



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2008

Commission file number 1-5805

**JPMORGAN CHASE & CO.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

10017  
(Zip Code)

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

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

Yes  No

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

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

Accelerated filer   
Smaller reporting company

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

Yes  No

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Number of shares of common stock outstanding as of April 30, 2008: 3,426,631,526

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**JPMORGAN CHASE & CO.**  
**CONSOLIDATED FINANCIAL HIGHLIGHTS**

(unaudited)  
(in millions, except per share, headcount and ratio data)

| As of or for the period ended,                          | 1Q08            | 4Q07            | 3Q07            | 2Q07            | 1Q07            |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Selected income statement data</b>                   |                 |                 |                 |                 |                 |
| Noninterest revenue                                     | \$ 9,231        | \$ 10,161       | \$ 9,199        | \$ 12,740       | \$ 12,866       |
| Net interest income                                     | 7,659           | 7,223           | 6,913           | 6,168           | 6,102           |
| <b>Total net revenue</b>                                | <b>16,890</b>   | <b>17,384</b>   | <b>16,112</b>   | <b>18,908</b>   | <b>18,968</b>   |
| Provision for credit losses                             | 4,424           | 2,542           | 1,785           | 1,529           | 1,008           |
| Noninterest expense                                     | 8,931           | 10,720          | 9,327           | 11,028          | 10,628          |
| Income before income tax expense                        | 3,535           | 4,122           | 5,000           | 6,351           | 7,332           |
| Income tax expense                                      | 1,162           | 1,151           | 1,627           | 2,117           | 2,545           |
| <b>Net income</b>                                       | <b>\$ 2,373</b> | <b>\$ 2,971</b> | <b>\$ 3,373</b> | <b>\$ 4,234</b> | <b>\$ 4,787</b> |
| <b>Per common share</b>                                 |                 |                 |                 |                 |                 |
| Net income per share: Basic                             | \$ 0.70         | \$ 0.88         | \$ 1.00         | \$ 1.24         | \$ 1.38         |
| Diluted   | 0.68            | 0.86            | 0.97            | 1.20            | 1.34            |
| Cash dividends declared per share                       | 0.38            | 0.38            | 0.38            | 0.38            | 0.34            |
| Book value per share                                    | 36.94           | 36.59           | 35.72           | 35.08           | 34.45           |
| <b>Common shares outstanding</b>                        |                 |                 |                 |                 |                 |
| Average: Basic  | 3,396           | 3,367           | 3,376           | 3,415           | 3,456           |
| Diluted   | 3,495           | 3,472           | 3,478           | 3,522           | 3,560           |
| Common shares at period end                             | 3,401           | 3,367           | 3,359           | 3,399           | 3,416           |
| <b>Share price<sup>(a)</sup></b>                        |                 |                 |                 |                 |                 |
| High  | \$ 49.29        | \$ 48.02        | \$ 50.48        | \$ 53.25        | \$ 51.95        |
| Low   | 36.01           | 40.15           | 42.16           | 47.70           | 45.91           |
| Close   | 42.95           | 43.65           | 45.82           | 48.45           | 48.38           |
| Market capitalization                                   | 146,066         | 146,986         | 153,901         | 164,659         | 165,280         |
| <b>Financial ratios</b>                                 |                 |                 |                 |                 |                 |
| Return on common equity ("ROE")                         | 8%              | 10%             | 11%             | 14%             | 17%             |
| Return on assets ("ROA")                                | 0.61            | 0.77            | 0.91            | 1.19            | 1.41            |
| Overhead ratio  | 53              | 62              | 58              | 58              | 56              |
| Tier 1 capital ratio                                    | 8.3             | 8.4             | 8.4             | 8.4             | 8.5             |
| Total capital ratio                                     | 12.5            | 12.6            | 12.5            | 12.0            | 11.8            |
| Tier 1 leverage ratio                                   | 5.9             | 6.0             | 6.0             | 6.2             | 6.2             |
| <b>Selected balance sheet data (period-end)</b>         |                 |                 |                 |                 |                 |
| Total assets  | \$ 1,642,862    | \$ 1,562,147    | \$ 1,479,575    | \$ 1,458,042    | \$ 1,408,918    |
| Securities  | 101,647         | 85,450          | 97,706          | 95,984          | 97,029          |
| Loans   | 537,056         | 519,374         | 486,320         | 465,037         | 449,765         |
| Deposits  | 761,626         | 740,728         | 678,091         | 651,370         | 626,428         |
| Long-term debt  | 189,995         | 183,862         | 173,696         | 159,493         | 143,274         |
| Total stockholders' equity                              | 125,627         | 123,221         | 119,978         | 119,211         | 117,704         |
| <b>Headcount</b>  | <b>182,166</b>  | <b>180,667</b>  | <b>179,847</b>  | <b>179,664</b>  | <b>176,314</b>  |
| <b>Credit quality metrics</b>                           |                 |                 |                 |                 |                 |
| Allowance for credit losses                             | \$ 12,601       | \$ 10,084       | \$ 8,971        | \$ 8,399        | \$ 7,853        |
| Nonperforming assets <sup>(b)</sup>                     | 5,443           | 4,237           | 3,181           | 2,586           | 2,421           |
| Allowance for loan losses to total loans <sup>(c)</sup> | 2.29%           | 1.88%           | 1.76%           | 1.71%           | 1.74%           |
| Net charge-offs   | \$ 1,906        | \$ 1,429        | \$ 1,221        | \$ 985          | \$ 903          |
| Net charge-off rate <sup>(c)</sup>                      | 1.53%           | 1.19%           | 1.07%           | 0.90%           | 0.85%           |
| Wholesale net charge-off (recovery) rate <sup>(c)</sup> | 0.18            | 0.05            | 0.19            | (0.07)          | (0.02)          |
| Managed Card net charge-off rate                        | 4.37            | 3.89            | 3.64            | 3.62            | 3.57            |

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

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

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

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

*This section of the Form 10-Q provides management's discussion and analysis ("MD&A") of the financial condition and results of operations for JPMorgan Chase. See the Glossary of Terms on pages 109–111 for definitions of terms used throughout this Form 10-Q. The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase's results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein, including in Forward-looking Statements on page 114 and Item 1A: Risk Factors on page 117 of this Form 10-Q, as well as in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2007 ("2007 Annual Report" or "2007 Form 10-K"), including Part I, Item 1A: Risk factors, to which reference is hereby made.*

### INTRODUCTION

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with \$1.6 trillion in assets, \$125.6 billion in stockholders' equity and operations in more than 60 countries. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the JPMorgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

JPMorgan Chase's principal bank subsidiaries are JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A."), a national banking association with branches in 17 states; and Chase Bank USA, National Association ("Chase Bank USA, N.A."), a national bank that is the Firm's credit card issuing bank. JPMorgan Chase's principal nonbank subsidiary is J.P. Morgan Securities Inc., the Firm's U.S. investment banking firm.

