51	55	
Overhead ratio excluding core deposit intangibles ^(a)	47	50		48	51	

(a) *Regional Banking uses the overhead ratio (excluding the amortization of core deposit intangibles (CDI)), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this inclusion would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excludes Regional Banking's core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of \$99 million and \$115 million for*

*the quarters
ended June 30,
2008 and 2007,
respectively,
and
\$198 million
and
\$231 million for
year-to-date
2008 and 2007,
respectively.*

Quarterly results

Regional Banking net income was \$354 million, down \$275 million, or 44%, from the prior year. Total net revenue was \$3.6 billion, up \$320 million, or 10%, benefiting from higher loan balances, wider deposit spreads, higher deposit-related fees and higher deposit balances. The provision for credit losses was \$1.2 billion, compared with \$494 million 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 \$1.8 billion, up \$29 million, or 2%, from the prior year, due to investment in the retail distribution network.

Year-to-date results

Regional Banking net loss was \$79 million, compared with net income of \$1.3 billion in the prior year. Total net revenue was \$7.0 billion, up \$649 million, or 10%, benefiting from higher loan balances, higher deposit-related fees, wider deposit spreads, higher deposit balances and the absence of a prior-year charge resulting from accelerated surrenders of customer annuity contracts. These benefits were offset partially by a shift to narrower spread deposit products. The provision for credit losses was \$3.5 billion, compared with \$727 million 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 \$3.6 billion, up \$94 million, or 3%, from the prior year, due to investment in the retail distribution network.

Table of Contents

Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Business metrics						
Home equity origination volume	\$ 5.3	\$ 14.6	(64)%	\$ 12.0	\$ 27.3	(56)%
End-of-period loans owned						
Home equity	\$ 95.1	\$ 91.0	5	\$ 95.1	\$ 91.0	5
Mortgage ^(a)	14.9	8.8	69	14.9	8.8	69
Business banking	16.4	14.6	12	16.4	14.6	12
Education	13.0	10.2	27	13.0	10.2	27
Other loans ^(b)	1.1	2.5	(56)	1.1	2.5	(56)
Total end of period loans	140.5	127.1	11	140.5	127.1	11
End-of-period deposits						
Checking	\$ 69.1	\$ 67.3	3	\$ 69.1	\$ 67.3	3
Savings	105.8	97.7	8	105.8	97.7	8
Time and other	37.0	41.9	(12)	37.0	41.9	(12)
Total end of period deposits	211.9	206.9	2	211.9	206.9	2
Average loans owned						
Home equity	\$ 95.1	\$ 89.2	7	\$ 95.0	\$ 87.8	8
Mortgage ^(a)	15.6	8.8	77	15.7	8.8	78
Business banking	16.1	14.5	11	15.9	14.4	10
Education ^(c)	12.7	10.5	21	12.4	10.8	15
Other loans ^(b)	1.1	2.4	(54)	1.3	2.7	(52)
Total average loans^(c)	140.6	125.4	12	140.3	124.5	13
Average deposits						
Checking	\$ 68.5	\$ 67.2	2	\$ 67.4	\$ 67.3	
Savings	105.8	98.4	8	103.1	97.6	6
Time and other	39.6	41.7	(5)	43.6	42.1	4
Total average deposits	213.9	207.3	3	214.1	207.0	3
Average assets	149.3	137.7	8	149.6	136.8	9
Average equity	12.4	11.8	5	12.4	11.8	5
Credit data and quality statistics						
(in millions, except ratios)						
30+ day delinquency rate ^{(d)(e)}	3.61%	1.88%		3.61%	1.88%	
Net charge-offs						
Home equity	\$ 511	\$ 98	421	\$ 958	\$ 166	477
Mortgage	211	26	NM	374	46	NM
Business banking	51	30	70	91	55	65
Other loans	48	52	(8)	69	65	6
Total net charge-offs	821	206	299	1,492	332	349

Net charge-off rate						
Home equity	2.16%	0.44%		2.03%	0.38%	
Mortgage ^(f)	4.95	1.19		4.37	1.05	
Business banking	1.27	0.83		1.15	0.77	
Other loans	1.80	2.32		1.37	1.39	
Total net charge-off rate^{(c)(f)}	2.35	0.68		2.15	0.56	
Nonperforming assets ^{(g)(h)}	\$ 3,506	\$ 1,588	121	\$ 3,506	\$ 1,588	121

(a) *Balance reported predominantly reflected subprime mortgage loans owned.*

(b) *Included commercial loans derived from community development activities prior to March 31, 2008.*

(c) *Average loans include loans held-for-sale of \$3.1 billion and \$3.9 billion for the quarters ended June 30, 2008 and 2007, respectively, and \$3.6 billion and \$4.1 billion for the six months ended June 30, 2008 and 2007, respectively. These amounts were excluded when calculating the net charge-off rate.*

(d) *Excluded loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.5 billion and \$879 million at June 30, 2008 and*

2007, respectively.
These amounts are
excluded as
reimbursement is
proceeding
normally.

(e) Excluded loans
that are 30 days
past due and still
accruing, which
are insured by
U.S. government
agencies under the
Federal Family
Education Loan
Program of
\$594 million and
\$523 million at
June 30, 2008 and
2007, respectively.
These amounts are
excluded as
reimbursement is
proceeding
normally.

(f) The mortgage and
total net charge-off
rate for the three
and six months
ended June 30,
2008, excluded
\$19 million and
\$33 million,
respectively, of
charge-offs related
to prime mortgage
loans held by the
Corporate/Private
Equity segment.

(g) Excluded (1) loans
eligible for
repurchase as well
as loans
repurchased from
GNMA pools that
are insured by
U.S. government
agencies of
\$1.9 billion and
\$1.2 billion at
June 30, 2008 and

2007, respectively, and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$371 million and \$200 million at June 30, 2008 and 2007, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

- (h) For the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform with all other home lending products. Prior period nonperforming assets have been revised to conform with this change.

Table of Contents

Retail branch business metrics (in millions, except where otherwise noted)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Investment sales volume	\$ 5,211	\$ 5,117	2%	\$ 9,295	\$ 9,900	(6)%
Number of:						
Branches	3,157	3,089	2	3,157	3,089	2
ATMs	9,310	8,649	8	9,310	8,649	8
Personal bankers	9,995	9,025	11	9,995	9,025	11
Sales specialists	4,116	3,915	5	4,116	3,915	5
Active online customers (in thousands)	7,180	5,448	32	7,180	5,448	32
Checking accounts (in thousands)	11,336	10,356	9	11,336	10,356	9

MORTGAGE BANKING

Selected income statement data (in millions, except ratios and where otherwise noted)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Production revenue	\$ 597	\$ 463	29%	\$ 1,173	\$ 863	36%
Net mortgage servicing revenue:						
Servicing revenue	678	615	10	1,312	1,216	8
Changes in MSR asset fair value:						
Due to inputs or assumptions in model	1,519	952	60	887	1,060	(16)
Other changes in fair value	(394)	(383)	(3)	(819)	(761)	(8)
Total changes in MSR asset fair value	1,125	569	98	68	299	(77)
Derivative valuation adjustments and other	(1,478)	(1,014)	(46)	(880)	(1,141)	23
Total net mortgage servicing revenue	325	170	91	500	374	34
Total net revenue	922	633	46	1,673	1,237	35
Noninterest expense	649	516	26	1,185	984	20
Income before income tax expense	273	117	133	488	253	93
Net income	\$ 169	\$ 71	138	\$ 301	\$ 155	94
ROE	28%	14%		25%	16%	

Business metrics (in billions)

Third-party mortgage loans serviced (ending)	\$ 659.1	\$ 572.4	15	\$ 659.1	\$ 572.4	15
MSR net carrying value (ending)	10.9	9.5	15	10.9	9.5	15
Average mortgage loans held-for-sale ^(a)	17.4	21.3	(18)	15.6	22.6	(31)
Average assets	36.2	35.6	2	34.2	36.8	(7)
Average equity	2.4	2.0	20	2.4	2.0	20

Mortgage origination volume by channel (in billions)

Retail	\$ 12.5	\$ 13.6	(8)	\$ 25.1	\$ 24.5	2
Wholesale	9.1	12.8	(29)	19.7	22.7	(13)
Correspondent	17.0	6.4	166	29.0	11.2	159
CNT (Negotiated transactions)	17.5	11.3	55	29.4	21.8	35
Total	\$ 56.1	\$ 44.1	27	\$ 103.2	\$ 80.2	29

(a) *Included*
\$16.9 billion
and
\$13.5 billion of
prime mortgage
loans at fair
value for the
three months
ended June 30,
2008 and 2007,
respectively,
and
\$15.2 billion
and
\$10.0 billion for
the six months
ended June 30,
2008 and 2007.
These loans are
classified as
trading assets
on the
Consolidated
Balance Sheets.

Table of Contents**Quarterly results**

Mortgage Banking net income was \$169 million, an increase of \$98 million, or 138% from the prior year. Total net revenue was \$922 million, up \$289 million, or 46%. Total net revenue comprises production revenue and net mortgage servicing revenue. Production revenue was \$597 million, up \$134 million, predominantly benefiting from higher loan originations. Net mortgage servicing revenue, which includes loan servicing revenue, MSR risk management results and other changes in fair value, was \$325 million, compared with \$170 million in the prior year. Loan servicing revenue of \$678 million increased \$63 million on growth of 15% in third-party loans serviced. MSR risk management results were positive \$41 million compared with negative \$62 million in the prior year. Other changes in fair value of the MSR asset were negative \$394 million compared with negative \$383 million in the prior year. Noninterest expense was \$649 million, an increase of \$133 million, or 26%. The increase reflected higher mortgage reinsurance losses, higher production expense due, in part, to growth in origination volume, and higher servicing costs due to increased delinquencies and defaults.

Year-to-date results

Mortgage Banking net income was \$301 million, an increase of \$146 million, or 94%, from the prior year. Total net revenue was \$1.7 billion, up \$436 million, or 35%. Total net revenue comprises production revenue and net mortgage servicing revenue. Production revenue was \$1.2 billion, up \$310 million, predominantly benefiting from higher loan originations. Net mortgage servicing revenue, which includes loan servicing revenue, MSR risk management results and other changes in fair value, was \$500 million, compared with \$374 million in the prior year. Loan servicing revenue of \$1.3 billion increased \$96 million on growth of 15% in third-party loans serviced. MSR risk management results were positive \$7 million compared with negative \$81 million in the prior year. Other changes in fair value of the MSR asset were negative \$819 million compared with negative \$761 million in the prior year. Noninterest expense was \$1.2 billion, an increase of \$201 million, or 20%. The increase reflected higher mortgage reinsurance losses, higher production expense due, in part, to growth in origination volume, and higher servicing costs due to increased delinquencies and defaults.

Table of Contents**AUTO FINANCE****Selected income statement data**

(in millions, except ratios and where otherwise noted)

	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Noninterest revenue	\$ 155	\$ 138	12%	\$ 306	\$ 269	14%
Net interest income	343	312	10	722	591	22
Total net revenue	498	450	11	1,028	860	20
Provision for credit losses	117	92	27	285	151	89
Noninterest expense	243	219	11	483	429	13
Income before income tax expense	138	139	(1)	260	280	(7)
Net income	\$ 83	\$ 85	(2)	\$ 157	\$ 170	(8)
ROE	15%	15%		14%	16%	
ROA	0.71	0.79		0.68	0.79	
Business metrics (in billions)						
Auto origination volume	\$ 5.6	\$ 5.3	6	\$ 12.8	\$ 10.5	22
End-of-period loans and lease-related assets						
Loans outstanding	\$ 44.7	\$ 40.4	11	\$ 44.7	\$ 40.4	11
Lease financing receivables	0.2	0.8	(75)	0.2	0.8	(75)
Operating lease assets	2.1	1.8	17	2.1	1.8	17
Total end-of-period loans and lease-related assets	47.0	43.0	9	47.0	43.0	9
Average loans and lease-related assets						
Loans outstanding	\$ 44.7	\$ 40.1	11	\$ 43.8	\$ 39.8	10
Lease financing receivables	0.2	1.0	(80)	0.3	1.2	(75)
Operating lease assets	2.1	1.7	24	2.0	1.7	18
Total average loans and lease-related assets	47.0	42.8	10	46.1	42.7	8
Average assets	47.3	43.4	9	46.4	43.3	7
Average equity	2.3	2.2	5	2.3	2.2	5
Credit quality statistics						
30+ day delinquency rate	1.57%	1.43%		1.57%	1.43%	
Net charge-offs						
Loans	\$ 118	\$ 62	90	\$ 235	\$ 120	96
Lease receivables	1	1		2	2	
Total net charge-offs	119	63	89	237	122	94

Net charge-off rate						
Loans	1.06%	0.62%		1.08%	0.61%	
Lease receivables	2.01	0.40		1.34	0.34	
Total net charge-off rate	1.07	0.61		1.08	0.60	
Nonperforming assets	\$ 164	\$ 131	25	\$ 164	\$ 131	25

Quarterly results

Auto Finance net income was \$83 million, a decrease of \$2 million, or 2%, from the prior year. Total net revenue was \$498 million, up \$48 million, or 11%, driven by higher loan balances and increased automobile operating lease revenue. The provision for credit losses was \$117 million, up \$25 million, reflecting higher estimated losses. The net charge-off rate was 1.07%, compared with 0.61% in the prior year. Noninterest expense of \$243 million increased \$24 million, or 11%, driven by increased depreciation expense on owned automobiles subject to operating leases.

Year-to-date results

Auto Finance net income was \$157 million, a decrease of \$13 million, or 8%, from the prior year. Total net revenue was \$1.0 billion, up \$168 million, or 20%, driven by increased automobile operating lease revenue, a reduction in residual value reserves for direct finance leases and higher loan balances. The provision for credit losses was \$285 million, up \$134 million, reflecting higher estimated losses. The net charge-off rate was 1.08%, compared with 0.60% in the prior year. Noninterest expense of \$483 million increased \$54 million, or 13%, driven by increased depreciation expense on owned automobiles subject to operating leases.

Table of Contents**CARD SERVICES**

For a discussion of the business profile of CS, see pages 49-51 of JPMorgan Chase's 2007 Annual Report and pages 4-5 of this Form 10-Q.

JPMorgan Chase uses the concept of "managed basis" to evaluate the credit performance of its credit card loans, both loans on the balance sheet and loans that have been securitized. For further information, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 15-18 of this Form 10-Q. Managed results exclude the impact of credit card securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported net income; however, it does affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets.

Selected income statement data-managed basis (in millions, except ratios)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Revenue						
Credit card income	\$ 673	\$ 682	(1)%	\$ 1,273	\$ 1,281	(1)%
All other income	91	80	14	210	172	22
Noninterest revenue	764	762		1,483	1,453	2
Net interest income	3,011	2,955	2	6,196	5,944	4
Total net revenue	3,775	3,717	2	7,679	7,397	4
Provision for credit losses	2,194	1,331	65	3,864	2,560	51
Noninterest expense						
Compensation expense	258	251	3	525	505	4
Noncompensation expense	763	753	1	1,604	1,556	3
Amortization of intangibles	164	184	(11)	328	368	(11)
Total noninterest expense	1,185	1,188		2,457	2,429	1
Income before income tax expense	396	1,198	(67)	1,358	2,408	(44)
Income tax expense	146	439	(67)	499	884	(44)
Net income	\$ 250	\$ 759	(67)	\$ 859	\$ 1,524	(44)
Memo: Net securitization gains	\$ 36	\$ 16	125	\$ 106	\$ 39	172
Financial ratios						
ROE	7%	22%		12%	22%	
Overhead ratio	31	32		32	33	

Quarterly results

Net income was \$250 million, a decline of \$509 million, or 67%, from the prior year. The decrease was driven by a higher provision for credit losses.

End-of-period managed loans of \$155.4 billion grew by \$7.4 billion, or 5%, from the prior year. Average managed loans of \$152.8 billion increased \$5.4 billion, or 4%, from the prior year. The increase in both end-of-period and average managed loans reflects organic portfolio growth.

Managed total net revenue was \$3.8 billion, an increase of \$58 million, or 2%, from the prior year. Net interest income was \$3.0 billion, up \$56 million, or 2%, from the prior year. The increase in net interest income was driven by higher average managed loan balances, an increased level of fees and wider loan spreads. These benefits were offset largely by the effect of higher revenue reversals associated with higher charge-offs. Noninterest revenue of \$764 million was flat compared with the prior year. Increased interchange income (the result of charge volume growth of 6%), higher revenue from fee-based products, and higher securitization income were offset by increased rewards expense and higher volume-driven payments to partners (both netted against interchange income).

The managed provision for credit losses was \$2.2 billion, an increase of \$863 million, or 65%, from the prior year, due to a higher level of charge-offs and an increase of \$300 million in the allowance for loan losses, reflecting higher estimated losses. The managed net charge-off rate for the quarter was 4.98%, up from 3.62% in the prior year. The 30-day managed delinquency rate was 3.46%, up from 3.00% in the prior year.

Noninterest expense of \$1.2 billion was flat compared with the prior year.

Table of Contents

Year-to-date results

Net income was \$859 million, a decline of \$665 million, or 44%, from the prior year. The decrease was driven by a higher provision for credit losses offset partially by growth in managed total net revenue.

Average managed loans of \$153.2 billion increased \$4.8 billion, or 3%, from the prior year, reflecting organic portfolio growth.

Managed total net revenue was \$7.7 billion, an increase of \$282 million, or 4%, from the prior year. Net interest income was \$6.2 billion, up \$252 million, or 4%, from the prior year. The increase in net interest income was driven by an increased level of fees, 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 of \$1.5 billion was up \$30 million, or 2%, from the prior year. Increased interchange income (the result of charge volume growth of 6%) and higher securitization income were offset partially by increased rewards expense and higher volume-driven payments to partners (both of which are netted against interchange income).

The managed provision for credit losses was \$3.9 billion, an increase of \$1.3 billion, or 51%, from the prior year, due to a higher level of charge-offs and an increase in the allowance for loan losses (an increase of \$300 million compared with a prior year release of \$85 million), reflecting higher estimated losses. The managed net charge-off rate increased to 4.68%, up from 3.59% in the prior year.

Noninterest expense was \$2.5 billion, up \$28 million, or 1%, from the prior year.

Table of Contents

Selected metrics (in millions, except headcount, ratios and where otherwise noted)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Financial metrics						
% of average managed outstandings:						
Net interest income	7.92%	8.04%		8.13%	8.08%	
Provision for credit losses	5.77	3.62		5.07	3.48	
Noninterest revenue	2.01	2.07		1.95	1.97	
Risk adjusted margin ^(a)	4.16	6.49		5.01	6.57	
Noninterest expense	3.12	3.23		3.23	3.30	
Pretax income (ROO) ^(b)	1.04	3.26		1.78	3.27	
Net income	0.66	2.06		1.13	2.07	
Business metrics						
Charge volume (in billions)	\$ 93.6	\$ 88.0	6%	\$ 179.0	\$ 169.3	6%
Net accounts opened (in millions)	3.6	3.7	(3)	7.0	7.1	(1)
Credit cards issued (in millions)	157.6	150.9	4	157.6	150.9	4
Number of registered internet customers (in millions)	28.0	24.6	14	28.0	24.6	14
Merchant acquiring business ^(c)						
Bank card volume (in billions)	\$ 199.3	\$ 179.7	11	\$ 381.7	\$ 343.3	11
Total transactions (in billions)	5.6	4.8	17	10.8	9.3	16
Selected ending balances						
Loans:						
Loans on balance sheets	\$ 76,278	\$ 80,495	(5)	\$ 76,278	\$ 80,495	(5)
Securitized loans	79,120	67,506	17	79,120	67,506	17
Managed loans	\$ 155,398	\$ 148,001	5	\$ 155,398	\$ 148,001	5
Selected average balances						
Managed assets	\$ 161,601	\$ 154,406	5	\$ 160,601	\$ 155,333	3
Loans:						
Loans on balance sheets	\$ 75,630	\$ 79,000	(4)	\$ 77,537	\$ 80,458	(4)
Securitized loans	77,195	68,428	13	75,652	67,959	11
Managed average loans	\$ 152,825	\$ 147,428	4	\$ 153,189	\$ 148,417	3
Equity	\$ 14,100	\$ 14,100		\$ 14,100	\$ 14,100	
Headcount	19,570	18,913	3	19,570	18,913	3
Managed credit quality statistics						
Net charge-offs	\$ 1,894	\$ 1,331	42	\$ 3,564	\$ 2,645	35
Net charge-off rate	4.98%	3.62%		4.68%	3.59%	
Managed delinquency ratios						

30+ days	3.46%	3.00%		3.46%	3.00%	
90+ days	1.76	1.42		1.76	1.42	
Allowance for loan losses ^(d)	\$ 3,705	\$ 3,096	20	\$ 3,705	\$ 3,096	20
Allowance for loan losses to period-end loans ^(d)	4.86%	3.85%		4.86%	3.85%	

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

(b) *Pretax return on average managed outstandings.*

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

(d) *Loans on a reported basis.*

Table of Contents**Reconciliation from reported basis to managed basis**

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

(in millions)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Income statement data^(a)						
Credit card income						
Reported	\$ 1,516	\$ 1,470	3%	\$ 3,053	\$ 2,815	8%
Securitization adjustments	(843)	(788)	(7)	(1,780)	(1,534)	(16)
Managed credit card income	\$ 673	\$ 682	(1)	\$ 1,273	\$ 1,281	(1)
Net interest income						
Reported	\$ 1,338	\$ 1,577	(15)	\$ 2,905	\$ 3,227	(10)
Securitization adjustments	1,673	1,378	21	3,291	2,717	21
Managed net interest income	\$ 3,011	\$ 2,955	2	\$ 6,196	\$ 5,944	4
Total net revenue						
Reported	\$ 2,945	\$ 3,127	(6)	\$ 6,168	\$ 6,214	(1)
Securitization adjustments	830	590	41	1,511	1,183	28
Managed total net revenue	\$ 3,775	\$ 3,717	2	\$ 7,679	\$ 7,397	4
Provision for credit losses						
Reported	\$ 1,364	\$ 741	84	\$ 2,353	\$ 1,377	71
Securitization adjustments	830	590	41	1,511	1,183	28
Managed provision for credit losses	\$ 2,194	\$ 1,331	65	\$ 3,864	\$ 2,560	51
Balance sheet average balances^(a)						
Total average assets						
Reported	\$ 87,021	\$ 88,486	(2)	\$ 87,517	\$ 89,814	(3)
Securitization adjustments	74,580	65,920	13	73,084	65,519	12
Managed average assets	\$ 161,601	\$ 154,406	5	\$ 160,601	\$ 155,333	3
Credit quality statistics^(a)						
Net charge-offs						
Reported	\$ 1,064	\$ 741	44	\$ 2,053	\$ 1,462	40
Securitization adjustments	830	590	41	1,511	1,183	28
Managed net charge-offs	\$ 1,894	\$ 1,331	42	\$ 3,564	\$ 2,645	35

(a) JPMorgan
Chase uses the
concept of

managed basis to evaluate the credit performance and overall performance of the underlying credit card loans, both sold and not sold; as the same borrower is continuing to use the credit card for ongoing charges, a borrower's credit performance will affect both the receivables sold under SFAS 140 and those not sold. Thus, in its disclosures regarding managed receivables, JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in order to disclose the credit performance (such as net charge-off rates) of the entire managed credit card portfolio. Managed results exclude the impact of credit card

securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported net income versus managed earnings; however, it does affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets. For further information, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 15-18 of this Form 10-Q.

