J P MORGAN CHASE & CO
Form 10-Q
November 07, 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 September 30, 2008 **Commission file number 1-5805**

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

Delaware	**13-2624428**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
270 Park Avenue, New York, New York	**10017**
(Address of principal executive offices)	**(Zip Code)**

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

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

þ Yes o No

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

Large accelerated filer þ	**Accelerated filer o**
Non-accelerated filer (Do not check if a smaller reporting company) o	**Smaller reporting company o**

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

o Yes þ No

Number of shares of common stock outstanding as of October 31, 2008: 3,732,357,534

FORM 10-Q
TABLE OF CONTENTS

Table of Contents

JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

) s, except per share, headcount and ratio data) r the period ended,		3Q08		2Q08		1Q08		4Q07		3Q07	Nine mont Septeml 2008
ncome statement data											
t revenue	$	**5,743**	$	10,105	$	9,231	$	10,161	$	9,199	**$ 25,079**
t income		**8,994**		8,294		7,659		7,223		6,913	**24,947**
revenue		**14,737**		18,399		16,890		17,384		16,112	**50,026**
for credit losses		**3,811**		3,455		4,424		2,542		1,785	**11,690**
for credit losses accounting conformity(a)		**1,976**									**1,976**
t expense		**11,137**		12,177		8,931		10,720		9,327	**32,245**
oss) before income tax expense and nary gain		**(2,187)**		2,767		3,535		4,122		5,000	**4,115**
expense (benefit)(b)		**(2,133)**		764		1,162		1,151		1,627	**(207)**
oss) before extraordinary gain		**(54)**		2,003		2,373		2,971		3,373	**4,322**
ary gain(c)		**581**									**581**
e	$	**527**	$	2,003	$	2,373	$	2,971	$	3,373	**$ 4,903**
on share											
ings											
ss) before extraordinary gain	$	**(0.06)**	$	0.56	$	0.70	$	0.88	$	1.00	**$ 1.19**
e		**0.11**		0.56		0.70		0.88		1.00	**1.36**
rnings											
ss) before extraordinary gain	$	**(0.06)**	$	0.54	$	0.68	$	0.86	$	0.97	**$ 1.15**
e		**0.11**		0.54		0.68		0.86		0.97	**1.32**
ends declared per share		**0.38**		0.38		0.38		0.38		0.38	**1.14**
e per share		**36.95**		37.02		36.94		36.59		35.72	
shares outstanding											
Basic		**3,445**		3,426		3,396		3,367		3,376	**3,422**
		3,445(h)		3,531		3,495		3,472		3,478	**3,525**
hares at period end		**3,727**		3,436		3,401		3,367		3,359	
e(d)											
	$	**49.00**	$	49.95	$	49.29	$	48.02	$	50.48	**$ 49.95**
		29.24		33.96		36.01		40.15		42.16	**29.24**
		46.70		34.31		42.95		43.65		45.82	
pitalization		**174,048**		117,881		146,066		146,986		153,901	
ratios											
common equity (ROE)											
ss) before extraordinary gain		**(1)%**		6%		8%		10%		11%	**4%**
e		**1**		6		8		10		11	**5**
assets (ROA)											
ss) before extraordinary gain		**(0.01)**		0.48		0.61		0.77		0.91	**0.35**

e	**0.12**	0.48	0.61	0.77	0.91	**0.39**
ratio	**76**	66	53	62	58	**64**
tal ratio	**8.9**	9.2	8.3	8.4	8.4	
al ratio	**12.7**	13.4	12.5	12.6	12.5	
rage ratio	**7.2**	6.4	5.9	6.0	6.0	
alance sheet data (period-end)						
sets	**$ 520,257**	$531,997	$ 485,280	$ 491,409	$ 453,711	
	150,779	119,173	101,647	85,450	97,706	
	761,381	538,029	537,056	519,374	486,320	
s	**2,251,469**	1,775,670	1,642,862	1,562,147	1,479,575	
	969,783	722,905	761,626	740,728	678,091	
debt	**238,034**	260,192	189,995	183,862	173,696	
tockholders equity	**137,691**	127,176	125,627	123,221	119,978	
holders equity	**145,843**	133,176	125,627	123,221	119,978	
t	**228,452**	195,594	182,166	180,667	179,847	

3

Table of Contents

unaudited) in millions, except per share, headcount and ratio data) As of or for the period ended,	**3Q08**	2Q08	1Q08	4Q07	3Q07	Nine months ended September 30, **2008**	2007
Credit quality metrics							
Allowance for credit losses	**$ 19,765**	$ 13,932	$ 12,601	$ 10,084	$ 8,971		
Nonperforming assets[(e)]	**9,520**	6,233	5,143	3,933	3,009		
Allowance for loan losses to loans[(f)]	**2.86%**	2.57%	2.29%	1.88%	1.76%		
Net charge-offs	**$ 2,484**	$ 2,130	$ 1,906	$ 1,429	$ 1,221	**$ 6,520**	$ 3,109
Net charge-off rate[(g)]	**1.91%**	1.67%	1.53%	1.19%	1.07%	**1.70%**	0.94%
Wholesale net charge-off rate[(g)]	**0.10**	0.08	0.18	0.05	0.19	**0.12**	0.04
Consumer net charge-off rate[(g)]	**3.13**	2.77	2.43	1.93	1.62	**2.78**	1.50
Managed Card net charge-off rate	**5.00**	4.98	4.37	3.89	3.64	**4.79**	3.61

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

(b) *The income tax benefit in the third quarter and year-to-date 2008 is predominantly the result of reduced deferred tax liabilities on overseas earnings, as well as the tax benefit associated with the conforming loan loss reserve provision related to the* *acquisition of Washington Mutual Bank s banking operations.*

(c) *JPMorgan Chase acquired the banking operations of Washington Mutual Bank for \$1.9 billion. The fair value of the net assets acquired exceeded the purchase price which resulted in negative goodwill. In accordance with SFAS 141, nonfinancial assets that are not held-for-sale were written down against that negative goodwill. The negative goodwill that remained after writing down nonfinancial assets was recognized as an extraordinary gain.*

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

(e) Excludes purchased held-for-sale loans and approximately $6.4 billion of consumer loans acquired as part of the Washington Mutual Bank transaction that were nonperforming prior to the transaction closing. The loans acquired from Washington Mutual Bank are considered to be credit impaired and, therefore, are accounted for under SOP 03-3. For additional information, see Note 13 on pages 120 122 of this Form 10-Q.

(f) Loans accounted for at fair value, purchased credit impaired loans accounted for under SOP

03-3 and loans held-for-sale were excluded when calculating this metric.

(g) *Loans accounted for at fair value and loans held-for-sale were excluded when calculating these metrics.*

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

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 156 159 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 actual 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 162 and Item 1A: Risk Factors on page 165 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 reports, on Forms 10-Q for the quarters ended June 30, 2008, and 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 $2.3 trillion in assets, $145.8 billion in total stockholders equity and operations in more than 60 countries as of September 30, 2008. 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 24 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. The Firm merged J.P. Morgan Securities Inc. with and into Bear Stearns & Co. and changed the name of the surviving corporation to J.P. Morgan Securities Inc.

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. The description of the Firm s business segments below does not give effect to the acquisition of the banking operations of Washington Mutual Bank (Washington Mutual), which was consummated on September 25, 2008. For a discussion of the Washington Mutual transaction, see pages 6 and 49 50 of this Form 10-Q.

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, 9,300 ATMs 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 14,200 auto dealerships and 3,500 schools and universities nationwide.

Card Services

With more than 156 million cards in circulation and more than $159 billion in managed loans, Card Services (CS) is one of the nation s largest credit card issuers. Customers used Chase cards to meet more than $272 billion worth of their spending needs in the nine months ended September 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.

Chase Paymentech Solutions, LLC, a joint venture between JPMorgan Chase and First Data Corporation, is a processor of MasterCard and Visa payments and handled more than 16 billion transactions in the nine months ended September 30, 2008. On May 27, 2008, the Firm announced the termination of Chase Paymentech Solutions. For further information, see Other Business Events on page 7 of this Form 10-Q.

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 approximately $10 million to approximately $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 as of September 30, 2008, 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

Acquisition of the banking operations of Washington Mutual Bank

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual from the Federal Deposit Insurance Corporation (FDIC) for $1.9 billion through a purchase of substantially all of the assets and assumption of specified liabilities of Washington Mutual. Washington Mutual s banking operations consisted of a retail bank network of 2,244 branches, a nationwide credit card lending business, a multi-family and commercial real estate lending business, and nationwide mortgage banking activities. The transaction expands the Firm s consumer branch network into California, Florida, Washington, Georgia, Idaho, Nevada and Oregon. The transaction created the nation s second-largest branch network. The transaction also extends the reach of the Firm s business banking, commercial banking, credit card, consumer lending and wealth management businesses. The transaction was accounted for under the purchase method of accounting in accordance with SFAS 141. The results of operations of Washington Mutual s banking operations for the period September 26, 2008, through September 30, 2008, did not have a material effect on the results of the quarter ended September 30, 2008, except with respect to the charge to conform Washington Mutual s loan loss reserves and the extraordinary gain related to the transaction, both of which are reflected for JPMorgan Chase in the Corporate/Private Equity segment. Beginning October 1, 2008, the results of operations of Washington Mutual s banking operations will be included in the Firm s business segments. For further discussion of the transaction, see Note 2 on pages 93 98 of this Form 10-Q.

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, with Bear Stearns becoming 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 was 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.

Table of Contents

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. 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 its 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 were recorded in other income and accumulated other comprehensive income. Commencing May 31, 2008, Bear Stearns was reflected in JPMorgan Chase s consolidated results of operations.

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

For further discussion of the Merger, see Note 2 on pages 93 98 of this Form 10-Q.

Termination of Chase Paymentech Solutions joint venture

The dissolution of Chase Paymentech Solutions, a global payments and merchant acquiring joint venture between JPMorgan Chase and First Data Corporation, was completed on November 1, 2008 and JPMorgan Chase retained approximately 51% of the business under the Chase Paymentech name.

The dissolution of Chase Paymentech Solutions is being accounted for as a step acquisition in accordance with SFAS 141, and the Firm anticipates recognizing an after-tax gain of approximately $600 million in the fourth quarter of 2008 as a result of the dissolution. The gain will represent the amount by which the fair value of the net assets acquired (predominantly intangible assets and goodwill) exceeded JPMorgan Chase s book basis in the net assets transferred to First Data Corporation.

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 currently owns 77.5% of Highbridge. The Firm acquired a majority interest in Highbridge in 2004.

RECENT MARKET DEVELOPMENTS

The liquidity crisis has evolved into a global credit and liquidity issue involving a number of financial institutions, including the failures of some, in the U.S. and Europe. In response to these circumstances, the United States government, particularly the U.S. Department of the Treasury (the U.S. Treasury), the Board of Governors of the Federal Reserve System (the Federal Reserve) and the FDIC, working in cooperation with foreign governments and other central banks, including the Bank of England, the European Central Bank and the Swiss National Bank, have taken a variety of extraordinary measures designed to restore confidence in the financial markets and to strengthen financial institutions, including capital injections, guarantees of bank liabilities and the acquisition of illiquid assets from banks.

In particular, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. Pursuant to the EESA, the U.S. Treasury has the authority to take a range of actions for the purpose of stabilizing and providing liquidity to the U.S. financial markets and has proposed several programs, including the purchase by the

U.S. Treasury of certain troubled assets from financial institutions (the Troubled Asset Relief Program) and the direct purchase by the U.S. Treasury of equity of financial institutions (the Capital Purchase Program).

Other programs and actions taken by U.S. regulatory agencies include (i) the U.S. Treasury s Temporary Guarantee Program for Money Market Funds, (ii) the FRBNY s Money Market Investor Funding Facility (the MMIF Facility), which is designed to provide liquidity to U.S. money market investors, (iii) the Federal Reserve s Commercial Paper

Funding Facility, which is designed to provide liquidity to term funding markets by providing a liquidity backstop to U.S. issuers of commercial paper, (iv) the Federal Reserve s Asset Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (the AML Facility), which is designed to provide liquidity to money market mutual funds under certain conditions by providing funding to U.S. depository institutions and bank holding companies secured by high-quality asset-backed commercial paper they purchased from those money market mutual funds, (v) the FDIC s Temporary Liquidity Guarantee Program, which enables the FDIC to temporarily provide a 100% guarantee of the senior debt of all FDIC-insured institutions and their holding companies, as well as deposits in noninterest-bearing transaction deposit accounts, (vi) the Federal Reserve s Primary Dealer Credit Facility, which is designed to foster the financial markets generally, was modified to expand the eligible collateral to include any collateral eligible for tri-party repurchase agreements, (vii) the Federal Reserve s Term Securities Lending Facility, which is designed to promote liquidity in the financial markets for treasuries and other collateral, was expanded to (a) include all investment-grade debt securities as eligible collateral for schedule 2 auctions and (b) increase the frequency of schedule 2 auctions, (viii) the Federal Reserve s adoption of an interim rule that provides an exemption, until January 30, 2009, to the Federal Reserve Act to allow insured depository institutions to provide liquidity to their affiliates for assets typically funded in the tri-party repurchase agreement market, and (ix) the Federal Reserve s Term Auction Facility, which is designed to allow financial institutions to borrow funds at a rate that is below the discount rate.

Capital Purchase Program

Under the Capital Purchase Program, the U.S. Treasury will make $250 billion of capital available to U.S. financial institutions in the form of preferred stock and a warrant to acquire common stock. Pursuant to the Capital Purchase Program, on October 28, 2008, the Firm issued to the U.S. Treasury, in exchange for aggregate consideration of $25.0 billion, (i) 2.5 million shares of the Firm s Fixed Rate Cumulative Perpetual Preferred Stock, Series K, par value $1 and liquidation preference $10,000 per share (and $25.0 billion liquidation preference in the aggregate) (the Series K Preferred Stock), and (ii) a warrant (the Warrant) to purchase up to 88,401,697 shares of the Firm s common stock, at an exercise price of $42.42 per share. The number of shares of common stock to be issued pursuant to the Warrant and the exercise price of the Warrant is subject to adjustment from time to time following, among other things, stock splits, subdivisions or combinations, certain issuances of common stock or convertible securities and certain repurchases of common stock. The Series K Preferred Stock is nonvoting, qualifies as Tier 1 capital and ranks on parity with the Firm s other series of preferred stock. For a discussion of the Firm s preferred stock, see page 56 of this Form 10-Q and Note 22 on pages 141 142 of this Form 10-Q.

The letter agreement between the U.S. Treasury and the Firm, dated October 26, 2008, including the securities purchase agreement (the Purchase Agreement) concerning the issuance and sale of the Series K Preferred Stock to the U.S. Treasury grants the holders of the Series K Preferred Stock, the Warrant and JPMorgan Chase common stock to be issued under the Warrant certain registration rights and imposes restrictions on dividend and stock repurchases. For a discussion of the dividend and stock repurchase restrictions, see Capital Purchase Program on page 55 and Note 22 on pages 141-142 of this Form 10-Q. In addition, the Purchase Agreement subjects the Firm to the executive compensation limitations as set forth in Section 111(b) of the EESA.

MMIF Facility

The MMIF, authorized by the FRBNY, will support a private-sector initiative designed to provide liquidity to U.S. money market investors. Under the MMIF Facility, the FRBNY will provide senior secured funding to a series of special purpose vehicles to finance the purchase of eligible assets such as commercial paper, bank note and certificates of deposit from eligible investors. The Firm has been selected by the FRBNY to advise the U.S. Treasury regarding the MMIF Facility.

AML Facility

On September 19, 2008, the Federal Reserve established a special lending facility, the AML Facility, to provide liquidity to eligible U.S. money market mutual funds (MMMFs). Under the AML Facility, participating banking organizations purchase eligible high-quality asset-backed commercial paper (ABCP) investments from MMMFs, which are then pledged to secure nonrecourse advances from the Federal Reserve Bank of Boston (FRBB); participating banking organizations do not bear any credit or market risk related to the ABCP investments they hold under this facility and, therefore, the ABCP investments held are not assessed any regulatory risk-based capital. The

AML Facility will be in effect until January 30, 2009. The Firm is currently participating in the AML Facility.

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

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except per share and ratio data)	**2008**	2007	Change	**2008**	2007	Change
Selected income statement data						
Total net revenue	**$ 14,737**	$ 16,112	(9)%	**$ 50,026**	$ 53,988	(7)%
Provision for credit losses	**3,811**	1,785	114	**11,690**	4,322	170
Provision for credit losses accounting conformity[(a)]	**1,976**		NM	**1,976**		NM
Total noninterest expense	**11,137**	9,327	19	**32,245**	30,983	4
Income (loss) before extraordinary gain	**(54)**	3,373	NM	**4,322**	12,394	(65)
Extraordinary gain[(b)]	**581**		NM	**581**		NM
Net income	**527**	3,373	(84)	**4,903**	12,394	(60)
Diluted earnings per share						
Income (loss) before extraordinary gain	**$ (0.06)**	$ 0.97	NM%	**$ 1.15**	$ 3.52	(67)%
Net income	**0.11**	0.97	(89)	**1.32**	3.52	(63)
Return on common equity						
Income (loss) before extraordinary gain	**(1)%**	11%		**4%**	14%	
Net income	**1**	11		**5**	14	

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

(b) JPMorgan Chase acquired Washington Mutual s banking operations from the FDIC for $1.9 billion. The

fair value of Washington Mutual net assets acquired exceeded the purchase price which resulted in negative goodwill. In accordance with SFAS 141, nonfinancial assets that are not held-for-sale were written down against that negative goodwill. The negative goodwill that remained after writing down nonfinancial assets was recognized as an extraordinary gain.