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

### Investment Bank

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

### Retail Financial Services

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

### Card Services

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

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

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

### **Commercial Banking**

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

### **Treasury & Securities Services**

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

### **Asset Management**

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

## **OTHER BUSINESS EVENTS**

### **Merger with The Bear Stearns Companies Inc.**

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

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

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

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

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

### **Purchase of additional interest in Highbridge Capital Management**

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

**EXECUTIVE OVERVIEW**

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

**Financial performance of JPMorgan Chase**

| (in millions, except per share and ratio data) | Three months ended March 31, |           |        |
|--|------------------------------|-----------|--------|
|  | 2008                         | 2007      | Change |
| <b>Selected income statement data</b>          |                              |           |        |
| Total net revenue                              | \$ 16,890                    | \$ 18,968 | (11)%  |
| Provision for credit losses                    | 4,424                        | 1,008     | 339    |
| Total noninterest expense                      | 8,931                        | 10,628    | (16)   |
| <b>Net income</b>                              | <b>2,373</b>                 | 4,787     | (50)   |
| <b>Earnings per share – diluted</b>            | <b>\$ 0.68</b>               | \$ 1.34   | (49)%  |
| <b>Return on common equity</b>                 | <b>8%</b>                    | 17%       |        |

**Business overview**

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

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

During the first quarter of 2008, the performance of the Firm was negatively affected by the overall global economic environment. The Investment Bank incurred a loss for the quarter reflecting significant markdowns related to mortgage and leveraged lending exposures. Retail Financial Services also recorded a loss driven by a significantly higher provision for credit losses due to ongoing weakness in the home equity and mortgage loan portfolios. Card Services earnings decreased due to a higher level of net charge-offs; Commercial Bank's earnings declined slightly as a higher provision for credit losses more than offset increased revenue; and Asset Management results declined as revenue flattened and expense increased. The Firm continued to invest in building each of its businesses, which helped to drive revenue and market share growth. Treasury & Securities Services net income increased significantly as higher revenue was partially offset by increased expense. RFS, CS, CB, and TSS each reported organic revenue growth. In addition, CB, TSS and AM increased deposits, assets under custody and assets under management, respectively. The IB continued to gain market share across products and ranked #1 for global investment banking fees and ranked #1, based on volume, for global debt, equity and equity-related. On March 16, 2008, the Firm announced the planned acquisition of Bear Stearns, which will add new capabilities in prime brokerage and clearing and is expected to strengthen equities, mortgage trading, commodities and asset management. The transaction is expected to close by



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

*The discussion that follows highlights the current-quarter performance of each business segment, compared with the prior-year quarter, and discusses results on a managed basis unless otherwise noted. For more information about managed basis, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 13–14 of this Form 10-Q.*

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

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

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

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

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

**Asset Management** net income decreased from the prior year due primarily to higher total noninterest expense, lower performance fees and lower market valuations for seed capital investments in JPMorgan funds. These results were offset partially by increased revenue from asset inflows, and growth in deposit and loan balances. The provision for credit losses increased from a benefit in the prior year, primarily driven by an increase in loan balances and a lower level of recoveries. The increase in total noninterest expense was due primarily to higher compensation expense, reflecting increased headcount.

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

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

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

### **Business outlook**

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

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

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

The Investment Bank continues to be negatively affected by the disruption in the credit and mortgage markets, as well as by overall lower levels of liquidity and wider credit spreads. Continuation of these factors could potentially lead to reduced levels of client activity, difficulty in syndicating leveraged loans, lower investment banking fees and lower trading revenue. The Firm's trading results could also be affected by the tightening of credit spreads. Assets with currently impaired values could recover a portion of previous markdowns; however, if the Firm's own credit spreads tighten, the fair value of certain liabilities would be reduced, which would negatively affect trading results. While some leveraged finance loans were sold during the first quarter of 2008, the Firm held \$22.5 billion of leveraged loans and unfunded commitments as held-for-sale as of March 31, 2008. Markdowns in excess of 11% have been taken on the leveraged lending positions as of March 31, 2008. These positions are difficult to hedge effectively and if market conditions deteriorate further in the second quarter of 2008, further markdowns may be necessary on this asset class. The Investment Bank also held, at March 31, 2008, an aggregate \$12.8 billion of prime and Alt-A mortgage exposure and \$1.9 billion of subprime mortgage exposures which could also be negatively affected by market conditions. In addition, \$3.1 billion of auction-rate securities with low maximum reset rates were held on balance sheet due to a significant reduction in liquidity as a result of credit concerns with monoline bond insurers. Other exposures as of March 31, 2008 that have higher levels of risk given the current market environment include: CDO warehouse and unsold positions of \$4.4 billion (over 90% corporate loans and bonds) and Commercial Mortgage-Backed

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

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

### CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase’s Consolidated Results of Operations on a reported basis. Factors that related primarily to a single business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates Used by the Firm that affect the Consolidated Results of Operations, see pages 65–67 of this Form 10-Q and pages 96–98 of JPMorgan Chase’s 2007 Annual Report.

#### Total net revenue

The following table presents the components of total net revenue.

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

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

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

Principal transactions revenue consists of trading revenue and private equity gains. The Firm’s trading activities in the first quarter of 2008 resulted in a net loss in contrast with the record level of gains achieved in the first quarter of 2007. The net loss was due primarily to markdowns of \$1.2 billion on prime, Alt-A and subprime mortgages; markdowns of \$1.1 billion on leveraged lending funded and unfunded commitments; and markdowns of \$266 million on CDO warehouses and unsold positions. These markdowns were offset partially by record revenue in rates and currencies, and a combined benefit of \$949 million from the widening of the Firm’s credit spread on certain structured liabilities. Private equity gains declined significantly driven by lower gains of \$200 million, compared with gains of \$1.3 billion in the prior year, which included a fair value adjustment related to the adoption of SFAS 157 (“Fair Value Measurements”). For a further discussion of principal transactions revenue, see the IB and Corporate/Private Equity segment results on pages 16–19 and 36–37, respectively, and Note 5 on pages 81–83 of this Form 10-Q.

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

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

The increase in securities gains for the first quarter of 2008, compared with the same period in 2007, was primarily driven by repositioning of the Corporate investment securities portfolio. For a further discussion of securities gains, which are mostly recorded in the Firm's Corporate business, see the Corporate/Private Equity segment discussion on pages 36–37 of this Form 10-Q.

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

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

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

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

### **Provision for credit losses** (in millions)

|                             | Three months ended March 31, |          |        |
|-----------------------------|------------------------------|----------|--------|
|                             | 2008                         | 2007     | Change |
| Provision for credit losses | \$ 4,424                     | \$ 1,008 | 339%   |

The provision for credit losses increased significantly from the first quarter of 2007, due to increases in both the consumer and wholesale provisions. The increase in the consumer provision reflected increases in estimated losses for the home equity and mortgage loan portfolios and higher net charge-offs. The increase in the wholesale provision reflected an increase in the allowance for credit losses, primarily related to the transfer of funded and unfunded leveraged lending commitments to retained loans from held-for-sale loans and the effect of a weakening credit environment. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 20–26, CS on pages 26–28, IB on pages 16–19, CB on pages 29–30 and Credit Risk Management on pages 48–61 of this Form 10-Q.

[Table of Contents](#)**Noninterest expense**

The following table presents the components of noninterest expense.