Table of Contents**COMMERCIAL BANKING**

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

Selected income statement data (in millions, except ratios)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Revenue						
Lending & deposit-related fees	\$ 207	\$ 158	31%	\$ 400	\$ 316	27%
Asset management, administration and commissions	26	21	24	52	44	18
All other income ^(a)	150	133	13	265	287	(8)
Noninterest revenue	383	312	23	717	647	11
Net interest income	723	695	4	1,456	1,363	7
Total net revenue	1,106	1,007	10	2,173	2,010	8
Provision for credit losses	47	45	4	148	62	139
Noninterest expense						
Compensation expense	173	182	(5)	351	362	(3)
Noncompensation expense	290	300	(3)	584	590	(1)
Amortization of intangibles	13	14	(7)	26	29	(10)
Total noninterest expense	476	496	(4)	961	981	(2)
Income before income tax expense						
	583	466	25	1,064	967	10
Income tax expense	228	182	25	417	379	10
Net income	\$ 355	\$ 284	25	\$ 647	\$ 588	10
Financial ratios						
ROE	20%	18%		19%	19%	
Overhead ratio	43	49		44	49	

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

Quarterly results

Net income was a record \$355 million, an increase of \$71 million, or 25%, from the prior year driven by record total net revenue and lower noninterest expense.

Total net revenue was a record \$1.1 billion, an increase of \$99 million, or 10%, from the prior year. Net interest income was \$723 million, up \$28 million, or 4%. The increase was driven by double-digit growth in liability and loan balances, largely offset by spread compression in the liability and loan portfolios and a continued shift to narrower spread liability products. Noninterest revenue was \$383 million, an increase of \$71 million, or 23%, from the prior year, largely reflecting higher deposit-related fees as well as increases in other fee income.

Middle Market Banking revenue was \$708 million, an increase of \$55 million, or 8%, from the prior year. Mid-Corporate Banking revenue was \$235 million, an increase of \$38 million, or 19%. Real Estate Banking revenue was \$94 million, a decline of \$15 million, or 14%.

The provision for credit losses was \$47 million, an increase of \$2 million, or 4%, from the prior year. The current-quarter provision largely reflects growth in loan balances. The allowance for loan losses to total loans retained was 2.61% for the current quarter, down from 2.63% in the prior year. Nonperforming loans were \$486 million, up \$351 million from the prior year, reflecting increases in nonperforming loans in each business segment and the effect of a weakening credit environment. Net charge-offs were \$49 million (0.28% net charge-off rate), compared with net recoveries of \$8 million (0.05% net recovery rate) in the prior year.

Noninterest expense was \$476 million, a decrease of \$20 million, or 4%, from the prior year.

Year-to-date results

Net income was \$647 million, an increase of \$59 million, or 10%, from the prior year driven by growth in total net revenue largely offset by a higher provision for credit losses.

Total net revenue was \$2.2 billion, an increase of \$163 million, or 8%, from the prior year. Net interest income was \$1.5 billion, an increase of \$93 million, or 7%, driven by double-digit growth in liability balances and loans, largely offset by spread compression in the liability and loan portfolios and the continued shift to narrower-spread liability products.

Table of Contents

Noninterest revenue was \$717 million, up \$70 million, or 11%, due to higher deposit-related fees as well as increases in other fee income partially offset by lower gains related to the sale of securities acquired in the satisfaction of debt. Middle Market Banking revenue was \$1.4 billion, an increase of \$100 million, or 8%. Mid-Corporate Banking revenue was \$442 million, an increase of \$33 million, or 8%. Real Estate Banking revenue was \$191 million, a decline of \$20 million, or 9%.

The provision for credit losses was \$148 million, compared with \$62 million in the prior year, largely reflecting growth in loan balances. The allowance for loan losses to average loans was 2.67%, flat compared with the prior year. Net charge-offs were \$130 million (0.38% net charge-off rate), compared with net recoveries of \$9 million (0.03% net recovery rate) in the prior year.

Noninterest expense was \$961 million, a decrease of \$20 million, or 2%, largely due to lower compensation expense.

Selected metrics (in millions, except ratio and headcount data)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Revenue by product:						
Lending	\$ 376	\$ 348	8%	\$ 755	\$ 696	8%
Treasury services	630	569	11	1,246	1,125	11
Investment banking	91	82	11	159	158	1
Other	9	8	13	13	31	(58)
Total Commercial Banking revenue	\$ 1,106	\$ 1,007	10	\$ 2,173	\$ 2,010	8
IB revenue, gross^(a)	\$ 270	\$ 236	14	\$ 473	\$ 467	1
Revenue by business:						
Middle Market Banking	\$ 708	\$ 653	8	\$ 1,414	\$ 1,314	8
Mid-Corporate Banking	235	197	19	442	409	8
Real Estate Banking	94	109	(14)	191	211	(9)
Other	69	48	44	126	76	66
Total Commercial Banking revenue	\$ 1,106	\$ 1,007	10	\$ 2,173	\$ 2,010	8
Selected average balances:						
Total assets	\$ 103,469	\$ 84,687	22	\$ 102,724	\$ 83,622	23
Loans:						
Loans retained	70,682	59,071	20	69,096	58,133	19
Loans held-for-sale and loans at fair value	379	741	(49)	450	609	(26)
Total loans ^(b)	71,061	59,812	19	69,546	58,742	18
Liability balances ^(c)	99,404	84,187	18	99,441	82,976	20
Equity	7,000	6,300	11	7,000	6,300	11
Average loans by business:						
Middle Market Banking	\$ 42,879	\$ 37,099	16	\$ 41,495	\$ 36,710	13
Mid-Corporate Banking	15,357	11,692	31	15,253	11,183	36
Real Estate Banking	7,500	6,894	9	7,479	6,984	7
Other	5,325	4,127	29	5,319	3,865	38

Total Commercial Banking loans	\$ 71,061	\$ 59,812	19	\$ 69,546	\$ 58,742	18
Headcount	4,028	4,295	(6)	4,028	4,295	(6)
Credit data and quality statistics:						
Net charge-offs (recoveries)	\$ 49	\$ (8)	NM	\$ 130	\$ (9)	NM
Nonperforming loans ^(d)	486	135	260	486	135	260
Allowance for credit losses:						
Allowance for loan losses ^(e)	1,843	1,551	19	1,843	1,551	19
Allowance for lending-related commitments	170	222	(23)	170	222	(23)
Total allowance for credit losses	2,013	1,773	14	2,013	1,773	14
Net charge-off (recovery) rate ^(b)	0.28%	(0.05)%		0.38%	(0.03)%	
Allowance for loan losses to average loans ^(b)	2.61	2.63		2.67	2.67	
Allowance for loan losses to nonperforming loans ^(d)	401	1,149		401	1,149	
Nonperforming loans to average loans	0.68	0.23		0.70	0.23	

Table of Contents

- (a) *Represents the total revenue related to investment banking products sold to CB clients.*
- (b) *Loans held-for-sale and loans accounted for at fair value were excluded when calculating the allowance coverage ratio and net charge-off (recovery) rate.*
- (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) *Nonperforming loans included loans held-for-sale and loans at fair value of \$26 million at June 30, 2008. This amount was excluded when calculating the allowance coverage ratios.*

There were no nonperforming loans held-for-sale or held at fair value at June 30, 2007.

(e) The allowance for loan losses at June 30, 2008, included an amount related to loans acquired in the merger with Bear Stearns.

TREASURY & SECURITIES SERVICES

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

Selected income statement data (in millions, except headcount and ratio data)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Revenue						
Lending & deposit-related fees	\$ 283	\$ 219	29%	\$ 552	\$ 432	28%
Asset management, administration and commissions	846	828	2	1,666	1,514	10
All other income	228	184	24	428	309	39
Noninterest revenue	1,357	1,231	10	2,646	2,255	17
Net interest income	662	510	30	1,286	1,012	27
Total net revenue	2,019	1,741	16	3,932	3,267	20
Provision for credit losses	7		NM	19	6	217
Credit reimbursement to IB ^(a)	(30)	(30)		(60)	(60)	
Noninterest expense						
Compensation expense	669	609	10	1,310	1,167	12
Noncompensation expense	632	523	21	1,203	1,025	17
Amortization of intangibles	16	17	(6)	32	32	
Total noninterest expense	1,317	1,149	15	2,545	2,224	14
Income before income tax expense	665	562	18	1,308	977	34
Income tax expense	240	210	14	480	362	33
Net income	\$ 425	\$ 352	21	\$ 828	\$ 615	35

Revenue by business

Treasury Services	\$ 852	\$ 720	18	\$ 1,665	\$ 1,409	18
Worldwide Securities Services	1,167	1,021	14	2,267	1,858	22

Total net revenue

	\$ 2,019	\$ 1,741	16	\$ 3,932	\$ 3,267	20
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Financial ratios

ROE	49%	47%		48%	41%	
Overhead ratio	65	66		65	68	
Pretax margin ratio ^(b)	33	32		33	30	

Selected average balances

Total assets	\$ 56,192	\$ 50,687	11	\$ 56,698	\$ 48,359	17
Loans ^(c)	23,822	20,195	18	23,454	19,575	20
Liability balances ^(d)	268,293	217,514	23	261,331	214,095	22
Equity	3,500	3,000	17	3,500	3,000	17
Headcount	27,232	25,206	8	27,232	25,206	8

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

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

(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.*

Table of Contents

Quarterly results

Net income was a record \$425 million, an increase of \$73 million, or 21%, from the prior year, driven by record total net revenue, partially offset by higher noninterest expense.

Total net revenue was a record \$2.0 billion, an increase of \$278 million, or 16%, from the prior year. Worldwide Securities Services net revenue of \$1.2 billion was a record, up \$146 million, or 14%, from the prior year. The growth was driven by increased product usage by new and existing clients (largely in custody, funds services and depository receipts), wider spreads in securities lending and higher levels of market volatility in foreign exchange driven by recent market conditions. These benefits were offset partially by spread compression on liability products. Treasury Services net revenue was a record \$852 million, an increase of \$132 million, or 18%, from the prior year. This increase reflected higher liability balances and wider market-driven spreads as well as growth in electronic and trade loan volumes. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to \$2.7 billion, up \$346 million, or 15%. Treasury Services firmwide net revenue grew to \$1.6 billion, up \$200 million, or 15%.

Noninterest expense was \$1.3 billion, an increase of \$168 million, or 15%, from the prior year, reflecting higher expense related to business and volume growth as well as continued investment in new product platforms.

Year-to-date results

Net income was \$828 million, an increase of \$213 million, or 35%, from the prior year. The increase was driven by higher total net revenue, partially offset by higher noninterest expense.

Total net revenue was \$3.9 billion, an increase of \$665 million, or 20%, from the prior year. Worldwide Securities Services net revenue of \$2.3 billion was up \$409 million, or 22%, driven by increased product usage by new and existing clients (largely in custody, funds services and depository receipts), and wider spreads in securities lending and higher levels of market volatility in foreign exchange driven by recent market conditions. These benefits were offset partially by spread compression on liability products. Treasury Services net revenue was \$1.7 billion, an increase of \$256 million, or 18%, reflecting higher liability balances and wider market-driven spreads, as well as growth in electronic and trade loan volumes. TSS firmwide revenue grew to \$5.3 billion, up \$802 million, or 18%. Treasury Services firmwide net revenue grew to \$3.1 billion, up \$393 million, or 15%.

Noninterest expense was \$2.5 billion, up \$321 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.

Table of Contents**TSS firmwide metrics**

TSS firmwide metrics include revenue recorded in the CB, Regional Banking and AM lines of business and excludes FX revenue recorded in the 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 (in millions, except ratio data and where otherwise noted)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
TSS firmwide disclosures						
Treasury Services revenue reported	\$ 852	\$ 720	18%	\$ 1,665	\$ 1,409	18%
Treasury Services revenue reported in Commercial Banking	630	569	11	1,246	1,125	11
Treasury Services revenue reported in other lines of business	72	65	11	141	125	13
Treasury Services firmwide revenue^(a)	1,554	1,354	15	3,052	2,659	15
Worldwide Securities Services revenue	1,167	1,021	14	2,267	1,858	22
Treasury & Securities Services firmwide revenue^(a)	\$ 2,721	\$ 2,375	15	\$ 5,319	\$ 4,517	18
Treasury Services firmwide liability balances (average) ^(b)	\$ 230,689	\$ 189,214	22	\$ 226,203	\$ 187,930	20
Treasury & Securities Services firmwide liability balances (average) ^(b)	367,670	301,701	22	360,758	297,072	21
TSS firmwide financial ratios						
Treasury Services firmwide overhead ratio ^(c)	54%	59%		54%	59%	
Treasury & Securities Services overhead ratio ^(c)	58	60		58	61	
Firmwide business metrics						
Assets under custody (in billions)	\$ 15,476	\$ 15,203	2	\$ 15,476	\$ 15,203	2
Number of:						
US\$ ACH transactions originated (in millions)	993	972	2	1,997	1,943	3
Total US\$ clearing volume (in thousands)	29,063	27,779	5	57,119	54,619	5
International electronic funds transfer volume (in thousands) ^(d)	41,432	42,068	(2)	81,471	84,467	(4)
Wholesale check volume (in millions)	618	767	(19)	1,241	1,538	(19)
Wholesale cards issued (in thousands) ^(e)	19,917	17,535	14	19,917	17,535	14

(a) TSS firmwide FX revenue, which includes FX revenue recorded in TSS and FX revenue associated with TSS customers who are FX

*customers of the
IB, was
\$222 million
and
\$139 million for
the quarters
ended June 30,
2008 and 2007,
respectively,
and
\$413 million
and
\$251 million
year-to-date
2008 and 2007,
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 the
IB for
TSS-related FX
activity are not
included in this
ratio.*
- (d) International
electronic funds
transfer*

*includes
non-US\$ ACH
and clearing
volume.*

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

Table of Contents**ASSET MANAGEMENT**

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

Selected income statement data (in millions, except ratios)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Revenue						
Asset management, administration and commissions	\$ 1,573	\$ 1,671	(6)%	\$ 3,104	\$ 3,160	(2)%
All other income	130	173	(25)	189	343	(45)
Noninterest revenue	1,703	1,844	(8)	3,293	3,503	(6)
Net interest income	361	293	23	672	538	25
Total net revenue	2,064	2,137	(3)	3,965	4,041	(2)
Provision for credit losses	17	(11)	NM	33	(20)	NM
Noninterest expense						
Compensation expense	886	879	1	1,711	1,643	4
Noncompensation expense	494	456	8	971	907	7
Amortization of intangibles	20	20		41	40	2
Total noninterest expense	1,400	1,355	3	2,723	2,590	5
Income before income tax expense	647	793	(18)	1,209	1,471	(18)
Income tax expense	252	300	(16)	458	553	(17)
Net income	\$ 395	\$ 493	(20)	\$ 751	\$ 918	(18)
Revenue by client segment						
Private bank	\$ 765	\$ 646	18	\$ 1,420	\$ 1,206	18
Retail	490	602	(19)	956	1,129	(15)
Institutional	472	617	(24)	962	1,168	(18)
Private client services	299	272	10	589	538	9
Bear Stearns brokerage	38		NM	38		NM
Total net revenue	\$ 2,064	\$ 2,137	(3)	\$ 3,965	\$ 4,041	(2)
Financial ratios						
ROE	31%	53%		30%	49%	
Overhead ratio	68	63		69	64	
Pretax margin ratio(a)	31	37		30	36	

(a) Pretax margin represents

*income before
income tax
expense divided
by total net
revenue, which
is a measure of
pretax
performance
and another
basis by which
management
evaluates its
performance
and that of its
competitors.*

Quarterly results

Net income was \$395 million, a decline of \$98 million, or 20%, from the prior year driven largely by lower performance fees and higher expense offset partially by increased total net revenue from growth in deposit and loan balances.

Total net revenue was \$2.1 billion, a decrease of \$73 million, or 3%, from the prior year. Noninterest revenue was \$1.7 billion, a decline of \$141 million, or 8%, due to lower performance fees and the effect of lower markets, offset partially by increased revenue from net asset inflows, higher placement fees and the benefit of the Merger. Net interest income was \$361 million, up \$68 million, or 23%, from the prior year, predominantly due to higher deposit and loan balances.

Private Bank revenue grew 18% to \$765 million due to increased deposit and loan balances, higher placement fees and higher assets under management, partially offset by lower performance fees. Retail revenue declined 19% to \$490 million due to net equity outflows. Institutional revenue declined 24% to \$472 million due to lower performance fees, partially offset by growth in assets under management. Private Client Services revenue grew 10% to \$299 million due to higher deposit and loan balances and growth in assets under management. Bear Stearns Brokerage added \$38 million to revenue.

Table of Contents

The provision for credit losses was \$17 million, compared with a benefit of \$11 million in the prior year, reflecting an increase in loan balances and a lower level of recoveries.

Noninterest expense was \$1.4 billion, up \$45 million, or 3%, from the prior year, largely driven by the effect of the Merger and increased headcount offset partially by lower performance-based compensation.

Year-to-date results

Net income was \$751 million, a decline of \$167 million, or 18%, from the prior year reflecting higher noninterest expense and lower revenue.

Total net revenue was \$4.0 billion, a decrease of \$76 million, or 2%, from the prior year. Noninterest revenue was \$3.3 billion, a decline of \$210 million, or 6%, due to lower performance fees, reduced valuations for seed capital investments in JPMorgan Funds, and the effect of lower markets. The lower results were largely offset by increased revenue from net asset inflows, the benefit of the Merger, and higher placement fees. Net interest income was \$672 million, up \$134 million, or 25%, from the prior year, predominantly due to higher deposit and loan balances.

Private Bank revenue grew 18% to \$1.4 billion due to increased deposit and loan balances, higher placement fees and higher assets under management, partially offset by lower performance fees. Institutional revenue declined 18% to \$962 million due to lower performance fees, partially offset by growth in assets under management. Retail revenue declined 15% to \$956 million due to lower market valuations for seed capital investments and net equity outflows. Private Client Services revenue grew 9% to \$589 million due to higher deposit and loan balances and growth in assets under management. Bear Stearns Brokerage added \$38 million to revenue.

The provision for credit losses was \$33 million, compared with a benefit of \$20 million in the prior year, reflecting an increase in loan balances and a lower level of recoveries.

Noninterest expense was \$2.7 billion, up \$133 million, or 5%, from the prior year. The increase was due predominantly to higher compensation, reflecting increased headcount, and the effect of the Merger.

Table of Contents**Business metrics**

(in millions, except headcount, ratios and ranking data, and where otherwise noted)

	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Number of:						
Client advisors	1,717	1,582	9%	1,717	1,582	9%
Retirement planning services participants	1,505,000	1,477,000	2	1,505,000	1,477,000	2
Bear Stearns brokers	326		NM	326		NM
% of customer assets in 4 & 5 Star Funds ^(a)	40%	65%	(38)	40%	65%	(38)
% of AUM in 1st and 2nd quartiles: ^(b)						
1 year	51%	65%	(22)	51%	65%	(22)
3 years	70%	77%	(9)	70%	77%	(9)
5 years	76%	76%		76%	76%	
Selected balance sheets data (average)						
Total assets	\$ 65,015	\$ 51,710	26	\$ 62,651	\$ 48,779	28
Loans ^(c)	39,264	28,695	37	37,946	27,176	40
Deposits	69,975	55,981	25	69,079	55,402	25
Equity	5,066	3,750	35	5,033	3,750	34
Headcount	15,840	14,108	12	15,840	14,108	12
Credit data and quality statistics						
Net charge-offs (recoveries)	\$ 2	\$ (5)	NM	\$	\$ (5)	NM
Nonperforming loans	68	21	224	68	21	224
Allowance for loan losses	147	105	40	147	105	40
Allowance for lending-related commitments	5	7	(29)	5	7	(29)
Net charge-off (recovery) rate	0.02%	(0.07)%		%	(0.04)%	
Allowance for loan losses to average loans	0.37	0.37		0.39	0.39	
Allowance for loan losses to nonperforming loans	216	500		216	500	
Nonperforming loans to average loans	0.17	0.07		0.18	0.08	

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

(b) Derived from following rating services: Lipper for

*the United States
and Taiwan;*

*Micropal for the
United Kingdom,*

Luxembourg and

Hong Kong; and

Nomura for Japan.

(c) *Reflects the transfer*

in 2007 of

held-for-investment

prime mortgage

loans transferred

from AM to

Corporate within

the

Corporate/Private

Equity segment.

Assets under supervision

Assets under supervision were \$1.6 trillion, an increase of \$139 billion, or 9%, from the prior year. Assets under management were \$1.2 trillion, up \$76 billion, or 7%, from the prior year. The increase was due largely to liquidity product inflows across all segments and the Merger, partially offset by lower equity markets and equity product outflows. Custody, brokerage, administration and deposit balances were \$426 billion, up \$63 billion, driven by the acquisition of Bear Stearns Brokerage.

Table of Contents**ASSETS UNDER SUPERVISION**^(a) (in billions)

As of June 30,	2008	2007
Assets by asset class		
Liquidity	\$ 478	\$ 333
Fixed income	199	190
Equities & balanced	378	467
Alternatives	130	119
Total assets under management	1,185	1,109
Custody/brokerage/administration/deposits	426	363
Total assets under supervision	\$ 1,611	\$ 1,472
Assets by client segment		
Institutional	\$ 645	\$ 565
Private Bank	196	185
Retail	276	300
Private Client Services	60	59
Bear Stearns Brokerage	8	
Total assets under management	\$ 1,185	\$ 1,109
Institutional	\$ 646	\$ 566
Private Bank	442	402
Retail	357	393
Private Client Services	106	111
Bear Stearns Brokerage	60	
Total assets under supervision	\$ 1,611	\$ 1,472
Assets by geographic region		
U.S./Canada	\$ 771	\$ 700
International	414	409
Total assets under management	\$ 1,185	\$ 1,109
U.S./Canada	\$ 1,093	\$ 971
International	518	501
Total assets under supervision	\$ 1,611	\$ 1,472
Mutual fund assets by asset class		
Liquidity	\$ 416	\$ 268
Fixed income	47	49

Equity	179	235
Total mutual fund assets	\$ 642	\$ 552

(a) *Excludes assets under management of American Century Companies, Inc., in which the Firm has 43% ownership.*

	Three months ended June		Six months ended June	
	30, 2008	2007	30, 2008	2007
Assets under management rollforward				
Beginning balance	\$ 1,187	\$ 1,053	\$ 1,193	\$ 1,013
Net asset flows:				
Liquidity	1	12	69	19
Fixed income	(1)	6	(1)	8
Equities, balanced and alternative	(3)	12	(24)	22
Market/performance/other impacts ^(a)	1	26	(52)	47
Total assets under management	\$ 1,185	\$ 1,109	\$ 1,185	\$ 1,109
Assets under supervision rollforward				
Beginning balance	\$ 1,569	\$ 1,395	\$ 1,572	\$ 1,347
Net asset flows	(5)	38	47	65
Market/performance/other impacts ^(a)	47	39	(8)	60
Total assets under supervision	\$ 1,611	\$ 1,472	\$ 1,611	\$ 1,472

(a) *Second quarter 2008 reflects \$15 billion for assets under management and \$68 billion for assets under supervision from the Merger.*

Table of Contents**CORPORATE / PRIVATE EQUITY**

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

Selected income statement data (in millions, except headcount)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Revenue						
Principal transactions	\$ (97)	\$ 1,372	NM%	\$ (92)	\$ 2,697	NM%
Securities gains (losses) ^(a)	656	(227)	NM	698	(235)	NM
All other income ^(b)	(378)	90	NM	1,261	158	NM
Noninterest revenue	181	1,235	(85)	1,867	2,620	(29)
Net interest income (expense)	48	(173)	NM	(238)	(290)	18
Total net revenue	229	1,062	(78)	1,629	2,330	(30)
Provision for credit losses	290	3	NM	486	6	NM
Noninterest expense						
Compensation expense	611	695	(12)	1,250	1,471	(15)
Noncompensation expense ^(c)	699	818	(15)	617	1,374	(55)
Merger costs	155	64	142	155	126	23
Subtotal	1,465	1,577	(7)	2,022	2,971	(32)
Net expense allocated to other businesses	(1,070)	(1,075)		(2,127)	(2,115)	(1)
Total noninterest expense	395	502	(21)	(105)	856	NM
Income (loss) before income tax expense	(456)	557	NM	1,248	1,468	(15)
Income tax expense (benefit)	(34)	175	NM	643	455	41
Net income (loss)	\$ (422)	\$ 382	NM	\$ 605	\$ 1,013	(40)
Total net revenue						
Private equity	\$ 197	\$ 1,293	(85)	\$ 360	\$ 2,546	(86)
Corporate	32	(231)	NM	1,269	(216)	NM
Total net revenue	\$ 229	\$ 1,062	(78)	\$ 1,629	\$ 2,330	(30)
Net income (loss)						
Private equity	\$ 99	\$ 702	(86)	\$ 156	\$ 1,400	(89)
Corporate	19	(280)	NM	989	(309)	NM
Merger-related items ^(d)	(540)	(40)	NM	(540)	(78)	NM
Total net income (loss)	\$ (422)	\$ 382	NM	\$ 605	\$ 1,013	(40)

Headcount	22,317	23,532	(5)	22,317	23,532	(5)
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(a) *The second quarter of 2008 included a gain on the sale of MasterCard shares.*

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

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

(d) *The second quarter of 2008 reflects items related to the Merger, which include the Bear Stearns equity method investment 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 and Bank of New York transactions.*

Quarterly results

Net loss for Corporate/Private Equity was \$422 million, compared with net income of \$382 million in the prior year.