Business overview

JPMorgan Chase reported 2008 third-quarter net income of $527 million, or $0.11 per share, compared with net income of $3.4 billion, or $0.97 per share, for the third quarter of 2007. Return on common equity for the quarter was 1%, compared with 11% in the prior year. On September 25, 2008, JPMorgan Chase acquired Washington Mutual s banking operations, significantly strengthening its consumer franchise, with the addition of more than 2,200 branches. Results in the third quarter included an after-tax charge of $1.2 billion to conform loan loss reserves and an extraordinary gain of $581 million related to this transaction. Excluding the conforming adjustment for the Washington Mutual transaction, the decline in net income from the third quarter of 2007 was driven by a significant increase in the provision for credit losses, higher noninterest expense and lower net revenue. Lower net revenue reflected markdowns related to mortgage-related positions and leveraged lending exposures in the Investment Bank, partially offset by increased net interest income. The provision for credit losses rose predominantly due to increases in the allowance for loan losses related to home equity, subprime and prime mortgage and credit card loans, as well as higher net charge-offs. The increase in noninterest expense was driven by higher compensation expense and additional operating costs relating to the Bear Stearns merger.

Net income for the first nine months of 2008 was $4.9 billion, or $1.32 per share, compared with net income of $12.4 billion, or $3.52 per share, for the first nine months of 2007. Return on common equity for the period was 5%, compared with 14% in the prior year. The lower results in the first nine months of 2008 were due to the same drivers highlighted for the third quarter a significantly higher provision for credit losses, markdowns related to mortgage-related positions and leveraged lending exposures, and higher total noninterest expense, partially offset by increased net interest income.

The financial crisis that has plagued the U.S. markets and economy for over a year intensified in the third quarter of 2008, as did the global economic slowdown, resulting in sharp declines across most equity markets that are expected to continue into the fourth quarter of 2008. Credit volatility and the stress in financial markets resulted in the occurrence of significant events during the quarter: the U.S. federal government placed the Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae) under its direct control; Lehman Brothers Holdings Inc. declared bankruptcy; the Bank of America Corporation agreed to acquire Merrill Lynch & Co., Inc.; the government provided a loan to American International Group, Inc. (AIG) in exchange for an equity interest in AIG to prevent the insurer s failure; and Morgan Stanley and The Goldman Sachs Group, Inc. received approval from the Federal Reserve to become federal bank holding companies. The crisis of confidence was most

Table of Contents

visible in the liquidity pressures affecting the short-term funding markets, as evidenced by the LIBOR-Fed Funds rate disparity (i.e., 3-month LIBOR rates surged over the expected Fed Funds rate). The rate disparity placed additional stress on global banking systems and economies, as LIBOR represents a key benchmark that is used to set other borrowing costs, including short-term business funding costs and rates on many types of mortgage contracts. The Federal Reserve and other global central banking authorities have responded with a series of initiatives to deal with the financial crisis and to make liquidity available to the markets, as discussed on pages 7-8 of this Form 10-Q. Labor markets continued to struggle, with the unemployment rate rising to 6.1% in September, reaching the highest level in the last five years. Economic growth contracted in the third quarter due to a decline in real consumer spending, as economic uncertainty weighed on the minds of consumers, as did high energy bills which continued to squeeze budgets, and the benefits from the tax rebates provided by the Economic Stimulus Act of 2008 came to an end.

During the third quarter of 2008, the Firm s performance was negatively affected by the weak economic conditions and volatile financial markets. Markdowns on mortgage-related positions and leveraged lending exposures reduced net revenue in the Investment Bank. Unprecedented challenges facing the housing market resulted in a higher provision for credit losses and lower income in Retail Financial Services. A higher provision for credit losses also lowered income in Card Services. Asset Management s net income decreased due to lower performance fees and the effect of lower markets. However, the Firm continued to show underlying business momentum, with four of its six principal lines of business delivering double-digit revenue growth. The IB maintained its #1 rankings for Global Investment Banking Fees and Global Debt, Equity and Equity-related volumes for the third quarter and first nine months of 2008; RFS increased branch production; and Commercial Banking and Treasury & Securities Services delivered double-digit net income growth.

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 the Washington Mutual transaction, and its effects on current quarter performance, see pages 93 98 of this Form 10-Q. For more information about managed basis, see Explanation and Reconciliation of the Firm s Use of Non-GAAP Financial Measures on pages 17 20 of this Form 10-Q .

Investment Bank net income increased compared with the third quarter of 2007, reflecting an increase in net revenue and the benefit of reduced deferred tax liabilities offset largely by increased noninterest expense. Higher net revenue was driven by record Equity Markets revenue, higher investment banking fees and increased Fixed Income Markets revenue. Fixed Income Markets revenue reflected record results in rates and currencies, and strong performance in credit trading, emerging markets, and commodities, largely offset by markdowns on mortgage-related positions and leveraged lending funded and unfunded commitments. The provision for credit losses increased slightly compared with the prior year, reflecting a weakening credit environment. The increase in noninterest expense was largely driven by higher compensation expense and additional operating costs relating to the Bear Stearns merger.

Retail Financial Services net income declined, reflecting a significant increase in the provision for credit losses in Regional Banking and higher noninterest expense in Mortgage Banking, offset partially by revenue growth in all businesses. Net revenue benefited from increased net interest income as a result of increased loan and deposit balances combined with wider deposit spreads, as well as higher net mortgage servicing revenue and higher deposit-related fees. The provision for credit losses increased as housing price declines have continued to result in significant increases in estimated losses, particularly for high loan-to-value home equity and mortgage loans, and loans in specific geographic areas that have been most heavily impacted by housing price declines. Noninterest expense rose from the prior year, reflecting higher mortgage reinsurance losses and increased servicing expense.

Card Services net income declined, driven by a higher provision for credit losses partially offset by lower noninterest expense. Managed net revenue increased slightly, as higher average managed loan balances, wider loan spreads and increased interchange income were offset predominantly by the effect of higher revenue reversals associated with higher charge-offs, increased rewards expense and higher volume-driven payments to partners. 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. Noninterest expense declined due to lower marketing expense.

Commercial Banking net income increased, driven by record net revenue, partially offset by an increase in the provision for credit losses and higher noninterest expense. The increase in revenue resulted from double-digit growth in loan and liability balances and higher deposit-related and investment banking fees, predominantly offset by spread compression in the liability and loan portfolios. The increase in the provision for credit losses reflected a weakening credit environment and growth in loan balances. Noninterest expense increased due to higher performance-based compensation expense.

Treasury & Securities Services net income rose, driven by higher net revenue and the benefit of reduced deferred tax liabilities, predominantly offset by higher noninterest expense. Worldwide Securities Services revenue increased, driven by wider spreads on liability products and in securities lending and foreign exchange, combined with increased product usage by new and existing clients. Market depreciation partially offset these benefits. Treasury Services posted record revenue, reflecting higher liability balances as well as volume growth in electronic funds transfer products and trade loans. Noninterest expense increased, reflecting higher expense related to business and volume growth as well as continued investment in new product platforms.

Asset Management net income decreased, driven largely by lower net revenue. The decline in net revenue was due to lower performance fees and the effect of lower markets, including the impact of lower market valuations of seed capital investments. Partially offsetting these net revenue declines were the benefit of the Bear Stearns merger, higher loan and deposit balances, and wider deposit spreads. The provision for credit losses rose from the prior year, reflecting an increase in loan balances and a lower level of recoveries. Noninterest expense was flat compared with the prior year due to the effect of the Bear Stearns merger and increased headcount, offset by lower performance-based compensation.

Corporate/Private Equity reported a net loss for the quarter. The net loss included a conforming loan loss reserve provision and an extraordinary gain related to the acquisition of Washington Mutual s banking operations. Excluding these items, the balance of the net loss resulted from significantly lower net revenue and an increase in the provision for credit losses, offset partially by a decrease in noninterest expense. The decline in net revenue was driven by a higher level of trading losses, predominantly on preferred securities of Fannie Mae and Freddie Mac; private equity losses in the current quarter compared with gains in the prior-year quarter; and a charge related to the offer to repurchase auction-rate securities from certain customers. These declines were partially offset by higher securities gains. The increase in the provision for credit losses was predominantly related to an increase in the allowance for loan losses for prime mortgage. The decrease in noninterest expense was driven by lower litigation expense.

The Firm s managed provision for credit losses was $6.7 billion in the third quarter, including the $2.0 billion charge to conform Washington Mutual s loan loss allowance. For the purposes of the following analysis, this charge is excluded. The managed provision for credit losses was $4.7 billion, up $2.3 billion, or 98%, from the prior year. The total consumer-managed provision for credit losses was $4.3 billion, compared with $2.0 billion in the prior year, reflecting increases in the allowance for credit losses related to home equity, subprime and prime mortgage and credit card loans, as well as higher net charge-offs. Consumer-managed net charge-offs were $3.3 billion, compared with $1.7 billion in the prior year, resulting in managed net charge-off rates of 3.39% and 1.96%, respectively. The wholesale provision for credit losses was $398 million, compared with $351 million in the prior year, due to an increase in the allowance for credit losses reflecting the effect of a weakening credit environment and loan growth. Wholesale net charge-offs were $52 million, compared with net charge-offs of $82 million, resulting in net charge-off rates of 0.10% and 0.19%, respectively. The Firm had total nonperforming assets of $9.5 billion at September 30, 2008, up from the prior-year level of $3.0 billion. Substantially all of the loans acquired from Washington Mutual that were nonperforming prior to the transaction closing are now considered to be performing based upon the provisions of SOP 03-3. For additional information, see Note 13 on pages 120 122 of this Form 10-Q.

Total stockholders equity at September 30, 2008, was $145.8 billion, and the Tier 1 capital ratio was 8.9%, compared with 8.4% at September 30, 2007. During the quarter, the Firm raised $11.5 billion of common equity and $1.8 billion of preferred equity.

Business outlook

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

JPMorgan Chase s outlook for the fourth 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 weaken further and potentially faster, 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 costs, overall business volumes and earnings.

The consumer provision for credit losses could increase substantially as a result of a higher level of losses. Given the potential stress on the consumer from rising unemployment, the continued downward pressure on housing prices and the elevated national inventory of unsold homes, management remains extremely cautious with respect to the credit outlook for home equity, mortgage and credit card portfolios. 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 in the fourth quarter of 2008. Housing price declines in specific geographic regions and slowing economic growth could continue to drive higher estimated losses and nonperforming assets for the home equity and subprime mortgage portfolios and to increasingly affect 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 lending portfolio, including home equity, prime, and subprime mortgages, are expected to increase in the fourth quarter of 2008 and into 2009. Management expects the managed net charge-off rate for Card Services to be 5% or above in the fourth quarter of 2008, and to increase further in 2009; potentially, the Card Services net charge-off rate could be 6% in the early part of 2009 and possibly reach 7% by the end of the year (excluding the impact resulting from the acquisition of Washington Mutual s banking operations). These charge-off rates could increase even further if the economic environment continues to deteriorate more than current management expectations. The wholesale provision for credit losses, nonperforming assets, and charge-offs are expected to increase over time as a result of the deterioration in underlying credit conditions. The wholesale provision may also increase due to loan growth.

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 $12.9 billion (gross notional) of legacy leveraged loans and unfunded commitments as held-for-sale as of September 30, 2008. Markdowns averaging 29% of the gross notional value have been taken on these legacy positions as of September 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 September 30, 2008, an aggregate $8.1 billion of prime and Alt-A mortgage exposure, which is also difficult to hedge effectively, and $1.2 billion of subprime mortgage exposure. In addition, the Investment Bank had $9.3 billion of commercial mortgage-backed securities (CMBS) exposure. During the quarter, mortgage exposure of $4.3 billion, primarily consisting of prime loans and securities, was transferred to the Firm s corporate investment portfolio. Even with respect to mortgage exposure that is being actively hedged, such mortgage exposures could be adversely affected by worsening market conditions, further deterioration in the housing market and market activity.

Funding markets have remained challenging, with a wide differential between prime and LIBOR rates. Management expects that if there is a continuation of this rate dislocation, Card Services net income could be significantly reduced in the fourth quarter of 2008. Earnings in Treasury & Securities Services and Asset Management will likely deteriorate if business volumes or assets under custody, management or supervision decline, volatility in certain products decreases, or spreads narrow. Given recent equity market declines, management expects that fourth quarter earnings for these market-sensitive businesses will be lower. Management also continues to believe that the net quarterly loss in Corporate could average approximately $50 million to $100 million, excluding trading results related to the Firm s investment portfolio (which could be volatile) and credit costs related to prime mortgage exposures (which are expected to increase from third quarter levels, as discussed within the consumer outlook section above). Private Equity results, which are dependent upon the capital markets, are likely to remain depressed and continue to be negative in the fourth quarter.

Management believes the net income impact of the acquisition of Washington Mutual s banking operations could be approximately $0.50 per share in 2009, with a pro rata portion expected in the fourth quarter of 2008. Management also believes the Firm will incur merger costs related to this transaction of approximately $500 million (after tax), with approximately $100 million (after tax) of expense recognized in the fourth quarter and the remainder incurred through 2011. Also, the Firm anticipates recognizing an after-tax gain of approximately $600 million in the fourth quarter of 2008, related to the dissolution of the Chase Paymentech Solutions, LLC joint venture on November 1, 2008.

Table of Contents

CONSOLIDATED RESULTS OF OPERATIONS

This section provides a comparative discussion of JPMorgan Chase s Consolidated Results of Operations on a reported basis. Factors that related primarily to a single business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates Used by the Firm that affect the Consolidated Results of Operations, see pages 85 87 of this Form 10-Q and pages 96 98 of JPMorgan Chase s 2007 Annual Report.

Total net revenue

The following table presents the components of total net revenue.

	Three months ended September 30,			Nine months ended September 30,		
(in millions)	**2008**	2007	Change	**2008**	2007	Change
Investment banking fees	**$ 1,316**	$ 1,336	(1)%	**$ 4,144**	$ 4,973	(17)%
Principal transactions	**(2,763)**	650	NM	**(2,814)**	8,850	NM
Lending & deposit-related fees	**1,168**	1,026	14	**3,312**	2,872	15
Asset management, administration and commissions	**3,485**	3,663	(5)	**10,709**	10,460	2
Securities gains	**424**	237	79	**1,104**	16	NM
Mortgage fees and related income	**457**	221	107	**1,678**	1,220	38
Credit card income	**1,771**	1,777		**5,370**	5,054	6
Other income	**(115)**	289	NM	**1,576**	1,360	16
Noninterest revenue	**5,743**	9,199	(38)	**25,079**	34,805	(28)
Net interest income	**8,994**	6,913	30	**24,947**	19,183	30
Total net revenue	**$ 14,737**	$ 16,112	(9)	**$ 50,026**	$ 53,988	(7)

Total net revenue for the third quarter of 2008 was $14.7 billion, down $1.4 billion, or 9%, from the prior year. The decrease was due to a significant decline in principal transactions revenue, which included net markdowns on mortgage-related positions and leveraged lending funded and unfunded commitments, losses on preferred securities of Fannie Mae and Freddie Mac, and losses on private equity investments; higher net interest income predominantly offset the decline. For the first nine months of 2008, total net revenue was $50.0 billion, down $4.0 billion, or 7%, from the prior year, largely reflecting the same drivers as the quarter, although the Firm had private equity gains in the first nine months of 2008 versus losses in the third quarter of 2008. However, these gains were lower than the gains in the first nine months of 2007. Also contributing to the decline in total net revenue were lower investment banking fees and the Firm s share of Bear Stearns losses from April 8 to May 30, 2008. These were largely offset by the proceeds from the sale of Visa shares in its initial public offering and higher securities gains from the sale of MasterCard shares.

Investment banking fees were down slightly in the third quarter of 2008 compared with the third quarter of 2007. For the first nine months of 2008, fees declined from the record level of the comparable period last year due to lower debt underwriting fees and advisory fees, which were both at record levels in the first nine months of 2007. For a further discussion of investment banking fees, which are primarily recorded in IB, see the IB segment results on pages 22 25 of this Form 10-Q.