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

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

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

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

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

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

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

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

**Income tax expense**

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

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

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

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**EXPLANATION AND RECONCILIATION OF THE FIRM'S USE OF NON-GAAP FINANCIAL MEASURES**

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The Firm prepares its consolidated financial statements using accounting principles generally accepted in the United States of America ("U.S. GAAP"); these financial statements appear on pages 69–72 of this Form 10-Q. That presentation, which is referred to as "reported basis," provides the reader with an understanding of the Firm's results that can be tracked consistently from year to year and enables a comparison of the Firm's performance with other companies' U.S. GAAP financial statements.

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

The presentation of CS results on a managed basis assumes that credit card loans that have been securitized and sold in accordance with SFAS 140 still remain on the Consolidated Balance Sheets and that the earnings on the securitized loans are classified in the same manner as the earnings on retained loans recorded on the Consolidated Balance Sheets. JPMorgan Chase uses the concept of managed basis to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations are funded and decisions are made about allocating resources, such as employees and capital, based upon managed financial information. In addition, the same underwriting standards and ongoing risk monitoring are used for both loans on the Consolidated Balance Sheets and securitized loans. Although securitizations result in the sale of credit card receivables to a trust, JPMorgan Chase retains the ongoing customer relationships, as the customers may continue to use their credit cards; accordingly, the customer's credit performance will affect both the securitized loans and the loans retained on the Consolidated Balance Sheets. JPMorgan Chase believes managed basis information is useful to investors, enabling them to understand both the credit risks associated with the loans reported on the Consolidated Balance Sheets and the Firm's retained interests in securitized loans. For a reconciliation of reported to managed basis results for CS, see CS segment results on pages 26–28 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 14 on pages 89–94 of this Form 10-Q.

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

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

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

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

| Three months ended March 31, 2007                |                  |                            |                                  |                 |
|--|------------------|----------------------------|----------------------------------|-----------------|
| (in millions, except per share and ratio data)   | Reported results | Credit card <sup>(a)</sup> | Fully tax-equivalent adjustments | Managed basis   |
| <b>Revenue</b>                                   |                  |                            |                                  |                 |
| Investment banking fees                          | \$ 1,739         | \$ —                       | \$ —                             | \$ 1,739        |
| Principal transactions                           | 4,487            | —                          | —                                | 4,487           |
| Lending & deposit-related fees                   | 895              | —                          | —                                | 895             |
| Asset management, administration and commissions | 3,186            | —                          | —                                | 3,186           |
| Securities gains                                 | 2                | —                          | —                                | 2               |
| Mortgage fees and related income                 | 476              | —                          | —                                | 476             |
| Credit card income                               | 1,563            | (746)                      | —                                | 817             |
| Other income                                     | 518              | —                          | 110                              | 628             |
| <b>Noninterest revenue</b>                       | <b>12,866</b>    | <b>(746)</b>               | <b>110</b>                       | <b>12,230</b>   |
| Net interest income                              | 6,102            | 1,339                      | 70                               | 7,511           |
| <b>Total net revenue</b>                         | <b>18,968</b>    | <b>593</b>                 | <b>180</b>                       | <b>19,741</b>   |
| Provision for credit losses                      | 1,008            | 593                        | —                                | 1,601           |
| Noninterest expense                              | 10,628           | —                          | —                                | 10,628          |
| <b>Income before income tax expense</b>          | <b>7,332</b>     | <b>—</b>                   | <b>180</b>                       | <b>7,512</b>    |
| Income tax expense                               | 2,545            | —                          | 180                              | 2,725           |
| <b>Net income</b>                                | <b>\$ 4,787</b>  | <b>\$ —</b>                | <b>\$ —</b>                      | <b>\$ 4,787</b> |
| Diluted earnings per share                       | \$ 1.34          | \$ —                       | \$ —                             | \$ 1.34         |
| Return on common equity                          | 17%              | —%                         | —%                               | 17%             |
| Return on equity less goodwill                   | 27               | —                          | —                                | 27              |
| Return on assets                                 | 1.41             | NM                         | NM                               | 1.34            |
| Overhead ratio                                   | 56               | NM                         | NM                               | 54              |

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

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

**BUSINESS SEGMENT RESULTS**

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

**Description of business segment reporting methodology**

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

**Segment Results – Managed Basis<sup>(a)</sup>**

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

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

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



**INVESTMENT BANK**

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

| Selected income statement data<br>(in millions, except ratios) | Three months ended March 31, |                 |             |
|--|------------------------------|-----------------|-------------|
|  | 2008                         | 2007            | Change      |
| <b>Revenue</b>   |                              |                 |             |
| Investment banking fees  | \$ 1,206                     | \$ 1,729        | (30)%       |
| Principal transactions   | (798)                        | 3,142           | NM          |
| Lending & deposit-related fees                                 | 102                          | 93              | 10          |
| Asset management, administration and commissions               | 744                          | 641             | 16          |
| All other income   | (66)                         | 42              | NM          |
| <b>Noninterest revenue</b>                                     | <b>1,188</b>                 | <b>5,647</b>    | <b>(79)</b> |
| Net interest income  | 1,823                        | 607             | 200         |
| <b>Total net revenue<sup>(a)</sup></b>                         | <b>3,011</b>                 | <b>6,254</b>    | <b>(52)</b> |
| Provision for credit losses                                    | 618                          | 63              | NM          |
| Credit reimbursement from TSS <sup>(b)</sup>                   | 30                           | 30              | —           |
| <b>Noninterest expense</b>                                     |                              |                 |             |
| Compensation expense   | 1,241                        | 2,637           | (53)        |
| Noncompensation expense  | 1,312                        | 1,194           | 10          |
| <b>Total noninterest expense</b>                               | <b>2,553</b>                 | <b>3,831</b>    | <b>(33)</b> |
| <b>Income (loss) before income tax expense</b>                 | <b>(130)</b>                 | <b>2,390</b>    | <b>NM</b>   |
| Income tax expense (benefit)                                   | (43)                         | 850             | NM          |
| <b>Net income (loss)</b>                                       | <b>\$ (87)</b>               | <b>\$ 1,540</b> | <b>NM</b>   |

| <b>Financial ratios</b>                          |        |      |  |
|--|--------|------|--|
| ROE  | (2)%   | 30%  |  |
| ROA  | (0.05) | 0.95 |  |
| Overhead ratio                                   | 85     | 61   |  |
| Compensation expense as a % of total net revenue | 41     | 42   |  |

| <b>Revenue by business</b>           |                 |                 |             |
|--------------------------------------|-----------------|-----------------|-------------|
| Investment banking fees:             |                 |                 |             |
| Advisory                             | \$ 483          | \$ 472          | 2           |
| Equity underwriting                  | 359             | 393             | (9)         |
| Debt underwriting                    | 364             | 864             | (58)        |
| <b>Total investment banking fees</b> | <b>1,206</b>    | <b>1,729</b>    | <b>(30)</b> |
| Fixed income markets                 | 466             | 2,592           | (82)        |
| Equity markets                       | 976             | 1,539           | (37)        |
| Credit portfolio                     | 363             | 394             | (8)         |
| <b>Total net revenue</b>             | <b>\$ 3,011</b> | <b>\$ 6,254</b> | <b>(52)</b> |

| <b>Revenue by region</b>  |                 |                 |             |
|---------------------------|-----------------|-----------------|-------------|
| Americas                  | \$ 536          | \$ 3,366        | (84)        |
| Europe/Middle East/Africa | 1,641           | 2,251           | (27)        |
| Asia/Pacific              | 834             | 637             | 31          |
| <b>Total net revenue</b>  | <b>\$ 3,011</b> | <b>\$ 6,254</b> | <b>(52)</b> |

- (a) Total net revenue included tax-equivalent adjustments, primarily due to tax-exempt income from municipal bond investments and income tax credits related to affordable housing investments, of \$289 million and \$152 million for the quarters ended March 31, 2008 and 2007, respectively.
- (b) TSS is charged a credit reimbursement related to certain exposures managed within the IB credit portfolio on behalf of clients shared with TSS.