Net loss included the after-tax effects of Bear Stearns merger-related items amounting to a net loss of \$540 million. These items included losses of \$423 million, which represent JPMorgan Chase's 49.4% ownership in Bear Stearns losses from April 8 to May 30, 2008, which were reflected in total net revenue. In addition, other merger-related items of \$117 million (\$188 million pretax) were reflected almost entirely in noninterest expense.

Net income for Private Equity was \$99 million, compared with \$702 million in the prior year. Total net revenue was \$197 million, a decrease of \$1.1 billion, reflecting Private Equity gains of \$220 million, compared with gains of \$1.3 billion in the prior year. Noninterest expense was \$44 million, a decline of \$154 million from the prior year, reflecting lower compensation expense.

Excluding the after-tax effect of Bear Stearns merger-related items of negative \$540 million, net income for Corporate was \$19 million, compared with a net loss of \$320 million in the prior year. Total net revenue was \$452 million, compared with a negative \$231 million in the prior year, reflecting a higher level of securities gains, predominantly related to a gain of

Table of Contents

\$668 million from the sale of MasterCard shares, and a wider net interest spread. These benefits were offset partially by trading-related losses. The current-quarter provision for credit losses includes an increase in the allowance for loan losses of \$170 million for prime mortgage (see Retail Financial Services discussion of provision for loan losses for further detail). Noninterest expense was \$170 million, a decrease of \$135 million, or 44%, from the prior year. The decrease reflected reduced litigation expense and the absence of prior-year merger expense related to the Bank One merger.

Year-to-date results

Net income for Corporate/Private Equity was \$605 million, compared with \$1.0 billion in the prior year.

Results included the after-tax proceeds from the sale of Visa shares in its initial public offering (\$1.5 billion pretax and \$955 million after-tax). In addition, the impact of Bear Stearns merger-related items resulted in a net loss of \$540 million (see Corporate/Private Equity quarterly results discussion for further detail on Bear Stearns merger-related items).

Net income for Private Equity was \$156 million, compared with \$1.4 billion in the prior year. Total net revenue was \$360 million, reflecting Private Equity gains of \$409 million, compared with gains of \$2.6 billion in the prior year. Noninterest expense was \$119 million, a decline of \$242 million from the prior year, representing lower compensation expense.

Excluding the after-tax effect of Visa sale proceeds and the impact of Bear Stearns merger-related items, net income for Corporate was \$34 million, compared with a net loss of \$387 million in the prior year. Total net revenue (excluding the effect of Visa sale proceeds and Bear Stearns merger-related items) was \$149 million, compared with a negative \$216 million in the prior year. This increase was driven by a pretax gain of \$668 million from the sale of MasterCard shares offset largely by trading-related losses. Provision for credit losses was \$476 million compared with \$6 million in the prior year, predominantly reflecting an increase in the allowance for loan losses and higher net charge-offs for prime mortgages. Noninterest expense was negative \$406 million, compared with expense of \$495 million in the prior year, reflecting a reduction of credit card-related litigation expense and the absence of prior-year merger expense related to the Bank One merger.

Selected income statement and balance sheet data (in millions)	Three months ended June 30,			Six months ended June 30,		
	2008	2007	Change	2008	2007	Change
Corporate						
Securities gains (losses) ^(a)	\$ 656	\$ (227)	NM%	\$ 698	\$ (235)	NM%
Investment securities portfolio (average)	97,223	87,760	11	88,833	87,102	2
Investment securities portfolio (ending)	103,751	86,821	19	103,751	86,821	19
Mortgage loans (average) ^(b)	42,143	26,830	57	40,620	26,041	56
Mortgage loans (ending) ^(b)	42,602	27,299	56	42,602	27,299	56
Private equity						
Realized gains	\$ 540	\$ 985	(45)	\$ 1,653	\$ 1,708	(3)
Unrealized gains (losses) ^(c)	(326)	290	NM	(1,207)	811	NM
Total direct investments	214	1,275	(83)	446	2,519	(82)
Third-party fund investments	6	53	(89)	(37)	87	NM
Total private equity gains^(d)	\$ 220	\$ 1,328	(83)	\$ 409	\$ 2,606	(84)

Private equity portfolio information^(e)

	June 30, 2008	December 31, 2007	Change
Direct investments			

Publicly held securities

Carrying value	\$	615	\$	390	58%
Cost		665		288	131
Quoted public value		732		536	37

Privately held direct securities

Carrying value		6,270		5,914	6
Cost		6,113		4,867	26

Third-party fund investments^(f)

Carrying value		838		849	(1)
Cost		1,094		1,076	2

Total private equity portfolio	Carrying value	\$	7,723	\$	7,153	8
Total private equity portfolio	Cost	\$	7,872	\$	6,231	26

Table of Contents

- (a) *The second quarter of 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) *Held-for-investment prime mortgage loans were transferred from RFS and AM to the Corporate/Private Equity segment for risk management and reporting purposes. The initial transfers had no material impact on the financial results of Corporate/Private Equity.*
- (c) *Unrealized gains (losses) contain reversals of unrealized gains and losses that were recognized in prior periods and have now been realized.*
- (d) *Included in principal transactions revenue in the Consolidated Statements of Income.*
- (e) *For more information on the*

Firm's policies regarding the valuation of the private equity portfolio, see Note 3 on pages 83-89 of this Form 10-Q.

(f) *Unfunded commitments to third-party private equity funds were \$861 million and \$881 million at June 30, 2008, and December 31, 2007, respectively.*

The carrying value of the private equity portfolio at June 30, 2008, was \$7.7 billion, up from \$7.2 billion at December 31, 2007. The portfolio represented 8.9% of the Firm's stockholders' equity less goodwill at June 30, 2008, down from 9.2% at December 31, 2007.

BALANCE SHEET ANALYSIS

Selected balance sheet data (in millions)	June 30, 2008	December 31, 2007
Assets		
Cash and due from banks	\$ 32,255	\$ 40,144
Deposits with banks	17,150	11,466
Federal funds sold and securities purchased under resale agreements	176,287	170,897
Securities borrowed	142,854	84,184
Trading assets:		
Debt and equity instruments	409,608	414,273
Derivative receivables	122,389	77,136
Securities	119,173	85,450
Loans	538,029	519,374
Allowance for loan losses	(13,246)	(9,234)
Loans, net of allowance for loan losses	524,783	510,140
Accrued interest and accounts receivable	64,294	24,823
Goodwill	45,993	45,270
Other intangible assets	17,276	14,731
Other assets	103,608	83,633
Total assets	\$ 1,775,670	\$ 1,562,147
Liabilities		
Deposits	\$ 722,905	\$ 740,728
Federal funds purchased and securities loaned or sold under repurchase agreements	194,724	154,398

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Commercial paper and other borrowed funds	72,745	78,431
Trading liabilities:		
Debt and equity instruments	87,841	89,162
Derivative payables	95,749	68,705
Accounts payable, accrued expense and other liabilities	171,004	94,476
Beneficial interests issued by consolidated VIEs	20,071	14,016
Long-term debt and trust preferred capital debt securities	277,455	199,010
Total liabilities	1,642,494	1,438,926
Stockholders equity	133,176	123,221
Total liabilities and stockholders equity	\$ 1,775,670	\$ 1,562,147

Table of Contents**Consolidated Balance Sheets overview**

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

Deposits with banks; federal funds sold and securities purchased under resale agreements; securities borrowed; federal funds purchased and securities 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. The increase from December 31, 2007, in securities borrowed, deposits with banks, and securities purchased under resale agreements was related to the assets acquired as a result of the Merger and growth in demand from clients for liquidity. The increase in securities loaned or sold under repurchase agreements reflected higher short-term funding requirements to fulfill clients' demand for liquidity and to finance the Firm's AFS securities inventory, as well as the liabilities assumed in connection with the Merger. For additional information on the Firm's Liquidity Risk Management, see pages 53-55 of this Form 10-Q.

Trading assets and liabilities - debt and equity instruments

The Firm uses debt and equity trading instruments for both market-making and proprietary risk-taking activities. These instruments consist predominantly of fixed income securities, including government and corporate debt; equity, including convertible securities; loans (including certain prime mortgage and other loans warehoused by RFS and IB for sale or securitization purposes and accounted for at fair value under SFAS 159); and physical commodities inventories. The decreases in trading assets and liabilities from December 31, 2007, were largely due to the more challenging capital markets environment, particularly for debt securities, partially offset by the positions acquired as a result of the Merger. For additional information, refer to Note 4 and Note 5 on pages 90-92 and 92-94, respectively, of this Form 10-Q.

Trading assets and liabilities - derivative receivables and payables

The Firm utilizes various interest rate, foreign exchange, equity, credit and commodity derivatives for market-making, proprietary risk-taking and risk-management purposes. The increase in derivative receivables and payables was largely driven by receivables and payables positions acquired due to the Merger, the increase in commodity derivative receivables due to sharply higher energy prices and the effect of the weakening U.S. dollar on interest rate and foreign exchange derivative receivables. For additional information, refer to derivative contracts and Note 5 on pages 60-62 and 92-94, respectively, of this Form 10-Q.

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. The AFS portfolio increased from December 31, 2007, predominantly as a result of net purchases, partially offset by maturities and paydowns of mortgage-related securities. For additional information related to securities, refer to the Corporate/Private Equity segment discussion and to Note 11 on pages 43-45 and 97-98, respectively, of this Form 10-Q.

Loans and allowance for loan losses

The Firm provides loans to a variety of customers, from large corporate and institutional clients to individual consumers. Loans increased from December 31, 2007, largely due to business growth in lending across all the wholesale businesses, as well as growth in the consumer prime mortgage portfolio driven by the decision to retain, rather than sell, new originations of nonconforming mortgage loans. These increases were partly offset by the seasonal decline in credit card receivables. Both the consumer and wholesale components of the allowance for loan losses increased from December 31, 2007. The rise in the consumer allowance was driven by an increase in estimated losses for home equity, prime and subprime mortgage and credit card loans due to the effects of continued weak housing prices and slowing economic growth. The increase in the wholesale allowance was due to the effects of a weakening credit environment and the impact of the transfer of leveraged lending loans in the IB to retained loans from

held-for-sale loans, as well as to loan growth. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 55-68 of this Form 10-Q.

Accrued interest and accounts receivable; accounts payable, accrued expense and other liabilities

The Firm's accrued interest and accounts receivable consist of accrued interest receivable from interest-earning assets; receivables from customers (margin loans), brokers, dealers and clearing organizations, including trade date/settlement date receivables; and sales fails receivables. The Firm's accounts payable, accrued expense, and other liabilities consist of accounts payable to customers, brokers, dealers and clearing organizations, including trade date/settlement date payables

Table of Contents

and sales fails payables; 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 Merger, reflecting higher customer receivables in IB's prime brokerage business. The increase in accounts payable, accrued expense and other liabilities was also due to the Merger, reflecting higher customer payables in IB's prime brokerage business, as well as higher obligations to return securities received as collateral. For additional information, see Note 15 on page 102 of this Form 10-Q.

Goodwill

Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed. The increase in goodwill was due to the purchase of an additional equity interest in Highbridge, tax-related purchase accounting adjustments associated with the Bank One merger and the merger with Bear Stearns. For additional information, see Note 18 on pages 114-116 of this Form 10-Q.

Other intangible assets

The Firm's other intangible assets consist of MSRs, purchased credit card relationships, other credit card-related intangibles, core deposit intangibles, and all other intangibles. MSRs increased largely due to sales of originated loans and purchases of MSRs, a net increase in the fair value of MSRs (driven primarily by higher mortgage borrowing rates) and MSRs acquired as a result of the Merger, partially offset by servicing portfolio runoff. The decrease in other intangible assets reflects amortization expense associated with credit card-related and core deposit intangibles, partially offset by an increase as a result of the purchase of an additional equity interest in Highbridge. For additional information on MSRs and other intangible assets, see Note 18 on pages 114-116 of this Form 10-Q.

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, and all other assets. The increase in other assets from December 31, 2007, was driven predominantly by the Merger, reflecting higher volume of collateral received.

Deposits

The Firm's deposits represent a liability to customers, both retail and wholesale, for funds held on their behalf. Deposits are generally classified by location (U.S. and non-U.S.), whether they are interest or noninterest-bearing, and by type (i.e., demand, money market deposit accounts, savings, time or negotiable order of withdrawal accounts). Deposits help provide a stable and consistent source of funding for the Firm. Deposits were lower, compared with December 31, 2007, predominantly from a decrease in interest-bearing U.S. deposits in Corporate, which reflected a declining interest rate environment, reduced wholesale funding activity and maturities; partly offset by a net increase in non-U.S. interest-bearing deposits in TSS, driven by growth in business volumes. For more information on deposits, refer to the TSS and RFS segment discussions and the Liquidity Risk Management discussion on pages 36-38, 23-29 and 53-55 of this Form 10-Q. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 34-36 and 36-38 of this Form 10-Q.

Commercial paper and other borrowed funds

The Firm utilizes commercial paper and other borrowed funds as part of its liquidity management activities to meet short-term funding needs, and in connection with TSS's cash management product whereby excess client funds, predominantly in TSS, CB and RFS, are transferred into commercial paper overnight sweep accounts. The decrease in commercial paper and other borrowed funds was largely due to lower short-term requirements to fund trading positions, partly offset by growth in the volume of liability balances in sweep accounts. For additional information on the Firm's Liquidity Risk Management, see pages 53-55 of this Form 10-Q.

Beneficial interests issued by consolidated variable interest entities (VIEs)

Beneficial interests issued by consolidated VIEs increased from December 31, 2007, largely as a result of VIEs acquired in the Merger.

Long-term debt and trust preferred capital debt securities

The Firm utilizes long-term debt and trust preferred capital debt securities to provide stable, reliable and cost-effective sources of funding as part of its longer-term liquidity and capital management activities. Long-term debt and trust preferred capital debt securities increased from December 31, 2007, predominantly due to the debt assumed in

connection with the Merger and net new issuances. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 53-55 of this Form 10-Q.

Stockholders' equity

The increase in total stockholders' equity from year-end 2007 was predominantly the result of net income for the first six months of 2008; the issuance of noncumulative perpetual preferred stock in the second quarter of 2008; and net issuances of common stock in connection with the Merger and under the Firm's employee stock-based compensation plans. These

Table of Contents

additions were partially offset by the declaration of cash dividends. For a further discussion of capital, see the Capital Management section that follows.

CAPITAL MANAGEMENT

The following discussion of JPMorgan Chase's capital management highlights developments since December 31, 2007, and should be read in conjunction with Capital Management on pages 63-65 of JPMorgan Chase's 2007 Annual Report.

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

Line of business equity

Equity for a line of business represents the amount the Firm believes the business would require if it were operating independently, incorporating sufficient capital to address economic risk measures, regulatory capital requirements and capital levels for similarly rated peers. Return on equity is measured and internal targets for expected returns are established as a key measure of a business segment's performance. Line of business equity increased during the second quarter of 2008 in IB and AM due to the Bear Stearns merger. Relative to the second quarter of 2007, line of business equity increased due to the Bear Stearns merger, business growth across the businesses and, for AM, the purchase of the additional equity interest in Highbridge. The Firm may revise its equity capital-allocation methodology in the future.

In accordance with SFAS 142, the lines of business perform the required goodwill impairment testing. For a further discussion of goodwill and impairment testing, see Critical Accounting Estimates Used by the Firm and Note 18 on pages 98 and 154, respectively, of JPMorgan Chase's 2007 Annual Report, and Note 18 on page 114 of this Form 10-Q.

Line of business equity (in billions)	Quarterly Averages		
	2Q08	1Q08	2Q07
Investment Bank ^(a)	\$ 23.3	\$ 22.0	\$ 21.0
Retail Financial Services	17.0	17.0	16.0
Card Services	14.1	14.1	14.1
Commercial Banking	7.0	7.0	6.3
Treasury & Securities Services	3.5	3.5	3.0
Asset Management ^(a)	5.1	5.0	3.8
Corporate/Private Equity	56.4	56.0	53.9
Total common stockholders' equity	\$ 126.4	\$ 124.6	\$ 118.1

(a) Amounts provided are quarterly averages. Equity allocated to the IB and AM as of June 30, 2008 was \$26.0 billion and \$5.2 billion, respectively.

Economic risk capital

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

Economic risk capital

Quarterly Averages

(in billions)	2Q08	1Q08	2Q07
Credit risk ^(a)	\$ 34.8	\$ 32.9	\$ 28.8
Market risk	8.5	8.7	9.9
Operational risk	5.8	5.6	5.6
Private equity risk	5.0	4.3	3.8
Economic risk capital	54.1	51.5	48.1
Goodwill	45.8	45.7	45.2
Other ^(b)	26.5	27.4	24.8
Total common stockholders equity	\$ 126.4	\$ 124.6	\$ 118.1

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

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

Table of Contents**Regulatory capital**

The Board of Governors of the Federal Reserve System (the Federal Reserve Board) establishes capital requirements, including well-capitalized standards for the bank 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 Board granted the Firm, for a period of 18 months following the merger with Bear Stearns, relief up to a certain specified amount and subject to certain conditions from the Federal Reserve Board'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.

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at June 30, 2008, and December 31, 2007. The table indicates that the Firm and its significant banking subsidiaries were well-capitalized.

(in millions, except ratios)	Tier 1 capital	Total capital	Risk-weighted assets ^(c)	Adjusted average assets ^(d)	Tier 1 capital ratio	Total capital ratio	Tier 1 leverage ratio
June 30, 2008^(a)							
JPMorgan Chase & Co.	\$98,775	\$145,012	\$1,079,199	\$1,536,439	9.2%	13.4%	6.4%
JPMorgan Chase Bank, N.A.	80,996	118,411	988,113	1,332,324	8.2	12.0	6.1
Chase Bank USA, N.A.	10,358	11,649	68,104	61,279	15.2	17.1	16.9
December 31, 2007^(a)							
JPMorgan Chase & Co.	\$88,746	\$132,242	\$1,051,879	\$1,473,541	8.4%	12.6%	6.0%
JPMorgan Chase Bank, N.A.	78,453	112,253	950,001	1,268,304	8.3	11.8	6.2
Chase Bank USA, N.A.	9,407	10,720	73,169	60,905	12.9	14.7	15.5
Well-capitalized ratios ^(b)					6.0%	10.0%	5.0% ^(e)
Minimum capital ratios ^(b)					4.0	8.0	3.0 ^(f)

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

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

(c) Includes off-balance sheet risk-weighted assets of \$414.1 billion, \$356.6 billion and \$12.5 billion, respectively, at June 30, 2008, and of \$352.7 billion, \$336.8 billion and \$13.4 billion, respectively, at December 31, 2007, for JPMorgan Chase and its significant banking subsidiaries.

(d) Average adjusted assets, for purposes of calculating the leverage ratio, include total average assets adjusted for unrealized gains/losses on securities, less deductions for disallowed goodwill and other intangible assets, investments in certain subsidiaries and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.

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

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

Note: Rating agencies allow measures of capital to be adjusted upward for deferred tax liabilities which have resulted from both nontaxable business combinations and from tax deductible goodwill. The Firm had deferred tax liabilities resulting from nontaxable business combinations totaling \$1.9 billion at June 30, 2008, and \$2.0 billion at December 31, 2007. Additionally, the Firm had deferred tax liabilities resulting from tax deductible goodwill of \$1.2 billion at June 30, 2008, and \$939 million at December 31, 2007. The rates presented do not include adjustments for such amounts.

The Firm's Tier 1 capital was \$98.8 billion at June 30, 2008, compared with \$88.7 billion at December 31, 2007, an increase of \$10.0 billion. The increase was due primarily to net income of \$4.4 billion, the issuance of noncumulative perpetual preferred stock of \$6.0 billion, net issuances of common stock under the Firm's employee stock-based compensation plans of \$1.8 billion, net issuances of common stock in connection with the Bear Stearns merger of \$1.2 billion and net issuances of qualifying trust preferred capital debt securities of \$1.4 billion. These increases were partially offset by decreases in stockholders' equity net of accumulated other comprehensive income (loss) primarily due to dividends declared of \$2.8 billion, a \$604 million increase in the deduction for goodwill and other nonqualifying intangibles, and a \$1.1 billion (after-tax) increase in the valuation adjustment to certain liabilities to reflect the credit quality of the Firm. Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject is presented in Note 28 on pages 166-167 of JPMorgan Chase's 2007 Annual Report.

Table of Contents**Basel II**

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

Broker-dealer regulatory capital

JPMorgan Chase s principal U.S. broker-dealer subsidiaries are J.P. Morgan Securities Inc. (JPMorgan Securities), Bear, Stearns & Co. Inc. (Bear Stearns & Co.) and Bear, Stearns Securities Corp. (Bear Stearns Securities). JPMorgan Securities, Bear Stearns & Co. and Bear Stearns Securities are each subject to Rule 15c3-1 under the Securities Exchange Act of 1934 (Net Capital Rule). Bear Stearns & Co. and Bear Stearns Securities are also registered as futures commissions merchants and subject to Rule 1.17 under the Commodity Futures Trading Commission (CFTC). JPMorgan Securities and Bear Stearns & Co. have been approved by the Securities and Exchange Commission (SEC) to use Appendix E of the Net Capital Rule (Appendix E), which establishes alternative net capital requirements for broker-dealers that are subject to consolidated supervision and examination at the holding company level. Appendix E allows JPMorgan Securities and Bear Stearns & Co. to calculate net capital charges for market risk and derivatives-related credit risk based on mathematical models, provided that JPMorgan Securities and Bear Stearns & Co. hold tentative net capital in excess of \$1 billion and net capital in excess of \$500 million. At June 30, 2008, JPMorgan Securities net capital of \$8.3 billion exceeded the minimum requirement by \$7.8 billion. Bear Stearns & Co. s net capital at June 30, 2008, of \$5.7 billion exceeded the minimum requirement by \$5.1 billion. The Firm plans to merge JPMorgan Securities and Bear Stearns & Co. on or about October 1, 2008.