Principal transactions revenue consists of trading revenue and private equity gains. The Firm s trading activities in the third quarter and first nine months of 2008 decreased significantly from the comparable periods of 2007. The decrease in the third quarter was largely driven by mortgage-related net markdowns of $2.6 billion and net markdowns on leveraged lending funded and unfunded commitments of $1.0 billion, as well as losses of $1.0 billion on preferred securities of Fannie Mae and Freddie Mac. Partially offsetting the decline in trading revenue were record results in rates and currencies, strong performance in credit trading, emerging markets and commodities, strong equity trading and client revenue, and total gains of $956 million from the widening of the Firm s credit spread on certain structured liabilities and derivatives compared with $582 million for the third quarter of 2007. The decline in trading revenue for the first nine months of 2008 was due to the aforementioned significant markdowns, including $4.7 billion on mortgage-related positions as well as $2.8 billion on leveraged lending funded and unfunded commitments. These markdowns were offset partially by strong performances in the aforementioned trading products, as well as total gains of $2.8 billion from the widening of the Firm s credit spread on certain structured liabilities and derivatives compared with $955 million for the first nine months of 2007. Private equity gains also declined compared with the third quarter and first nine months of 2007, driven by a net loss in the third quarter of 2008, and lower net gains for the first nine months. In addition, the first quarter of 2007 included a fair value adjustment related to the adoption of SFAS 157. For a further discussion of principal transactions revenue, see the IB and Corporate/Private Equity segment results on pages 22 25 and 47 49, respectively, and Note 5 on pages 111 113 of this Form 10-Q.

Lending & deposit-related fees rose from the third quarter and first nine 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 26 32 the TSS segment results on pages 40 42, and the CB segment results on pages 37 39 of this Form 10-Q.

The decrease in asset management, administration and commissions revenue compared with the third quarter of 2007 was largely due to lower asset management fees in AM as a result of lower performance fees and the effect of lower markets. This decline was partially offset by higher commissions revenue driven by higher brokerage transaction volume (primarily included within equity markets revenue of IB). For the first nine months of 2008, asset management, administration and commissions revenue increased due predominantly to higher commissions revenue and the absence of a charge in RFS in the first quarter of 2007 associated with the accelerated surrenders of customer annuity contracts. TSS also contributed to the increase in asset management, administration and commissions, driven by the benefit of short-term interest rates in securities lending and increased product usage by new and existing clients (largely in custody, funds services and depositary receipts). These results were partially offset by lower asset management fees in AM as a result of lower performance fees and the effect of lower markets. For additional information on these fees and commissions, see the segment discussions for IB on pages 22 25, RFS on pages 26 32, TSS on pages 40 42, and AM on pages 43 46, of this Form 10-Q.

The increase in securities gains for the third quarter of 2008, compared with the same period in 2007, was due to the repositioning of the Corporate investment securities portfolio, partially offset by gains of $115 million recognized in 2007 from the sale of MasterCard shares and marketable securities received from loan workouts in IB. In the first nine months of 2008, securities gains increased due to the repositioning of the Corporate investment securities portfolio and higher gains from the sale of MasterCard shares. For a further discussion of securities gains, which are mostly recorded in the Firm s Corporate business, see the Corporate/Private Equity segment discussion on pages 47 49 of this Form 10-Q.

Mortgage fees and related income increased from the third quarter and first nine months of 2007, driven by higher net mortgage servicing revenue, which benefited from increased loan servicing revenue and an improvement in mortgage servicing rights (MSR) risk management results, and higher production revenue, which reflected lower markdowns on the mortgage warehouse and pipeline. These increases were offset partially by increased reserves related to the repurchase of previously sold loans. For the first nine months of 2008, production revenue was also positively impacted by higher loan originations. 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 30 31 of this Form 10-Q.

Credit card income decreased slightly from the third quarter of 2007, driven primarily by lower servicing fees earned in connection with CS securitization activities, which were negatively affected by higher credit losses on securitized credit card loans. Also contributing to the decrease in credit card income were increased expense related to rewards programs and higher volume-driven payments to partners. Partially offsetting the declines was higher interchange income as a result of an increase in customer charge volume. Credit card income rose in the first nine months of 2008 due to increased servicing fees, which reflected the impact of a higher level of securitized receivables, and an increase in interchange income. Higher customer charge volume in CS and higher debit card transaction volume in RFS drove the increase in interchange income. These results were partially offset by the increases in volume-driven payments to partners and expense related to rewards programs. For a further discussion of credit card income, see CS segment results on pages 33 36 of this Form 10-Q.

The decline in other income from the third quarter of 2007 was predominantly due to a $375 million charge related to the offer to repurchase auction-rate securities at par, markdowns on certain investments, including seed capital in AM, lower gains on education loan sales and higher losses on other real estate owned, partially offset by higher gains on sales of certain assets. For the first nine months of 2008, other income increased due predominantly to the proceeds from the sale of Visa shares in its initial public offering ($1.5 billion pretax), higher automobile operating lease revenue and credit card net securitization gains. The increase in other income was partially offset by losses of $423 million (after-tax) reflecting the Firm s 49.4% ownership in Bear Stearns losses from April 8 to May 30, 2008, and the net negative impact of the aforementioned drivers of the decline in other income in the third quarter of 2008.

Net interest income rose from the third quarter and first nine months of 2007, due predominantly to the following: higher trading-related net interest income, higher wholesale and consumer loan balances, growth in liability and deposit balances in the wholesale and consumer businesses, wider spreads on credit card balances and deposit balances in RFS and AM, and a wider net interest spread in the Corporate business. These benefits were offset partially by spread compression on deposit and liability products in CB. The Firm s total average interest-earning assets for the third quarter of 2008 were $1.3 trillion, up 16% from the third quarter of 2007. The increase was predominantly driven by higher loans, securities borrowed, other assets, federal funds sold and securities purchased under resale agreements and available-for-sale (AFS) securities,

Table of Contents

predominantly offset by lower trading assets debt instruments. The net interest yield on these assets, on a fully taxable equivalent basis, was 2.73%, an increase of 30 basis points from the third quarter of 2007. The Firm s total average interest earning assets for the first nine months of 2008 were $1.3 trillion, up 15% from the first nine months of 2007, driven by the same factors as drove the 2008 third quarter results, as well as by higher trading assets debt instruments and higher deposits with banks. The net interest yield on these assets, on a fully taxable equivalent basis, was 2.68%, an increase of 31 basis points from the first nine months of 2007.

Provision for credit losses	Three months ended September 30,			Nine months ended September 30,		
(in millions)	**2008**	2007	Change	**2008**	2007	Change
Wholesale:						
Provision for credit losses	**$ 398**	$ 351	13%	**$ 1,650**	$ 626	164%
Provision for credit losses accounting conformity[(a)]	**564**		NM	**564**		NM
Total wholesale provision for credit losses	**962**	351	174	**2,214**	626	254
Consumer:						
Provision for credit losses	**3,413**	1,434	138	**10,040**	3,696	172
Provision for credit losses accounting conformity[(a)]	**1,412**		NM	**1,412**		NM
Total consumer provision for credit losses	**4,825**	1,434	236	**11,452**	3,696	210
Total provision for credit losses	**$ 5,787**	$ 1,785	224	**$ 13,666**	$ 4,322	216

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

Provision for credit losses

The provision for credit losses in the third quarter and first nine months of 2008 rose significantly when compared with the prior-year periods due to increases in both the consumer and wholesale provisions. Affecting both the consumer and wholesale provisions was a $2.0 billion charge to conform Washington Mutual s loan loss allowance. In addition, the consumer provision reflected higher estimated losses for the home equity, subprime mortgage, prime mortgage and credit card loan portfolios. The additional increase in the wholesale provision was driven by the effect of a weakening credit environment and loan growth. The wholesale provision for the first nine months 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 26 32, CS on pages 33 36, IB on pages 22 25, CB on pages 37 39 and Credit Risk Management on pages 64 80 of this Form 10-Q.

Noninterest expense

The following table presents the components of noninterest expense.

	Three months ended September 30,			Nine months ended September 30,		
(in millions)	**2008**	2007	Change	**2008**	2007	Change
Compensation expense	**$ 5,858**	$ 4,677	25%	**$ 17,722**	$ 17,220	3%
Occupancy expense	**766**	657	17	**2,083**	1,949	7
Technology, communications and equipment expense	**1,112**	950	17	**3,108**	2,793	11
Professional & outside services	**1,451**	1,260	15	**4,234**	3,719	14
Marketing	**453**	561	(19)	**1,412**	1,500	(6)
Other expense	**1,096**	812	35	**2,498**	2,560	(2)
Amortization of intangibles	**305**	349	(13)	**937**	1,055	(11)
Merger costs	**96**	61	57	**251**	187	34
Total noninterest expense	**$ 11,137**	$ 9,327	19	**$ 32,245**	$ 30,983	4

Table of Contents

Total noninterest expense for the third quarter of 2008 was $11.1 billion, up $1.8 billion, or 19%, from the third quarter of 2007. For the first nine months of 2008, total noninterest expense was $32.2 billion, up $1.3 billion, or 4%, from the prior year. The increase in both periods was driven by higher compensation expense and additional operating costs relating to the Bear Stearns merger, partially offset in the first nine months of 2008 by lower performance-based incentives.

The increase in Compensation expense for the third quarter and first nine months of 2008 was predominantly driven by the merger with Bear Stearns and additional headcount due to investments in the businesses. The increase in compensation expense for the first nine months of 2008 was partially offset by lower performance-based incentives.

The increase in occupancy expense from the third quarter and first nine months of 2007 was driven by the merger with Bear Stearns.

Technology, communications and equipment expense increased compared with the third quarter and first nine months of 2007, due to additional operating costs related to the Bear Stearns merger, the impact of business and volume growth and increased depreciation expense on owned automobiles subject to operating leases in the Auto Finance business.

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

Marketing expense declined compared with the third quarter and first nine months of 2007, reflecting lower credit card and retail marketing expense.

The increase in other expense from the third quarter of 2007 was due to higher mortgage reinsurance losses, increased mortgage servicing expense and the effect of the Bear Stearns merger, partially offset by a net reduction in litigation expense. For the first nine months of 2008, other expense declined due largely to a net reduction of litigation expense, offset partially by the aforementioned items.

For a discussion of amortization of intangibles and merger costs, refer to Note 18 and Note 10 on pages 135 137 and 117, respectively, of this Form 10-Q.

Income tax expense

The Firm s income (loss) before income tax expense and extraordinary gain, income tax expense (benefit) and effective tax rate were as follows for each of the periods indicated.

	Three months ended September 30,		Nine months ended September 30,	
(in millions, except rate)	**2008**	2007	**2008**	2007
Income (loss) before income tax expense and extraordinary gain	**$ (2,187)**	$ 5,000	**$ 4,115**	$ 18,683
Income tax expense (benefit)	**(2,133)**	1,627	**(207)**	6,289
Effective tax rate	**97.5%**	32.5%	**(5.0)**	33.7%

The change in the effective tax rate for the third quarter and first nine 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, increased tax credits, and the realization of a $927 million benefit from the release of deferred tax liabilities associated with the undistributed earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely, which is discussed further in Note 26 on page 144 of this Form 10-Q.

Extraordinary gain

The Firm recorded an extraordinary gain of $581 million in the third quarter of 2008 associated with the acquisition of the banking operations of Washington Mutual. The transaction is being accounted for under the purchase method of accounting in accordance with SFAS 141. The adjusted net asset value of the banking operations after purchase accounting adjustments was higher than the consideration paid by JPMorgan Chase, resulting in an extraordinary gain. There were no extraordinary gains recorded in any other period in 2007 or 2008.

16

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 89 92 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 33 36 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 16 on pages 124 130 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 September 30, 2008 Reported results	Credit card[c]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 1,316	$	$	$ 1,316
Principal transactions	(2,763)			(2,763)
Lending & deposit-related fees	1,168			1,168
Asset management, administration and commissions	3,485			3,485
Securities gains	424			424
Mortgage fees and related income	457			457
Credit card income	1,771	(843)		928
Other income	(115)		323	208
Noninterest revenue	5,743	(843)	323	5,223
Net interest income	8,994	1,716	155	10,865
Total net revenue	14,737	873	478	16,088
Provision for credit losses	3,811	873		4,684
Provision for credit losses accounting conformity[a]	1,976			1,976
Noninterest expense	11,137			11,137
Income (loss) before income tax expense (benefit) and extraordinary gain	(2,187)		478	(1,709)
Income tax expense (benefit)	(2,133)		478	(1,655)
Income (loss) before extraordinary gain	(54)			(54)
Extraordinary gain	581			581
Net income	$ 527	$	$	$ 527
Diluted earnings (loss) per share[b]	$ (0.06)	$	$	$ (0.06)
Return on common equity[b]	(1)%	%	%	(1)%
Return on equity less goodwill[b]	(1)			(1)
Return on assets[b]	(0.01)	NM	NM	(0.01)
Overhead ratio	76	NM	NM	69

(in millions, except per share and ratio data)	Three months ended September 30, 2007 Reported results	Credit card[c]	Fully tax-equivalent adjustments	Managed basis
Revenue				

Investment banking fees	$ 1,336	$	$	$ 1,336
Principal transactions	650			650
Lending & deposit-related fees	1,026			1,026
Asset management, administration and commissions	3,663			3,663
Securities gains	237			237
Mortgage fees and related income	221			221
Credit card income	1,777	(836)		941
Other income	289		192	481
Noninterest revenue	9,199	(836)	192	8,555
Net interest income	6,913	1,414	95	8,422
Total net revenue	16,112	578	287	16,977
Provision for credit losses	1,785	578		2,363
Noninterest expense	9,327			9,327
Income before income tax expense and extraordinary gain	5,000		287	5,287
Income tax expense	1,627		287	1,914
Income before extraordinary gain	3,373			3,373
Extraordinary gain				
Net income	$ 3,373	$	$	$ 3,373
Diluted earnings per share[(b)]	$ 0.97	$	$	$ 0.97
Return on common equity[(b)]	11%	%	%	11%
Return on equity less goodwill[(b)]	18			18
Return on assets[(b)]	0.91	NM	NM	0.87
Overhead ratio	58	NM	NM	55

	Nine months ended September 30, 2008			
(in millions, except per share and ratio data)	Reported results	Credit card[c]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 4,144**	**$**	**$**	**$ 4,144**
Principal transactions	**(2,814)**			**(2,814)**
Lending & deposit-related fees	**3,312**			**3,312**
Asset management, administration and commissions	**10,709**			**10,709**
Securities gains	**1,104**			**1,104**
Mortgage fees and related income	**1,678**			**1,678**
Credit card income	**5,370**	**(2,623)**		**2,747**
Other income	**1,576**		**773**	**2,349**
Noninterest revenue	**25,079**	**(2,623)**	**773**	**23,229**
Net interest income	**24,947**	**5,007**	**481**	**30,435**
Total net revenue	**50,026**	**2,384**	**1,254**	**53,664**
Provision for credit losses	**11,690**	**2,384**		**14,074**
Provision for credit losses accounting conformity[a]	**1,976**			**1,976**
Noninterest expense	**32,245**			**32,245**
Income before income tax expense (benefit) and extraordinary gain	**4,115**		**1,254**	**5,369**
Income tax expense (benefit)	**(207)**		**1,254**	**1,047**
Income before extraordinary gain	**4,322**			**4,322**
Extraordinary gain	**581**			**581**
Net income	**$ 4,903**	**$**	**$**	**$ 4,903**
Diluted earnings per share[b]	**$ 1.15**	**$**	**$**	**$ 1.15**
Return on common equity[b]	**4%**	**%**	**%**	**4%**
Return on equity less goodwill[b]	**7**			**7**
Return on assets[b]	**0.35**	**NM**	**NM**	**0.33**
Overhead ratio	**64**	**NM**	**NM**	**60**

	Nine months ended September 30, 2007			
(in millions, except per share and ratio data)	Reported results	Credit card[c]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 4,973	$	$	$ 4,973
Principal transactions	8,850			8,850

Lending & deposit-related fees	2,872			2,872
Asset management, administration and commissions	10,460			10,460
Securities gains	16			16
Mortgage fees and related income	1,220			1,220
Credit card income	5,054	(2,370)		2,684
Other income	1,360		501	1,861
Noninterest revenue	34,805	(2,370)	501	32,936
Net interest income	19,183	4,131	287	23,601
Total net revenue	53,988	1,761	788	56,537
Provision for credit losses	4,322	1,761		6,083
Noninterest expense	30,983			30,983
Income before income tax expense and extraordinary gain	18,683		788	19,471
Income tax expense	6,289		788	7,077
Income before extraordinary gain	12,394			12,394
Extraordinary gain				
Net income	$12,394	$	$	$12,394
Diluted earnings per share[b]	$ 3.52	$	$	$ 3.52
Return on common equity[b]	14%	%	%	14%
Return on equity less goodwill[b]	23			23
Return on assets[b]	1.16	NM	NM	1.11
Overhead ratio	57	NM	NM	55

19

Table of Contents

Three months ended September 30, (in millions)	2008 Reported	2008 Securitized	2008 Managed	2007 Reported	2007 Securitized	2007 Managed
Loans Period-end	**$ 761,381**	**$ 93,664***(d)*	**$ 855,045**	$ 486,320	$ 69,643	$ 555,963
Total assets average	**1,756,359**	**75,712**	**1,832,071**	1,477,334	66,100	1,543,434

Nine months ended September 30, (in millions)	2008 Reported	2008 Securitized	2008 Managed	2007 Reported	2007 Securitized	2007 Managed
Loans Period-end	**$ 761,381**	**$ 93,664***(d)*	**$ 855,045**	$ 486,320	$ 69,643	$ 555,963
Total assets average	**1,665,285**	**73,966**	**1,739,251**	1,429,772	65,715	1,495,487

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

(b) Based upon income (loss) before extraordinary gain.