**Quarterly results**

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

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

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

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

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

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

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

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

(c) Nonperforming loans include loans held-for-sale and loans at fair value of \$44 million and \$4 million at March 31, 2008 and March 31, 2007, respectively, which were excluded from the allowance coverage ratios. Nonperforming loans excluded distressed loans held-for-sale that were purchased as part of IB’s proprietary activities.

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

(e) For a more complete description of value-at-risk (“VAR”), see pages 61–62 of this Form 10-Q.

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

(g) Trading VAR includes substantially all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example, correlation risk or the credit spread sensitivity of certain mortgage products. Trading VAR does not include VAR related to held-for-sale funded loans and unfunded commitments, nor the debit valuation adjustments (“DVA”) taken on derivative and structured liabilities to reflect the credit quality of the Firm. See the DVA Sensitivity table on page 63 of this Form 10-Q for further details. Trading VAR also does not include the MSR portfolio or VAR related to other corporate functions, such as Corporate and Private Equity.

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- (h) Included VAR on derivative credit valuation adjustments, hedges of the credit valuation adjustment and mark-to-market hedges of the retained loan portfolio, which were all reported in principal transactions revenue. The VAR does not include the retained loan portfolio.
- (i) The allowance for loan losses to period-end loans was 2.46% at March 31, 2008.

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

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

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

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

**RETAIL FINANCIAL SERVICES**

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

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

(a) Retail Financial Services uses the overhead ratio (excluding the amortization of core deposit intangibles (“CDI”)), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excludes Regional Banking’s core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of \$99 million and \$116 million for the quarters ended March 31, 2008 and 2007, respectively.

**Quarterly results**

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

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

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

Noninterest expense was \$2.6 billion, an increase of \$163 million, or 7%, from the prior year, reflecting higher mortgage production and servicing expense, and investment in the retail distribution network.

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

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

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

(c) Nonperforming loans and assets excluded (1) loans eligible for repurchase as well as loans repurchased from Governmental National Mortgage Association ("GNMA") pools that are insured by U.S. government agencies of \$1.8 billion and \$1.3 billion at March 31, 2008 and 2007, respectively, and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$252 million and \$178 million at March 31, 2008 and 2007, respectively. These amounts for GNMA and education loans were excluded, as reimbursement is proceeding normally.

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

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

**REGIONAL BANKING**

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

(a) Regional Banking uses the overhead ratio (excluding the amortization of core deposit intangibles ("CDI")), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this inclusion would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excludes Regional Banking's core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of \$99 million and \$116 million for the quarters ended March 31, 2008 and 2007, respectively.

**Quarterly results**

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

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| Selected metrics<br>(in billions, except ratios and where otherwise noted) | Three months ended March 31, |              |           |
|--|------------------------------|--------------|-----------|
|  | 2008                         | 2007         | Change    |
| <b>Business metrics</b>  |                              |              |           |
| Home equity origination volume   | \$ 6.7                       | \$ 12.7      | (47)%     |
| End-of-period loans owned  |                              |              |           |
| Home equity  | \$ 95.0                      | \$ 87.7      | 8         |
| Mortgage <sup>(a)</sup>  | 15.9                         | 9.2          | 73        |
| Business banking   | 15.8                         | 14.3         | 10        |
| Education  | 12.4                         | 11.1         | 12        |
| Other loans <sup>(b)</sup>   | 1.1                          | 2.7          | (59)      |
| <b>Total end of period loans</b>   | <b>140.2</b>                 | <b>125.0</b> | <b>12</b> |
| End-of-period deposits   |                              |              |           |
| Checking   | \$ 69.1                      | \$ 69.3      | —         |
| Savings  | 105.4                        | 100.1        | 5         |
| Time and other   | 44.6                         | 42.2         | 6         |
| <b>Total end of period deposits</b>  | <b>219.1</b>                 | <b>211.6</b> | <b>4</b>  |
| Average loans owned  |                              |              |           |
| Home equity  | \$ 95.0                      | \$ 86.3      | 10        |
| Mortgage <sup>(a)</sup>  | 15.8                         | 8.9          | 78        |
| Business banking   | 15.6                         | 14.3         | 9         |
| Education  | 12.0                         | 11.0         | 9         |
| Other loans <sup>(b)</sup>   | 1.5                          | 3.0          | (50)      |
| <b>Total average loans<sup>(c)</sup></b>                                   | <b>139.9</b>                 | <b>123.5</b> | <b>13</b> |
| Average deposits   |                              |              |           |
| Checking   | \$ 66.3                      | \$ 67.3      | (1)       |
| Savings  | 100.3                        | 96.7         | 4         |
| Time and other   | 47.7                         | 42.5         | 12        |
| <b>Total average deposits</b>  | <b>214.3</b>                 | <b>206.5</b> | <b>4</b>  |
| Average assets   | 149.9                        | 135.9        | 10        |
| Average equity   | 12.4                         | 11.8         | 5         |

**Credit data and quality statistics**

(in millions, except ratios)

|   |             |             |            |
|---|-------------|-------------|------------|
| 30+ day delinquency rate <sup>(d)(e)</sup>        | 3.23%       | 1.84%       |            |
| Net charge-offs                                   |             |             |            |
| Home equity                                       | \$ 447      | \$ 68       | NM         |
| Mortgage  | 163         | 20          | NM         |
| Business banking                                  | 40          | 25          | 60         |
| Other loans                                       | 21          | 13          | 62         |
| <b>Total net charge-offs</b>                      | <b>671</b>  | <b>126</b>  | <b>433</b> |
| Net charge-off rate                               |             |             |            |
| Home equity                                       | 1.89%       | 0.32%       |            |
| Mortgage <sup>(f)</sup>                           | 3.79        | 0.91        |            |
| Business banking                                  | 1.03        | 0.71        |            |
| Other loans                                       | 0.89        | 0.55        |            |
| <b>Total net charge-off rate<sup>(c)(f)</sup></b> | <b>1.94</b> | <b>0.43</b> |            |
| Nonperforming assets <sup>(g)</sup>               | \$ 3,348    | \$ 1,688    | 98         |

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

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

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

(d) Excluded loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.5 billion and \$975 million at March 31, 2008 and 2007, respectively. These amounts are excluded as reimbursement is proceeding normally.

(e) Excluded loans that are 30 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$534 million and \$519 million at March 31, 2008 and 2007, respectively. These amounts are excluded as reimbursement is proceeding normally.

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

(g) Excluded nonperforming assets related to education loans that are 90 days past due and still accruing, which were insured by U.S. government agencies under the Federal Family Education Loan Program of \$252 million and \$178 million at March 31, 2008 and 2007, respectively. These amounts were excluded as reimbursement is proceeding normally.