Bear Stearns Securities, a guaranteed subsidiary of Bear Stearns & Co., provides clearing and settlement services. Bear Stearns Securities is required to maintain minimum net capital, as defined, of not less than the greater of (i) 2% of aggregate debit items arising from customer transactions, as defined in the Net Capital Rule, or (ii) 8% of customer risk maintenance margin requirements plus 4% of non-customer risk maintenance margin requirements, all as defined in the capital rules of the CFTC. At June 30, 2008, Bear Stearns Securities net capital of \$4.7 billion exceeded the minimum requirement by \$3.6 billion.

Dividends

The Firm s common stock dividend policy reflects JPMorgan Chase s earnings outlook, desired dividend payout ratios, need to maintain an adequate capital level and alternative investment opportunities. The Firm continues to target a dividend payout ratio of approximately 30-40% of net income over time. On May 20, 2008, the Firm declared a quarterly common stock dividend of \$0.38 per share, payable on July 31, 2008, to shareholders of record at the close of business on July 3, 2008.

Issuance

On April 23, 2008, the Firm issued \$6.0 billion of noncumulative perpetual preferred stock. The proceeds were used for general corporate purposes. For additional information regarding preferred stock, see Note 21 on page 119 of this Form 10-Q.

Stock repurchases

For a discussion of the Firm s current stock repurchase program, see Stock repurchases on page 65 of JPMorgan Chase s 2007 Annual Report. During the six months ended June 30, 2008, the Firm did not repurchase any shares. During the three and six months ended June 30, 2007, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 37 million and 118 million shares for \$1.9 billion and \$5.9 billion, respectively, at an average price per share of \$51.13 and \$49.97, respectively. As of June 30, 2008, \$6.2 billion of authorized repurchase

capacity remained under the current \$10.0 billion stock repurchase program.

The current \$10.0 billion authorization to repurchase stock will be utilized at management's discretion, and the timing of purchases and the exact number of shares purchased will depend on market conditions and alternative investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases, privately negotiated transactions or utilizing Rule 10b5-1 programs; and may be suspended at any time. For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, on page 140 of this Form 10-Q.

Table of Contents**OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS**

JPMorgan Chase has several types of off-balance sheet arrangements, including arrangements with special purpose entities (SPEs) and issuance of lending-related financial instruments (e.g., commitments and guarantees). For further discussion of contractual cash obligations, see Off-Balance Sheet Arrangements and Contractual Cash Obligations on page 67 of JPMorgan Chase s 2007 Annual Report.

Special-purpose entities

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

JPMorgan Chase uses SPEs as a source of liquidity for itself and its clients by securitizing financial assets, and by creating investment products for clients. The Firm is involved with SPEs through multi-seller conduits and investor intermediation activities, and as a result of its loan securitizations through qualifying special purpose entities (QSPEs). For a detailed discussion of all SPEs with which the Firm is involved, and the related accounting, see Note 1 on page 108, Note 16 on pages 139 145 and Note 17 on pages 146 154 of JPMorgan Chase s 2007 Annual Report.

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

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

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A., was downgraded below specific levels, primarily P-1 , A-1 and F1 for Moody Standard & Poor s and Fitch, respectively. The amount of these liquidity commitments was \$74.3 billion and \$94.0 billion at June 30, 2008, and December 31, 2007, respectively. Alternatively, if JPMorgan Chase Bank, N.A., were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitments, 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 52 of this Form 10-Q.

Special-purpose entities revenue

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

Revenue from VIEs and QSPEs (in millions)	Three months ended June		Six months ended June	
	2008	30, 2007	2008	30, 2007
VIEs:(a)				
Multi-seller conduits	\$ 67	\$ 46	\$ 124	\$ 84
Investor intermediation	8	9	5	18
Total VIEs	75	55	129	102
QSPEs	1,083	841	1,981	1,687
Total	\$ 1,158	\$ 896	\$ 2,110	\$ 1,789

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

American Securitization Forum subprime adjustable rate mortgage loans modifications

In December 2007, the American Securitization Forum (ASF) issued the Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans (the Framework). The Framework provides guidance for servicers to streamline evaluation procedures of borrowers with certain subprime adjustable rate mortgage (ARM) loans in order to more quickly and efficiently provide modification of such loans with terms that are more appropriate for the individual needs of such borrowers. The Framework applies to all first-lien subprime ARM loans that have a fixed rate of interest for an initial period of 36 months or less; are included in securitized pools; were originated between January 1, 2005, and July 31, 2007; and have an initial interest rate reset date between January 1, 2008, and July 31, 2010. JPMorgan Chase has adopted the Framework, and during the three and six months ended June 30, 2008, had modified \$649 million and \$836 million, respectively, of Segment 2 subprime mortgage loans. In addition,

Table of Contents

during the three and six months ended June 30, 2008, \$483 million and \$524 million, respectively, of Segment 3 loans were modified, \$302 million and \$377 million, respectively, were subjected to other loss mitigation activities, and \$43 million and \$76 million, respectively, were prepaid by borrowers. For additional discussion of the Framework, see Note 16 on pages 108-109 of this Form 10-Q and Note 16 on page 145 of JPMorgan Chase's 2007 Annual Report.

Off-balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or the Firm be required to fulfill its obligation under the guarantee, and the counterparty subsequently fail to perform according to the terms of the contract. These commitments and guarantees predominantly 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 Firm's option. For further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see Credit Risk Management on pages 73-89 and Note 31 on pages 170-173 of JPMorgan Chase's 2007 Annual Report.

The following table presents off-balance sheet lending-related financial instruments and guarantees for the periods indicated.

By remaining maturity (in millions)	June 30, 2008				Total	Dec. 31, 2007
	< 1 year	1-3 years	3-5 years	> 5 years		
Lending-related						
Consumer ^(a)	\$759,011	\$ 1,866	\$ 2,880	\$63,672	\$ 827,429	\$1,936
Wholesale:						
Unfunded commitments to extend credit ^{(b)(c)(d)(e)}	90,166	76,623	70,896	17,668	255,353	250,954
Asset purchase agreements ^(f)	23,518	38,282	5,254	1,252	68,306	90,105
Standby letters of credit and guarantees ^{(c)(g)(h)}	29,839	28,340	35,518	6,519	100,216	100,222
Other letters of credit ^(c)	5,192	738	177	46	6,153	5,371
Total wholesale	148,715	143,983	111,845	25,485	430,028	446,652
Total lending-related	\$907,726	\$145,849	\$114,725	\$89,157	\$1,257,457	\$1,262,588
Other guarantees						
Securities lending guarantees ⁽ⁱ⁾	\$362,246	\$	\$	\$	\$ 362,246	\$385,758
Derivatives qualifying as guarantees ⁽ⁱ⁾	25,456	12,654	26,555	39,118	103,783	85,262

(a) Included credit card and home equity lending-related commitments of \$736.4 billion and \$66.7 billion, respectively, at June 30, 2008, and \$714.8 billion and \$74.2 billion, respectively, at December 31, 2007. These amounts for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. For credit card commitments and if certain conditions are met for home equity commitments, the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

(b) Included unused advised lines of credit totaling \$34.0 billion at June 30, 2008, and \$38.4 billion at December 31, 2007, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines

are not reportable. See the Glossary of Terms on page 130 of this Form 10-Q for the Firm's definition of advised lines of credit.

- (c) Represents contractual amount net of risk participations totaling \$29.7 billion and \$28.3 billion at June 30, 2008, and December 31, 2007, respectively.
- (d) Excluded unfunded commitments to third-party private equity funds of \$861 million and \$881 million at June 30, 2008, and December 31, 2007, respectively. Also excludes unfunded commitments for other equity investments of \$940 million and \$903 million at June 30, 2008, and December 31, 2007, respectively.
- (e) Included in other unfunded commitments to extend credit are commitments to investment and noninvestment grade counterparties in connection with leveraged acquisitions of \$7.2 billion and \$8.2 billion at June 30, 2008, and December 31, 2007, respectively.
- (f) Largely represents asset purchase agreements to the Firm's administered multi-seller, asset-backed commercial paper conduits. The maturity is based upon the weighted-average expected 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 \$248 million and \$1.1 billion of asset purchase agreements to other third-party entities at June 30, 2008, and December 31, 2007, respectively.
- (g) JPMorgan Chase held collateral relating to \$19.1 billion and \$15.8 billion of these arrangements at June 30, 2008, and December 31, 2007, respectively.
- (h) Included unused commitments to issue standby letters of credit of \$46.3 billion and \$50.7 billion at June 30, 2008, and December 31, 2007, respectively.
- (i) Collateral held by the Firm in support of securities lending indemnification agreements was \$369.5 billion at June 30, 2008, and \$390.5 billion at December 31, 2007, respectively.
- (j) Represents notional amounts of derivatives qualifying as guarantees. For further discussion of guarantees, see Note 31 on pages 170-173 of JPMorgan Chase's 2007 Annual Report.

Table of Contents**RISK MANAGEMENT**

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

For further discussion of these risks, see pages 69-95 of JPMorgan Chase's 2007 Annual Report and the information below.

LIQUIDITY RISK MANAGEMENT

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

Funding**Sources of funds**

As of June 30, 2008, the Firm's liquidity position remained strong based upon its liquidity metrics. JPMorgan Chase's long-dated funding, including core liabilities exceeded illiquid assets and the Firm believes its obligations can be met even if access to funding is impaired.

Consistent with its liquidity management policy, the Firm has raised funds at the parent holding company level sufficient to cover its obligations and those of its nonbank subsidiaries that mature over the next 12 months.

The diversity of the Firm's funding sources enhances financial flexibility and limits dependence on any one source, thereby minimizing the cost of funds. The deposits held by the RFS, CB, TSS and AM lines of business are generally a consistent source of funding for JPMorgan Chase Bank, N.A. As of June 30, 2008, total deposits for the Firm were \$722.9 billion. A significant portion of the Firm's deposits are retail deposits, which are less sensitive to interest rate changes and therefore are considered more stable than market-based (i.e., wholesale) liability balances. The Firm also benefits from substantial liability balances originated by RFS, CB, TSS and AM through the normal course of business. Liability balances include deposits and deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements). These franchise-generated liability balances are also a stable and consistent source of funding due to the nature of the businesses from which they are generated. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance Sheet Analysis on pages 19-42 and 45-48, respectively, of this Form 10-Q.

Additional sources of funds include a variety of both short- and long-term instruments, including federal funds purchased, commercial paper, bank notes, long-term debt, trust preferred capital debt securities and preferred stock. This funding is managed centrally, using regional expertise and local market access, to ensure active participation by the Firm in the global financial markets while maintaining consistent global pricing. These markets serve as cost-effective and diversified sources of funds and are critical components of the Firm's liquidity management. Decisions concerning the timing and tenor of accessing these markets are based upon relative costs, general market conditions, prospective views of balance sheet growth and a targeted liquidity profile.

Finally, funding flexibility is provided by the Firm's ability to access the repurchase and asset securitization markets. These markets are evaluated on an ongoing basis to achieve an appropriate balance of secured and unsecured funding. The ability to securitize loans, and the associated gains on those securitizations, are principally dependent upon the credit quality and yields of the assets securitized and are generally not dependent upon the credit ratings of the issuing entity. Transactions between the Firm and its securitization structures are reflected in JPMorgan Chase's consolidated financial statements and notes to the consolidated financial statements; these relationships include retained interests in securitization trusts, liquidity facilities and derivative transactions. For further details, see Off-Balance Sheet Arrangements and Contractual Cash Obligations and Notes 16 and 27 on pages 51-52, 103-109 and 122-124, respectively, of this Form 10-Q.

Table of Contents**Issuance**

During the second quarter and first half of 2008, JPMorgan Chase issued approximately \$18.7 billion and \$38.2 billion, respectively, of long-term debt and trust preferred capital debt securities; in the second quarter of 2008, the Firm also issued \$6.0 billion of noncumulative perpetual preferred stock. The debt issuances included \$7.9 billion and \$16.9 billion, respectively, of IB structured notes, the issuances of which are generally client-driven and not for funding or capital management purposes as the proceeds from such transactions are generally used to purchase securities to mitigate the risk associated with structured note exposure. The issuances of long-term debt and trust preferred capital debt securities were offset partially by \$12.5 billion and \$30.0 billion of such securities that matured or were redeemed during the second quarter and first half of 2008, respectively, including \$7.4 billion and \$18.8 billion, respectively, of IB structured notes. In addition, during the second quarter and first half of 2008, the Firm securitized \$10.8 billion and \$15.3 billion, respectively, of credit card loans. The Firm did not securitize any other consumer loans during the first half of 2008. For further discussion of loan securitizations, see Note 16 on pages 103-109 of this Form 10-Q.

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

Cash Flows

Cash and due from banks was \$32.3 billion and \$35.4 billion at June 30, 2008 and 2007, respectively. These balances declined \$7.9 billion and \$5.0 billion from December 31, 2007 and 2006, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase's cash flows during the first six months of 2008 and 2007.

Cash Flows from Operating Activities

JPMorgan Chase's operating assets and liabilities vary significantly in the normal course of business due to the amount and timing of cash flows. Management believes cash flows from operations, available cash balances and the Firm's ability to generate cash through short- and long-term borrowings will be sufficient to fund the Firm's operating liquidity needs.

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

For the six months ended June 30, 2007, net cash used in operating activities was \$66.4 billion, which supported growth in the Firm's capital markets and certain lending activities during the period. The net use of cash was partially offset by proceeds from sales of loans originated or purchased with an initial intent to sell, which were higher than cash used to acquire such loans.

Cash Flows from Investing Activities

The Firm's investing activities primarily include originating loans to be held to maturity, other receivables, and the available-for-sale investment portfolio. For the six months ended June 30, 2008, net cash of \$54.1 billion was used in investing activities, primarily for purchases of investment securities in Corporate's AFS portfolio to manage the Firm's exposure to interest rates; net additions to the wholesale loan portfolio, primarily from increased lending activities

across all the wholesale businesses; additions to the consumer prime mortgage portfolio as a result of the decision to retain, rather than sell, new originations of nonconforming prime mortgage loans; and an increase in securities purchased under resale agreements reflecting growth in demand from clients for liquidity. Partially offsetting these uses of cash were proceeds from sales and maturities of AFS securities; credit card securitization activities; the seasonal decline in consumer credit card receivables and cash received from the sale of an investment net of cash used for acquisitions. Additionally, in June 2008, in connection with the merger with Bear Stearns, the Firm sold assets acquired from Bear Stearns to the FRBNY and received cash proceeds of \$28.85 billion.

For the six months ended June 30, 2007, net cash of \$28.3 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 rates; net additions to the retained wholesale and consumer (primarily home equity) loans portfolios; and to increase deposits with banks as a result of the availability of excess cash for short-term investment opportunities. Partially offsetting these uses of cash were cash proceeds received from sales and maturities of AFS securities; credit card, residential mortgage, auto and wholesale loan sales and

Table of Contents

securitization activities; a decrease in securities purchased under resale agreements; and the seasonal decline in consumer credit card receivables.

Cash Flows from Financing Activities

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

In the first half of 2007, net cash provided by financing activities was \$89.6 billion due to a higher level of securities loaned or sold under repurchase agreements in connection with the funding of trading and AFS securities positions; net issuances of long-term debt and trust preferred capital debt securities and a net increase in wholesale deposits from growth in business volumes, in particular, interest-bearing deposits in TSS. Cash was used to repurchase common stock and the payment of cash dividends on common stock (including a 12% increase in the quarterly dividend in the second quarter of 2007).

Credit ratings

The credit ratings of the parent holding company and each of the Firm's significant banking subsidiaries as of June 30, 2008, were as follows.

	Short-term debt			Senior long-term debt		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
JPMorgan Chase & Co.	P-1	A-1+	F1+	Aa2	AA-	AA-
JPMorgan Chase Bank, N.A.	P-1	A-1+	F1+	Aaa	AA	AA-
Chase Bank USA, N.A.	P-1	A-1+	F1+	Aaa	AA	AA-

The cost and availability of unsecured financing are influenced by credit ratings. A reduction in these ratings could have an adverse effect on the Firm's access to liquidity sources, increase the cost of funds, trigger additional collateral requirements and decrease the number of investors and counterparties willing to lend. Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources, and disciplined liquidity monitoring procedures.

If the Firm's ratings were downgraded by one notch, the Firm estimates the incremental cost of funds and the potential loss of funding to be negligible. Additionally, the Firm estimates the additional funding requirements for VIEs and other third-party commitments would not be material. Currently, the Firm believes a downgrade in the near-term is unlikely. For additional information on the impact of a credit ratings downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 51 and Ratings profile of derivative receivables marked-to-market (MTM) on page 61 of this Form 10-Q.

CREDIT RISK MANAGEMENT

The following discussion of JPMorgan Chase's credit portfolio as of June 30, 2008, highlights developments since December 31, 2007. This section should be read in conjunction with pages 73-89 and pages 96-97 and Notes 14, 15, 31, and 32 of JPMorgan Chase's 2007 Annual Report.

The Firm assesses its consumer credit exposure on a managed basis, which includes credit card receivables that have been securitized. For a reconciliation of the provision for credit losses on a reported basis to managed basis, see pages 15-17 of this Form 10-Q.

CREDIT PORTFOLIO

The following table presents JPMorgan Chase's credit portfolio as of June 30, 2008, and December 31, 2007. Total credit exposure at June 30, 2008, increased \$91.8 billion from December 31, 2007, reflecting increases of \$71.5 billion and \$20.3 billion in the wholesale and consumer portfolios, respectively. Derivative receivables increased \$45.3 billion, receivables from customers increased \$26.0 billion (due to the merger with Bear Stearns) and managed loans increased \$25.1 billion (\$16.3 billion and \$8.8 billion in the wholesale and consumer portfolios, respectively). Partially offsetting

Table of Contents

these increases was a decrease in lending-related commitments of \$5.1 billion (a decrease of \$16.6 billion in the wholesale portfolio offset by an \$11.5 billion increase in the consumer portfolio).

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

(in millions, except ratios)	Credit exposure		Nonperforming assets ^{(i)(j)}	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Total credit portfolio				
Loans retained ^(a)	\$ 515,828	\$ 491,736	\$ 5,222 ⁽ⁱ⁾	\$ 3,232 ⁽ⁱ⁾
Loans held-for-sale	10,822	18,899	46	45
Loans at fair value	11,379	8,739	5	5
Loans reported^(d)	\$ 538,029	\$ 519,374	\$ 5,273	\$ 3,282
Loans securitized ^(h)	79,120	72,701		
Total managed loans^(c)	617,149	592,075	\$ 5,273	\$ 3,282
Derivative receivables	122,389	77,136	80	29
Receivables from customers ^(d)	26,572			
Total managed credit-related assets	766,110	669,211	\$ 5,353	\$ 3,311
Lending-related commitments ^{(e)(f)}	1,257,457	1,262,588	NA	NA
Assets acquired in loan satisfactions	NA	NA	880	622
Total credit portfolio	\$ 2,023,567	\$ 1,931,799	\$ 6,233	\$ 3,933
Net credit derivative hedges notional ^(g)	\$ (86,051)	\$ (67,999)	\$ (3)	\$ (3)
Collateral held against derivatives ^(h)	(12,952)	(9,824)	NA	NA

(in millions, except ratios)	Three months ended June 30,				Six months ended June 30,			
	Net charge-offs		Average annual net charge-off rate		Net charge-offs		Average annual net charge-off rate	
	2008	2007	2008	2007	2008	2007	2008	2007
Total credit portfolio								
Loans reported	\$ 2,130	\$ 985	1.67%	0.90%	\$ 4,036	\$ 1,888	1.60%	0.88%
Loans securitized ^(h)	830	590	4.32	3.46	1,511	1,183	4.02	3.51
Total managed loans	\$ 2,960	\$ 1,575	2.02%	1.25%	\$ 5,547	\$ 3,071	1.91%	1.23%

(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 \$702 million and \$1.0 billion at June 30, 2008, and December 31, 2007, respectively.

(b) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Card Services on pages 30-33 of this Form 10-Q.

(c) Loans past-due 90 days and over and accruing include: credit card receivables reported of \$1.5 billion at both June 30, 2008, and December 31, 2007, respectively, and credit card securitizations of \$1.2 billion and \$1.1 billion at June 30, 2008, and December 31, 2007, respectively;

and wholesale loans of \$90 million and \$75 million at June 30, 2008, and December 31, 2007, respectively.

(d) Primarily represents margin loans to prime and retail brokerage customers included in accrued interest and accounts receivable on the Consolidated Balance Sheets.

(e) Included credit card and home equity lending-related commitments of \$736.4 billion and \$66.7 billion, respectively, at June 30, 2008; and \$714.8 billion and \$74.2 billion, respectively, at December 31, 2007. These amounts for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced,

and does not anticipate, that all available lines of credit for these products will be utilized at the same time. For credit card commitments and if certain conditions are met for home equity commitments, the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

- (f) *Included unused advised lines of credit totaling \$34.0 billion and \$38.4 billion at June 30, 2008, and December 31, 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable. See the Glossary of Terms on page 130 of this form 10-Q for the*

*Firm's
definition of
advised lines of
credit.*

*(g) Represents the
net notional
amount of
protection
purchased and
sold of
single-name and
portfolio credit
derivatives used
to manage the
credit
exposures; these
derivatives do
not qualify for
hedge
accounting
under SFAS
133. Includes
\$34.4 billion
and
\$31.1 billion at
June 30, 2008,
and
December 31,
2007,
respectively,
which represent
the notional
amount of
structured
portfolio
protection; the
Firm retains a
minimal first
risk of loss on
this portfolio.*

*(h) Represents
other liquid
securities
collateral held
by the Firm as
of June 30,
2008, and
December 31,
2007,*

respectively.

- (i) *Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.9 billion and \$1.5 billion at June 30, 2008, and December 31, 2007, respectively, and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of \$371 million and \$279 million at June 30, 2008, and December 31, 2007, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.*

(j) *For the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform with all other home lending products. Prior period nonperforming assets have been revised to conform with this change.*

Table of Contents**WHOLESALE CREDIT PORTFOLIO**

As of June 30, 2008, wholesale exposure (IB, CB, TSS and AM) increased \$71.5 billion from December 31, 2007, primarily due to \$54.3 billion of wholesale exposure acquired in connection with the merger with Bear Stearns, including \$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. The remaining increase of \$17.2 billion was largely driven by \$26.3 billion of derivative receivables and \$11.9 billion of loans, partially offset by a decrease of \$21.6 billion in lending-related commitments. The increase in derivative receivables was due to the increase in commodity receivables reflecting sharply higher energy prices and the effect of the weakening U.S. dollar on interest rate and foreign exchange derivative receivables. The increase in loans was primarily due to lending activity across most wholesale businesses and other portfolio growth. The decrease in lending-related commitments was mainly due to the cancellation of primarily investment-grade commitments as well as other portfolio activity.

(in millions)	Credit exposure		Nonperforming assets	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Loans retained ^(a)	\$ 209,354	\$ 189,427	\$ 819	\$ 464
Loans held-for-sale	8,626	14,910	46	45
Loans at fair value	11,379	8,739	5	5
Loans reported^(d)	\$ 229,359	\$ 213,076	\$ 870	\$ 514
Derivative receivables	122,389	77,136	80	29
Receivables from customers ^(b)	26,572		NA	
Total wholesale credit-related assets	378,320	290,212	950	543
Lending-related commitments ^(c)	430,028	446,652	NA	NA
Assets acquired in loan satisfactions	NA	NA	121	73
Total wholesale credit exposure	\$ 808,348	\$ 736,864	\$ 1,071	\$ 616
Net credit derivative hedges notional ^(d)	\$ (86,051)	\$ (67,999)	\$ (3)	\$ (3)
Collateral held against derivatives ^(e)	(12,952)	(9,824)	NA	NA

(a) Includes loans greater than or equal to 90 days past due that continue to accrue interest. The principal balance of these loans totaled \$90 million and \$75 million at June 30, 2008, and

*December 31,
2007,
respectively.*

*Also, see Note 4
on pages 90-92
and Note 13 on
pages 99-101 of
this Form 10-Q.*

*(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) Included unused
advised lines of
credit totaling
\$34.0 billion
and
\$38.4 billion at
June 30, 2008,
and
December 31,
2007,
respectively,
which are not
legally binding.
In regulatory
filings with the
Federal Reserve
Board, unused
advised lines
are not
reportable.*

*(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. Includes \$34.4 billion and \$31.1 billion at June 30, 2008, and December 31, 2007, respectively, which represents the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.