(c) Credit card securitizations affect CS. See pages 33 36 of this Form 10-Q for further information.

(d) Included securitized loans acquired in the Washington Mutual transaction of $11.9 billion at September 30,

2008.

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.

Capital allocation

Line of business equity increased during the second quarter of 2008 in IB and AM due to the Bear Stearns merger, and for AM, the purchase of the additional equity interest in Highbridge. At the end of the third quarter of 2008, equity was increased for each line of business with a view toward the future implementation of the new Basel II capital rules. For further details on these rules, see Basel II on page 57 of this Form 10-Q. In addition, capital allocated to RFS, CS, and CB was increased as a result of the acquisition of Washington Mutual s banking operations.

Table of Contents

Effect of Washington Mutual on business segment presentation

The effects of Washington Mutual s banking operations are not included in the following business segment results as such operations did not have a material effect on the results of the quarter ended September 30, 2008, except with respect to the charge to conform Washington Mutual s loan loss reserves and the extraordinary gain related to the transaction, both of which are reflected for JPMorgan Chase in the Corporate/Private Equity segment. Information regarding Washington Mutual s banking operations is presented in this section on pages 49 50 of this Form 10-Q.

Segment Results Managed Basis[(a)]

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

Three months ended September 30, (in millions, except ratios)	Total net revenue 2008	2007	Change	Noninterest expense 2008	2007	Change	Net income (loss) 2008	2007	Change	Return on equity 2008	2007
Investment Bank	**$ 4,035**	$ 2,946	37%	**$ 3,816**	$ 2,378	60%	**$ 882**	$ 296	198%	**13%**	6%
Retail Financial Services	**4,875**	4,201	16	**2,772**	2,469	12	**247**	639	(61)	**6**	16
Card Services	**3,887**	3,867	1	**1,194**	1,262	(5)	**292**	786	(63)	**8**	22
Commercial Banking	**1,125**	1,009	11	**486**	473	3	**312**	258	21	**18**	15
Treasury & Securities Services	**1,953**	1,748	12	**1,339**	1,134	18	**406**	360	13	**46**	48
Asset Management	**1,961**	2,205	(11)	**1,362**	1,366		**351**	521	(33)	**25**	52
Corporate/Private Equity[(b)]	**(1,748)**	1,001	NM	**168**	245	(31)	**(1,963)**	513	NM	**NM**	NM
Total	**$ 16,088**	$ 16,977	(5)%	**$ 11,137**	$ 9,327	19%	**$ 527**	$ 3,373	(84)%	**1%**	11%

Nine months ended September 30, (in millions, except ratios)	Total net revenue 2008	2007	Change	Noninterest expense 2008	2007	Change	Net income (loss) 2008	2007	Change	Return on equity 2008	2007
Investment Bank	**$ 12,516**	$ 14,998	(17)%	**$ 11,103**	$ 10,063	10%	**$ 1,189**	$ 3,015	(61)%	**7%**	19%
Retail Financial Services	**14,592**	12,664	15	**8,012**	7,360	9	**626**	2,283	(73)	**5**	19
Card Services	**11,566**	11,264	3	**3,651**	3,691	(1)	**1,151**	2,310	(50)	**11**	22
Commercial Banking	**3,298**	3,019	9	**1,447**	1,454		**959**	846	13	**18**	18
Treasury & Securities Services	**5,885**	5,015	17	**3,884**	3,358	16	**1,234**	975	27	**47**	43
Asset Management	**5,926**	6,246	(5)	**4,085**	3,956	3	**1,102**	1,439	(23)	**28**	50
Corporate/Private Equity[(b)]	**(119)**	3,331	NM	**63**	1,101	(94)	**(1,358)**	1,526	NM	**NM**	NM
Total	**$ 53,664**	$ 56,537	(5)%	**$ 32,245**	$ 30,983	4%	**$ 4,903**	$ 12,394	(60)%	**5%**	14%

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

securitizations.

(b) *The third quarter of 2008 included an accounting conformity loan loss reserve provision of $1.2 billion (after-tax) and an extraordinary gain of $581 million related to the Washington Mutual transaction, as well as losses on preferred equity interests in Fannie Mae and Freddie Mac.*

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 5 of this Form 10-Q.

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2008**	2007	Change	**2008**	2007	Change
Revenue						
Investment banking fees	**$ 1,593**	$ 1,330	20%	**$ 4,534**	$ 4,959	(9)%
Principal transactions	**(922)**	(435)	(112)	**(882)**	5,032	NM
Lending & deposit-related fees	**118**	118		**325**	304	7
Asset management, administration and commissions	**847**	712	19	**2,300**	1,996	15
All other income	**(279)**	(76)	(267)	**(571)**	88	NM
Noninterest revenue	**1,357**	1,649	(18)	**5,706**	12,379	(54)
Net interest income	**2,678**	1,297	106	**6,810**	2,619	160
Total net revenue[(a)]	**4,035**	2,946	37	**12,516**	14,998	(17)
Provision for credit losses	**234**	227	3	**1,250**	454	175
Credit reimbursement from TSS[(b)]	**31**	31		**91**	91	
Noninterest expense						
Compensation expense	**2,162**	1,178	84	**6,535**	6,404	2
Noncompensation expense	**1,654**	1,200	38	**4,568**	3,659	25
Total noninterest expense	**3,816**	2,378	60	**11,103**	10,063	10
Income (loss) before income tax expense	**16**	372	(96)	**254**	4,572	(94)
Income tax expense (benefit)[(c)]	**(866)**	76	NM	**(935)**	1,557	NM
Net income (loss)	**$ 882**	$ 296	198	**$ 1,189**	$ 3,015	(61)
Financial ratios						
ROE	**13%**	6%		**7%**	19%	
ROA	**0.39**	0.17		**0.19**	0.59	
Overhead ratio	**95**	81		**89**	67	
Compensation expense as a % of total net revenue	**54**	40		**52**	43	
Revenue by business						
Investment banking fees:						
Advisory	**$ 576**	$ 595	(3)	**$ 1,429**	$ 1,627	(12)
Equity underwriting	**518**	267	94	**1,419**	1,169	21
Debt underwriting	**499**	468	7	**1,686**	2,163	(22)

Total investment banking fees	**1,593**	1,330	20	**4,534**	4,959	(9)
Fixed income markets	**815**	687	19	**3,628**	5,724	(37)
Equity markets	**1,650**	537	207	**3,705**	3,325	11
Credit portfolio	**(23)**	392	NM	**649**	990	(34)
Total net revenue	**$ 4,035**	$ 2,946	37	**$ 12,516**	$ 14,998	(17)
Revenue by region						
Americas	**$ 1,052**	$ 1,016	4	**$ 4,753**	$ 7,037	(32)
Europe/Middle East/Africa	**2,509**	1,389	81	**5,662**	5,967	(5)
Asia/Pacific	**474**	541	(12)	**2,101**	1,994	5
Total net revenue	**$ 4,035**	$ 2,946	37	**$ 12,516**	$ 14,998	(17)

(a) *Total net revenue included tax-equivalent adjustments, predominantly due to income tax credits related to affordable housing investments and tax-exempt income from municipal bond investments of $427 million and $255 million for the quarters ended September 30, 2008 and 2007, respectively, and $1.1 billion and $697 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.*

(c) *The income tax benefit in the third quarter and year-to-date 2008 is predominantly the result of reduced deferred tax liabilities on overseas earnings.*

Quarterly results

Net income was $882 million, an increase of $586 million from the prior year. The improved results reflected an increase in net revenue and the benefit of reduced deferred tax liabilities offset largely by increased noninterest expense.

Net revenue was $4.0 billion, an increase of $1.1 billion, or 37%, from the prior year. Investment banking fees were $1.6 billion, up 20% from the prior year. Advisory fees were $576 million, down 3% from the prior year, reflecting decreased levels of activity. Debt underwriting fees were $499 million, up 7%. Equity underwriting fees were $518 million, up 94% from the prior year. Fixed Income Markets revenue was $815 million, up 19% from the prior year. The increase was driven by record results in rates and currencies, and strong performance in credit trading, emerging markets, and commodities, as well as gains of $343 million from the widening of the Firm s credit spread on certain structured liabilities. Largely offsetting these results were mortgage-related net markdowns of $2.6 billion, as well as $1.0 billion of net markdowns on leveraged lending funded and unfunded commitments. Equity Markets revenue was a record $1.7 billion, up $1.1 billion from the prior year, driven by strong trading results and client revenue, as well as a gain of $429 million from the widening of the Firm s credit spread on certain structured liabilities. Credit Portfolio revenue was a loss of $23 million, down $415 million from the prior year, reflecting net markdowns due to wider counterparty credit spreads and fewer gains from loan workouts, largely offset by higher net interest income and increased revenue from risk management activities.

The provision for credit losses was $234 million, compared with $227 million in the prior year, reflecting a weakening credit environment. Net charge-offs were $13 million, compared with $67 million in the prior year. The allowance for loan losses to total average loans retained was 3.85% for the current quarter, an increase from 1.80% in the prior year. Average loans retained were $69.0 billion, an increase of $7.1 billion, or 11%, from the prior year, largely driven by growth in acquisition finance activity, including leveraged lending. Average fair value and held-for-sale loans were $17.6 billion, up $297 million, or 2%, from the prior year.

Noninterest expense was $3.8 billion, an increase of $1.4 billion, or 60%, from the prior year, largely driven by higher compensation expense and additional operating costs relating to the Bear Stearns merger.

Year-to-date results

Net income was $1.2 billion, down 61%, or $1.8 billion, from the prior year. The lower results reflected a decline in total net revenue and higher noninterest expense and provision for credit losses, partially offset by the benefit of reduced deferred tax liabilities.

Total net revenue was $12.5 billion, a decrease of $2.5 billion, or 17%, from the prior year. Investment banking fees were $4.5 billion, down 9% from the prior year, predominantly reflecting lower debt underwriting and advisory fees. Debt underwriting fees of $1.7 billion were down 22%, driven by lower loan syndication and bond underwriting fees, reflecting market conditions. Advisory fees of $1.4 billion were down 12% from the prior year reflecting decreased levels of activity. Equity underwriting fees were $1.4 billion, an increase of 21% from the prior year. Fixed Income Markets revenue was $3.6 billion, down $2.1 billion, or 37%, from the prior year driven largely by mortgage-related net markdowns of approximately $4.7 billion and net markdowns of $2.8 billion on leveraged lending funded and unfunded commitments. These markdowns were partially offset by strong performance in credit trading, commodities, rates, and emerging markets as well as gains of $1.2 billion from the widening of the Firm s credit spread on certain structured liabilities. Equity Markets revenue was $3.7 billion, up $380 million, or 11% from the prior year, driven by strong trading results and client revenue, as well as a gain of $865 million from the widening of the Firm s credit spread on certain structured liabilities. Credit Portfolio revenue was $649 million, down $341 million, or 34% from the prior year, reflecting net markdowns due to wider counterparty credit spreads and fewer gains from loan workouts, largely offset by higher net interest income and increased revenue from risk management activities.

The provision for credit losses was $1.3 billion, compared with $454 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 average loans retained was 3.63% compared with 1.85% in the prior year.

Total average loans retained were $73.1 billion, an increase of $13.1 billion, or 22%, from the prior year, principally driven by growth in acquisition finance activity, including leveraged lending, as well as liquidity financing. Average fair value and held-for-sale loans were $19.2 billion, up $3.9 billion, or 26%, from the prior year.

Noninterest expense was $11.1 billion, an increase of $1.0 billion, or 10%, from the prior year, driven by higher noncompensation expense and the Bear Stearns merger.

Table of Contents

Selected metrics (in millions, except headcount and ratio data)	Three months ended September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Selected ending balances						
Equity	**$ 33,000**	$ 21,000	57%	**$ 33,000**	$ 21,000	57%
Selected average balances						
Total assets	**$ 890,040**	$ 710,665	25	**$ 820,497**	$ 688,730	19
Trading assets debt and equity instruments	**360,821**	372,212	(3)	**365,802**	355,708	3
Trading assets derivatives receivables	**105,462**	63,017	67	**98,390**	59,336	66
Loans:						
Loans retained[(a)]	**69,022**	61,919	11	**73,107**	59,996	22
Loans held-for-sale and loans at fair value	**17,612**	17,315	2	**19,215**	15,278	26
Total loans	**86,634**	79,234	9	**92,322**	75,274	23
Adjusted assets[(b)]	**694,459**	625,619	11	**677,945**	600,688	13
Equity	**26,000**	21,000	24	**23,781**	21,000	13
Headcount	**30,989**	25,691	21	**30,989**	25,691	21
Credit data and quality statistics						
Net charge-offs (recoveries)	**$ 13**	$ 67	(81)	**$ 18**	$ 45	(60)
Nonperforming assets:						
Nonperforming loans[(c)]	**436**	265	65	**436**	265	65
Other nonperforming assets	**147**	60	145	**147**	60	145
Allowance for credit losses:						
Allowance for loan losses	**2,654**	1,112	139	**2,654**	1,112	139
Allowance for lending-related commitments	**463**	568	(18)	**463**	568	(18)
Total allowance for credit losses	**3,117**	1,680	86	**3,117**	1,680	86
Net charge-off (recovery) rate[(c)(d)]	**0.07%**	0.43%		**0.03%**	0.10%	
Allowance for loan losses to average loans[(c)(d)]	**3.85**	1.80		**3.63**[(i)]	1.85	
Allowance for loan losses to nonperforming loans[(c)]	**657**	585		**657**	585	
Nonperforming loans to average loans	**0.50**	0.33		**0.47**	0.35	
Market risk average trading and credit portfolio VaR[(e)]						
By risk type:						
Fixed income	**$ 183**	$ 98	87	**$ 150**	$ 72	108
Foreign exchange	**20**	23	(13)	**27**	21	29
Equities	**80**	35	129	**47**	43	9
Commodities and other	**41**	28	46	**33**	34	(3)
Diversification[(f)]	**(104)**	(72)	(44)	**(95)**	(68)	(40)
Total trading VaR[(g)]	**220**	112	96	**162**	102	59
Credit portfolio VaR[(h)]	**47**	17	176	**38**	14	171
Diversification[(f)]	**(49)**	(22)	(123)	**(39)**	(16)	(144)

Total trading and credit portfolio VaR	**$**	**218**	$	107	104	**$**	**161**	$	100	61

(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. The 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 included loans held-for-sale and loans at fair value of $32 million and $75 million at September 30, 2008 and 2007, respectively, which were excluded from the allowance coverage ratios. Nonperforming loans excluded distressed loans held-for-sale that were purchased as part of IB s proprietary activities.

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

(e) *Results for year-to-date 2008 include four months of the combined Firm s (JPMorgan Chase s and Bear Stearns) results and five months of heritage JPMorgan Chase results. All prior periods reflect heritage JPMorgan Chase results. For a more complete description of value-at-risk (VaR), see pages 80 84 of this Form 10-Q.*

24

Table of Contents

(f) *Average VaRs were less than the sum of the VaRs of their market risk components, which was due to risk offsets resulting from portfolio diversification. The diversification effect reflected the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is usually less than the sum of the risks of the positions themselves.*

(g) *Trading VaR includes predominantly all trading activities in IB; 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 83 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. This VaR does not include the retained loan portfolio.

(i) Excluding the impact of a loan originated in March 2008 to Bear Stearns, the adjusted ratio would be 3.76% for year-to-date 2008. The average balance of the loan extended to Bear Stearns was $2.6 billion for year-to-date 2008. The allowance for loan losses to period-end loans was 3.70% at

September 30, 2008.

According to Thomson Reuters, for the first nine 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.

	Nine months ended September 30, 2008		Full Year 2007	
Market shares and rankings[(a)]	Market Share	Rankings	Market Share	Rankings
Global debt, equity and equity-related	**10%**	**#1**	8%	#2
Global syndicated loans	**12**	**#1**	13	#1
Global long-term debt[(b)]	**9**	**#1**	7	#3
Global equity and equity-related[(c)]	**12**	**#1**	9	#2
Global announced M&A[(d)]	**24**	**#3**	27	#4
U.S. debt, equity and equity-related	**15**	**#1**	10	#2
U.S. syndicated loans	**27**	**#1**	24	#1
U.S. long-term debt[(b)]	**15**	**#1**	10	#2
U.S. equity and equity-related[(c)]	**17**	**#1**	11	#5
U.S. announced M&A[(d)]	**33**	**#3**	28	#3

(a) *Source: Thomson Reuters. The results for the nine months ended September 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.

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 5 of this Form 10-Q.