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**Retail branch business metrics**

(in millions, except where otherwise noted)

|   | Three months ended March 31, |          |        |
|---|------------------------------|----------|--------|
|   | 2008                         | 2007     | Change |
| Investment sales volume                               | \$ 4,084                     | \$ 4,783 | (15)%  |
| <b>Number of:</b>                                     |                              |          |        |
| Branches  | 3,146                        | 3,071    | 75#    |
| ATMs  | 9,237                        | 8,560    | 677    |
| Personal bankers <sup>(a)</sup>                       | 9,826                        | 7,846    | 1,980  |
| Sales specialists <sup>(a)</sup>                      | 4,133                        | 3,712    | 421    |
| Active online customers (in thousands) <sup>(b)</sup> | 6,454                        | 5,295    | 1,159  |
| Checking accounts (in thousands)                      | 11,068                       | 10,158   | 910    |

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

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

**MORTGAGE BANKING**

**Selected income statement data**

(in millions, except ratios and where otherwise noted)

|   | Three months ended March 31, |              |             |
|---|------------------------------|--------------|-------------|
|   | 2008                         | 2007         | Change      |
| Production revenue                          | \$ 576                       | \$ 400       | 44%         |
| Net mortgage servicing revenue:             |                              |              |             |
| Servicing revenue                           | 634                          | 601          | 5           |
| Changes in MSR asset fair value:            |                              |              |             |
| Due to inputs or assumptions in model       | (632)                        | 108          | NM          |
| Other changes in fair value                 | (425)                        | (378)        | (12)        |
| Total changes in MSR asset fair value       | (1,057)                      | (270)        | (291)       |
| Derivative valuation adjustments and other  | 598                          | (127)        | NM          |
| <b>Total net mortgage servicing revenue</b> | <b>175</b>                   | <b>204</b>   | <b>(14)</b> |
| <b>Total net revenue</b>                    | <b>751</b>                   | <b>604</b>   | <b>24</b>   |
| Noninterest expense                         | 536                          | 468          | 15          |
| <b>Income before income tax expense</b>     | <b>215</b>                   | <b>136</b>   | <b>58</b>   |
| <b>Net income</b>                           | <b>\$ 132</b>                | <b>\$ 84</b> | <b>57</b>   |

ROE 22% 17%

**Business metrics (in billions)**

|   |          |          |      |
|---|----------|----------|------|
| Third-party mortgage loans serviced (ending)        | \$ 627.1 | \$ 546.1 | 15   |
| MSR net carrying value (ending)                     | 8.4      | 7.9      | 6    |
| Average mortgage loans held-for-sale <sup>(a)</sup> | 13.8     | 23.8     | (42) |
| Average assets                                      | 32.2     | 38.0     | (15) |
| Average equity                                      | 2.4      | 2.0      | 20   |

**Mortgage origination volume by channel (in billions)**

|                               |                |                |           |
|-------------------------------|----------------|----------------|-----------|
| Retail                        | \$ 12.6        | \$ 10.9        | 16        |
| Wholesale                     | 10.6           | 9.9            | 7         |
| Correspondent                 | 12.0           | 4.8            | 150       |
| CNT (Negotiated transactions) | 11.9           | 10.5           | 13        |
| <b>Total</b>                  | <b>\$ 47.1</b> | <b>\$ 36.1</b> | <b>30</b> |

(a) Included \$13.4 billion and \$6.5 billion of prime mortgage loans at fair value for the three months ended March 31, 2008 and 2007, respectively. These loans are classified as trading assets on the Consolidated Balance Sheets.

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**Quarterly results**

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

**AUTO FINANCE**

**Selected income statement data**

(in millions, except ratios and where otherwise noted)

|   | Three months ended March 31, |              |             |
|---|------------------------------|--------------|-------------|
|   | 2008                         | 2007         | Change      |
| Noninterest revenue                     | \$ 151                       | \$ 131       | 15%         |
| Net interest income                     | 379                          | 279          | 36          |
| <b>Total net revenue</b>                | <b>530</b>                   | <b>410</b>   | <b>29</b>   |
| Provision for credit losses             | 168                          | 59           | 185         |
| Noninterest expense                     | 240                          | 210          | 14          |
| <b>Income before income tax expense</b> | <b>122</b>                   | <b>141</b>   | <b>(13)</b> |
| <b>Net income</b>                       | <b>\$ 74</b>                 | <b>\$ 85</b> | <b>(13)</b> |

|     |      |      |
|-----|------|------|
| ROE | 13%  | 16%  |
| ROA | 0.65 | 0.80 |

**Business metrics (in billions)**

|   |             |             |           |
|---|-------------|-------------|-----------|
| Auto origination volume                                   | \$ 7.2      | \$ 5.2      | 38        |
| End-of-period loans and lease-related assets              |             |             |           |
| Loans outstanding   | \$ 44.4     | \$ 39.7     | 12        |
| Lease financing receivables                               | 0.3         | 1.2         | (75)      |
| Operating lease assets                                    | 2.0         | 1.7         | 18        |
| <b>Total end-of-period loans and lease-related assets</b> | <b>46.7</b> | <b>42.6</b> | <b>10</b> |
| Average loans and lease-related assets                    |             |             |           |
| Loans outstanding   | \$ 42.9     | \$ 39.4     | 9         |
| Lease financing receivables                               | 0.3         | 1.5         | (80)      |
| Operating lease assets                                    | 1.9         | 1.6         | 19        |
| <b>Total average loans and lease-related assets</b>       | <b>45.1</b> | <b>42.5</b> | <b>6</b>  |
| Average assets  | 45.5        | 43.2        | 5         |
| Average equity  | 2.3         | 2.2         | 5         |

**Credit quality statistics**

|                                  |             |             |            |
|----------------------------------|-------------|-------------|------------|
| 30+ day delinquency rate         | 1.44%       | 1.33%       |            |
| Net charge-offs                  |             |             |            |
| Loans                            | \$ 117      | \$ 58       | 102        |
| Lease receivables                | 1           | 1           | —          |
| <b>Total net charge-offs</b>     | <b>118</b>  | <b>59</b>   | <b>100</b> |
| Net charge-off rate              |             |             |            |
| Loans                            | 1.10%       | 0.60%       |            |
| Lease receivables                | 1.34        | 0.27        |            |
| <b>Total net charge-off rate</b> | <b>1.10</b> | <b>0.59</b> |            |
| Nonperforming assets             | \$ 160      | \$ 140      | 14         |

[Table of Contents](#)**Quarterly results**

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

**CARD SERVICES**

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

JPMorgan Chase uses the concept of “managed basis” to evaluate the credit performance of its credit card loans, both loans on the balance sheet and loans that have been securitized. For further information, see Explanation and Reconciliation of the Firm’s Use of Non-GAAP Financial Measures on pages 13–14 of this Form 10-Q. Managed results exclude the impact of credit card securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported net income; however, it does affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets.