(e) Represents other liquid securities collateral held by the Firm as of June 30, 2008, and December 31, 2007, respectively.

**Net charge-offs/(recoveries)
Wholesale**

(in millions, except ratios)	Three months ended June		Six months ended June	
	2008	2007	2008	2007
Loans reported				
Net charge-offs (recoveries)	\$ 41	\$ (29)	\$ 133	\$ (35)
Average annual net charge-off (recovery) rate ^(a)	0.08%	(0.07)%	0.13%	(0.04)%

(a) *Excludes average wholesale loans held-for-sale and loans at fair value of \$20.8 billion and \$15.5 billion for the quarters ended June 30, 2008 and 2007, respectively, and \$20.5 billion and \$14.9 billion year-to-date 2008 and 2007, respectively.*

Net charge-offs (recoveries) do not include gains and losses from sales of nonperforming loans that were sold. There were no gains or losses during 2008 compared with losses of \$2 million in the second quarter and year-to-date of 2007. The following table presents the change in the nonperforming loan portfolio for the six months ended June 30, 2008 and 2007.

Table of Contents**Nonperforming loan activity
Wholesale**

(in millions)	Six months ended June 30,	
	2008	2007
Beginning balance at January 1	\$ 514	\$ 391
Additions	997	263
Reductions		
Paydowns and other	(393)	(360)
Charge-offs	(212)	(30)
Returned to performing	(22)	(33)
Sales	(14)	(3)
Total reductions	(641)	(426)
Net additions (reductions)	356	(163)
Ending balance	\$ 870	\$ 228

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of June 30, 2008, and December 31, 2007. The decrease in the investment grade portion for loans was largely the result of the merger with Bear Stearns. The ratings scale is based upon the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's.

Wholesale credit exposure maturity and ratings profile

	Maturity profile ^(d)			Ratings profile			Total %	
	<1 year	1 - 5 years	> 5 years	Investment- grade (IG) AAA/Aaa to BBB-/Baa3	Noninvestment- grade BB+/Ba1 & below	Total of IG		
At June 30, 2008								
(in billions, except ratios)				Total	Total			
Loans	44%	44%	12%	100%	\$ 132	\$ 77	\$ 209	63%
Derivative receivables	26	36	38	100	99	23	122	81
Lending-related commitments	35	59	6	100	364	66	430	85
Total excluding loans held-for-sale and loans at fair value	36%	52%	12%	100%	\$ 595	\$ 166	\$ 761	78%
Loans held-for-sale and loans at fair value ^(a)							20	
Receivables from customers ^(b)							27	

Total exposure									\$ 808
Net credit derivative hedges notional ^(c)	23%	73%	4%	100%	\$ (86)	\$	\$ (86)	100%	
	Maturity profile ^(d)			Ratings profile					
				Investment grade (IG)	Noninvestment-grade				
				AAA/Aaa to	BB+/Ba1 & below				
At December 31, 2007	<1 year	1 - 5 years	> 5 years	Total	BBB-/Baa3		Total	Total % of IG	
(in billions, except ratios)									
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 ^(c)	39%	56%	5%	100%	\$ (68)	\$	\$ (68)	100%	

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

(b) *Primarily represents margin loans to prime and retail brokerage customers which are included in accrued interest and accounts receivable on*

*the
Consolidated
Balance Sheets.*

Table of Contents

- (c) *Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. Includes \$34.4 billion and \$31.1 billion at June 30, 2008, and December 31, 2007, respectively, which represents the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.*
- (d) *The maturity profile of loans and lending-related commitments is based upon the remaining contractual maturity. The maturity profile of derivative receivables is*

based upon the maturity profile of average exposure. See page 80 of JPMorgan Chase's 2007 Annual Report for further discussion of average exposure.

Wholesale credit exposure – selected industry concentration

The Firm focuses on the management and diversification of its industry concentrations, with particular attention paid to industries with actual or potential credit concerns. At June 30, 2008, the top 10 industries were the same as those at December 31, 2007.

Top 10 industries^(a) (in millions, except ratios)	June 30, 2008		December 31, 2007	
	Credit exposure ^(d)	% of portfolio	Credit exposure ^(d)	% of portfolio
Banks and finance companies	\$ 71,101	9%	\$ 65,288	9%
Asset managers	44,521	6	38,554	6
Real estate	39,234	5	38,295	5
Healthcare	36,743	5	30,746	4
Consumer products	36,063	5	29,941	4
State and municipal governments	34,949	5	31,425	5
Oil and gas	34,833	5	26,082	4
Utilities	34,587	4	28,679	4
Retail and consumer services	31,143	4	23,969	3
Securities firms and exchanges	25,980	3	23,274	3
All other ^(b)	372,617	49	376,962	53
Total excluding loans held-for-sale and loans at fair value	\$ 761,771	100%	\$ 713,215	100%
Loans held-for-sale and loans at fair value ^(c)	20,005		23,649	
Receivables from customers	26,572			
Total	\$ 808,348		\$ 736,864	

(a) Rankings are based upon exposure at June 30, 2008.

(b) For more information on exposures to SPEs included in all other, see

Note 17 on
pages 109 114
of this Form
10-Q.

- (c) *Loans held-for-sale and loans at fair value relate primarily to syndication loans and loans transferred from the retained portfolio.*
- (d) *Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against derivative receivables or loans.*

Wholesale criticized exposure

Exposures deemed criticized generally represent a ratings profile similar to a rating of CCC+ / Caa1 and lower, as defined by S&P and Moody's. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, increased to \$12.5 billion, at June 30, 2008, from \$6.8 billion at year-end 2007. The increase was primarily related to downgrades within the portfolio, mainly in the IB.

Wholesale criticized exposure industry concentrations

Top 10 industries^(a) (in millions, except ratios)	June 30, 2008		December 31, 2007	
	Credit Exposure	% of portfolio	Credit exposure	% of portfolio
Real estate	\$ 2,349	19%	\$ 1,070	16%
Banks and finance companies	1,574	13	498	7
Automotive	1,535	12	1,338	20
Media	1,134	9	303	4
Building materials/construction	727	6	345	5
Retail and consumer services	663	5	550	8
Consumer products	402	3	239	4
Asset managers	373	3	212	3
Leisure	324	3	101	1
Healthcare	318	2	246	4
All other	3,111	25	1,936	28

Total excluding loans held-for-sale and loans at fair value	\$ 12,510	100%	\$ 6,838	100%
Loans held-for-sale and loans at fair value ^(b)	4,127		205	
Receivables from customers				
Total	\$ 16,637		\$ 7,043	

(a) *Rankings are based upon exposure at June 30, 2008.*

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

Table of Contents**Derivative contracts**

In the normal course of business, the Firm uses derivative instruments to meet the needs of customers; to generate revenue through trading activities; to manage exposure to fluctuations in interest rates, currencies and other markets; and to manage the Firm's credit exposure. 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. The appropriate measure of the current credit risk is, in the Firm's view, the mark-to-market value of the contract. For further discussion of these contracts, see Note 26 on page 122 of this Form 10-Q, and Derivative contracts on pages 79-82 and Note 30 on pages 168-169 of JPMorgan Chase's 2007 Annual Report.

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

Notional amounts of derivative contracts

(in billions)	Notional amounts ^(a)	
	June 30, 2008	December 31, 2007
Interest rate contracts		
Interest rate and currency swaps ^(b)	\$ 61,789	\$ 53,458
Futures and forwards	6,049	4,548
Purchased options	6,167	5,349
Total interest rate contracts	74,005	63,355
Credit derivatives	\$ 10,232	\$ 7,967
Commodity contracts		
Swaps	\$ 284	\$ 275
Futures and forwards	129	91
Purchased options	248	233
Total commodity contracts	661	599
Foreign exchange contracts		
Futures and forwards	\$ 3,658	\$ 3,424
Purchased options	1,157	906
Total foreign exchange contracts	4,815	4,330
Equity contracts		
Swaps	\$ 122	\$ 105
Futures and forwards	92	72
Purchased options	898	821
Total equity contracts	1,112	998
Total derivative notional amounts	\$ 90,825	\$ 77,249

(a) Represents the sum of gross long and gross short third-party notional derivative contracts, excluding written options and foreign exchange spot contracts.

(b) Includes cross currency swap contract notional amounts of \$2.0 trillion and \$1.4 trillion at June 30, 2008, and December 31, 2007, respectively.

Derivative receivables marked-to-market

(in millions)	Derivative receivables MTM	
	June 30, 2008	December 31, 2007
Interest rate	\$ 51,488	\$ 36,020
Credit	25,920	22,083
Commodity	23,510	9,419
Foreign exchange	10,190	5,616
Equity	11,281	3,998
Total, net of cash collateral	\$ 122,389	\$ 77,136
Liquid securities collateral held against derivative receivables	(12,952)	(9,824)
Total, net of all collateral	\$ 109,437	\$ 67,312

The amount of derivative receivables reported on the Consolidated Balance Sheets of \$122.4 billion and \$77.1 billion at June 30, 2008, and December 31, 2007, respectively, is the amount of the 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 on the Consolidated Balance Sheets represent the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in management's view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of \$13.0 billion and \$9.8 billion at June 30, 2008, and December 31, 2007, respectively, resulting in total exposure, net of all collateral, of

Table of Contents

\$109.4 billion and \$67.3 billion at June 30, 2008, and December 31, 2007, respectively. The increase of \$42.1 billion in derivative receivables from December 31, 2007, was due to the merger with Bear Stearns, the increase in commodity receivables reflecting sharply higher energy prices and the effect of the weakening U.S. dollar on interest rate and foreign exchange derivative receivables.

The Firm also holds additional collateral delivered by clients at the initiation of transactions, but this collateral does not reduce the credit risk of the derivative receivables in the table above. This additional collateral secures potential exposure that could arise in the derivatives portfolio should the MTM of the client's transactions move in the Firm's favor. As of June 30, 2008, and December 31, 2007, the Firm held \$21.6 billion and \$17.4 billion of this additional collateral, respectively. The derivative receivables MTM, net of all collateral, also does not include other credit enhancements in the forms of letters of credit.

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

Ratings profile of derivative receivables MTM

Rating equivalent (in millions, except ratios)	June 30, 2008		December 31, 2007	
	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	\$ 54,443	50%	\$ 38,314	57%
A+/A1 to A-/A3	19,357	18	9,855	15
BBB+/Baa1 to BBB-/Baa3	16,506	15	9,335	14
BB+/Ba1 to B-/B3	18,097	16	9,451	14
CCC+/Caa1 and below	1,034	1	357	
Total	\$ 109,437	100%	\$ 67,312	100%

The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm's derivatives transactions subject to collateral agreements increased to 85% as of June 30, 2008, from 82% at December 31, 2007, mainly due to the merger with Bear Stearns.

The Firm posted \$58.2 billion and \$33.5 billion of collateral at June 30, 2008, and December 31, 2007, respectively. Certain derivative and collateral agreements include provisions that require the counterparty and/or the Firm, upon specified downgrades in their respective credit ratings, to post collateral for the benefit of the other party. The impact of a single-notch ratings downgrade to JPMorgan Chase Bank, N.A., from its rating of AA to AA- at June 30, 2008, would have required \$572 million of additional collateral to be posted by the Firm. The impact of a six-notch ratings downgrade (from AA to BBB) would have required \$3.5 billion of additional collateral. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold as of June 30, 2008, and December 31, 2007.

Credit derivatives positions

(in billions)	Notional amount				Total
	Credit portfolio		Dealer/client		
	Protection purchased ^(a)	Protection sold	Protection purchased	Protection sold	

June 30, 2008	\$ 88	\$ 2	\$ 5,136	\$ 5,006	\$ 10,232
December 31, 2007	70	2	3,999	3,896	7,967

(a) *Included \$34.4 billion and \$31.1 billion at June 30, 2008, and December 31, 2007, respectively, that represented the notional amount for structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.*

JPMorgan Chase has counterparty exposure as a result of credit derivatives transactions. At June 30, 2008, the total derivative receivables MTM, before the benefit of liquid securities collateral, of \$122.4 billion, of which \$25.9 billion, or 21%, was associated with credit derivatives.

Dealer/client

At June 30, 2008, the total notional amount of protection purchased and sold in the dealer/client business increased \$2.2 trillion from year-end 2007 primarily as a result of the merger with Bear Stearns partially offset by the impact of industry efforts to reduce offsetting trade activity. The risk positions are largely matched with residual default exposure and spread risk actively managed by the Firm's various trading desks.

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

(in millions)	Notional amount of protection purchased	
	June 30, 2008	December 31, 2007
Credit derivatives used to manage:		
Loans and lending-related commitments	\$ 80,670	\$ 63,645
Derivative receivables	6,978	6,462
Total^(a)	\$ 87,648	\$ 70,107

(a) *Included \$34.4 billion and \$31.1 billion at June 30, 2008, and December 31, 2007, respectively, that represented the notional amount for structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.*

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

(in millions)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Hedges of lending-related commitments ^(a)	\$ (209)	\$ (14)	\$ 178	\$ (23)
CVA and hedges of CVA ^(a)	151	(55)	(583)	(48)
Net gains (losses)^(b)	\$ (58)	\$ (69)	\$ (405)	\$ (71)

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

(b) *Excludes gains of \$237 million and \$65 million for the quarters ended June 30, 2008, and June 30, 2007, respectively, and \$1.5 billion and \$211 million of gains year-to-date 2008 and 2007, respectively, of other principal transaction revenue that are not associated with hedging activities. The amounts incorporate an adjustment to the valuation of the Firm's derivative liabilities as a result of the adoption of SFAS 157 on January 1, 2007.*

The Firm also actively manages wholesale credit exposure through IB and CB loan and commitment sales. During the first half of 2008 and 2007, the Firm sold \$2.2 billion and \$3.2 billion of loans and commitments, recognizing losses

of \$17 million and \$12 million, respectively. These results include gains or losses on sales of nonperforming loans, if any, as discussed on page 57 of this Form 10-Q. These activities are not related to the Firm's securitization activities, which are undertaken for liquidity and balance sheet management purposes. For further discussion of securitization activity, see Liquidity Risk Management and Note 16 on pages 53-55, and 103-109, respectively, of this Form 10-Q.

Lending-related commitments

Wholesale lending-related commitments were \$430.0 billion at June 30, 2008, compared with \$446.7 billion at December 31, 2007. See page 57 of this Form 10-Q for an explanation of the decrease in exposure. In the Firm's view, the total contractual amount of these instruments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these instruments, the Firm has established a loan-equivalent amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based upon average portfolio historical experience, to become drawn upon in an event of a default by an obligor. The loan-equivalent amount of the Firm's lending-related commitments was \$231.8 billion and \$238.7 billion as of June 30, 2008, and December 31, 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 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,

Table of Contents

trading and investment activities, whether cross-border or locally funded. In addition to monitoring country exposures, the Firm uses stress tests to measure and manage the risk of extreme loss associated with sovereign crises.

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

Top 5 emerging markets country exposure**At June 30, 2008**

(in billions)	Cross-border			Total	Local ^(d)	Total exposure
	Lending ^(a)	Trading ^(b)	Other ^(c)			
South Korea	\$ 3.2	\$ 3.1	\$ 0.8	\$ 7.1	\$ 2.2	\$ 9.3
Russia	3.1	2.2	0.2	5.5	0.9	6.4
India	2.2	2.3	1.0	5.5	0.6	6.1
China	3.2	0.7	0.6	4.5	0.7	5.2
Brazil	1.4	(1.4)	0.3	0.3	4.6	4.9

At December 31, 2007

(in billions)	Cross-border			Total	Local ^(d)	Total exposure
	Lending ^(a)	Trading ^(b)	Other ^(c)			
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, education loans and business banking loans, with a primary focus on serving the prime consumer credit

market. RFS offers home mortgage loans with interest-only payment options to predominantly prime borrowers; there are no products in the real estate portfolios that result in negative amortization.

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

The Firm continues to take actions to tighten credit underwriting and loan qualification standards. These actions have resulted in significant reductions in new loan originations of risk layered loans, and improved alignment of loan pricing with the embedded risk.

Table of Contents

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

(in millions, except ratios)	Credit exposure		Nonperforming assets ^{(g)(h)}	
	June 30, 2008	December 31, 2007	June 30, 2008	December 31, 2007
Consumer loans reported^(d)				
Home equity	\$ 95,129	\$ 94,832	\$ 1,008	\$ 786
Mortgage	61,013	55,461	2,947	1,518
Auto loans ^(b)	44,867	42,350	102	116
Credit card reported ^(d)	76,278	84,352	6	7
All other loans	29,187	25,314	340	341
Loans held-for-sale	2,196	3,989		
Total consumer loans reported^(d)	308,670	306,298	4,403	2,768
Credit card securitized ^{(d)(d)}	79,120	72,701		
Total consumer loans managed^(d)	387,790	378,999	4,403	2,768
Assets acquired in loan satisfactions	NA	NA	759	549
Total consumer-related assets managed	387,790	378,999	5,162	3,317
Consumer lending-related commitments:				
Home equity ^(e)	66,731	74,191	NA	NA
Mortgage	6,950	7,410	NA	NA
Auto loans	6,981	8,058	NA	NA
Credit card ^(e)	736,416	714,848	NA	NA
All other loans	10,351	11,429	NA	NA
Total lending-related commitments	827,429	815,936	NA	NA
Total consumer credit portfolio	\$ 1,215,219	\$ 1,194,935	\$ 5,162	\$ 3,317
Memo: Credit card managed	\$ 155,398	\$ 157,053	\$ 6	\$ 7

(in millions, except ratios)	Three months ended June 30,				Six months ended June 30,			
	Net charge-offs		Average annual net charge-off rate ⁽ⁱ⁾		Net charge-offs		Average annual net charge-off rate ⁽ⁱ⁾	
	2008	2007	2008	2007	2008	2007	2008	2007
Home equity	\$ 511	\$ 98	2.16%	0.44%	\$ 958	\$ 166	2.03%	0.38%
Mortgage	296	30	1.94	0.32	495	53	1.67	0.29
Auto loans and leases ^(f)	119	63	1.07	0.61	237	122	1.08	0.60
Credit card reported	1,064	741	5.66	3.76	2,053	1,462	5.32	3.66
All other loans	99	82	1.49	1.40	160	120	1.24	1.02
Total consumer loans reported	2,089	1,014	2.77	1.50	3,903	1,923	2.60	1.43

Credit card securitized ^(d)	830	590	4.32	3.46	1,511	1,183	4.02	3.51
Total consumer loans managed	\$ 2,919	\$ 1,604	3.08%	1.90	\$ 5,414	\$ 3,106	2.88%	1.85
Memo: Credit card managed	\$ 1,894	\$ 1,331	4.98%	3.62%	\$ 3,564	\$ 2,645	4.68%	3.59%

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

(b) *Excludes operating lease-related assets of \$2.1 billion and \$1.9 billion for June 30, 2008, and December 31, 2007, respectively.*

(c) *Loans past due 90 days and over and accruing include: credit card receivables-reported of \$1.5 billion at both June 30, 2008, and December 31, 2007, and related credit card securitizations of \$1.2 billion and \$1.1 billion at June 30, 2008, and December 31, 2007, respectively.*

(d) *Represents securitized credit card receivables. For a further discussion of credit card securitizations, see CS on pages 30-33 of this Form 10-Q.*

(e) *The credit card and home equity lending-related commitments*

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

(f) Net charge-off rates exclude average operating lease-related assets of \$2.1 billion and \$1.7 billion for the quarter ended June 30, 2008 and 2007, respectively, and \$2.0 billion and \$1.7 billion for year-to-date 2008 and 2007, respectively.

(g) Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.9 billion and \$1.5 billion for

June 30, 2008, and December 31, 2007, respectively, and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$371 million and \$279 million as of June 30, 2008, and December 31, 2007, respectively. These amounts are excluded, as reimbursement is proceeding normally

- (h) For the second quarter of 2008, the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform with all the other home lending products. Prior period nonperforming assets have been revised to conform with this change.*
- (i) Net charge-off rates exclude average loans held-for-sale of \$3.6 billion and \$11.7 billion for the quarters ended June 30, 2008 and 2007, respectively, and \$4.0 billion and \$16.7 billion year-to-date 2008*

*and 2007,
respectively.*

Table of Contents

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

The credit performance of residential real estate loans continues to be negatively affected by deterioration in housing values across many geographic markets. Management has taken significant actions to reduce risk exposure by tightening underwriting and account management criteria for real estate lending as well as consumer lending for non-real estate products in those markets most impacted by the recent housing downturn. Tighter income verification, more conservative collateral valuation, reduced loan-to-value maximums, higher FICO and custom risk score requirements are just some of the actions taken to date to mitigate risk.

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

Home equity: Home equity loans at June 30, 2008 were \$95.1 billion, relatively unchanged from year-end 2007. The year-to-date provision for credit losses for the home equity portfolio includes a net increase of \$1.1 billion to the allowance for loan losses. The home equity portfolio continues to be under stress, as risk-layered loans, weak housing prices and slowing economic growth have resulted in higher nonperforming assets and greater estimated losses for this product segment. Losses are particularly concentrated in loans with high combined effective loan-to-value ratios in specific geographic regions that have experienced significant declines in housing prices. The decline in housing prices and the second lien position for these types of loans results in minimal proceeds upon foreclosure, increasing the severity of losses. In response to continued weakness in housing markets, loan underwriting and account management criteria have been tightened (including the reduction of credit lines), with a particular focus on metropolitan statistical areas (MSAs) with the most significant housing price declines. Additional loss mitigation strategies have also been employed in an effort to reduce losses, while seeking alternatives to foreclosure.

Mortgage: Prior to the third quarter of 2007, subprime mortgage loans and substantially all of the Firm's prime mortgages, both fixed-rate and adjustable-rate, were originated with the intent to sell. Prime mortgage loans originated into the held-for-investment portfolio consisted primarily of adjustable-rate products. As a result of the decision to retain rather than sell all nonconforming mortgage loans, both fixed-rate and adjustable-rate products are now being originated into the held-for-investment portfolio. Mortgages, irrespective of whether they are originated with the intent to sell or hold-for-investment, are underwritten to the same standards applicable to the respective type of mortgage. In response to continued weakness in housing markets, loan underwriting and account management criteria have been tightened, with a particular focus on MSAs with the most significant housing price declines. Additional loss mitigation strategies have also been employed in an effort to reduce losses, while seeking alternatives to foreclosure. Mortgage loans including loans that are held-for-sale at June 30, 2008 were \$62.0 billion, consisting of \$14.8 billion of subprime and \$47.2 billion of prime mortgage loans. This balance reflected a \$5.9 billion increase from year-end 2007, driven primarily by the decision to retain rather than sell new originations of nonconforming prime mortgage loans.

The provision for credit losses included net increases to the allowance for loan losses for mortgage loans of \$600 million and \$1.3 billion for the quarter and year-to-date periods, respectively. Housing price declines in specific geographic regions and slowing economic growth continue to drive higher estimated losses and nonperforming assets for the subprime mortgage product segment, and have increasingly impacted the prime mortgage product segment in 2008, due in part to the high concentration of more recent (2006 and later) originations in this portfolio.