Selected income statement data (in millions, except ratios)	Three months ended September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Revenue						
Lending & deposit-related fees	**$ 538**	$ 492	9%	**$ 1,496**	$ 1,385	8%
Asset management, administration and commissions	**346**	336	3	**1,098**	943	16
Mortgage fees and related income	**437**	229	91	**1,658**	1,206	37
Credit card income	**204**	167	22	**572**	472	21
Other income	**206**	296	(30)	**558**	687	(19)
Noninterest revenue	**1,731**	1,520	14	**5,382**	4,693	15
Net interest income	**3,144**	2,681	17	**9,210**	7,971	16
Total net revenue	**4,875**	4,201	16	**14,592**	12,664	15
Provision for credit losses	**1,678**	680	147	**5,502**	1,559	253
Noninterest expense						
Compensation expense	**1,120**	1,087	3	**3,464**	3,256	6
Noncompensation expense	**1,552**	1,265	23	**4,248**	3,753	13
Amortization of intangibles	**100**	117	(15)	**300**	351	(15)
Total noninterest expense	**2,772**	2,469	12	**8,012**	7,360	9
Income before income tax expense	**425**	1,052	(60)	**1,078**	3,745	(71)
Income tax expense	**178**	413	(57)	**452**	1,462	(69)
Net income	**$ 247**	$ 639	(61)	**$ 626**	$ 2,283	(73)
Financial ratios						
ROE	**6%**	16%		**5%**	19%	
Overhead ratio	**57**	59		**55**	58	
Overhead ratio excluding core deposit intangibles[(a)]	**55**	56		**53**	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 ratio excludes Regional Banking s core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $99 million and $116 million for the quarters ended September 30, 2008 and 2007, respectively, and*

$297 million and $347 million for year-to-date September 30, 2008 and 2007, respectively.

Quarterly results

Net income was $247 million, a decrease of $392 million, or 61%, reflecting a significant increase in the provision for credit losses in Regional Banking and higher noninterest expense in Mortgage Banking. These factors were offset partially by revenue growth in all businesses.

Net revenue was $4.9 billion, an increase of $674 million, or 16%, from the prior year. Net interest income was $3.1 billion, up $463 million, or 17%, due to higher loan and deposit balances and wider deposit spreads. Noninterest revenue was $1.7 billion, up $211 million, or 14%, as higher net mortgage servicing revenue and increased deposit-related fees were offset partially by declines in education loan sales.

The provision for credit losses was $1.7 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 $663 million (2.78% net charge-off rate), compared with $150 million (0.65% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $273 million (7.65% net charge-off rate), compared with $40 million (1.62% net charge-off rate) in the prior year. Prime mortgage net charge-offs (including net charge-offs reflected in the Corporate segment) were $177 million (1.51% net charge-off rate), compared with $9 million (0.11% net charge-off rate) in the prior year. The current-quarter provision includes an increase in the allowance for loan losses of $450 million due to increases in estimated losses in the subprime and home equity mortgage portfolios. An additional $250 million increase in the allowance for loan losses for prime mortgage loans has been reflected in the Corporate segment.

Table of Contents

Noninterest expense was $2.8 billion, an increase of $303 million, or 12%, from the prior year, reflecting higher mortgage reinsurance losses and increased servicing expense.

Year-to-date results

Net income was $626 million, a decrease of $1.7 billion, or 73%, reflecting a significant increase in the provision for credit losses in Regional Banking and higher noninterest expense in Mortgage Banking. These factors were offset partially by revenue growth in all businesses.

Net revenue was $14.6 billion, an increase of $1.9 billion, or 15%, from the prior year. Net interest income was $9.2 billion, up $1.2 billion, or 16%, due to higher loan and deposit balances and wider loan and deposit spreads. Noninterest revenue was $5.4 billion, up $689 million, or 15%, as higher mortgage banking revenue and increased deposit-related fees were offset partially by declines in education loan sales.

The provision for credit losses was $5.5 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 $1.6 billion (2.28% net charge-off rate), compared with $316 million (0.47% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $614 million (5.43% net charge-off rate), compared with $86 million (1.28% net charge-off rate) in the prior year. Prime mortgage net charge-offs (including net charge-offs reflected in the Corporate segment) were $331 million (0.98% net charge-off rate), compared with $16 million (0.07% net charge-off rate) in the prior year. The year-to-date provision includes increases in the allowance for loan losses of $1.2 billion for home equity loans and $1.3 billion for prime and subprime mortgage loans due to increases in estimated losses for these portfolios. An additional $580 million increase in the allowance for loan losses for prime mortgage loans has been reflected in the Corporate segment.

Noninterest expense was $8.0 billion, an increase of $652 million, or 9%, from the prior year, reflecting higher mortgage reinsurance losses, increased servicing expense and investment in the retail distribution network.

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount and ratios)	**2008**	2007	Change	**2008**	2007	Change
Selected ending balances						
Assets	**$ 228,982**	$ 216,754	6%	**$ 228,982**	$ 216,754	6%
Loans:						
Loans retained	**187,548**	172,498	9	**187,548**	172,498	9
Loans held-for-sale and loans at fair value[(a)]	**9,655**	18,274	(47)	**9,655**	18,274	(47)
Total loans	**197,203**	190,772	3	**197,203**	190,772	3
Deposits	**222,574**	216,135	3	**222,574**	216,135	3
Equity	**25,000**	16,000	56	**25,000**	16,000	56
Selected average balances						
Assets	**$ 230,428**	$ 214,852	7	**$ 230,239**	$ 216,218	6
Loans:						
Loans retained	**187,429**	168,495	11	**185,222**	165,479	12
Loans held-for-sale and loans at fair value[(a)]	**16,037**	19,560	(18)	**18,116**	24,289	(25)
Total loans	**203,466**	188,055	8	**203,338**	189,768	7
Deposits	**222,180**	216,904	2	**224,731**	217,669	3
Equity	**17,000**	16,000	6	**17,000**	16,000	6
Headcount	**67,265**	68,528	(2)	**67,265**	68,528	(2)

Credit data and quality statistics								
Net charge-offs	**$**	**1,196**	$	350	242	**$**	**2,926**	$	805	263
Nonperforming loans(b)(c)(d)		**4,443**		1,820	144		**4,443**		1,820	144
Nonperforming assets(b)(c)(d)		**5,131**		2,232	130		**5,131**		2,232	130
Allowance for loan losses		**4,957**		2,105	135		**4,957**		2,105	135
Net charge-off rate(e)(f)		**2.44%**		0.82%			**2.05%**		0.65%	
Allowance for loan losses to ending loans(e)		**2.64**		1.22			**2.64**		1.22	
Allowance for loan losses to nonperforming loans(e)		**117**		117			**117**		117	
Nonperforming loans to total loans		**2.25**		0.95			**2.25**		0.95	

27

Table of Contents

(a) *Loans held-for-sale and loans at fair value 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 $8.1 billion and $14.4 billion at September 30, 2008 and 2007, respectively. Average loans included prime mortgage loans, classified as trading assets on the Consolidated Balance Sheets, of $14.5 billion and $14.1 billion for the three months ended September 30, 2008 and 2007, respectively, and $14.9 billion and $11.4 billion for the nine months ended September 30, 2008 and 2007, respectively.*

(b) *Nonperforming loans and assets included loans held-for-sale and loans accounted for at fair value of $207 million and $17 million at*

September 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 Government National Mortgage Association (GNMA) pools that are insured by U.S. government agencies of $1.8 billion and $1.3 billion at September 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 $405 million and $241 million at September 30, 2008 and 2007, respectively. These amounts were excluded, as reimbursement is proceeding normally.*

(d) *During the second quarter of 2008,* *the policy for classifying subprime mortgage and home equity loans as nonperforming was changed to conform to all other home lending products. Prior period nonperforming assets have been revised to conform to 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 nine months ended September 30, 2008, excluded $45 million and $78 million, respectively, of charge-offs related to prime mortgage loans held by the Corporate/Private Equity segment.

REGIONAL BANKING

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2008**	2007	Change	**2008**	2007	Change
Noninterest revenue	**$ 1,049**	$ 1,013	4%	**$ 2,949**	$ 2,783	6%
Net interest income	**2,652**	2,325	14	**7,766**	6,920	12
Total net revenue	**3,701**	3,338	11	**10,715**	9,703	10
Provision for credit losses	**1,552**	574	170	**5,089**	1,301	291

Noninterest expense	**1,773**	1,760	1	**5,345**	5,238	2
Income before income tax expense	**376**	1,004	(63)	**281**	3,164	(91)
Net income	**$ 218**	$ 611	(64)	**$ 139**	$ 1,930	(93)
ROE	**7%**	21%		**1%**	22%	
Overhead ratio	**48**	53		**50**	54	
Overhead ratio excluding core deposit intangibles[(a)]	**45**	49		**47**	50	

(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 ratio excludes Regional Banking s core deposit* *intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $99 million and $116 million for the quarters ended September 30, 2008 and 2007, respectively, and $297 million and $347 million for year-to-date 2008 and 2007, respectively.*

Quarterly results

Regional Banking net income was $218 million, down $393 million, or 64%, from the prior year. Net revenue was $3.7 billion, up $363 million, or 11%, as the benefits of higher loan and deposit balances, wider deposit spreads and higher deposit-related fees were offset partially by declines in education loan sales. The provision for credit losses was $1.6 billion, compared with $574 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 $13 million, or 1%, from the prior year.

Year-to-date results

Regional Banking net income was $139 million, down $1.8 billion, or 93%, from the prior year. Net revenue was $10.7 billion, up $1.0 billion, or 10%, as the benefits of higher loan and deposit balances, wider loan and deposit spreads and higher deposit-related fees were offset partially by declines in education loan sales. The provision for credit losses was $5.1 billion, compared with $1.3 billion in the prior year. The provision reflected weakness in the home equity and mortgage portfolios (see Retail Financial Services discussion of the provision for credit losses for further detail). Noninterest expense was $5.3 billion, up $107 million, or 2%, 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 September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Business metrics						
Home equity origination volume	**$ 2.6**	$ 11.2	(77)%	**$ 14.6**	$ 38.5	(62)%
End-of-period loans owned						
Home equity	**$ 94.6**	$ 93.0	2	**$ 94.6**	$ 93.0	2
Mortgage[(a)]	**13.6**	12.3	11	**13.6**	12.3	11
Business banking	**16.5**	14.9	11	**16.5**	14.9	11
Education	**15.3**	10.2	50	**15.3**	10.2	50
Other loans[(b)]	**1.0**	2.4	(58)	**1.0**	2.4	(58)
Total end of period loans	**141.0**	132.8	6	**141.0**	132.8	6
End-of-period deposits						
Checking	**$ 69.0**	$ 64.5	7	**$ 69.0**	$ 64.5	7
Savings	**105.0**	95.7	10	**105.0**	95.7	10
Time and other	**37.5**	46.5	(19)	**37.5**	46.5	(19)
Total end of period deposits	**211.5**	206.7	2	**211.5**	206.7	2
Average loans owned						
Home equity	**$ 94.8**	$ 91.8	3	**$ 95.0**	$ 89.1	7
Mortgage[(a)]	**14.3**	9.9	44	**15.2**	9.2	65
Business banking	**16.4**	14.8	11	**16.1**	14.5	11
Education	**14.1**	9.8	44	**12.9**	10.4	24
Other loans[(b)]	**1.0**	2.4	(58)	**1.2**	2.6	(54)
Total average loans[(c)]	**140.6**	128.7	9	**140.4**	125.8	12
Average deposits						
Checking	**$ 68.0**	$ 64.9	5	**$ 63.4**	$ 66.5	(5)
Savings	**105.5**	97.1	9	**103.9**	97.4	7
Time and other	**36.7**	43.3	(15)	**45.5**	42.5	7
Total average deposits	**210.2**	205.3	2	**212.8**	206.4	3
Average assets	**148.7**	140.6	6	**149.3**	138.1	8
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)]	**4.18%**	2.39%		**4.18%**	2.39%	
Net charge-offs						
Home equity	**$ 663**	$ 150	342	**$ 1,621**	$ 316	413
Mortgage	**318**	40	NM	**692**	86	NM
Business banking	**55**	33	67	**146**	88	66
Other loans	**34**	23	48	**103**	88	17
Total net charge-offs	**1,070**	246	335	**2,562**	578	343

Net charge-off rate						
Home equity	**2.78%**	0.65%		**2.28%**	0.47%	
Mortgage(f)	**7.59**	1.60		**5.40**	1.25	
Business banking	**1.33**	0.88		**1.21**	0.81	
Other loans	**0.97**	1.01		**1.21**	1.28	
Total net charge-off rate(c)(f)	**2.92**	0.78		**2.41**	0.63	
Nonperforming assets(g)(h)	**$ 4,310**	$ 2,034	112	**$ 4,310**	$ 2,034	112

(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 $1.2 billion and $3.2 billion for the quarters ended September 30, 2008 and 2007, respectively, and $2.8 billion and $3.8 billion for the nine months ended September 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 $2.0 billion and*

$979 million at September 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 $787 million and $590 million at September 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 nine months ended September 30, 2008, excluded $45 million and $78 million, respectively, of charge-offs related to prime mortgage loans held by the Corporate/Private Equity segment.*

Table of Contents

(g) *Excluded (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of $1.8 billion and $1.3 billion at September 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 $405 million and $241 million at September 30, 2008 and 2007, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.*

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

Retail branch business metrics (in millions, except where otherwise noted)	Three months ended September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Investment sales volume	**$ 4,389**	$ 4,346	1%	**$ 13,684**	$ 14,246	(4)%
Number of:						
Branches	**3,179**	3,096	3	**3,179**	3,096	3
ATMs	**9,308**	8,943	4	**9,308**	8,943	4
Personal bankers	**10,201**	9,503	7	**10,201**	9,503	7
Sales specialists	**3,959**	4,025	(2)	**3,959**	4,025	(2)
Active online customers (in thousands)	**7,315**	5,706	28	**7,315**	5,706	28
Checking accounts (in thousands)	**11,672**	10,644	10	**11,672**	10,644	10

MORTGAGE BANKING

Selected income statement data

(in millions, except ratios and where otherwise noted)	Three months ended September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Production revenue	**$ 254**	$ 176	44%	**$ 1,427**	$ 1,039	37%
Net mortgage servicing revenue:						
Servicing revenue	**695**	629	10	**2,007**	1,845	9
Changes in MSR asset fair value:						
Due to inputs or assumptions in model	**(786)**	(810)	3	**101**	250	(60)
Other changes in fair value	**(390)**	(377)	(3)	**(1,209)**	(1,138)	(6)
Total changes in MSR asset fair value	**(1,176)**	(1,187)	1	**(1,108)**	(888)	(25)
Derivative valuation adjustments and other	**893**	788	13	**13**	(353)	NM
Total net mortgage servicing revenue	**412**	230	79	**912**	604	51
Total net revenue	**666**	406	64	**2,339**	1,643	42
Noninterest expense	**747**	485	54	**1,932**	1,469	32

Income (loss) before income tax expense	**(81)**	(79)	(3)	**407**	174	134
Net income (loss)	**$ (50)**	$ (48)	(4)	**$ 251**	$ 107	135
ROE	**(8)%**	(10)%		**14%**	7%	
Business metrics (in billions)						
Third-party mortgage loans serviced (ending)	**$ 681.8**	$ 600.0	14	**$ 681.8**	$ 600.0	14
MSR net carrying value (ending)	**10.6**	9.1	16	**10.6**	9.1	16
Average mortgage loans held-for-sale[(a)]	**14.9**	16.4	(9)	**15.4**	20.4	(25)
Average assets	**35.4**	31.4	13	**34.6**	35.0	(1)
Average equity	**2.4**	2.0	20	**2.4**	2.0	20
Mortgage origination volume by channel (in billions)						
Retail	**$ 8.4**	$ 11.1	(24)	**$ 33.5**	$ 35.6	(6)
Wholesale	**5.9**	9.8	(40)	**25.6**	32.5	(21)
Correspondent	**13.2**	7.2	83	**42.2**	18.4	129
CNT (Negotiated transactions)	**10.2**	11.1	(8)	**39.6**	32.9	20
Total	**$ 37.7**	$ 39.2	(4)	**$ 140.9**	$ 119.4	18

(a) Included $14.5 billion and $14.1 billion of prime mortgage loans at fair value for the three months ended September 30, 2008 and 2007, respectively, and $14.9 billion and $11.4 billion for the nine months ended September 30, 2008 and 2007. These loans are classified as trading assets on the Consolidated Balance Sheets.

Table of Contents

Quarterly results

Mortgage Banking reported a net loss of $50 million, compared with a net loss of $48 million in the prior year. Net revenue was $666 million, up $260 million, or 64%. Net revenue comprises production revenue and net mortgage servicing revenue. Production revenue was $254 million, up $78 million, reflecting lower markdowns of $91 million on the mortgage warehouse and pipeline as compared with markdowns of $186 million in the prior year. The current-year result was also affected by an increase in reserves related to the repurchase of previously sold loans. Net mortgage servicing revenue which includes loan servicing revenue, MSR risk management results and other changes in fair value was $412 million, an increase of $182 million, or 79%, from the prior year. Loan servicing revenue was $695 million, an increase of $66 million on growth of 14% in third-party loans serviced. MSR risk management results were $107 million, compared with negative $22 million in the prior year. Other changes in fair value of the MSR asset were negative $390 million compared with negative $377 million in the prior year. Noninterest expense was $747 million, an increase of $262 million, or 54%. The increase reflected higher mortgage reinsurance losses and higher servicing costs due to increased delinquencies and defaults.