**Selected income statement data-managed basis**

(in millions, except ratios)

|   | Three months ended March 31, |               |             |
|---|------------------------------|---------------|-------------|
|   | 2008                         | 2007          | Change      |
| <b>Revenue</b>                          |                              |               |             |
| Credit card income                      | \$ 600                       | \$ 599        | —%          |
| All other income                        | 119                          | 92            | 29          |
| <b>Noninterest revenue</b>              | <b>719</b>                   | <b>691</b>    | <b>4</b>    |
| Net interest income                     | 3,185                        | 2,989         | 7           |
| <b>Total net revenue</b>                | <b>3,904</b>                 | <b>3,680</b>  | <b>6</b>    |
| Provision for credit losses             | 1,670                        | 1,229         | 36          |
| <b>Noninterest expense</b>              |                              |               |             |
| Compensation expense                    | 267                          | 254           | 5           |
| Noncompensation expense                 | 841                          | 803           | 5           |
| Amortization of intangibles             | 164                          | 184           | (11)        |
| <b>Total noninterest expense</b>        | <b>1,272</b>                 | <b>1,241</b>  | <b>2</b>    |
| <b>Income before income tax expense</b> | <b>962</b>                   | <b>1,210</b>  | <b>(20)</b> |
| Income tax expense                      | 353                          | 445           | (21)        |
| <b>Net income</b>                       | <b>\$ 609</b>                | <b>\$ 765</b> | <b>(20)</b> |
| Memo: Net securitization gains          | \$ 70                        | \$ 23         | 204         |
| <b>Financial ratios</b>                 |                              |               |             |
| ROE                                     | 17%                          | 22%           |             |
| Overhead ratio                          | 33                           | 34            |             |

**Quarterly results**

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

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

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

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

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

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

**Selected metrics**

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

Three months ended March 31,  
2008                      2007                      Change

**Financial metrics**

% of average managed outstandings:

|                                     |       |       |  |
|-------------------------------------|-------|-------|--|
| Net interest income                 | 8.34% | 8.11% |  |
| Provision for credit losses         | 4.37  | 3.34  |  |
| Noninterest revenue                 | 1.88  | 1.88  |  |
| Risk adjusted margin <sup>(a)</sup> | 5.85  | 6.65  |  |
| Noninterest expense                 | 3.33  | 3.37  |  |
| Pretax income (ROO) <sup>(b)</sup>  | 2.52  | 3.28  |  |
| Net income                          | 1.60  | 2.08  |  |

**Business metrics**

|   |          |          |    |
|---|----------|----------|----|
| Charge volume (in billions)                           | \$ 85.4  | \$ 81.3  | 5% |
| Net accounts opened (in millions)                     | 3.4      | 3.4      | —  |
| Credit cards issued (in millions)                     | 156.4    | 152.1    | 3  |
| Number of registered internet customers (in millions) | 26.7     | 24.3     | 10 |
| Merchant acquiring business <sup>(c)</sup>            |          |          |    |
| Bank card volume (in billions)                        | \$ 182.4 | \$ 163.6 | 11 |
| Total transactions (in billions)                      | 5.2      | 4.5      | 16 |

**Selected ending balances**

Loans:

|                         |                   |                   |          |
|-------------------------|-------------------|-------------------|----------|
| Loans on balance sheets | \$ 75,888         | \$ 78,173         | (3)      |
| Securitized loans       | 75,062            | 68,403            | 10       |
| <b>Managed loans</b>    | <b>\$ 150,950</b> | <b>\$ 146,576</b> | <b>3</b> |

**Selected average balances**

|                              |                   |                   |          |
|------------------------------|-------------------|-------------------|----------|
| Managed assets               | \$ 159,602        | \$ 156,271        | 2        |
| Loans:                       |                   |                   |          |
| Loans on balance sheets      | \$ 79,445         | \$ 81,932         | (3)      |
| Securitized loans            | 74,108            | 67,485            | 10       |
| <b>Managed average loans</b> | <b>\$ 153,553</b> | <b>\$ 149,417</b> | <b>3</b> |
| Equity                       | \$ 14,100         | \$ 14,100         | —        |

**Headcount**

|        |        |   |
|--------|--------|---|
| 18,931 | 18,749 | 1 |
|--------|--------|---|

**Managed credit quality statistics**

|                     |          |          |    |
|---------------------|----------|----------|----|
| Net charge-offs     | \$ 1,670 | \$ 1,314 | 27 |
| Net charge-off rate | 4.37%    | 3.57%    |    |

**Managed delinquency ratios**

|          |       |       |
|----------|-------|-------|
| 30+ days | 3.66% | 3.07% |
| 90+ days | 1.84  | 1.52  |

|  |          |          |    |
|--|----------|----------|----|
| Allowance for loan losses <sup>(d)</sup>                     | \$ 3,404 | \$ 3,092 | 10 |
| Allowance for loan losses to period-end loans <sup>(d)</sup> | 4.49%    | 3.96%    |    |

- (a) Represents total net revenue less provision for credit losses.  
(b) Pretax return on average managed outstandings.  
(c) Represents 100% of the merchant acquiring business.  
(d) Loans on a reported basis.

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**Reconciliation from reported basis to managed basis**

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

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

(a) JPMorgan Chase uses the concept of “managed basis” to evaluate the credit performance and overall performance of the underlying credit card loans, both sold and not sold; as the same borrower is continuing to use the credit card for ongoing charges, a borrower’s credit performance will affect both the receivables sold under SFAS 140 and those not sold. Thus, in its disclosures regarding managed receivables, JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in order to disclose the credit performance (such as net charge-off rates) of the entire managed credit card portfolio. Managed results exclude the impact of credit card securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported net income versus managed earnings; however, it does affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets. For further information, see Explanation and Reconciliation of the Firm’s Use of Non-GAAP Financial Measures on pages 13–14 of this Form 10-Q.

**COMMERCIAL BANKING**

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

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

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

**Quarterly results**

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

Total net revenue was \$1.1 billion, an increase of \$64 million, or 6%, from the prior year. Net interest income was \$733 million, up \$65 million, or 10%. The increase was driven by double-digit growth in liability and loan balances, primarily offset by spread compression in the liability and loan portfolios and a continued shift to narrower-spread liability products. Noninterest revenue was \$334 million, flat compared with the prior year, reflecting lower gains related to the sale of securities acquired in the satisfaction of debt and lower investment banking fees, offset by higher deposit-related, credit card and lending fees.