The following table presents the net charge-offs and rates for the subprime and prime mortgage product segments for the dates indicated.

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	Three months ended June 30,				Six months ended June 30,			
	Net charge-offs		Average annual net charge-off rate		Net charge-offs		Average annual net charge-off rate	
(in millions, except ratios)	2008	2007	2008	2007	2008	2007	2008	2007
Subprime mortgage	\$ 192	\$ 26	4.98%	1.21%	\$ 341	\$ 46	4.41%	1.09%
Prime mortgage	104	4	0.91	0.05	154	7	0.70	0.05

Auto loans: As of June 30, 2008, auto loans of \$44.9 billion increased \$2.5 billion from year-end 2007. The auto loan portfolio reflects a high concentration of prime and near-prime quality credits. The provision for credit losses for the auto loan portfolio increased during the quarter and year-to-date periods, reflecting an increase in estimated losses due to a loss severity increase and further deterioration of older vintage loans as a result of the worsening credit environment. In

Table of Contents

response to recent increases in loan delinquencies and credit losses, particularly in geographic areas experiencing significant housing price declines, 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 \$155.4 billion at June 30, 2008, a decrease of \$1.7 billion from year-end 2007, reflecting the typical seasonal decrease of outstanding loans.

The managed credit card net charge-off rate increased to 4.98% for the second quarter of 2008, from 3.62% in the second quarter of 2007. The year-to-date managed credit card net charge-off rate increased to 4.68% in 2008, from 3.59% in 2007. The 30-day managed delinquency rate increased to 3.46% at June 30, 2008, from 3.00% at June 30, 2007. The increases in net charge-off and delinquency rates reflect deterioration in underlying credit quality, reflecting the weakness in the current economic environment including continued weakness in housing markets. As a result of continued weakness in housing markets, account acquisition credit criteria and account management credit practices in the more severely impacted MSAs have been tightened. The managed credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification.

All other loans: All other loans primarily include business banking loans (which are highly collateralized loans, often with personal loan guarantees), and education loans. As of June 30, 2008, other loans, including loans held-for-sale, were \$30.4 billion, compared with \$28.7 billion at year-end 2007.

The following tables present the geographic distribution of consumer credit outstandings by product as of June 30, 2008, and December 31, 2007.

June 30, 2008				Card	All	Total	Card	Total
(in billions)	Home equity	Mortgage	Auto	reported	other loans	consumer loans reported	securitized	consumer loans managed
Top 12 states								
California	\$ 15.2	\$15.5	\$ 5.1	\$10.1	\$ 1.3	\$ 47.2	\$10.7	\$ 57.9
New York	14.9	9.0	3.8	6.0	3.9	37.6	6.1	43.7
Texas	6.0	2.4	4.2	5.2	3.5	21.3	5.8	27.1
Florida	5.2	6.7	1.6	4.4	0.7	18.6	4.6	23.2
Illinois	6.7	3.2	2.3	4.1	2.0	18.3	4.2	22.5
Ohio	4.8	1.0	3.2	3.0	2.9	14.9	3.4	18.3
New Jersey	4.6	2.3	1.7	3.0	0.9	12.5	3.3	15.8
Michigan	3.7	1.5	1.4	2.6	2.5	11.7	2.8	14.5
Arizona	5.8	1.6	1.7	1.6	1.8	12.5	1.6	14.1
Pennsylvania	1.6	0.9	1.8	2.9	0.6	7.8	3.1	10.9
Colorado	2.2	1.4	1.0	1.8	0.9	7.3	1.8	9.1
Indiana	2.3	0.6	1.2	1.6	1.2	6.9	1.6	8.5
All other	22.1	15.9	15.9	30.0	8.2	92.1	30.1	122.2
Total	\$ 95.1	\$62.0	\$44.9	\$76.3	\$30.4	\$ 308.7	\$79.1	\$ 387.8
December 31, 2007				Card	All	Total	Card	Total
(in billions)	Home equity	Mortgage	Auto	reported	other loans	consumer loans reported	securitized	consumer loans managed

Top 12 states

California	\$ 14.9	\$ 13.4	\$ 5.0	\$ 11.0	\$ 1.0	\$ 45.3	\$ 9.6	\$ 54.9
New York	14.4	8.0	3.6	6.6	4.2	36.8	5.6	42.4
Texas	6.1	2.0	3.7	5.8	3.5	21.1	5.4	26.5
Florida	5.3	6.4	1.6	4.7	0.5	18.5	4.2	22.7
Illinois	6.7	3.0	2.2	4.5	1.9	18.3	3.9	22.2
Ohio	4.9	1.0	2.9	3.3	2.6	14.7	3.1	17.8
New Jersey	4.4	2.2	1.7	3.3	0.5	12.1	3.1	15.2
Michigan	3.7	1.6	1.3	2.9	2.3	11.8	2.5	14.3
Arizona	5.7	1.5	1.8	1.7	1.8	12.5	1.4	13.9
Pennsylvania	1.6	0.9	1.7	3.2	0.5	7.9	2.9	10.8
Colorado	2.3	1.3	1.0	2.0	0.8	7.4	1.7	9.1
Indiana	2.4	0.6	1.2	1.8	1.1	7.1	1.5	8.6
All other	22.4	14.1	14.7	33.6	8.0	92.8	27.8	120.6
Total	\$ 94.8	\$ 56.0	\$ 42.4	\$ 84.4	\$ 28.7	\$ 306.3	\$ 72.7	\$ 379.0

Table of Contents**ALLOWANCE FOR CREDIT LOSSES**

For a further discussion of the components of the allowance for credit losses, see Critical Accounting Estimates Used by the Firm on pages 72-73 and Note 14 on page 102 of this Form 10-Q, and page 96 and Note 15 on pages 138-139 of JPMorgan Chase's 2007 Annual Report. At June 30, 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

Six months ended June 30, (in millions)	2008			2007		
	Wholesale	Consumer	Total	Wholesale	Consumer	Total
Loans:						
Beginning balance at January 1,	\$ 3,154	\$ 6,080	\$ 9,234	\$ 2,711	\$ 4,568	\$ 7,279
Cumulative effect of changes in accounting principles ^(a)				(56)		(56)
Beginning balance at January 1, adjusted	3,154	6,080	9,234	2,655	4,568	7,223
Gross charge-offs	(212)	(4,312)	(4,524)	(30)	(2,286)	(2,316)
Gross recoveries	79	409	488	65	363	428
Net (charge-offs) recoveries	(133)	(3,903)	(4,036)	35	(1,923)	(1,888)
Provision for loan losses	1,417	6,626	8,043	31	2,264	2,295
Other	31 ^(b)	(26) ^(b)	5	(19) ^(c)	22 ^(c)	3
Ending balance at June 30	\$ 4,469^(d)	\$ 8,777^(e)	\$ 13,246	\$ 2,702 ^(d)	\$ 4,931 ^(e)	\$ 7,633
Components:						
Asset specific ^(f)	\$ 174	\$ 61	\$ 235	\$ 52	\$ 81	\$ 133
Formula-based ^(f)	4,295	8,716	13,011	2,650	4,850	7,500
Total allowance for loan losses	\$ 4,469	\$ 8,777	\$ 13,246	\$ 2,702	\$ 4,931	\$ 7,633
Lending-related commitments:						
Beginning balance at January 1,	\$ 835	\$ 15	\$ 850	\$ 499	\$ 25	\$ 524
Provision for lending-related commitments	(165)	1	(164)	244	(2)	242
Other	7 ^(b)	(7) ^(b)				
Ending balance at June 30	\$ 677	\$ 9	\$ 686	\$ 743	\$ 23	\$ 766
Components:						
Asset specific	\$ 16	\$	\$ 16	\$ 29	\$	\$ 29

Formula-based	661	9	670	714	23	737
Total allowance for lending-related commitments	\$ 677	\$ 9	\$ 686	\$ 743	\$ 23	\$ 766
Total allowance for credit losses	\$ 5,146	\$ 8,786	\$ 13,932	\$ 3,445	\$ 4,954	\$ 8,399

(a) *Reflects the effect of the adoption of SFAS 159 at January 1, 2007. For a further discussion of SFAS 159, see Note 4 on pages 90-92 of this Form 10-Q.*

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

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

(d) *The ratio of the wholesale allowance for loan losses to total wholesale loans was 2.13% and 1.59%, excluding wholesale held-for-sale loans and loans accounted for at fair value at June 30, 2008 and 2007, respectively.*

(e) *The ratio of the consumer allowance for loan losses to total consumer loans was 2.86% and 1.79%, excluding consumer held-for-sale loans and loans accounted for at fair value at June 30, 2008 and 2007, respectively.*

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

The allowance for credit losses increased \$3.8 billion from December 31, 2007, reflecting increases of \$2.7 billion and \$1.1 billion in the consumer and wholesale portfolios, respectively. Excluding held-for-sale loans and loans carried at fair value, the allowance for loan losses represented 2.57% of loans at June 30, 2008, compared with 1.88% at December 31, 2007. The consumer allowance for loan losses increased \$2.7 billion from December 31, 2007, predominantly as a result of increased allowance for loan loss in residential real estate. The increase included \$1.1 billion for home equity loans, as risk-layered loans, continued weak housing prices and slowing economic growth continue to result in increased estimated losses for this product segment and higher nonperforming assets. The allowance for loan loss increased \$717 million for subprime mortgages and \$556 million for prime mortgages, as housing price declines in specific geographic regions and slowing economic growth continue to increase estimated losses for all mortgage product segments and to have a negative impact on nonperforming assets. The increase in wholesale allowance for loan losses reflected the effect of a weakening credit environment, the transfer of funded and unfunded leverage lending commitments to retained loans from held-for-sale and loan growth.

Table of Contents

To provide for the risk of loss inherent in the Firm's process of extending credit, management computes an asset-specific component and a formula-based component for wholesale lending-related commitments. These components are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown. This allowance, which is reported in other liabilities, was \$686 million and \$850 million at June 30, 2008, and December 31, 2007, respectively.

Provision for credit losses

For a discussion of the reported provision for credit losses, see page 13 of this Form 10-Q. The managed provision for credit losses was \$4.3 billion for the three months ended June 30, 2008, up \$2.2 billion, or 102%, from the prior year. The total consumer managed provision for credit losses was \$3.8 billion in the current quarter compared with \$1.9 billion in the prior year. The wholesale provision for credit losses was \$505 million for the second quarter of 2008 compared with a provision of \$198 million in the prior year, predominantly reflecting the effect of a weakening credit environment as well as loan growth. The year-to-date increase from the prior period in the wholesale provision for credit losses also was affected by the impact of the transfer of funded and unfunded leverage lending commitments to retained loans from held-for-sale. The increase in the consumer provision reflected increases in estimated losses for the home equity, subprime mortgage, prime mortgage and credit card loan portfolios.

Three months ended June 30, (in millions)	Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses	
	2008	2007	2008	2007	2008	2007
Investment Bank	\$ 538	\$ (13)	\$ (140)	\$ 177	\$ 398	\$ 164
Commercial Banking	77	10	(30)	35	47	45
Treasury & Securities Services	7	(1)		1	7	
Asset Management	17	(13)		2	17	(11)
Corporate/Private Equity	36				36	
Total wholesale	675	(17)	(170)	215	505	198
Retail Financial Services	1,331	589	1	(2)	1,332	587
Card Services – reported	1,364	741			1,364	741
Corporate/Private Equity	254	3			254	3
Total consumer	2,949	1,333	1	(2)	2,950	1,331
Total provision for credit losses – reported	3,624	1,316	(169)	213	3,455	1,529
Card Services – securitized	830	590			830	590
Total provision for credit losses – managed	\$ 4,454	\$ 1,906	\$ (169)	\$ 213	\$ 4,285	\$ 2,119

Six months ended June 30, (in millions)	Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses	
	2008	2007	2008	2007	2008	2007
Investment Bank	\$ 1,109	\$ 22	\$ (93)	\$ 205	\$ 1,016	\$ 227
Commercial Banking	220	27	(72)	35	148	62

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Treasury & Securities Services	18	3	1	3	19	6
Asset Management	34	(21)	(1)	1	33	(20)
Corporate/Private Equity	36				36	
Total wholesale	1,417	31	(165)	244	1,252	275
Retail Financial Services	3,823	881	1	(2)	3,824	879
Card Services reported	2,353	1,377			2,353	1,377
Corporate/Private Equity	450	6			450	6
Total consumer	6,626	2,264	1	(2)	6,627	2,262
Total provision for credit losses reported	8,043	2,295	(164)	242	7,879	2,537
Card Services securitized	1,511	1,183			1,511	1,183
Total provision for credit losses managed	\$ 9,554	\$ 3,478	\$ (164)	\$ 242	\$ 9,390	\$ 3,720

Table of Contents**MARKET RISK MANAGEMENT**

For discussion of the Firm's market risk management organization, see pages 90-94 of JPMorgan Chase's 2007 Annual Report.

Value-at-risk (VAR)

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

To calculate VAR, the Firm uses historical simulation, which measures risk across instruments and portfolios in a consistent and comparable way. This approach assumes that historical changes in market values are representative of future changes. The simulation is based upon data for the previous 12 months. The Firm calculates VAR using a one-day time horizon and an expected tail-loss methodology, which approximates a 99% confidence level. This means the Firm would expect to incur losses greater than that predicted by VAR estimates only once in every 100 trading days, or about two to three times a year. For a further discussion of the Firm's VAR methodology, see Market Risk Management - Value-at-risk, on pages 91-92 of JPMorgan Chase's 2007 Annual Report.

IB trading and credit portfolio VAR**IB trading VAR by risk type and credit portfolio VAR**

(in millions)	Avg.	Three months ended June 30, ^(c)					Six months ended June 30, ^(c)			
		2008		2007		At June 30,		Average		
		Min	Max	Avg.	Min	Max	2008	2007	2008	2007
By risk type:										
Fixed income	\$ 155	\$ 110	\$ 210	\$ 74	\$ 50	\$ 96	\$ 168	\$ 50	\$ 137	\$ 60
Foreign exchange	26	14	45	20	12	27	17	24	30	19
Equities	30	19	48	51	35	75	27	38	31	46
Commodities and other	31	25	37	40	25	66	34	28	29	37
Diversification	(92) ^(a)	NM ^(b)	NM ^(b)	(73) ^(a)	NM ^(b)	NM ^(b)	(84) ^(a)	(65) ^(a)	(91) ^(a)	(65) ^(a)
Trading VAR	\$ 150	\$ 98	\$ 187	\$ 112	\$ 75	\$ 130	\$ 162	\$ 75	\$ 136	\$ 97
Credit portfolio VAR	35	29	42	12	10	14	41	12	33	12
Diversification	(36) ^(a)	NM ^(b)	NM ^(b)	(14) ^(a)	NM ^(b)	NM ^(b)	(43) ^(a)	(13) ^(a)	(34) ^(a)	(12) ^(a)
Total trading and credit portfolio VAR	\$ 149	\$ 101	\$ 193	\$ 110	\$ 74	\$ 134	\$ 160	\$ 74	\$ 135	\$ 97

(a) Average and period-end VARs are less

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

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

- (c) The results for the three months ended June 30, 2008, include two months of heritage JPMorgan Chase only*

results and one month of results for the combined JPMorgan Chase and Bear Stearns. The results for the six months ended June 30, 2008 include five months of heritage JPMorgan Chase only results and one month of combined JPMorgan Chase and Bear Stearns; 2007 reflects heritage JPMorgan Chase results only.

For certain products included in the trading VAR above, particular risk parameters are not fully captured, for example, correlation risk or the credit spread sensitivity of certain mortgage products. While the Firm has excluded the mortgage credit spread risk from the VAR measure due to the illiquidity of the positions, it is expected that including this risk would significantly increase VAR. 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 71 of this Form 10-Q for further details. Trading VAR also does not include the MSR portfolio or VAR related to securities and instruments held by other corporate functions, such as Corporate/Private Equity. For a discussion of MSRs and the corporate functions, see Note 3 on pages 83 89, Note 18 on pages 114 116 and Corporate/Private Equity on pages 43 45 of this Form 10-Q, and Note 18 on pages 154 156, Note 4 on page 113 and Corporate/Private Equity on pages 59 60 of JPMorgan Chase s 2007 Annual Report.

Table of Contents

Credit portfolio VAR includes VAR on derivative credit valuation adjustments, hedges of the credit valuation adjustment and mark-to-market hedges of the retained loan portfolio, which are all reported in principal transactions revenue. For a discussion of credit valuation adjustments, see Note 4 on pages 111–118 of JPMorgan Chase's 2007 Annual Report. Credit portfolio VAR does not include the retained loan portfolio, which is not marked-to-market. The IB's average total trading and credit portfolio VAR for the second quarter and first half of 2008 was \$149 million and \$135 million, respectively, compared with \$110 million in the second quarter and \$97 million in the first half of 2007 and includes the positions from the Bear Stearns merger as of May 31, 2008. In order to produce a single VAR for the combined Firm, it was necessary to estimate the impact of using JPMorgan Chase's VAR methodology on the Bear Stearns positions since the positions had not yet migrated to JPMorgan Chase VAR models. As the Bear Stearns positions actually migrate to JPMorgan Chase's VAR models in future quarters, the impact on VAR could potentially change. This has been the case for positions that have migrated since the end of second quarter where the impact has been an increase in the VAR. The increase in average and maximum VAR during the second quarter was due to the Bear Stearns merger, primarily in the fixed income businesses. Despite the initial increases in VAR from the Merger, the impact of the Bear Stearns positions on VAR was reduced significantly by quarter end. For the second quarter, Average trading VAR diversification increased to \$92 million, or 38% of the sum of the components, from \$73 million, or 39% of the sum of the components again reflecting the impact of the Merger. Since the end of the second quarter, macro hedge strategies have continued to be deployed to mitigate the consequences of a systemic risk event. The resultant basis difference between these liquid hedging strategies and the less liquid retained risk has caused the overall portfolio's VAR to trend higher. 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 first half of 2008. The chart shows that IB posted market risk-related gains on 97 out of 130 days in this period, with 34 days exceeding \$100 million. The inset graph looks at those days on which IB experienced losses and depicts the amount by which VAR exceeded the actual loss on each of those days. Losses were sustained on 33 days during the six months ended June 30, 2008. For the first half of 2008, losses exceeded the VAR measure on two days, both of which were in the first quarter of 2008 due to the high market volatility experienced during that period. No losses exceeded the VAR measure during the first half of 2007.

Table of Contents

The Firm does not include in its trading VAR the impact of DVA taken to reflect the credit quality of the Firm on derivative and structured liabilities. The following table provides information about the sensitivity of DVA to a one basis point increase in JPMorgan Chase credit spreads. The sensitivity of DVA for June 30, 2008 represents the combined 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
June 30, 2008	\$40
December 31, 2007	38

Economic value stress testing

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

Earnings-at-risk stress testing

The VAR and stress-test measures described above illustrate the total economic sensitivity of the Firm's balance sheet to changes in market variables. The effect of interest rate exposure on reported net income also is important. Interest rate risk exposure in the Firm's core nontrading business activities (i.e., asset/liability management positions) results from on- and off-balance sheet positions. The Firm conducts simulations of changes in net interest income from its nontrading activities under a variety of interest rate scenarios. Earnings-at-risk tests measure the potential change in the Firm's net interest income over the next 12 months and highlight exposures to various rate-sensitive factors, such as the rates themselves (e.g., the prime lending rate), pricing strategies on deposits, optionality and changes in product mix. The tests include forecasted balance sheet changes, such as asset sales and securitizations, as well as prepayment and reinvestment behavior.

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

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

JPMorgan Chase's 12-month pretax earnings sensitivity profiles as of June 30, 2008, and December 31, 2007, were as follows.

(in millions)	Immediate change in rates			
	+200bp	+100bp	-100bp	-200bp
June 30, 2008	\$ (389)	\$ (60)	\$ (593)	\$ NM ^(a)
December 31, 2007	(26)	55	(308)	(664)

(a) A down 200 basis point parallel shock results in a Fed Funds target rate of zero and negative three month and six month Treasury rates. The earnings-at-risk results of such a low probability scenario are not meaningful.

Table of Contents

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

PRIVATE EQUITY RISK MANAGEMENT

For a discussion of Private Equity Risk Management, see page 94 of JPMorgan Chase's 2007 Annual Report. At June 30, 2008, and December 31, 2007, the carrying value of the Private Equity portfolio was \$7.7 billion and \$7.2 billion, respectively, of which \$615 million and \$390 million, respectively, represented positions traded in the public markets.

OPERATIONAL RISK MANAGEMENT

For a discussion of JPMorgan Chase's Operational Risk Management, refer to pages 94-95 of JPMorgan Chase's 2007 Annual Report.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

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

SUPERVISION AND REGULATION

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

Dividends

At June 30, 2008, JPMorgan Chase's bank subsidiaries could pay, in the aggregate, \$20.0 billion in dividends to their respective bank holding companies without prior approval of their relevant banking regulators.

CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

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

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the retained wholesale and consumer loan portfolios as well as the Firm's portfolio of wholesale and consumer lending-related commitments. The allowance for loan losses is intended to adjust the value of the Firm's loan assets to reflect probable credit losses as of the balance sheet date. For a further discussion of the methodologies used in establishing the Firm's allowance for credit losses, see Note 15 on pages 138-139 of JPMorgan Chase's 2007 Annual Report. The methodology for calculating the allowance for loan losses and the allowance for lending-related commitments involves significant judgment. For a further description of these judgments, see Allowance for Credit Losses on pages 96-97 of JPMorgan Chase's 2007 Annual Report; for amounts recorded as of June 30, 2008 and 2007, see Allowance for Credit Losses on page 67 and Note 14 on page 102.

of this Form 10-Q.

As noted on page 96 of JPMorgan Chase's 2007 Annual Report, the Firm's wholesale allowance is sensitive to the risk rating assigned to a loan. Assuming a one-notch downgrade in the Firm's internal risk ratings for its entire wholesale portfolio, the allowance for loan losses for the wholesale portfolio would increase by approximately \$1.6 billion as of June 30, 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.

Table of Contents

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

Fair value of financial instruments, MSRs and commodities inventory

A portion of JPMorgan Chase's assets and liabilities are carried at fair value, including trading assets and liabilities, AFS securities, certain loans, MSRs, private equity investments, structured notes, and certain securities financing activities, and repurchase and resale agreements. Physical commodities are carried at the lower of cost or fair value and reported within the recurring fair value disclosures. Held-for-sale loans are carried at the lower of cost or fair value on a nonrecurring basis. At June 30, 2008, and December 31, 2007, \$719.9 billion and \$635.5 billion, respectively, of the Firm's assets, and \$293.9 billion and \$254.3 billion, respectively, of the Firm's liabilities were recorded at fair value on a recurring basis.

Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that primarily use as inputs market-based or independently sourced market parameters. The Firm ensures that all applicable inputs are appropriately calibrated to market data, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Fair value adjustments, including counterparties' credit and the Firm's credit, liquidity, and input parameter uncertainty are included, as appropriate, to the model value to arrive at a fair value measurement. During the first six months of 2008, no material changes were made to the Firm's valuation models. For a further description of assets and liabilities carried at fair value, see Note 4 and Note 5 on pages 111-118, and 119-121, respectively, of JPMorgan Chase's 2007 Annual Report. In addition, for a further discussion of the significant judgments and estimates involved in the determination of the fair value of the above instruments, as well as the process to validate valuation models, see Fair value of financial instruments, MSRs and commodities inventory on pages 97-98, and Model review on page 94 of JPMorgan Chase's 2007 Annual Report.