Year-to-date results

Mortgage Banking net income was $251 million, compared with $107 million in the prior year. Net revenue was $2.3 billion, up $696 million, or 42%. Net revenue comprises production revenue and net mortgage servicing revenue. Production revenue was $1.4 billion, up $388 million, benefiting from higher loan originations and lower markdowns on the mortgage warehouse and pipeline as compared with the prior year. The current-year result was also affected by an increase in reserves related to the repurchase of previously sold loans. Net mortgage servicing revenue which includes loan servicing revenue, MSR risk management results and other changes in fair value was $912 million, an increase of $308 million, or 51%, from the prior year. Loan servicing revenue was $2.0 billion, an increase of $162 million on growth of 14% in third-party loans serviced. MSR risk management results were $114 million, compared with negative $103 million in the prior year. Other changes in fair value of the MSR asset were negative $1.2 billion compared with negative $1.1 billion in the prior year. Noninterest expense was $1.9 billion, an increase of $463 million, or 32%. The increase reflected higher mortgage reinsurance losses 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 September 30, 2008	2007	Change	Nine months ended September 30, 2008	2007	Change
Noninterest revenue	**$ 157**	$ 140	12%	**$ 463**	$ 409	13%
Net interest income	**349**	307	14	**1,071**	898	19
Total net revenue	**506**	447	13	**1,534**	1,307	17
Provision for credit losses	**124**	96	29	**409**	247	66
Noninterest expense	**252**	224	13	**735**	653	13
Income before income tax expense	**130**	127	2	**390**	407	(4)
Net income	**$ 79**	$ 76	4	**$ 236**	$ 246	(4)
ROE	**14%**	14%		**14%**	15%	
ROA	**0.68**	0.70		**0.68**	0.76	
Business metrics (in billions)						
Auto origination volume	**$ 3.8**	$ 5.2	(27)	**$ 16.6**	$ 15.7	6
End-of-period loans and lease-related assets						
Loans outstanding	**$ 43.2**	$ 40.3	7	**$ 43.2**	$ 40.3	7
Lease financing receivables	**0.1**	0.6	(83)	**0.1**	0.6	(83)
Operating lease assets	**2.2**	1.8	22	**2.2**	1.8	22
Total end-of-period loans and lease-related assets	**45.5**	42.7	7	**45.5**	42.7	7
Average loans and lease-related assets						
Loans outstanding	**$ 43.8**	$ 39.9	10	**$ 43.8**	$ 39.8	10
Lease financing receivables	**0.1**	0.7	(86)	**0.2**	1.1	(82)
Operating lease assets	**2.2**	1.8	22	**2.1**	1.7	24
Total average loans and lease-related assets	**46.1**	42.4	9	**46.1**	42.6	8
Average assets	**46.4**	42.9	8	**46.4**	43.1	8
Average equity	**2.3**	2.2	5	**2.3**	2.2	5
Credit quality statistics						
30+ day delinquency rate	**1.82%**	1.65%		**1.82%**	1.65%	
Net charge-offs						
Loans	**$ 123**	$ 98	26	**$ 358**	$ 218	64
Lease receivables	**1**	1		**3**	3	
Total net charge-offs	**124**	99	25	**361**	221	63
Net charge-off rate						
Loans	**1.12%**	0.97%		**1.09%**	0.73%	

Lease receivables	**3.98**	0.57		**2.00**	0.36	
Total net charge-off rate	**1.12**	0.97		**1.10**	0.72	
Nonperforming assets	**$ 239**	$ 156	53	**$ 239**	$ 156	53

Quarterly results

Auto Finance net income was $79 million, an increase of $3 million, or 4%, from the prior year. Net revenue was $506 million, up $59 million, or 13%, driven by higher loan balances and increased automobile operating lease revenue. The provision for credit losses was $124 million, up $28 million, reflecting higher estimated losses. The net charge-off rate was 1.12%, compared with 0.97% in the prior year. Noninterest expense was $252 million, an increase of $28 million, or 13%, driven by increased depreciation expense on owned automobiles subject to operating leases.

Year-to-date results

Auto Finance net income was $236 million, a decrease of $10 million, or 4%, from the prior year. Net revenue was $1.5 billion, up $227 million, or 17%, driven by increased automobile operating lease revenue, higher loan balances, and a reduction in residual value reserves for direct finance leases. The provision for credit losses was $409 million, up $162 million, reflecting higher estimated losses. The net charge-off rate was 1.10%, compared with 0.72% in the prior year. Noninterest expense was $735 million, an increase of $82 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 5 6 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 17 20 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 September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Revenue						
Credit card income	**$ 633**	$ 692	(9)%	**$ 1,906**	$ 1,973	(3)%
All other income	**13**	67	(81)	**223**	239	(7)
Noninterest revenue	**646**	759	(15)	**2,129**	2,212	(4)
Net interest income	**3,241**	3,108	4	**9,437**	9,052	4
Total net revenue	**3,887**	3,867	1	**11,566**	11,264	3
Provision for credit losses	**2,229**	1,363	64	**6,093**	3,923	55
Noninterest expense						
Compensation expense	**267**	256	4	**792**	761	4
Noncompensation expense	**773**	827	(7)	**2,377**	2,383	
Amortization of intangibles	**154**	179	(14)	**482**	547	(12)
Total noninterest expense	**1,194**	1,262	(5)	**3,651**	3,691	(1)
Income before income tax expense	**464**	1,242	(63)	**1,822**	3,650	(50)
Income tax expense	**172**	456	(62)	**671**	1,340	(50)
Net income	**$ 292**	$ 786	(63)	**$ 1,151**	$ 2,310	(50)
Memo: Net securitization gains (amortization)	**$ (28)**	$	NM	**$ 78**	$ 39	100
Financial ratios						
ROE	**8%**	22%		**11%**	22%	
Overhead ratio	**31**	33		**32**	33	

Quarterly results

Net income was $292 million, a decline of $494 million, or 63%, from the prior year. The decrease was driven by a higher provision for credit losses, partially offset by lower noninterest expense.

End-of-period managed loans were $159.3 billion, an increase of $10.3 billion, or 7%, from the prior year. Average managed loans were $157.6 billion, an increase of $8.9 billion, or 6%, from the prior year. The increase in both end-of-period and average managed loans reflects organic portfolio growth.

Managed total net revenue was $3.9 billion, an increase of $20 million, or 1%, from the prior year. Net interest income was $3.2 billion, up $133 million, or 4%, from the prior year, driven by higher average managed loan balances and wider loan spreads. These benefits were offset partially by the effect of higher revenue reversals associated with higher charge-offs. Noninterest revenue was $646 million, a decrease of $113 million, or 15%, from the prior year. Interchange income increased, benefiting from a 5% increase in charge volume, but was more than offset by increased rewards expense and higher volume-driven payments to partners (both of which are netted against interchange income), as well as a decrease in securitization income.

The managed provision for credit losses was $2.2 billion, an increase of $866 million, or 64%, from the prior year, due to a higher level of charge-offs and an increase of $250 million in the allowance for loan losses, reflecting higher estimated losses. The managed net charge-off rate for the quarter was 5.00%, up from 3.64% in the prior year. The 30-day managed delinquency rate was 3.69%, up from 3.25% in the prior year.

Noninterest expense was $1.2 billion, a decrease of $68 million, or 5%, from the prior year due to lower marketing expense.

Table of Contents

Year-to-date results

Net income was $1.2 billion, a decline of $1.2 billion, or 50%, from the prior year. The decrease was driven by a higher provision for credit losses, partially offset by higher net revenue.

Average managed loans were $154.7 billion, an increase of $6.2 billion, or 4%, from the prior year, reflecting organic portfolio growth.

Managed total net revenue was $11.6 billion, an increase of $302 million, or 3%, from the prior year. Net interest income was $9.4 billion, up $385 million, or 4%, from the prior year, driven by higher average managed loan balances, wider loan spreads and an increased level of fees. These benefits were offset partially by the effect of higher revenue reversals associated with higher charge-offs. Noninterest revenue was $2.1 billion, a decrease of $83 million, or 4%, from the prior year. Interchange income increased, benefiting from a 5% increase in charge volume, but was more than offset 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 $6.1 billion, an increase of $2.2 billion, or 55%, from the prior year, due to a higher level of charge-offs and an increase in the allowance for loan losses (an increase of $550 million compared with a prior year release of $85 million), reflecting higher estimated losses. The managed net charge-off rate increased to 4.79%, up from 3.61% in the prior year.

Noninterest expense was $3.7 billion, a decrease of $40 million, or 1%, from the prior year.

Selected metrics

(in millions, except headcount, ratios and where otherwise noted)	Three months ended September 30, 2008	2007	Change	Nine months ended September 30, 2008	2007	Change
Financial metrics						
% of average managed outstandings:						
Net interest income	**8.18%**	8.29%		**8.15%**	8.15%	
Provision for credit losses	**5.63**	3.64		**5.26**	3.53	
Noninterest revenue	**1.63**	2.03		**1.84**	1.99	
Risk adjusted margin[(a)]	**4.19**	6.68		**4.73**	6.61	
Noninterest expense	**3.01**	3.37		**3.15**	3.32	
Pretax income (ROO)[(b)]	**1.17**	3.31		**1.57**	3.29	
Net income	**0.74**	2.10		**0.99**	2.08	
Business metrics						
Charge volume (in billions)	**$ 93.9**	$ 89.8	5%	**$ 272.9**	$ 259.1	5%
Net accounts opened (in millions)	**3.6**	4.0	(10)	**10.6**	11.1	(5)
Credit cards issued (in millions)	**156.9**	153.6	2	**156.9**	153.6	2
Number of registered internet customers (in millions)	**27.5**	26.4	4	**27.5**	26.4	4
Merchant acquiring business[(c)]						
Bank card volume (in billions)	**$ 197.1**	$ 181.4	9	**$ 578.8**	$ 524.7	10
Total transactions (in billions)	**5.7**	5.0	14	**16.5**	14.3	15
Selected ending balances						
Loans:						
Loans on balance sheets	**$ 77,565**	$ 79,409	(2)	**$ 77,565**	$ 79,409	(2)
Securitized loans	**81,745**	69,643	17	**81,745**	69,643	17
Managed loans	**$ 159,310**	$ 149,052	7	**$ 159,310**	$ 149,052	7
Equity	**$ 15,000**	$ 14,100	6	**$ 15,000**	$ 14,100	6
Selected average balances						
Managed assets	**$ 169,413**	$ 154,956	9	**$ 163,560**	$ 155,206	5
Loans:						
Loans on balance sheets	**$ 79,183**	$ 79,993	(1)	**$ 78,090**	$ 80,301	(3)
Securitized loans	**78,371**	68,673	14	**76,564**	68,200	12
Managed average loans	**$ 157,554**	$ 148,666	6	**$ 154,654**	$ 148,501	4
Equity	**$ 14,100**	$ 14,100		**$ 14,100**	$ 14,100	
Headcount	**19,722**	18,887	4	**19,722**	18,887	4
Managed credit quality statistics						
Net charge-offs	**$ 1,979**	$ 1,363	45	**$ 5,543**	$ 4,008	38

Net charge-off rate		**5.00%**		3.64%			**4.79%**		3.61%	
Managed delinquency ratios										
30+ days		**3.69%**		3.25%			**3.69%**		3.25%	
90+ days		**1.74**		1.50			**1.74**		1.50	
Allowance for loan losses[(d)]	**$**	**3,951**	$	3,107	27	**$**	**3,951**	$	3,107	27
Allowance for loan losses to period-end loans[(d)]		**5.09%**		3.91%			**5.09%**		3.91%	

(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.

35

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 September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Income statement data[(a)]						
Credit card income						
Reported	**$ 1,476**	$ 1,528	(3)%	**$ 4,529**	$ 4,343	4%
Securitization adjustments	**(843)**	(836)	(1)	**(2,623)**	(2,370)	(11)
Managed credit card income	**$ 633**	$ 692	(9)	**$ 1,906**	$ 1,973	(3)
Net interest income						
Reported	**$ 1,525**	$ 1,694	(10)	**$ 4,430**	$ 4,921	(10)
Securitization adjustments	**1,716**	1,414	21	**5,007**	4,131	21
Managed net interest income	**$ 3,241**	$ 3,108	4	**$ 9,437**	$ 9,052	4
Total net revenue						
Reported	**$ 3,014**	$ 3,289	(8)	**$ 9,182**	$ 9,503	(3)
Securitization adjustments	**873**	578	51	**2,384**	1,761	35
Managed total net revenue	**$ 3,887**	$ 3,867	1	**$ 11,566**	$ 11,264	3
Provision for credit losses						
Reported	**$ 1,356**	$ 785	73	**$ 3,709**	$ 2,162	72
Securitization adjustments	**873**	578	51	**2,384**	1,761	35
Managed provision for credit losses	**$ 2,229**	$ 1,363	64	**$ 6,093**	$ 3,923	55
Balance sheet average balances[(a)]						
Total average assets						
Reported	**$ 93,701**	$ 88,856	5	**$ 89,594**	$ 89,491	
Securitization adjustments	**75,712**	66,100	15	**73,966**	65,715	13
Managed average assets	**$ 169,413**	$ 154,956	9	**$ 163,560**	$ 155,206	5
Credit quality statistics[(a)]						
Net charge-offs						
Reported	**$ 1,106**	$ 785	41	**$ 3,159**	$ 2,247	41
Securitization adjustments	**873**	578	51	**2,384**	1,761	35
Managed net charge-offs	**$ 1,979**	$ 1,363	45	**$ 5,543**	$ 4,008	38

(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 17 20 of this Form 10-Q.*

COMMERCIAL BANKING

For a discussion of the business profile of CB, see pages 52 53 of JPMorgan Chase s 2007 Annual Report and page 6 of this Form 10-Q.

Selected income statement data (in millions, except ratios)	Three months ended September 30, 2008	2007	Change	Nine months ended September 30, 2008	2007	Change
Revenue						
Lending & deposit-related fees	**$ 212**	$ 159	33%	**$ 612**	$ 475	29%
Asset management, administration and commissions	**29**	24	21	**81**	68	19
All other income[(a)]	**147**	107	37	**412**	394	5
Noninterest revenue	**388**	290	34	**1,105**	937	18
Net interest income	**737**	719	3	**2,193**	2,082	5
Total net revenue	**1,125**	1,009	11	**3,298**	3,019	9
Provision for credit losses	**126**	112	13	**274**	174	57
Noninterest expense						
Compensation expense	**177**	160	11	**528**	522	1
Noncompensation expense	**298**	300	(1)	**882**	890	(1)
Amortization of intangibles	**11**	13	(15)	**37**	42	(12)
Total noninterest expense	**486**	473	3	**1,447**	1,454	
Income before income tax expense	**513**	424	21	**1,577**	1,391	13
Income tax expense	**201**	166	21	**618**	545	13
Net income	**$ 312**	$ 258	21	**$ 959**	$ 846	13
Revenue by product:						
Lending	**$ 377**	$ 343	10	**$ 1,132**	$ 1,039	9
Treasury services	**643**	594	8	**1,889**	1,719	10
Investment banking	**87**	64	36	**246**	222	11
Other	**18**	8	125	**31**	39	(21)
Total Commercial Banking revenue	**$ 1,125**	$ 1,009	11	**$ 3,298**	$ 3,019	9
IB revenue, gross[(b)]	**$ 252**	$ 194	30	**$ 725**	$ 661	10
Revenue by business:						
Middle Market Banking	**$ 729**	$ 680	7	**$ 2,143**	$ 1,994	7
Mid-Corporate Banking	**236**	167	41	**678**	576	18

Real Estate Banking	**91**	108	(16)	**282**	319	(12)
Other	**69**	54	28	**195**	130	50
Total Commercial Banking revenue	**$ 1,125**	$ 1,009	11	**$ 3,298**	$ 3,019	9
Financial ratios						
ROE	**18%**	15%		**18%**	18%	
Overhead ratio	**43**	47		**44**	48	

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

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

Table of Contents

Quarterly results

Net income was $312 million, an increase of $54 million, or 21%, from the prior year, driven by record net revenue, partially offset by an increase in the provision for credit losses and higher noninterest expense.

Net revenue was $1.1 billion, an increase of $116 million, or 11%, from the prior year. Net interest income was $737 million, up $18 million, or 3%, driven by double-digit growth in loan and liability balances, predominantly offset by spread compression in the liability and loan portfolios. Noninterest revenue was $388 million, an increase of $98 million, or 34%, from the prior year, reflecting higher deposit-related fees, investment banking fees, and other income.

Middle Market Banking revenue was $729 million, an increase of $49 million, or 7%, from the prior year. Mid-Corporate Banking revenue was $236 million, an increase of $69 million, or 41%. Real Estate Banking revenue was $91 million, a decline of $17 million, or 16%.