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

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

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

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| Selected metrics<br>(in millions, except ratio and headcount data) | Three months ended March 31, |                  |             |
|--|------------------------------|------------------|-------------|
|  | 2008                         | 2007             | Change      |
| <b>Revenue by product:</b>   |                              |                  |             |
| Lending  | \$ 379                       | \$ 348           | 9%          |
| Treasury services  | 616                          | 556              | 11          |
| Investment banking   | 68                           | 76               | (11)        |
| Other  | 4                            | 23               | (83)        |
| <b>Total Commercial Banking revenue</b>                            | <b>\$ 1,067</b>              | <b>\$ 1,003</b>  | <b>6</b>    |
| <b>IB revenue, gross<sup>(a)</sup></b>                             | <b>\$ 203</b>                | <b>\$ 231</b>    | <b>(12)</b> |
| <b>Revenue by business:</b>  |                              |                  |             |
| Middle Market Banking  | \$ 706                       | \$ 661           | 7           |
| Mid-Corporate Banking  | 207                          | 212              | (2)         |
| Real Estate Banking  | 97                           | 102              | (5)         |
| Other  | 57                           | 28               | 104         |
| <b>Total Commercial Banking revenue</b>                            | <b>\$ 1,067</b>              | <b>\$ 1,003</b>  | <b>6</b>    |
| <b>Selected average balances:</b>                                  |                              |                  |             |
| Total assets   | \$ 101,979                   | \$ 82,545        | 24          |
| Loans:   |                              |                  |             |
| Loans retained   | 67,510                       | 57,185           | 18          |
| Loans held-for-sale and loans at fair value                        | 521                          | 475              | 10          |
| Total loans <sup>(b)</sup>   | 68,031                       | 57,660           | 18          |
| Liability balances <sup>(c)</sup>                                  | 99,477                       | 81,752           | 22          |
| Equity   | 7,000                        | 6,300            | 11          |
| <b>Average loans by business:</b>                                  |                              |                  |             |
| Middle Market Banking  | \$ 40,111                    | \$ 36,317        | 10          |
| Mid-Corporate Banking  | 15,150                       | 10,669           | 42          |
| Real Estate Banking  | 7,457                        | 7,074            | 5           |
| Other  | 5,313                        | 3,600            | 48          |
| <b>Total Commercial Banking loans</b>                              | <b>\$ 68,031</b>             | <b>\$ 57,660</b> | <b>18</b>   |
| <b>Headcount</b>   | <b>4,075</b>                 | <b>4,281</b>     | <b>(5)</b>  |
| <b>Credit data and quality statistics:</b>                         |                              |                  |             |
| Net charge-offs (recoveries)                                       | \$ 81                        | \$ (1)           | NM          |
| Nonperforming loans <sup>(d)</sup>                                 | 446                          | 141              | 216         |
| Allowance for credit losses:                                       |                              |                  |             |
| Allowance for loan losses  | 1,790                        | 1,531            | 17          |
| Allowance for lending-related commitments                          | 200                          | 187              | 7           |
| Total allowance for credit losses                                  | 1,990                        | 1,718            | 16          |
| Net charge-off (recovery) rate <sup>(b)</sup>                      | 0.48%                        | (0.01)%          |             |
| Allowance for loan losses to average loans <sup>(b)</sup>          | 2.65                         | 2.68             |             |
| Allowance for loan losses to nonperforming loans <sup>(d)</sup>    | 426                          | 1,086            |             |
| Nonperforming loans to average loans                               | 0.66                         | 0.24             |             |

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

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

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

(d) Nonperforming loans held-for-sale were \$26 million at March 31, 2008. This amount was excluded when calculating the allowance coverage ratios. There were no nonperforming loans held-for-sale at March 31, 2007.

**TREASURY & SECURITIES SERVICES**

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

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

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

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

**Quarterly results**

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

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

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

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



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

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

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

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

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

**TSS firmwide metrics**

TSS firmwide metrics include certain TSS product revenue and liability balances reported in other lines of business for customers who are also customers of those lines of business. In order to capture the firmwide impact of TS and TSS products and revenue, management reviews firmwide metrics such as liability balances, revenue and overhead ratios in assessing financial performance for TSS. Firmwide metrics are necessary in order to understand the aggregate TSS business.

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

| (in millions)   | Three months ended March 31, |        |        |
|---|------------------------------|--------|--------|
|   | 2008                         | 2007   | Change |
| Treasury Services revenue reported in CB                      | \$ 616                       | \$ 556 | 11%    |
| Treasury Services revenue reported in other lines of business | 69                           | 60     | 15     |

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

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

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

**ASSET MANAGEMENT**

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

| Selected income statement data<br>(in millions, except ratios) | Three months ended March 31, |               |             |
|--|------------------------------|---------------|-------------|
|  | 2008                         | 2007          | Change      |
| <b>Revenue</b>   |                              |               |             |
| Asset management, administration and commissions               | \$ 1,531                     | \$ 1,489      | 3%          |
| All other income   | 59                           | 170           | (65)        |
| <b>Noninterest revenue</b>                                     | <b>1,590</b>                 | <b>1,659</b>  | <b>(4)</b>  |
| Net interest income  | 311                          | 245           | 27          |
| <b>Total net revenue</b>                                       | <b>1,901</b>                 | <b>1,904</b>  | <b>—</b>    |
| Provision for credit losses                                    | 16                           | (9)           | NM          |
| <b>Noninterest expense</b>                                     |                              |               |             |
| Compensation expense   | 825                          | 764           | 8           |
| Noncompensation expense  | 477                          | 451           | 6           |
| Amortization of intangibles                                    | 21                           | 20            | 5           |
| <b>Total noninterest expense</b>                               | <b>1,323</b>                 | <b>1,235</b>  | <b>7</b>    |
| <b>Income before income tax expense</b>                        | <b>562</b>                   | <b>678</b>    | <b>(17)</b> |
| Income tax expense   | 206                          | 253           | (19)        |
| <b>Net income</b>  | <b>\$ 356</b>                | <b>\$ 425</b> | <b>(16)</b> |

**Financial ratios**

|                                    |     |     |
|------------------------------------|-----|-----|
| ROE                                | 29% | 46% |
| Overhead ratio                     | 70  | 65  |
| Pretax margin ratio <sup>(a)</sup> | 30  | 36  |

**Selected metrics**
**Revenue by client segment**

|                          |                 |                 |          |
|--------------------------|-----------------|-----------------|----------|
| Private bank             | \$ 655          | \$ 560          | 17%      |
| Institutional            | 490             | 551             | (11)     |
| Retail                   | 466             | 527             | (12)     |
| Private client services  | 290             | 266             | 9        |
| <b>Total net revenue</b> | <b>\$ 1,901</b> | <b>\$ 1,904</b> | <b>—</b> |

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

**Quarterly results**

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

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

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

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The provision for credit losses was \$16 million, compared with a benefit of \$9 million in the prior year, primarily driven by an increase in loan balances and a lower level of recoveries.

Noninterest expense was \$1.3 billion, an increase of \$88 million, or 7%, from the prior year. The increase was due primarily to higher compensation expense, reflecting increased headcount.

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

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

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

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

### **Assets under supervision**

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

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**ASSETS UNDER SUPERVISION<sup>(a)</sup>** (in billions)

| As of March 31,                           | 2008            | 2007            |
|---|-----------------|-----------------|
| <b>Assets by asset class</b>              |                 |                 |
| Liquidity                                 | \$ 471          | \$ 318          |
| Fixed income                              | 200             | 180             |
| Equities & balanced                       | 390             | 446             |
| Alternatives                              | 126             | 109             |
| <b>Total assets under management</b>      | <b>1,187</b>    | <b>1,053</b>    |
| Custody/brokerage/administration/deposits | 382             | 342             |
| <b>Total assets under supervision</b>     | <b>\$ 1,569</b> | <b>\$ 1,395</b> |

|                                       |                 |                 |
|---------------------------------------|-----------------|-----------------|
| <b>Assets by client segment</b>       |                 |                 |
| Institutional                         | \$ 652          | \$ 550          |
| Private Bank                          | 196             | 170             |
| Retail                                | 279             | 274             |
| Private Client Services               | 60              | 59              |
| <b>Total assets under management</b>  | <b>\$ 1,187</b> | <b>\$ 1,053</b> |
| Institutional                         | \$ 652          | \$ 551          |
| Private Bank                          | 441             | 374             |
| Retail                                | 366             | 361             |
| Private Client Services               | 110             | 109             |
| <b>Total assets under supervision</b> | <b>\$ 1,569</b> | <b>\$ 1,395</b> |