The following tables summarize the Firm's assets accounted for at fair value on a recurring basis by level within the valuation hierarchy at June 30, 2008, and December 31, 2007.

June 30, 2008 (in billions)	Debt and equity securities	Derivative receivables	AFS securities	Mortgage servicing rights	Private equity	Other ^(e)	Total
Level 1	45%	%	72%	%	4%	20%	14% ^(c)
Level 2	41	97 ^(c)	28		5	53	79 ^(c)
Level 3	14	3 ^(c)		100	91	27	7 ^(c)
Assets at fair value ^(a)	\$ 409.6	\$ 122.4 ^(d)	\$ 119.1	\$ 11.6	\$ 7.7	\$ 49.5	\$ 719.9 ^(d)

Level 3 assets^(b) as a percentage of the Firm's total assets and assets at fair value.

Assets at fair value	20%
Assets	8

December 31, 2007 (in billions)	Debt and equity securities	Derivative receivables	AFS securities	Mortgage servicing rights	Private equity	Other ^(e)	Total
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Level 1	48%	2% ^(c)	84%	%	1%	25%	21% ^(c)
Level 2	46	96 ^(c)	16		5	48	74 ^(c)
Level 3	6	2 ^(c)		100	94	27	5 ^(c)
Assets at fair value	\$ 414.3	\$ 77.1 ^(d)	\$ 85.4	\$ 8.6	\$ 7.2	\$ 42.9	\$ 635.5 ^(d)

Level 3 assets^(b) as a percentage of the Firm's total assets and assets at fair value.

Assets at fair value	13%
Assets	5

(a) *Includes assets for which the Firm does not bear economic exposure. See Note 3 on pages 83-89 of this Form 10-Q.*

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

(c) *Based upon the fair value of the Firm's derivatives portfolio prior to FIN 39 netting to reflect the legally enforceable master netting agreements and cash collateral held by the Firm, as cross-product netting is not relevant to an analysis based upon valuation methodologies.*

(d) *Reflects the balance*

recorded on the Consolidated Balance Sheets which is after FIN 39 netting. The amount of derivatives at fair value prior to FIN 39 netting for derivative receivables was \$1,385.1 billion and \$909.9 billion at June 30, 2008, and December 31, 2007, respectively, and for total assets at fair value was \$1,982.5 billion and \$1,468.2 billion at June 30, 2008, and December 31, 2007, respectively.

- (e) Includes certain securities purchased under resale agreements, certain securities borrowed, certain loans (excluding loans classified within trading assets debt and equity instruments) and certain retained interests in securitizations. For further information, see*

*Note 3 on pages
83-89 of this
Form 10-Q.*

Table of Contents

Level 3 assets (including assets measured at the lower of cost or fair value) were 20% of total Firm assets measured at fair value and 8% of total Firm assets at June 30, 2008, compared with 13% and 5%, respectively, at December 31, 2007.

Level 3 assets increased \$55.7 billion in the first six months of 2008 principally due to the following: the acquisition of \$41.5 billion of level 3 assets as a result of the merger with Bear Stearns; the purchase of approximately \$4.4 billion of reverse mortgages in the first quarter for which there is limited pricing information and a lack of market liquidity; and transfers into level 3 of \$8.6 billion of mortgage-related assets and \$2.8 billion of auction-rate securities in the first quarter of 2008. The transfer of mortgage-related assets was based on a significant reduction in new deal issuance that limited the Firm's ability to obtain independent quotes for certain mortgage instruments. Such assets included commercial mortgage-backed securities with a rating below AAA, other noninvestment grade mortgage securities and certain prime mortgage loans. The transfer of auction-rate securities was based on a significant reduction in market liquidity for auction-rate securities. For a further discussion of changes in level 3 instruments, see Note 3 on pages 83-89 of this Form 10-Q.

Imprecision in estimating unobservable market inputs can impact the amount of revenue or loss recorded for a particular position. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value for individual financial instruments, see Note 4 on pages 111-118 of JPMorgan Chase's 2007 Annual Report.

Goodwill impairment

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

Income taxes

JPMorgan Chase is subject to the income tax laws of the various jurisdictions in which it operates, including U.S. 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 unrecognized tax benefits, JPMorgan Chase must make assumptions and judgments about how to interpret and apply these complex tax laws to numerous transactions and business events. For a further description of accounting estimates related to income taxes, see Income taxes on page 98 of JPMorgan Chase's 2007 Annual Report.

ACCOUNTING AND REPORTING DEVELOPMENTS**Derivatives netting – amendment of FASB Interpretation No. 39**

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

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

In June 2007, the FASB ratified EITF 06-11, which must be applied prospectively for dividends declared in fiscal years beginning after December 15, 2007. EITF 06-11 requires that realized tax benefits from dividends or dividend equivalents paid on equity-classified share-based payment awards that are charged to retained earnings 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, Application of Accounting Principles to Loan Commitments. Specifically, SAB 109 states that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The provisions of SAB 109 are applicable to written loan

commitments issued or modified beginning on January 1, 2008. The Firm adopted SAB 109 on January 1, 2008. The adoption of this pronouncement did not have a material impact on the Firm's Consolidated Balance Sheets or results of operations.

Table of Contents**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. JPMorgan Chase continues to evaluate the impact that SFAS 141R and SFAS 160 will have on its consolidated financial statements. For JPMorgan Chase, SFAS 141R is effective for business combinations that close on or after January 1, 2009. SFAS 160 is effective for JPMorgan Chase for fiscal years beginning on or after December 15, 2008.

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. FSP FAS 140-3 is effective for fiscal years beginning after November 15, 2008, and will be applied to new transactions entered into after the date of adoption. The Firm is currently evaluating the impact the adoption of FSP FAS 140-3 will have on the Firm's consolidated financial statements.

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

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 financial position, financial performance or 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. The Firm is currently evaluating the impact the adoption of FSP EITF 03-6-1 will have on its consolidated financial statements.

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 (1) eliminate the concept of QSPEs from both SFAS 140 and FIN 46R; (2) 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; and (3) reconsider the party that consolidates the VIE on a quarterly basis. An exposure draft of the proposed amendments is expected to be issued for public comment during the third quarter of 2008 and could be effective January 2010. Entities expected to be impacted include revolving securitization structures and bank-sponsored asset-backed commercial paper conduits; mortgage securitization structures will require further evaluation. The accounting impact of the proposed amendments cannot be determined until the FASB issues a final statement amending SFAS 140 and FIN 46R, which is expected to occur during the fourth quarter of 2008.

Table of Contents

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

(in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Revenue				
Investment banking fees	\$ 1,612	\$ 1,898	\$ 2,828	\$ 3,637
Principal transactions	752	3,713	(51)	8,200
Lending & deposit-related fees	1,105	951	2,144	1,846
Asset management, administration and commissions	3,628	3,611	7,224	6,797
Securities gains (losses)	647	(223)	680	(221)
Mortgage fees and related income	696	523	1,221	999
Credit card income	1,803	1,714	3,599	3,277
Other income	(138)	553	1,691	1,071
Noninterest revenue	10,105	12,740	19,336	25,606
Interest income	16,529	17,342	34,061	33,962
Interest expense	8,235	11,174	18,108	21,692
Net interest income	8,294	6,168	15,953	12,270
Total net revenue	18,399	18,908	35,289	37,876
Provision for credit losses	3,455	1,529	7,879	2,537
Noninterest expense				
Compensation expense	6,913	6,309	11,864	12,543
Occupancy expense	669	652	1,317	1,292
Technology, communications and equipment expense	1,028	921	1,996	1,843
Professional & outside services	1,450	1,259	2,783	2,459
Marketing	413	457	959	939
Other expense	1,233	1,013	1,402	1,748
Amortization of intangibles	316	353	632	706
Merger costs	155	64	155	126
Total noninterest expense	12,177	11,028	21,108	21,656
Income before income tax expense	2,767	6,351	6,302	13,683
Income tax expense	764	2,117	1,926	4,662
Net income	\$ 2,003	\$ 4,234	\$ 4,376	\$ 9,021
Net income applicable to common stock	\$ 1,913	\$ 4,234	\$ 4,286	\$ 9,021

Net income per common share data

Basic earnings per share	\$ 0.56	\$ 1.24	\$ 1.26	\$ 2.63
Diluted earnings per share	0.54	1.20	1.22	2.55
Average basic shares	3,426.2	3,415.1	3,411.1	3,435.7
Average diluted shares	3,531.0	3,521.6	3,512.9	3,540.5
Cash dividends per common share	\$ 0.38	\$ 0.38	\$ 0.76	\$ 0.72

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

76

Table of Contents

JPMORGAN CHASE & CO.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data)	June 30, 2008	December 31, 2007
Assets		
Cash and due from banks	\$ 32,255	\$ 40,144
Deposits with banks	17,150	11,466
Federal funds sold and securities purchased under resale agreements (included \$19,779 and \$19,131 at fair value at June 30, 2008, and December 31, 2007, respectively)	176,287	170,897
Securities borrowed (included \$3,108 and zero at fair value at June 30, 2008, and December 31, 2007, respectively)	142,854	84,184
Trading assets (included assets pledged of \$80,757 and \$79,229 at June 30, 2008, and December 31, 2007, respectively)	531,997	491,409
Securities (included \$119,134 and \$85,406 at fair value at June 30, 2008, and December 31, 2007, respectively, and assets pledged of \$7,296 and \$3,958 at June 30, 2008, and December 31, 2007, respectively)	119,173	85,450
Loans (included \$11,379 and \$8,739 at fair value at June 30, 2008, and December 31, 2007, respectively)	538,029	519,374
Allowance for loan losses	(13,246)	(9,234)
Loans, net of allowance for loan losses	524,783	510,140
Accrued interest and accounts receivable	64,294	24,823
Premises and equipment	10,333	9,319
Goodwill	45,993	45,270
Other intangible assets:		
Mortgage servicing rights	11,617	8,632
Purchased credit card relationships	1,984	2,303
All other intangibles	3,675	3,796
Other assets (included \$22,868 and \$22,151 at fair value at June 30, 2008, and December 31, 2007, respectively)	93,275	74,314
Total assets	\$ 1,775,670	\$ 1,562,147
Liabilities		
Deposits (included \$6,557 and \$6,389 at fair value at June 30, 2008, and December 31, 2007, respectively)	\$ 722,905	\$ 740,728
Federal funds purchased and securities loaned or sold under repurchase agreements (included \$3,984 and \$5,768 at fair value at June 30, 2008, and December 31, 2007, respectively)	194,724	154,398
Commercial paper	50,151	49,596
Other borrowed funds (included \$7,867 and \$10,777 at fair value at June 30, 2008, and December 31, 2007, respectively)	22,594	28,835
Trading liabilities	183,590	157,867

Accounts payable, accrued expense and other liabilities (included the allowance for lending-related commitments of \$686 and \$850 at June 30, 2008, and December 31, 2007, respectively, and \$25 at fair value at December 31, 2007)	171,004	94,476
Beneficial interests issued by consolidated variable interest entities (included \$11,287 and \$3,004 at fair value at June 30, 2008, and December 31, 2007, respectively)	20,071	14,016
Long-term debt (included \$80,570 and \$70,456 at fair value at June 30, 2008, and December 31, 2007, respectively)	260,192	183,862
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	17,263	15,148
Total liabilities	1,642,494	1,438,926
Commitments and contingencies (see Note 25 of this Form 10-Q)		
Stockholders equity		
Preferred stock (\$1 par value; authorized 200,000,000 shares at June 30, 2008, and December 31, 2007; issued 600,000 and 0 shares at June 30, 2008, and December 31, 2007, respectively)	6,000	
Common stock (\$1 par value; authorized 9,000,000,000 shares at June 30, 2008, and December 31, 2007; issued 3,657,683,278 shares and 3,657,671,234 shares at June 30, 2008, and December 31, 2007, respectively)	3,658	3,658
Capital surplus	78,870	78,597
Retained earnings	56,313	54,715
Accumulated other comprehensive income (loss)	(1,566)	(917)
Shares held in RSU Trust, at cost (5,942,123 shares at June 30, 2008)	(269)	
Treasury stock, at cost (221,935,281 shares at June 30, 2008, and 290,288,540 shares at December 31, 2007)	(9,830)	(12,832)
Total stockholders equity	133,176	123,221
Total liabilities and stockholders equity	\$ 1,775,670	\$ 1,562,147

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

Table of Contents

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

(in millions, except per share data)	Six months ended June 30,	
	2008	2007
Preferred stock		
Balance at January 1	\$	\$
Issuance of preferred stock	6,000	
Balance at June 30	6,000	
Common stock		
Balance at January 1, and June 30	3,658	3,658
Capital surplus		
Balance at January 1	78,597	77,807
Shares issued and commitments to issue common stock for employee stock-based compensation awards and related tax effects	(46)	213
Net change from the Bear Stearns merger:		
Reissuance of treasury stock and the Share Exchange agreement	48	
Employee stock awards	271	
Balance at June 30	78,870	78,020
Retained earnings		
Balance at January 1	54,715	43,600
Cumulative effect of change in accounting principles		915
Balance at January 1, adjusted	54,715	44,515
Net income	4,376	9,021
Dividends on common stock (\$0.76 and \$0.72 per share for the six months ended June 30, 2008 and 2007, respectively)	(2,688)	(2,525)
Dividends on preferred stock	(90)	
Balance at June 30	56,313	51,011
Accumulated other comprehensive income (loss)		
Balance at January 1	(917)	(1,557)
Cumulative effect of change in accounting principles		(1)
Balance at January 1, adjusted	(917)	(1,558)
Other comprehensive income (loss)	(649)	(522)
Balance at June 30	(1,566)	(2,080)

Shares held in RSU Trust

Balance at January 1		
Resulting from the Bear Stearns merger	(269)	

Balance at June 30	(269)	
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Treasury stock, at cost

Balance at January 1	(12,832)	(7,718)
Purchase of treasury stock		(5,878)
Reissuance from treasury stock	1,852	2,332
Share repurchases related to employee stock-based compensation awards		(134)

Net change from the Bear Stearns merger as a result of the reissuance of treasury stock and the Share Exchange agreement	1,150	
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Balance at June 30	(9,830)	(11,398)
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Total stockholders equity	\$ 133,176	\$ 119,211
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Comprehensive income

Net income	\$ 4,376	\$ 9,021
Other comprehensive income (loss)	(649)	(522)

Comprehensive income	\$ 3,727	\$ 8,499
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The Notes to Consolidated Financial Statements (unaudited) are an integral part of these statements.

Table of Contents

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

(in millions)	Six months ended June 30,	
	2008	2007
Operating activities		
Net income	\$ 4,376	\$ 9,021
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	7,879	2,537
Depreciation and amortization	1,503	1,097
Amortization of intangibles	632	706
Deferred tax benefit	(1,139)	(137)
Investment securities (gains) losses	(680)	221
Proceeds on sale of investment	(1,540)	
Stock-based compensation	1,388	1,019
Originations and purchases of loans held-for-sale	(21,289)	(61,982)
Proceeds from sales, securitizations and paydowns of loans held-for-sale	22,660	70,739
Net change in:		
Trading assets	1,494	(67,123)
Securities borrowed	(3,396)	(14,672)
Accrued interest and accounts receivable	3,031	(3,825)
Other assets	(8,122)	(9,487)
Trading liabilities	13,383	9,283
Accounts payable, accrued expense and other liabilities	(1,669)	(2,376)
Other operating adjustments	5,462	(1,377)
Net cash provided by (used in) operating activities	23,973	(66,356)
Investing activities		
Net change in:		
Deposits with banks	(1,457)	(28,189)
Federal funds sold and securities purchased under resale agreements	(20,457)	14,573
Held-to-maturity securities:		
Proceeds	5	8
Available-for-sale securities:		
Proceeds from maturities	21,219	13,378
Proceeds from sales	32,438	41,449
Purchases	(88,119)	(60,611)
Proceeds from sales and securitization of loans held-for-investment	18,021	22,153
Other changes in loans, net	(41,648)	(30,128)
Net cash received from sale of an investment net of acquisitions	444	(70)
Proceeds from assets sale to the FRBNY	28,850	
All other investing activities, net	(3,378)	(880)
Net cash used in investing activities	(54,082)	(28,317)
Financing activities		

Net change in:		
Deposits	(2,564)	12,257
Federal funds purchased and securities loaned or sold under repurchase agreements	22,107	43,808
Commercial paper and other borrowed funds	(10,023)	17,373
Proceeds from the issuance of long-term debt and trust preferred capital debt securities	38,184	52,870
Repayments of long-term debt and trust preferred capital debt securities	(29,973)	(30,364)
Net proceeds from the issuance of stock and stock-related awards	117	1,306
Excess tax benefits related to stock-based compensation	121	302
Proceeds from issuance of preferred stock	6,000	
Repurchases of treasury stock		(5,878)
Cash dividends paid	(2,663)	(2,404)
All other financing activities, net	648	309
Net cash provided by financing activities	21,954	89,579
Effect of exchange rate changes on cash and due from banks	266	131
Net decrease in cash and due from banks	(7,889)	(4,963)
Cash and due from banks at the beginning of the year	40,144	40,412
Cash and due from banks at the end of the period	\$ 32,255	\$ 35,449
Cash interest paid	\$ 19,462	\$ 21,501
Cash income taxes paid	2,264	3,596

Note: The fair value of noncash assets acquired and liabilities assumed in the merger with Bear Stearns were \$288.2 billion and \$287.6 billion, respectively. Approximately 26 million shares of common stock, valued at approximately \$1.2 billion, were issued in connection with the Merger.

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

Table of Contents

See Glossary of Terms on pages 130-133 of this Form 10-Q for definitions of terms used throughout the Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**NOTE 1 BASIS OF PRESENTATION**

JPMorgan Chase & Co. (JPMorgan Chase or the Firm), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America (U.S.), with operations in more than 60 countries. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. For a discussion of the Firm's business segment information, see Note 28 on pages 124-127 of this Form 10-Q.

The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to accounting principles generally accepted in the United States of America (U.S. GAAP). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities. The unaudited consolidated financial statements prepared in conformity with U.S. GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expense, and the disclosures of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal recurring adjustments have been included for a fair statement of this interim financial information. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes thereto included in JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Annual Report).

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

NOTE 2 BUSINESS CHANGES AND DEVELOPMENTS**Merger with The Bear Stearns Companies Inc.**

Effective May 30, 2008, BSC Merger Corporation, a wholly-owned subsidiary of JPMorgan Chase, merged with The Bear Stearns Companies Inc. (Bear Stearns) pursuant to the Agreement and Plan of Merger, dated as of March 16, 2008, as amended March 24, 2008, and Bear Stearns became a wholly-owned subsidiary of JPMorgan Chase (the Merger). The Merger provides the Firm with a leading global prime brokerage platform; strengthens the Firm's equities and asset management businesses; enhances capabilities in mortgage origination, securitization and servicing; and expands the platform of the Firm's energy business. The Merger is being accounted for under the purchase method of accounting, which requires that the assets and liabilities of Bear Stearns be fair valued. The total purchase price to complete the Merger was \$1.5 billion.

The Merger was accomplished through a series of transactions that were reflected as step acquisitions in accordance with SFAS 141. On April 8, 2008, pursuant to the share exchange agreement, JPMorgan Chase acquired 95 million newly issued shares of Bear Stearns common stock (or 39.5% of Bear Stearns common stock after giving effect to the issuance) for 21 million shares of JPMorgan Chase common stock. Further, between March 24, 2008, and May 12, 2008, JPMorgan Chase acquired approximately 24 million shares of Bear Stearns common stock in the open market at an average purchase price of \$12.37 per share. The share exchange and cash purchase transactions resulted in JPMorgan Chase owning approximately 49.4% of Bear Stearns common stock immediately prior to consummation of the Merger. Finally, on May 30, 2008, JPMorgan Chase completed the Merger, and as a result of the Merger, each outstanding share of Bear Stearns common stock (other than shares then held by JPMorgan Chase) was converted into the right to receive 0.21753 shares of common stock of JPMorgan Chase. Also, on May 30, 2008, the shares of common stock that JPMorgan Chase and Bear Stearns acquired from each other in the share exchange transaction were cancelled. From April 8, 2008, through May 30, 2008, JPMorgan Chase accounted for the investment in Bear Stearns under the equity method of accounting in accordance with APB 18. During this period, JPMorgan Chase recorded reductions to its investment in Bear Stearns representing its share of Bear Stearns net losses, which was recorded in other income and accumulated other comprehensive income.

In conjunction with the Merger, in June 2008, the Federal Reserve Bank of New York (the FRBNY) took control, through a limited liability company (LLC) formed for this purpose, of a portfolio of \$30 billion in assets acquired

from Bear Stearns, based on the value of the portfolio as of March 14, 2008. The assets of the LLC were funded by a \$28.85 billion, term loan from the FRBNY, and a \$1.15 billion, subordinated note from JPMorgan Chase. The JPMorgan Chase note is subordinated to the FRBNY loan and will bear the first \$1.15 billion of any losses of the portfolio. Any remaining assets in the portfolio after repayment of the FRBNY loan, the JPMorgan Chase note and the expenses of the LLC, will be for the account of the FRBNY.

Table of Contents**Purchase price allocation and goodwill**

As a result of step acquisition accounting, the total \$1.5 billion purchase price was allocated to the Bear Stearns assets acquired and liabilities assumed using their fair values as of April 8, 2008, and May 30, 2008, respectively. The summary computation of the purchase price and the allocation of the purchase price to the net assets of Bear Stearns are presented below. The allocation of the purchase price may be modified through May 30, 2009, as more information is obtained about the fair value of assets acquired and liabilities assumed.

(in millions, except for shares (in thousands), per share amounts and where otherwise noted)

Purchase price

Shares exchanged in the Share Exchange transaction (April 8, 2008)	95,000	
Other Bear Stearns shares outstanding	145,759	
Total Bear Stearns stock outstanding	240,759	
Cancellation of shares issued in the Share Exchange transaction	(95,000)	
Cancellation of shares acquired by JPMorgan Chase for cash in the open market	(24,061)	
Bear Stearns common stock exchanged as of May 30, 2008	121,698	
Exchange ratio	0.21753	
JPMorgan Chase common stock issued	26,473	
Average purchase price per JPMorgan Chase common share ^(a)	\$ 45.26	
Total fair value of JPMorgan Chase common stock issued		\$ 1,198
Bear Stearns common stock acquired for cash in the open market (24 million shares at an average share price of \$12.37 per share)		298
Fair value of employee stock awards (largely to be settled by shares held in the RSU Trust ^(b))		271
Direct acquisition costs		27
Less: Fair value of Bear Stearns common stock held in the RSU Trust and included in the exchange of common stock		(269) ^(b)
Total purchase price		1,525
Net assets acquired		
Bear Stearns common stockholders' equity	\$ 6,052	
Adjustments to reflect assets acquired at fair value:		
Trading Assets	(3,518)	
Premises and equipment	522	
Other assets	60	
Amounts to reflect liabilities assumed at fair value:		
Long-term debt	565	
Other liabilities	(2,255)	
Fair value of net assets acquired excluding goodwill		1,426

Goodwill resulting from the merger^(c)

\$ 99

- (a) *The value of JPMorgan Chase common stock was determined by averaging the closing prices of JPMorgan Chase's common stock for the four trading days during the period March 19, 2008, through March 25, 2008.*
- (b) *Represents shares of Bear Stearns common stock held in an irrevocable grantor trust (the RSU Trust) to be used to settle stock awards granted to selected employees and certain key executives under certain heritage Bear Stearns employee stock plans. Shares in the RSU Trust were exchanged for 6 million shares of JPMorgan Chase common stock at the merger exchange ratio of 0.21753. For further discussion of the*

*RSU trust, see
Note 9 on pages
96-97 of this
Form 10-Q.*

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

Table of Contents**Condensed statement of net assets acquired**

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

(in millions)	May 30, 2008
Assets	
Cash and due from banks	\$ 534
Federal funds sold and securities purchased under resale agreements	21,204
Securities borrowed	55,195
Trading assets	136,848
Loans	4,407
Accrued interest and accounts receivable	34,677
Goodwill	99
All other assets	35,738
Total assets	\$ 288,702
Liabilities	
Federal funds purchased and securities loaned or sold under repurchase agreements	\$ 54,643
Other borrowings	16,166
Trading liabilities	24,267
Beneficial interests issued by consolidated VIEs	47,042
Long-term debt	66,954
Accounts payable, accrued expense and other liabilities	78,535
Total liabilities	287,607
Bear Stearns net assets^(a)	\$ 1,095

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

Bear Stearns net assets acquired as presented above and the fair value of the net assets acquired (including goodwill) presented in the table on page 81 represents JPMorgan Chase's net losses recorded under the equity method of accounting.