The provision for credit losses was $126 million, an increase of $14 million, or 13%, compared with the prior year. The current-quarter provision reflects a weakening credit environment and growth in loan balances. The allowance for loan losses to average loans retained was 2.65% for the current quarter, in line with the prior year. Nonperforming loans were $572 million, up $438 million from the prior year, reflecting increases across all businesses and the effect of a weakening credit environment. Net charge-offs were $40 million (0.22% net charge-off rate), compared with $20 million (0.13% net charge-off rate) in the prior year.

Noninterest expense was $486 million, an increase of $13 million, or 3%, from the prior year, due to higher performance-based compensation expense.

Year-to-date results

Net income was $959 million, an increase of $113 million, or 13%, from the prior year driven by growth in total net revenue partially offset by a higher provision for credit losses.

Total net revenue was $3.3 billion, an increase of $279 million, or 9%, from the prior year. Net interest income was $2.2 billion, an increase of $111 million, or 5%, driven by double-digit growth in liability balances and loans, largely offset by spread compression in the liability and loan portfolios and a shift to narrower-spread liability products. Noninterest revenue was $1.1 billion, up $168 million, or 18%, 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 $2.1 billion, an increase of $149 million, or 7%. Mid-Corporate Banking revenue was $678 million, an increase of $102 million, or 18%. Real Estate Banking revenue was $282 million, a decline of $37 million, or 12%.

The provision for credit losses was $274 million, compared with $174 million in the prior year, reflecting growth in loan balances and a weakening credit environment. The allowance for loan losses to average loans retained was 2.72%, down from 2.75% in the prior year. Net charge-offs were $170 million (0.32% net charge-off rate), compared with net charge-offs of $11 million (0.02% net charge-off rate) in the prior year.

Noninterest expense was $1.4 billion, in line with the prior year.

Table of Contents

Selected metrics (in millions, except ratio and headcount data)	Three months ended September 30, 2008	2007	Change	Nine months ended September 30, 2008	2007	Change
Selected balance sheet data (period-end)						
Equity	**$ 8,000**	$ 6,700	19%	**$ 8,000**	$ 6,700	19%
Selected balance sheet data (average)						
Total assets	**$ 101,681**	$ 86,652	17	**$ 102,374**	$ 84,643	21
Loans:						
Loans retained	**71,901**	60,839	18	**70,038**	59,045	19
Loans held-for-sale and loans at fair value	**397**	433	(8)	**432**	550	(21)
Total loans	**72,298**	61,272	18	**70,470**	59,595	18
Liability balances[(a)]	**99,410**	88,081	13	**99,430**	84,697	17
Equity	**7,000**	6,700	4	**7,000**	6,435	9
Average loans by business:						
Middle Market Banking	**$ 43,155**	$ 37,617	15	**$ 42,052**	$ 37,016	14
Mid-Corporate Banking	**16,491**	12,076	37	**15,669**	11,484	36
Real Estate Banking	**7,513**	7,144	5	**7,490**	7,038	6
Other	**5,139**	4,435	16	**5,259**	4,057	30
Total Commercial Banking loans	**$ 72,298**	$ 61,272	18	**$ 70,470**	$ 59,595	18
Headcount	**3,965**	4,158	(5)	**3,965**	4,158	(5)
Credit data and quality statistics:						
Net charge-offs	**$ 40**	$ 20	100	**$ 170**	$ 11	NM
Nonperforming loans	**572**	134	327	**572**	134	327
Allowance for credit losses:						
Allowance for loan losses	**1,905**	1,623	17	**1,905**	1,623	17
Allowance for lending-related commitments	**191**	236	(19)	**191**	236	(19)
Total allowance for credit losses	**2,096**	1,859	13	**2,096**	1,859	13
Net charge-off rate[(b)]	**0.22%**	0.13%		**0.32%**	0.02%	
Allowance for loan losses to average loans[(b)]	**2.65**	2.67		**2.72**	2.75	
Allowance for loan losses to nonperforming loans	**333**	1,211		**333**	1,211	
Nonperforming loans to average loans	**0.79**	0.22		**0.81**	0.22	

(a) Liability balances include deposits and deposits swept to

on balance sheet liabilities such as commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements.

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

Table of Contents

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 6 of this Form 10-Q.

Selected income statement data (in millions, except headcount and ratio data)	Three months ended September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Revenue						
Lending & deposit-related fees	**$ 290**	$ 244	19%	**$ 842**	$ 676	25%
Asset management, administration and commissions	**719**	730	(2)	**2,385**	2,244	6
All other income	**221**	171	29	**649**	480	35
Noninterest revenue	**1,230**	1,145	7	**3,876**	3,400	14
Net interest income	**723**	603	20	**2,009**	1,615	24
Total net revenue	**1,953**	1,748	12	**5,885**	5,015	17
Provision for credit losses	**18**	9	100	**37**	15	147
Credit reimbursement to IB[(a)]	**(31)**	(31)		**(91)**	(91)	
Noninterest expense						
Compensation expense	**664**	579	15	**1,974**	1,746	13
Noncompensation expense	**661**	538	23	**1,864**	1,563	19
Amortization of intangibles	**14**	17	(18)	**46**	49	(6)
Total noninterest expense	**1,339**	1,134	18	**3,884**	3,358	16
Income before income tax expense	**565**	574	(2)	**1,873**	1,551	21
Income tax expense	**159**	214	(26)	**639**	576	11
Net income	**$ 406**	$ 360	13	**$ 1,234**	$ 975	27
Revenue by business						
Treasury Services	**$ 897**	$ 780	15	**$ 2,562**	$ 2,189	17
Worldwide Securities Services	**1,056**	968	9	**3,323**	2,826	18
Total net revenue	**$ 1,953**	$ 1,748	12	**$ 5,885**	$ 5,015	17
Financial ratios						
ROE	**46%**	48%		**47%**	43%	
Overhead ratio	**69**	65		**66**	67	
Pretax margin ratio[(b)]	**29**	33		**32**	31	

Selected balance sheet data (period-end)

Equity	**$ 4,500**	$ 3,000	50	**$ 4,500**	$ 3,000	50
Selected balance sheet data (average)						
Total assets	**$ 49,386**	$ 55,688	(11)	**$ 54,243**	$ 50,829	7
Loans[(c)]	**26,650**	20,602	29	**24,527**	19,921	23
Liability balances[(d)]	**259,992**	236,381	10	**260,882**	221,606	18
Equity	**3,500**	3,000	17	**3,500**	3,000	17
Headcount	**27,592**	25,209	9	**27,592**	25,209	9

(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 $406 million, an increase of $46 million, or 13%, from the prior year, driven by higher net revenue and the benefit of reduced deferred tax liabilities. This increase was predominantly offset by higher noninterest expense.

Net revenue was $2.0 billion, an increase of $205 million, or 12%, from the prior year. Worldwide Securities Services net revenue was $1.1 billion, an increase of $88 million, or 9%, from the prior year. The growth was driven by wider spreads on liability products and in securities lending and foreign exchange, combined with increased product usage by new and existing clients (largely in custody, fund services and alternative investment services). These benefits were offset partially by market depreciation. Treasury Services net revenue was a record $897 million, an increase of $117 million, or 15%, reflecting higher liability balances as well as volume growth in electronic funds transfer products and trade loans. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to $2.7 billion, an increase of $260 million, or 11%. Treasury Services firmwide net revenue grew to $1.6 billion, an increase of $172 million, or 12%.

Noninterest expense was $1.3 billion, an increase of $205 million, or 18%, 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 $1.2 billion, an increase of $259 million, or 27%, from the prior year, driven by higher net revenue. This increase was predominantly offset by higher noninterest expense.

Net revenue was $5.9 billion, an increase of $870 million, or 17%, from the prior year. Worldwide Securities Services net revenue was $3.3 billion, an increase of $497 million, or 18%, from the prior year. The growth was driven by wider spreads in securities lending, foreign exchange and liability products, combined with increased product usage by new and existing clients (largely in custody, fund services, alternative investment services and depositary receipts). These benefits were offset partially by market depreciation. Treasury Services net revenue was $2.6 billion, an increase of $373 million, or 17%, reflecting higher liability balances and volume growth in electronic funds transfer products and trade loans as well as market-driven spreads. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to $8.0 billion, an increase of $1.1 billion, or 15%. Treasury Services firmwide net revenue grew to $4.7 billion, an increase of $565 million, or 14%.

Noninterest expense was $3.9 billion, an increase of $526 million, or 16%, 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 foreign exchange (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 September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
TSS firmwide disclosures						
Treasury Services revenue reported	**$ 897**	$ 780	15%	**$ 2,562**	$ 2,189	17%
Treasury Services revenue reported in Commercial Banking	**643**	594	8	**1,889**	1,719	10
Treasury Services revenue reported in other lines of business	**76**	70	9	**217**	195	11
Treasury Services firmwide revenue[(a)]	**1,616**	1,444	12	**4,668**	4,103	14
Worldwide Securities Services revenue	**1,056**	968	9	**3,323**	2,826	18
Treasury & Securities Services firmwide revenue[(a)]	**$ 2,672**	$ 2,412	11	**$ 7,991**	$ 6,929	15
Treasury Services firmwide liability balances (average)[(b)]	**$ 227,760**	$ 201,671	13	**$ 226,725**	$ 192,560	18
Treasury & Securities Services firmwide liability balances (average)[(b)]	**359,401**	324,462	11	**360,302**	306,302	18
TSS firmwide financial ratios						
Treasury Services firmwide overhead ratio[(c)]	**52%**	54%		**54%**	57%	
Treasury & Securities Services overhead ratio[(c)]	**60**	59		**59**	60	
Firmwide business metrics						
Assets under custody (in billions)	**$ 14,417**	$ 15,614	(8)	**$ 14,417**	$ 15,614	(8)
Number of:						
U.S.$ ACH transactions originated (in millions)	**997**	943	6	**2,994**	2,886	4
Total U.S.$ clearing volume (in thousands)	**29,277**	28,031	4	**86,396**	82,650	5
International electronic funds transfer volume (in thousands)[(d)]	**41,831**	41,415	1	**123,302**	125,882	(2)
Wholesale check volume (in millions)	**595**	731	(19)	**1,836**	2,269	(19)
Wholesale cards issued (in thousands)[(e)]	**21,858**	18,108	21	**21,858**	18,108	21

(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 $196 million and $144 million for the quarters ended September 30, 2008 and 2007, respectively, and $609 million and $395 million for year-to-date 2008 and 2007, respectively. This is not included in the TS and TSS firmwide revenue.

(b) Firmwide liability balances include TS s liability balances recorded in the CB 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-U.S. dollar ACH and clearing volume.

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

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 6 of this Form 10-Q.

Selected income statement data (in millions, except ratios)	Three months ended September 30, 2008	2007	Change	Nine months ended September 30, 2008	2007	Change
Revenue						
Asset management, administration and commissions	**$ 1,538**	$ 1,760	(13)%	**$ 4,642**	$ 4,920	(6)%
All other income	**43**	152	(72)	**232**	495	(53)
Noninterest revenue	**1,581**	1,912	(17)	**4,874**	5,415	(10)
Net interest income	**380**	293	30	**1,052**	831	27
Total net revenue	**1,961**	2,205	(11)	**5,926**	6,246	(5)
Provision for credit losses	**20**	3	NM	**53**	(17)	NM
Noninterest expense						
Compensation expense	**816**	848	(4)	**2,527**	2,491	1
Noncompensation expense	**525**	498	5	**1,496**	1,405	6
Amortization of intangibles	**21**	20	5	**62**	60	3
Total noninterest expense	**1,362**	1,366		**4,085**	3,956	3
Income before income tax expense	**579**	836	(31)	**1,788**	2,307	(22)
Income tax expense	**228**	315	(28)	**686**	868	(21)
Net income	**$ 351**	$ 521	(33)	**$ 1,102**	$ 1,439	(23)
Revenue by client segment						
Private Bank[(a)]	**$ 631**	$ 624	1	**$ 1,935**	$ 1,712	13
Institutional	**486**	603	(19)	**1,448**	1,771	(18)
Retail	**399**	639	(38)	**1,355**	1,768	(23)
Private Wealth Management[(a)]	**352**	339	4	**1,057**	995	6
Bear Stearns Brokerage	**93**		NM	**131**		NM
Total net revenue	**$ 1,961**	$ 2,205	(11)	**$ 5,926**	$ 6,246	(5)
Financial ratios						
ROE	**25%**	52%		**28%**	50%	
Overhead ratio	**69**	62		**69**	63	
Pretax margin ratio[(b)]	**30**	38		**30**	37	

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

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

Quarterly results

Net income was $351 million, a decline of $170 million, or 33%, from the prior year, driven largely by lower net revenue.

Net revenue was $2.0 billion, a decrease of $244 million, or 11%, from the prior year. Noninterest revenue was $1.6 billion, a decline of $331 million, or 17%, due to lower performance fees and the effect of lower markets, including the impact of lower market valuations of seed capital investments; these effects were offset partially by the benefit of the Bear Stearns merger and increased revenue from net asset inflows. Net interest income was $380 million, up $87 million, or 30%, from the prior year, predominantly due to higher loan and deposit balances and wider deposit spreads.

Private Bank revenue was $631 million, relatively flat compared with the prior year, as increased loan and deposit balances and higher assets under management largely offset the effect of lower markets and lower performance fees. Institutional revenue declined 19% to $486 million due to lower performance fees, partially offset by growth in assets under management. Retail revenue decreased 38% to $399 million due to the effect of lower markets, including the impact of lower market valuations of seed capital investments and net equity outflows. Private Wealth Management revenue grew 4% to $352 million due to higher loan and deposit balances and growth in assets under management from net asset inflows. Bear Stearns Brokerage contributed $93 million to revenue.

The provision for credit losses was $20 million, compared with $3 million in the prior year, reflecting an increase in loan balances and a lower level of recoveries.

Table of Contents

Noninterest expense of $1.4 billion was flat compared with the prior year as the effect of the Bear Stearns merger and increased headcount were offset by lower performance-based compensation.

Year-to-date results

Net income was $1.1 billion, a decline of $337 million, or 23%, from the prior year, driven by lower net revenue and higher noninterest expense.

Net revenue was $5.9 billion, a decrease of $320 million, or 5%, from the prior year. Noninterest revenue was $4.9 billion, a decline of $541 million, or 10%, from the prior year due to lower performance fees and the effect of lower markets, including the impact of lower market valuations of seed capital investments. The lower results were offset partially by the benefit of the Bear Stearns merger and increased revenue from net asset inflows. Net interest income was $1.1 billion, up $221 million, or 27%, from the prior year, predominantly due to higher deposit and loan balances and wider deposit spreads.

Private Bank revenue grew 13% to $1.9 billion, due to higher assets under management and increased loan and deposit balances, partially offset by the effect of lower markets and lower performance fees. Institutional revenue declined 18% to $1.4 billion due to lower performance fees, partially offset by growth in assets under management. Retail revenue declined 23% to $1.4 billion due to the effect of lower markets, including the impact of lower market valuations of seed capital investments and net equity outflows. Private Wealth Management revenue grew 6% to $1.1 billion due to higher deposit and loan balances and growth in assets under management from net asset inflows. Bear Stearns Brokerage contributed $131 million to revenue.

The provision for credit losses was $53 million, compared with a benefit of $17 million in the prior year, reflecting an increase in loan balances and a lower level of recoveries.

Noninterest expense was $4.1 billion, up $129 million, or 3%, compared with the prior year as the effect of the Bear Stearns merger and increased headcount were offset by lower performance-based compensation.

Business metrics (in millions, except headcount, ratios and ranking data, and where otherwise noted)	Three months ended September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Number of:						
Client advisors	**1,684**	1,680	%	**1,684**	1,680	
Retirement planning services participants	**1,492,000**	1,495,000		**1,492,000**	1,495,000	
Bear Stearns brokers	**323**		NM	**323**		NM
% of customer assets in 4 & 5 Star Funds[(a)]	**39%**	55%	(29)	**39%**	55%	(29)
% of AUM in 1st and 2nd quartiles:[(b)]						
1 year	**49%**	47%	4	**49%**	47%	4
3 years	**67%**	73%	(8)	**67%**	73%	(8)
5 years	**77%**	76%	1	**77%**	76%	1
Selected balance sheet data (period-end)						
Equity	**$ 7,000**	$ 4,000	75	**$ 7,000**	$ 4,000	75
Selected balance sheet data (average)						
Total assets	**$ 71,189**	$ 53,879	32	**$ 65,518**	$ 50,498	30
Loans[(c)]	**39,750**	30,928	29	**38,552**	28,440	36
Deposits	**65,621**	59,907	10	**67,918**	56,920	19
Equity	**5,500**	4,000	38	**5,190**	3,834	35
Headcount	**15,493**	14,510	7	**15,493**	14,510	7
Credit data and quality statistics						
Net charge-offs (recoveries)	**$ (1)**	$ (5)	80	**$ (1)**	$ (10)	90
Nonperforming loans	**121**	28	332	**121**	28	332
Allowance for loan losses	**170**	115	48	**170**	115	48
Allowance for lending-related commitments	**5**	6	(17)	**5**	6	(17)
Net charge-off (recovery) rate	**(0.01)%**	(0.06)%		**%**	(0.05)%	
Allowance for loan losses to average loans	**0.43**	0.37		**0.44**	0.40	
Allowance for loan losses to nonperforming loans	**140**	411		**140**	411	
Nonperforming loans to average loans	**0.30**	0.09		**0.31**	0.10	

(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 $23 billion, or 1%, from the prior year. Assets under management were $1.2 trillion, down $10 billion, or 1%, from the prior year. The decrease in assets under management was predominantly due to lower equity markets and equity product outflows, partially offset by liquidity product inflows across all segments and the addition of Bear Stearns assets under management. Custody, brokerage, administration and deposit balances were $409 billion, up $33 billion, driven by the addition of Bear Stearns Brokerage.