Unaudited pro forma condensed combined financial information

The following unaudited pro forma condensed combined financial information presents the results of operations of the Firm as they may have appeared if the Merger had been completed on January 1, 2008, and January 1, 2007.

(in millions, except per share data)	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Total net revenue	\$ 11,417	\$ 21,369	\$ 27,702	\$ 42,710
Net income	(5,896)	4,570	(4,815)	9,852
Net income per common share:				
Basic	\$ (1.74)	\$ 1.33	\$ (1.43)	\$ 2.84
Diluted ^(a)	(1.74)	1.29	(1.43)	2.76
Average basic common shares issued and outstanding	3,439	3,441	3,431	3,462
Average diluted common shares issued and outstanding ^(a)	3,439	3,548	3,431	3,567

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

The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2008, and January 1, 2007, nor is it indicative of the results of operations in future periods. Included in the unaudited pro forma combined financial information for the three and six months ended June 30, 2008 and 2007, were pro forma adjustments to reflect the results of operations of Bear Stearns, valuation adjustments and accounting conformity adjustments. For purposes of this pro forma financial information, such valuation adjustments and accounting conformity adjustments are reflected in results for the three months ended June 30, 2008.

Table of Contents**Internal reorganization related to the Merger**

On June 30, 2008, JPMorgan Chase fully and unconditionally guaranteed each series of outstanding preferred stock of Bear Stearns, as well as all of Bear Stearns' outstanding Securities and Exchange Commission (SEC) registered U.S. debt securities and obligations relating to trust preferred securities. Subsequently, on July 15, 2008, JPMorgan Chase completed an internal merger transaction, which resulted in each series of outstanding preferred stock of Bear Stearns being automatically exchanged into newly issued shares of JPMorgan Chase preferred stock having substantially identical terms. Depositary shares, which formerly had represented a one-fourth interest in a share of Bear Stearns preferred stock, continue to trade on the New York Stock Exchange, but following completion of this internal merger transaction, represent a one-fourth interest in a share of JPMorgan Chase preferred stock. In addition, on July 31, 2008, JPMorgan Chase assumed (1) all of Bear Stearns' then-outstanding SEC-registered U.S. debt securities; (2) Bear Stearns' obligations relating to trust preferred securities; (3) certain of Bear Stearns' then-outstanding foreign debt securities; and (4) certain of Bear Stearns' guarantees of then-outstanding foreign debt securities issued by subsidiaries of Bear Stearns, in each case, in accordance with the agreements and indentures governing these securities. JPMorgan Chase also guaranteed Bear Stearns' obligations under Bear Stearns' U.S. \$30.0 billion Euro Medium Term Note Programme and U.S. \$4.0 billion Euro Note Issuance Programme.

Termination of Chase Paymentech Solutions joint venture

On May 27, 2008, the termination of Chase Paymentech Solutions, a global payments and merchant acquiring joint venture between JPMorgan Chase and First Data Corporation, was announced. The dissolution is expected to be completed by year-end 2008 and JPMorgan Chase will retain approximately 51% of the business under the Chase Paymentech name.

Issuance of preferred stock

On April 23, 2008, the Firm issued \$6.0 billion of noncumulative perpetual preferred stock. The proceeds were used for general corporate purposes. For information regarding the preferred stock issued by the Firm on July 15, 2008, in exchange for the Bear Stearns preferred stock, see "Internal reorganization related to the Merger" above.

Proceeds from Visa Inc. shares

On March 19, 2008, Visa Inc. (Visa) completed its initial public offering (IPO). Prior to the IPO, JPMorgan Chase held approximately a 13% equity interest in Visa. On March 28, 2008, Visa used a portion of the proceeds from the offering to redeem a portion of the Firm's equity interest, which resulted in the recognition of a pretax gain of \$1.5 billion (recorded in other income). In conjunction with the IPO, Visa placed \$3.0 billion in escrow to cover liabilities related to certain litigation matters. JPMorgan Chase's share of this escrow was \$696 million. JPMorgan Chase's interest in the escrow was recorded as a reduction to other expense and reported net of established litigation reserves.

Purchase of additional interest in Highbridge Capital Management

In January 2008, JPMorgan Chase purchased an additional equity interest in Highbridge Capital Management, LLC (Highbridge). As a result, the Firm owns 77.5% of Highbridge as of June 30, 2008. Highbridge is a manager of hedge funds with \$28 billion of assets under management at June 30, 2008. The Firm acquired a majority interest in Highbridge in 2004.

NOTE 3 FAIR VALUE MEASUREMENT For a discussion of JPMorgan Chase's valuation methodologies for assets and liabilities measured at fair value, see Note 4 on pages 111-114 of JPMorgan Chase's 2007 Annual Report.

Valuation Hierarchy

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Table of Contents

The following table presents the financial instruments carried at fair value as of June 30, 2008, and December 31, 2007, by caption on the Consolidated Balance Sheets and by SFAS 157 valuation hierarchy (as described above).

Assets and liabilities measured at fair value on a recurring basis

	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	FIN 39 netting ^(e)	Total carrying value in the Consolidated Balance Sheets
June 30, 2008 (in millions)					
Federal funds sold and securities purchased under resale agreements	\$	\$ 19,779	\$	\$	\$ 19,779
Securities borrowed		3,108			3,108
Trading assets:					
Debt and equity instruments:					
U.S. government, agency, sponsored enterprise and non-U.S. government	80,938	30,668	723		112,329
State and municipal securities		13,718	1,527		15,245
CD, bankers' acceptances and commercial paper	2,113	5,994			8,107
Corporate debt and other	3	53,516	9,783		63,302
Equity securities	99,470	10,704	1,762		111,936
Loans		33,611	33,898		67,509
Mortgage- and asset-backed securities		15,337	11,203		26,540
Physical commodities ^(a)		4,640			4,640
Total debt and equity instruments:	182,524	168,188	58,896		409,608
Derivative receivables	2,152	1,336,791	46,109	(1,262,663)	122,389
Total trading assets	184,676	1,504,979	105,005	(1,262,663)	531,997
Available-for-sale securities	85,411	33,452	271		119,134
Loans		3,050	8,329		11,379
Mortgage servicing rights			11,617		11,617
Other assets:					
Private equity investments	304	418	7,001		7,723
All other	9,965	249	4,931		15,145
Total other assets	10,269	667	11,932		22,868
Total assets at fair value	\$ 280,356	\$ 1,565,035	\$ 137,154	\$ (1,262,663)	\$ 719,882

Level 3 assets for which the Firm does not bear economic exposure ^{(b)(c)}						27,430
Total level 3 assets for which the Firm bears economic exposure						\$ 109,724
Deposits	\$	\$	5,229	\$	1,328	\$ 6,557
Federal funds purchased and securities loaned or sold under repurchase agreements			3,984			3,984
Other borrowed funds			7,567		300	7,867
Trading liabilities:						
Debt and equity instruments	74,424	12,547		870		87,841
Derivative payables	2,809	1,297,156		40,134	(1,244,350)	95,749
Total trading liabilities	77,233	1,309,703		41,004	(1,244,350)	183,590
Accounts payable, accrued expense and other liabilities						
Beneficial interests issued by consolidated VIEs			3,136		8,151	11,287
Long-term debt			57,594		22,976	80,570
Total liabilities at fair value	77,233	1,387,213		73,759	(1,244,350)	293,855

Table of Contents

	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	FIN 39 netting ^(e)	Total carrying value in the Consolidated Balance Sheets
December 31, 2007 (in millions)					
Federal funds sold and securities purchased under resale agreements	\$	\$ 19,131	\$	\$	\$ 19,131
Trading assets:					
Debt and equity instruments:					
U.S. government, agency, sponsored enterprise and non-U.S. government	106,572	40,362	258		147,192
State and municipal securities	7,230	5,860			13,090
CD, bankers' acceptances and commercial paper	3,019	5,233			8,252
Corporate debt and other	6	52,137	7,972		60,115
Equity securities	82,499	9,552	1,197		93,248
Loans		46,038	11,776		57,814
Mortgage- and asset-backed securities		27,209	2,863		30,072
Physical commodities ^(a)		4,490			4,490
Total debt and equity instruments:	199,326	190,881	24,066		414,273
Derivative receivables	18,574	871,105	20,188	(832,731)	77,136
Total trading assets	217,900	1,061,986	44,254	(832,731)	491,409
Available-for-sale securities	71,941	13,364	101		85,406
Loans		359	8,380		8,739
Mortgage servicing rights			8,632		8,632
Other assets:					
Private equity investments	68	322	6,763		7,153
All other	10,784	1,054	3,160		14,998
Total other assets	10,852	1,376	9,923		22,151
Total assets at fair value	\$ 300,693	\$ 1,096,216	\$ 71,290	\$ (832,731)	\$ 635,468
Deposits	\$	\$ 5,228	\$ 1,161	\$	\$ 6,389
Federal funds purchased and securities loaned or sold under repurchase agreements		5,768			5,768
Other borrowed funds		10,672	105		10,777

Trading liabilities:					
Debt and equity instruments	73,023	15,659	480		89,162
Derivative payables	19,553	852,055	19,555	(822,458)	68,705
Total trading liabilities	92,576	867,714	20,035	(822,458)	157,867
Accounts payable, accrued expense and other liabilities ^(d)			25		25
Beneficial interests issued by consolidated VIEs		2,922	82		3,004
Long-term debt		48,518	21,938		70,456
Total liabilities at fair value	\$ 92,576	\$ 940,822	\$ 43,346	\$(822,458)	\$ 254,286

(a) *Physical commodities inventories are accounted for at the lower of cost or fair value.*

(b) *Includes \$8.6 billion of assets at June 30, 2008, which were transferred to securitization vehicles and where such transfers were accounted for as secured financings rather than sales. The securitization vehicles issued securities that were distributed to investors. The Firm does not bear economic exposure to the underlying assets in those securitization vehicles beyond its retained*

interests. The assets are reflected within trading debt and equity as loans and mortgage- and asset-backed securities.

(c) Includes \$18.8 billion of assets at June 30, 2008, where the Firm serves as an intermediary between two parties and does not bear market risk of \$18.8 billion at June 30, 2008. The assets are reflected within derivative receivables.

(d) Included is the fair value adjustment for unfunded lending-related commitments accounted for at fair value.

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

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

Balances for which the Firm did not bear economic exposure at December 31, 2007, were not significant.

Changes in level 3 recurring fair value measurements

The table below includes a rollforward of the balance sheet amounts for the three and six months ended June 30, 2008 and 2007 (including the change in fair value), for financial instruments classified by the Firm within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components

Table of Contents

(that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due, in part, to observable factors that are part of the valuation methodology. Also, the Firm risk manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the valuation hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the tables do not reflect the effect of the Firm's risk management activities related to such level 3 instruments.

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

Fair value measurements using significant unobservable inputs

Three months ended	Fair value, March 31, 2007	Total realized/unrealized gains/(losses) ^(c)	Purchases, issuances settlements, net	Transfers in and/or out of level 3 ^(c)	Fair value, June 30, 2007	Change in unrealized gains and (losses) related to financial instruments at June 30, 2007
Assets:						
Trading assets:						
Debt and equity instruments	\$ 9,001	\$ (86) ^{(d)(e)}	\$ 1,070	\$ 966	\$ 10,951	\$ (151) ^{(d)(e)}
Available-for-sale securities	171	40 ^(f)	(11)	(93)	107	(2) ^(f)
Loans	910	18 ^(d)	616		1,544	16 ^(d)
Other assets:						
Private equity instruments ^(a)	6,037	1,302 ^(d)	(1,275)	(5)	6,059	468 ^(d)
All other	1,605	70 ^(g)	135	331	2,141	2 ^(g)
Liabilities:^(b)						
Deposits	\$ (383)	\$ 23 ^(d)	\$ (419)	\$ (147)	\$ (926)	\$ 32 ^(d)
Other borrowed funds						
Trading liabilities:						
Debt and equity instruments	(7)	(52) ^(d)	5	(189)	(243)	1 ^(d)
Net derivative payables	(2,772)	653 ^(d)	(478)	920	(1,677)	109 ^(d)
Accounts payable, accrued expense and other liabilities						
Beneficial interests issued by consolidated VIEs						
VIEs	(2)			(23)	(25)	
Long-term debt	(13,408)	(380) ^(d)	(3,777)	(2,742)	(20,307)	(344) ^(d)

Table of Contents

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

Fair value measurements using significant unobservable inputs

Six months ended	Purchases, issuances	Fair value,	Change in unrealized gains and (losses)

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June 30, 2007 (in millions)	Fair value, January 1, 2007	Total realized/ unrealized gains/(losses) ^(c)	settlements, net	Transfers in and/or out of level 3 ^(c)	June 30, 2007	related to financial instruments at June 30, 2007
Assets:						
Trading assets:						
Debt and equity instruments	\$ 9,320	\$ (173) ^{(d)(e)}	\$ 1,260	\$ 544	\$ 10,951	\$ (344) ^{(d)(e)}
Available-for-sale securities	177	40 ^(f)	(17)	(93)	107	(4) ^(f)
Loans	643	26 ^(d)	875		1,544	20 ^(d)
Other assets:						
Private equity instruments ^(a)	5,493	2,436 ^(d)	(1,853)	(17)	6,059	870 ^(d)
All other	1,591	69 ^(g)	150	331	2,141	(3) ^(g)
Liabilities:^(b)						
Deposits	\$ (385)	\$ 19 ^(d)	\$ (413)	\$ (147)	\$ (926)	\$ 29 ^(d)
Other borrowed funds						
Trading liabilities:						
Debt and equity instruments	(32)	(52) ^(d)	30	(189)	(243)	1 ^(d)
Net derivative payables	(2,800)	780 ^(d)	(532)	875	(1,677)	194 ^(d)
Accounts payable, accrued expense and other liabilities						
Beneficial interests issued by consolidated VIEs	(8)	6 ^(d)		(23)	(25)	6 ^(d)
Long-term debt	(11,386)	(693) ^(d)	(5,486)	(2,742)	(20,307)	(356) ^(d)

(a) Private equity instruments represent investments within the Corporate/Private Equity line of business. Amounts for 2007 private equity instruments and all other have been revised to reflect the current presentation.

(b)

Level 3 liabilities as a percentage of total Firm liabilities accounted for at fair value was 25% and 17% at June 30, 2008, and December 31, 2007, respectively.

- (c) Beginning January 1, 2008, all transfers in and out of level 3 are assumed to occur at the beginning of the reporting period.*
- (d) Reported in principal transactions revenue.*
- (e) Changes in fair value for Retail Financial Services mortgage loans originated with the intent to sell are measured at fair value and reported in mortgage fees and related income.*
- (f) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss).*
- (g) Reported in other income.*

Note: Mortgage servicing rights (MSRs) are excluded from the above table. For a rollforward of

*balance sheet amounts
related to MSRs, see
Note 18 on pages
114 115 of this Form
10-Q.*

Table of Contents**Assets and liabilities measured at fair value on a nonrecurring basis**

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following table presents the financial instruments carried on the Consolidated Balance Sheets by caption and by level within the SFAS 157 valuation hierarchy (as described above) as of June 30, 2008, and December 31, 2007, for which a nonrecurring change in fair value has been recorded during the reporting period.

	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal Models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated Balance Sheets
June 30, 2008 (in millions)				
Loans ^(a)	\$	\$ 3,618	\$ 6,167	\$ 9,785
Other assets		478	8	486
Total assets at fair value on a nonrecurring basis	\$	\$ 4,096	\$ 6,175	\$ 10,271
Accounts payable, accrued expense and other liabilities ^(b)	\$	\$	\$	\$
Total liabilities at fair value on a nonrecurring basis	\$	\$	\$	\$
	Quoted market prices in active markets (Level 1)	Internal models with significant observable market parameters (Level 2)	Internal models with significant unobservable market parameters (Level 3)	Total carrying value in the Consolidated Balance Sheets
December 31, 2007 (in millions)				
Loans ^(a)	\$	\$ 2,818	\$ 16,196	\$ 19,014
Other assets		267	126	393
Total assets at fair value on a nonrecurring basis	\$	\$ 3,085	\$ 16,322	\$ 19,407
	\$	\$	\$ 103	\$ 103

Accounts payable, accrued expense and other liabilities^(b)

Total liabilities at fair value on a nonrecurring basis

\$ \$ \$ 103 \$ 103

(a) *Includes debt financing and other loan warehouses held-for-sale.*

(b) *Represents the fair value adjustment associated with \$58 million and \$3.2 billion of unfunded held-for-sale lending-related commitments at June 30, 2008, and December 31, 2007, respectively.*

Nonrecurring fair value changes

The following table presents the total change in value of financial instruments for which a fair value adjustment has been included in the Consolidated Statements of Income for the three and six months ended June 30, 2008 and 2007, related to financial instruments held at June 30, 2008 and 2007.

(in millions)	Three months ended June		Six months ended June	
	2008	30, 2007	2008	30, 2007
Loans	\$ (861)	\$ (56)	\$ (1,617)	\$ (111)
Other assets	(76)	(30)	(151)	(115)
Accounts payable, accrued expense and other liabilities				
Total nonrecurring fair value gains (losses)	\$ (937)	\$ (86)	\$ (1,768)	\$ (226)

In the above table, loans principally include changes in fair value for loans carried on the balance sheet at the lower of cost or fair value; and accounts payable, accrued expense and other liabilities principally include the change in fair value for unfunded lending-related commitments within the leveraged lending portfolio.

Table of Contents**Level 3 assets analysis**

Level 3 assets (including assets measured at the lower of cost or fair value) were 8% of total Firm assets at June 30, 2008. The following describes significant changes to level 3 assets during the period.

For the three months ended June 30, 2008

Level 3 assets increased \$44.5 billion in the second quarter of 2008, principally due to the acquisition of \$41.5 billion of level 3 assets (primarily including loans, securities and derivatives) as a result of the merger with Bear Stearns. These assets are generally mortgage-related and include prime, Alt-A and commercial mortgage exposures. Partially offsetting this increase was a reduction in leveraged lending exposure of approximately \$4.0 billion due to sales of leveraged loans and transfers of similar leveraged loans to level 2 due to the increased price transparency for such assets.

For the six months ended June 30, 2008

Level 3 assets increased \$55.7 billion in the first six months of 2008 principally due to the following: the acquisition of \$41.5 billion of level 3 assets as a result of the merger with Bear Stearns; the purchase of approximately \$4.4 billion of reverse mortgages in the first quarter for which there is limited pricing information and a lack of market liquidity; and the transfers into level 3 of \$8.6 billion of mortgage-related assets and \$2.8 billion of auction-rate securities in the first quarter of 2008. The transfer of mortgage-related assets was based on a significant reduction in new deal issuance that limited the Firm's ability to obtain independent quotes for certain mortgage instruments. Such assets included commercial mortgage-backed securities with a rating below AAA, other noninvestment grade mortgage securities and certain prime mortgage loans. The transfer of auction-rate securities was based on a significant reduction in market liquidity for auction-rate securities.

*Gains and Losses**For the three months ended June 30, 2008*

Gains and losses in the tables above include losses on trading debt and equity instruments of approximately \$2.1 billion for the three months ended June 30, 2008, principally from mortgage-related transactions. Partially offsetting the losses in level 3 were net gains of approximately \$1.1 billion, principally related to equity derivatives transactions, and gains on private equity instruments of approximately \$450 million resulting largely from sales of private equity investments.

In addition there were losses of approximately \$700 million on leveraged loans. Leveraged loans are typically classified as held-for-sale and measured at the lower of cost or fair value and therefore included in the nonrecurring fair value assets.

For the six months ended June 30, 2008

Gains and losses in the tables above include losses on trading and debt and equity instruments of approximately \$3.2 billion for the six months ended June 30, 2008, principally from mortgage-related transactions and auction-rate securities. Partially offsetting the losses in level 3 were net gains of \$2.8 billion related to fixed income and equity derivatives and private equity gains of approximately \$650 million resulting largely from sales of private equity investments.

In addition, there were losses of approximately \$1.6 billion on leveraged loans. Leveraged loans are typically classified as held-for-sale and measured at the lower of cost or fair value and therefore included in the nonrecurring fair value assets.

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

The fair value of the mortgage-related assets is estimated utilizing a variety of techniques emphasizing observable prices for similar instruments, where available.

Loans: For commercial and residential mortgage loans that are expected to be securitized, fair value is estimated based on observable prices of asset-backed securities with similar collateral and incorporates adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity. If a loan is considered impaired because of obligor concerns and therefore does not qualify for inclusion in a securitization, fair value is estimated based on potential liquidation proceeds and property

repossession/liquidation information, as appropriate.

Mortgage-backed securities: For mortgage-backed securities, the determination of fair value may encompass benchmarking to similar instruments or analyzing default and recovery rates. In addition, indices such as ABX and CMBX, which track the performance of a series of credit default swaps based on specific types of underlying mortgages, are used in the benchmarking process where applicable.

Derivatives: Level 3 derivatives include credit default swaps referenced to mortgage-backed securities, where valuations are benchmarked to implied spreads from similar underlying loans in the cash market, as well as relevant observable market indices. In addition the prepayment and loss assumptions on the underlying loans are priced using a combination of historical data, prices on market transactions, and other prepayment and default scenarios and analysis. For a discussion of changes in fair value of the MSR asset see Note 18 on pages 114 - 115 of this Form 10-Q.

Table of Contents**NOTE 4 FAIR VALUE OPTION**

SFAS 159 provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value. The Firm's fair value elections were intended to mitigate the volatility in earnings that had been created by recording financial instruments and the related risk management instruments on a different basis of accounting or to eliminate the operational complexities of applying hedge accounting.

For a discussion of the primary financial instruments for which fair value elections were made and the basis for those elections, see Note 5 on pages 119-121 of JPMorgan Chase's 2007 Annual Report.

2008 Elections

As part of the Bear Stearns merger, the Firm acquired instrument types that were subject to the existing fair value elections made by the Firm. The Firm formally elected the fair value option for these instruments as of the merger date.

In the second quarter of 2008, the Firm also elected the fair value option for securities borrowed and securities lending agreements with a maturity greater than one year. An election was not made for any short-term agreements as the carrying value for such agreements generally approximates fair value.

Changes in value under the fair value option election

The following tables present the changes in fair value included in the Consolidated Statements of Income for the three and six months ended June 30, 2008 and 2007, for items for which the fair value election was made. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

Three months ended June 30, (in millions)	2008			2007		
	Principal transactions ^(b)	Other income	Total changes in fair value recorded	Principal transactions ^(b)	Other income	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	\$ (398)	\$	\$ (398)	\$ (32)	\$	\$ (32)
Securities borrowed	79		79			
Trading assets: Debt and equity instruments, excluding loans	(65)	21 ^(c)	(44)	200		