ASSETS UNDER SUPERVISION[a] (in billions)

As of September 30,	**2008**	2007
Assets by asset class		
Liquidity	**$ 524**	$ 368
Fixed income	**189**	195
Equities & balanced	**308**	481
Alternatives	**132**	119
Total assets under management	**1,153**	1,163
Custody/brokerage/administration/deposits	**409**	376
Total assets under supervision	**$ 1,562**	$ 1,539
Assets by client segment		
Institutional	**$ 653**	$ 603
Private Bank[b]	**194**	179
Retail	**223**	304
Private Wealth Management[b]	**75**	77
Bear Stearns Brokerage	**8**	
Total assets under management	**$ 1,153**	$ 1,163
Institutional	**$ 653**	$ 604
Private Bank[b]	**417**	395
Retail	**303**	399
Private Wealth Management[b]	**134**	141
Bear Stearns Brokerage	**55**	
Total assets under supervision	**$ 1,562**	$ 1,539
Assets by geographic region		
U.S./Canada	**$ 785**	$ 745
International	**368**	418
Total assets under management	**$ 1,153**	$ 1,163
U.S./Canada	**$ 1,100**	$ 1,022
International	**462**	517
Total assets under supervision	**$ 1,562**	$ 1,539
Mutual fund assets by asset class		
Liquidity	**$ 470**	$ 308
Fixed income	**44**	46

Equity	**134**	235
Total mutual fund assets	**$ 648**	$ 589

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

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

Assets under management rollforward	Three months ended September 30, **2008**	2007	Nine months ended September 30, **2008**	2007
Beginning balance	**$ 1,185**	$ 1,109	**$ 1,193**	$ 1,013
Net asset flows:				
Liquidity	**55**	33	**124**	52
Fixed income	**(4)**	(2)	**(5)**	6
Equities, balanced and alternative	**(5)**	2	**(29)**	24
Market/performance/other impacts[(a)]	**(78)**	21	**(130)**	68
Total assets under management	**$ 1,153**	$ 1,163	**$ 1,153**	$ 1,163
Assets under supervision rollforward				
Beginning balance	**$ 1,611**	$ 1,472	**$ 1,572**	$ 1,347
Net asset flows	**61**	41	**108**	106
Market/performance/other impacts[(a)]	**(110)**	26	**(118)**	86
Total assets under supervision	**$ 1,562**	$ 1,539	**$ 1,562**	$ 1,539

(a)

Includes $15 billion for assets under management and $68 billion for assets under supervision from the Bear Stearns merger in the second quarter of 2008.

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 September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Revenue						
Principal transactions[a]	**$ (1,876)**	$ 1,082	NM%	**$ (1,968)**	$ 3,779	NM%
Securities gains (losses)[b]	**440**	128	244	**1,138**	(107)	NM
All other income[c]	**(274)**	70	NM	**987**	228	333
Noninterest revenue	**(1,710)**	1,280	NM	**157**	3,900	(96)
Net interest income (expense)	**(38)**	(279)	86	**(276)**	(569)	51
Total net revenue	**(1,748)**	1,001	NM	**(119)**	3,331	NM
Provision for credit losses[d]	**2,355**	(31)	NM	**2,841**	(25)	NM
Noninterest expense						
Compensation expense	**652**	569	15	**1,902**	2,040	(7)
Noncompensation expense[e]	**570**	674	(15)	**1,187**	2,048	(42)
Merger costs	**96**	61	57	**251**	187	34
Subtotal	**1,318**	1,304	1	**3,340**	4,275	(22)
Net expense allocated to other businesses	**(1,150)**	(1,059)	(9)	**(3,277)**	(3,174)	(3)
Total noninterest expense	**168**	245	(31)	**63**	1,101	(94)
Income (loss) before income tax expense and extraordinary gain	**(4,271)**	787	NM	**(3,023)**	2,255	NM
Income tax expense (benefit)	**(1,727)**	274	NM	**(1,084)**	729	NM
Income (loss) before extraordinary gain	**(2,544)**	513	NM	**(1,939)**	1,526	NM
Extraordinary gain[f]	**581**		NM	**581**		NM
Net income (loss)	**$ (1,963)**	$ 513	NM	**$ (1,358)**	$ 1,526	NM
Total net revenue						
Private equity	**$ (216)**	$ 733	NM	**$ 144**	$ 3,279	(96)
Corporate	**(1,532)**	268	NM	**(263)**	52	NM
Total net revenue	**$ (1,748)**	$ 1,001	NM	**$ (119)**	$ 3,331	NM

Net income (loss)

Private equity	**$ (164)**	$ 409	NM	**$ (8)**	$ 1,809	NM
Corporate	**(1,064)**	142	NM	**(75)**	(167)	55
Merger-related items[(g)]	**(735)**	(38)	NM	**(1,275)**	(116)	NM
Total net income (loss)	**$ (1,963)**	$ 513	NM	**$ (1,358)**	$ 1,526	NM
Headcount	**21,641**	22,864	(5)	**21,641**	22,864	(5)

(a) *Included losses on preferred equity interest in Fannie Mae and Freddie Mac in the third quarter of 2008.*

(b) *Included gains on the sale of MasterCard shares in the second quarter of 2008.*

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

(d) *Included a $2.0 billion charge to conform Washington Mutual s loan loss reserves to JPMorgan Chase s accounting policy in the third quarter of 2008.*

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

(f) *Effective September 25,*

2008, JPMorgan Chase acquired Washington Mutual s banking operations from the FDIC for $1.9 billion. The fair value of the Washington Mutual net assets acquired exceeded the purchase price, which resulted in negative goodwill. In accordance with SFAS 141, nonfinancial assets that are not held-for-sale were written down against that negative goodwill. The negative goodwill that remained after writing down nonfinancial assets was recognized as an extraordinary gain.

(g) Included an accounting conformity loan loss reserve provision and an extraordinary gain related to the Washington Mutual transaction in the third quarter of 2008. The three and nine

month periods of 2008 reflect items related to the Bear Stearns merger, which included Bear Stearn s equity earnings, merger costs, Bear Stearns asset management liquidation costs and Bear Stearns private client services broker retention expense. Prior periods represent costs related to the 2004 Bank One and 2006 Bank of New York transactions.

Table of Contents

Quarterly results

Net loss for Corporate/Private Equity was $2.0 billion, compared with net income of $513 million in the prior year. Net loss included a charge of $1.2 billion (after-tax) to conform loan loss reserves and an extraordinary gain of $581 million related to the acquisition of Washington Mutual s banking operations, which closed on September 25, 2008. Net loss also included $95 million (after-tax) of continuing Bear Stearns merger-related items.

Net loss for Private Equity was $164 million, compared with net income of $409 million in the prior year. Net revenue was negative $216 million, a decrease of $949 million, reflecting Private Equity losses of $206 million, compared with gains of $766 million in the prior year. Noninterest expense was $41 million, a decline of $54 million from the prior year, reflecting lower compensation expense.

Excluding the above merger-related items, the net loss for Corporate was $1.1 billion, compared with net income of $142 million in the prior year. Net revenue was negative $1.5 billion, compared with revenue of $268 million in the prior year. This decrease reflects a higher level of trading losses, including losses of $1.0 billion on preferred securities of Fannie Mae and Freddie Mac, a $375 million charge related to the offer to repurchase the Firm and its affiliates auction-rate securities at par for certain customers, and the absence of a $115 million gain from the sale of MasterCard shares in the prior year. These losses were offset partially by securities gains of $440 million. Excluding the provision related to Washington Mutual, the current-quarter provision for credit losses of $378 million includes an increase in the allowance for loan losses of $250 million for prime mortgage (see Retail Financial Services discussion of the provision for loan losses for further detail). Noninterest expense was $127 million, a decrease of $23 million from the prior year, driven by lower litigation expense.

Year-to-date results

Net loss for Corporate/Private Equity was $1.4 billion, compared with net income of $1.5 billion in the prior year. Results included a $1.2 billion (after-tax) conforming loan loss reserve provision and an extraordinary gain of $581 million related to the acquisition of Washington Mutual s banking operations, the after-tax effect from the sale of Visa shares in its initial public offering ($1.5 billion pretax and $955 million after-tax) and the impact of Bear Stearns merger-related items, netting to a loss of $635 million.

Net loss for Private Equity was $8 million, compared with net income of $1.8 billion in the prior year. Net revenue was $144 million, a decrease of $3.1 billion, reflecting Private Equity gains of $203 million, compared with gains of $3.4 billion in the prior year. Noninterest expense was $161 million, a decline of $296 million from the prior year, reflecting lower compensation expense.

Excluding the above merger-related items and the impact of the Visa initial public offering, the net loss for Corporate was $1.0 billion, compared with a net loss of $167 million in the prior year. Net revenue was negative $1.4 billion, compared with revenue of $52 million in the prior year. This decrease was due to a higher level of trading losses, including losses of $1.0 billion on preferred securities of Fannie Mae and Freddie Mac, a $375 million charge related to the offer to repurchase auction-rate securities at par, and the absence of a $115 million gain from the sale of MasterCard shares in the prior year. Trading losses were offset partially by securities gains of $1.1 billion, which included a pretax gain of $668 million from the sale of MasterCard shares. Excluding the provision related to the Washington Mutual transaction, there were credit losses of $865 million compared with a benefit of $25 million in the prior year, predominantly reflecting an increase in the allowance for loan losses and higher net charge-offs for prime mortgages. Excluding the above merger-related items, noninterest expense was negative $435 million compared with $645 million in the prior year, reflecting a reduction of credit card-related litigation expense and the absence of prior-year Bank One merger expense.

Table of Contents

Selected income statement and balance sheet data (in millions)	Three months ended September 30, **2008**	2007	Change	Nine months ended September 30, **2008**	2007	Change
Treasury						
Securities gains (losses)[(a)]	**$ 442**	$ 126	251%	**$ 1,140**	$ (109)	NM%
Investment securities portfolio (average)	**105,984**	85,470	24	**94,592**	86,552	9
Investment securities portfolio (ending)	**115,703**	86,495	34	**115,703**	86,495	34
Mortgage loans (average)[(b)]	**42,432**	29,854	42	**41,228**	27,326	51
Mortgage loans (ending)[(b)]	**41,976**	32,804	28	**41,976**	32,804	28
Private equity						
Realized gains	**$ 40**	$ 504	(92)	**$ 1,693**	$ 2,212	(23)
Unrealized gains (losses)[(c)]	**(273)**	227	NM	**(1,480)**	1,038	NM
Total direct investments	**(233)**	731	NM	**213**	3,250	(93)
Third-party fund investments	**27**	35	(23)	**(10)**	122	NM
Total private equity gains (losses)[(d)]	**$ (206)**	$ 766	NM	**$ 203**	$ 3,372	(94)

Private equity portfolio information[(e)]

Direct investments	**September 30, 2008**	December 31, 2007	Change
Publicly held securities			
Carrying value	**$ 600**	$ 390	54%
Cost	**705**	288	145
Quoted public value	**657**	536	23
Privately held direct securities			
Carrying value	**6,038**	5,914	2
Cost	**6,058**	4,867	24
Third-party fund investments[(f)]			
Carrying value	**889**	849	5
Cost	**1,121**	1,076	4
Total private equity portfolio Carrying value	**$ 7,527**	$ 7,153	5
Total private equity portfolio Cost	**$ 7,884**	$ 6,231	27

(a) Year-to-date 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 5 on pages 98 102 of this Form 10-Q.

(f)

Unfunded commitments to third-party private equity funds were $931 million and $881 million at September 30, 2008, and December 31, 2007, respectively.

The carrying value of the private equity portfolio at September 30, 2008, was $7.5 billion, up from $7.2 billion at December 31, 2007. The portfolio represented 7.5% of the Firm s stockholders equity less goodwill at September 30, 2008, down from 9.2% at December 31, 2007.

WASHINGTON MUTUAL

The effects of the acquisition of Washington Mutual s banking operations on September 25, 2008, were not included in the preceding business segment results as such operations did not have a material effect on the results of the quarter ended September 30, 2008, except the charge to conform Washington Mutual s loan loss reserves and the extraordinary gain related to the transaction which are reflected for JPMorgan Chase in the Corporate/Private Equity segment. The following table presents the September 30, 2008 allocated value of assets and liabilities, and other selected metrics related to the Washington Mutual transaction.

Selected balance sheet data (in millions)		**September 30, 2008**
Assets		
Cash and due from banks	$	**3,680**
Deposits with banks		**3,517**
Federal funds sold and securities purchased under resale agreements		**1,700**
Trading assets		**5,691**
Securities		**17,240**
Loans (net of allowance for loan losses) *(a)*		**204,213**
Accrued interest and accounts receivable		**3,332**
Mortgage servicing rights		**5,845**
Other assets		**15,044**
Total assets	$	**260,262**
Liabilities		
Deposits	$	**159,824**
Federal funds purchased and securities loaned or sold under repurchase agreements		**4,549**
Other borrowed funds		**81,759**
Trading liabilities derivative payables		**585**
Accounts payable, accrued expense and other liabilities		**6,092**
Long-term debt		**6,910**
Total liabilities	$	**259,719**
Loan balances		
Consumer loans excluding purchased credit impaired:		
Home equity	$	**22,217**
Prime mortgage		**23,442**
Subprime mortgage		**4,725**
Option ARMs		**18,989**
Credit card		**15,158**
Other loans		**1,858**
Consumer loans excluding purchased credit impaired		**86,389**
Consumer loans purchased credit impaired		**77,853**
Total consumer loans		**164,242**
Wholesale loans *(b)*		**44,482**
Total loans		**208,724**
Allowance for loan losses *(a) (c)*		**(4,511)**
Total net loans	$	**204,213**

Total managed loans	**$**	**220,643**
Credit data and credit quality statistics		
30+ day delinquency rate		**8.18%**
Allowance for loan losses	**$**	**4,511**
Allowance for loan losses to ending loans[c]		**3.45%**
Deposits		
Checking	**$**	**45,494**
Savings		**19,580**
Time and other		**94,750**
Total deposits	**$**	**159,824**
Mortgage banking metrics (in billions)		
Third-party mortgage loans serviced (ending)	**$**	**433.0**
MSR net carrying value (ending)		**5.8**
Other metrics		
Branches		**2,244**
ATMs		**5,081**
Headcount		**41,798**
Checking accounts (in thousands)		**12,818**
Net accounts opened (in millions)[d]		**13**

(a) Includes an adjustment of $2.0 billion to conform Washington Mutual s loan loss allowance to JPMorgan Chase s policy.

(b) Included $272 million of purchased credit impaired loans.

(c) Purchased credit impaired loans of $78.1 billion were excluded when calculating the ratio of the allowance for

loan losses to ending loans. These loans were recorded at fair value on the transaction date, including an adjustment for credit impairment. Accordingly, no allowance for loan losses has been recorded for these assets as of September 30, 2008.

(d) Represents credit card accounts acquired by JPMorgan Chase in the Washington Mutual transaction.

Table of Contents

BALANCE SHEET ANALYSIS

Selected balance sheet data (in millions)	**September 30, 2008**	December 31, 2007
Assets		
Cash and due from banks	**$ 54,350**	$ 40,144
Deposits with banks	**34,372**	11,466
Federal funds sold and securities purchased under resale agreements	**233,668**	170,897
Securities borrowed	**152,050**	84,184
Trading assets:		
Debt and equity instruments	**401,609**	414,273
Derivative receivables	**118,648**	77,136
Securities	**150,779**	85,450
Loans	**761,381**	519,374
Allowance for loan losses	**(19,052)**	(9,234)
Loans, net of allowance for loan losses	**742,329**	510,140
Accrued interest and accounts receivable	**104,232**	24,823
Goodwill	**46,121**	45,270
Other intangible assets	**22,528**	14,731
Other assets	**190,783**	83,633
Total assets	**$ 2,251,469**	$ 1,562,147
Liabilities		
Deposits	**$ 969,783**	$ 740,728
Federal funds purchased and securities loaned or sold under repurchase agreements	**224,075**	154,398
Commercial paper and other borrowed funds	**222,307**	78,431
Trading liabilities:		
Debt and equity instruments	**76,213**	89,162
Derivative payables	**85,816**	68,705
Accounts payable, accrued expense and other liabilities	**260,563**	94,476
Beneficial interests issued by consolidated VIEs	**11,437**	14,016
Long-term debt and trust preferred capital debt securities	**255,432**	199,010
Total liabilities	**2,105,626**	1,438,926
Stockholders equity	**145,843**	123,221