|                                       |                 |                 |
|---------------------------------------|-----------------|-----------------|
| <b>Assets by geographic region</b>    |                 |                 |
| U.S./Canada                           | \$ 773          | \$ 664          |
| International                         | 414             | 389             |
| <b>Total assets under management</b>  | <b>\$ 1,187</b> | <b>\$ 1,053</b> |
| U.S./Canada                           | \$ 1,063        | \$ 929          |
| International                         | 506             | 466             |
| <b>Total assets under supervision</b> | <b>\$ 1,569</b> | <b>\$ 1,395</b> |

|  |               |               |
|--|---------------|---------------|
| <b>Mutual fund assets by asset class</b> |               |               |
| Liquidity                                | \$ 405        | \$ 257        |
| Fixed income                             | 45            | 48            |
| Equity                                   | 186           | 219           |
| <b>Total mutual fund assets</b>          | <b>\$ 636</b> | <b>\$ 524</b> |

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

| Assets under management rollforward | Three months ended March 31, |                 |
|-------------------------------------|------------------------------|-----------------|
|                                     | 2008                         | 2007            |
| Beginning balance at January 1      | \$ 1,193                     | \$ 1,013        |
| Net asset flows:                    |                              |                 |
| Liquidity                           | 68                           | 7               |
| Fixed income                        | —                            | 2               |
| Equities, balanced and alternative  | (21)                         | 10              |
| Market/performance/other impacts    | (53)                         | 21              |
| <b>Ending balance</b>               | <b>\$ 1,187</b>              | <b>\$ 1,053</b> |

|   |                 |                 |
|---|-----------------|-----------------|
| <b>Assets under supervision rollforward</b> |                 |                 |
| Beginning balance                           | \$ 1,572        | \$ 1,347        |
| Net asset flows                             | 52              | 27              |
| Market/performance/other impacts            | (55)            | 21              |
| <b>Ending balance</b>                       | <b>\$ 1,569</b> | <b>\$ 1,395</b> |

**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<br>(in millions, except headcount) | Three months ended March 31, |                 |            |
|---|------------------------------|-----------------|------------|
|   | 2008                         | 2007            | Change     |
| <b>Revenue</b>  |                              |                 |            |
| Principal transactions  | \$ 5                         | \$ 1,325        | (100)%     |
| Securities gains (losses)   | 42                           | (8)             | NM         |
| All other income <sup>(a)</sup>                                   | 1,639                        | 68              | NM         |
| <b>Noninterest revenue</b>  | <b>1,686</b>                 | <b>1,385</b>    | <b>22</b>  |
| Net interest income (expense)                                     | (286)                        | (117)           | (144)      |
| <b>Total net revenue</b>  | <b>1,400</b>                 | <b>1,268</b>    | <b>10</b>  |
| Provision for credit losses                                       | 196                          | 3               | NM         |
| <b>Noninterest expense</b>  |                              |                 |            |
| Compensation expense  | 639                          | 776             | (18)       |
| Noncompensation expense <sup>(b)</sup>                            | (82)                         | 556             | NM         |
| Merger costs  | —                            | 62              | NM         |
| Subtotal  | 557                          | 1,394           | (60)       |
| Net expense allocated to other businesses                         | (1,057)                      | (1,040)         | (2)        |
| <b>Total noninterest expense</b>                                  | <b>(500)</b>                 | <b>354</b>      | <b>NM</b>  |
| Income before income tax expense                                  | 1,704                        | 911             | 87         |
| Income tax expense  | 677                          | 280             | 142        |
| <b>Net income</b>   | <b>\$ 1,027</b>              | <b>\$ 631</b>   | <b>63</b>  |
| <b>Total net revenue</b>  |                              |                 |            |
| Private equity  | \$ 163                       | \$ 1,253        | (87)       |
| Corporate   | 1,237                        | 15              | NM         |
| <b>Total net revenue</b>  | <b>\$ 1,400</b>              | <b>\$ 1,268</b> | <b>10</b>  |
| <b>Net income (loss)</b>  |                              |                 |            |
| Private equity  | \$ 57                        | \$ 698          | (92)       |
| Corporate   | 970                          | (29)            | NM         |
| Merger costs  | —                            | (38)            | NM         |
| <b>Total net income</b>   | <b>\$ 1,027</b>              | <b>\$ 631</b>   | <b>63</b>  |
| <b>Headcount</b>  | <b>21,769</b>                | <b>23,702</b>   | <b>(8)</b> |

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

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

**Quarterly results**

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

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

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

### Selected income statement and balance sheet data

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

### Private equity portfolio information<sup>(e)</sup>

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

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

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

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

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

(e) For more information on the Firm's policies regarding the valuation of the private equity portfolio, see Note 3 on pages 74–79 of this Form 10-Q.

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

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

**BALANCE SHEET ANALYSIS**

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

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

**Consolidated Balance Sheets overview**

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

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

The Firm utilizes deposits with banks, federal funds sold and securities purchased under resale agreements, securities borrowed, and federal funds purchased and securities sold under repurchase agreements as part of its liquidity management activities to manage the Firm's cash positions and risk-based capital requirements, and to support the Firm's trading and risk management activities. Securities purchased under resale agreements, in particular, also facilitate providing of funding or liquidity to clients through the Firm's purchasing of clients' securities for the short term. Federal funds purchased and securities sold under repurchase agreements are used as short-term funding sources for the Firm. The increase from December 31, 2007, in securities purchased under resale agreements reflected a higher level of funds that were available for short-term investment opportunities, as well as growth in demand from clients for liquidity. The increase in federal funds purchased and securities sold under repurchase agreements was due primarily to higher short-term requirements to fulfill clients' demand for liquidity and fund the Firm's AFS securities inventory levels. For additional information on the Firm's Liquidity Risk Management, see pages 46–48 of this Form 10-Q.

**Trading assets and liabilities – debt and equity instruments**

The Firm uses debt and equity trading instruments for both market-making and proprietary risk-taking activities. These instruments consist primarily of fixed income securities, including government and corporate debt; equity, including convertible securities; loans (including certain prime mortgage and other loans warehoused by RFS and IB for sale or securitization purposes and accounted for at fair value under SFAS 159); and physical commodities inventories. The decreases in trading assets and liabilities from December 31, 2007, were due primarily to the more challenging capital markets environment, particularly for debt securities. For additional information, refer to Note 4 and Note 5 on pages 80–81 and 81–83, respectively, of this Form 10-Q.

**Trading assets and liabilities – derivative receivables and payables**

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

**Securities**

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

**Loans and allowance for loan losses**

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

**Goodwill**

Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed. The increase in goodwill largely resulted from the purchase of an additional equity interest in Highbridge. For additional information, see Note 16 on pages 98–101 of this Form 10-Q.

**Other intangible assets**

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



**Deposits**

The Firm's deposits represent a liability to customers, both retail and wholesale, for funds held on their behalf. Deposits are generally classified by location (U.S. and non-U.S.), whether they are interest or noninterest-bearing, and by type (i.e., demand, money market deposit accounts, savings, time or negotiable order of withdrawal accounts). Deposits help provide a stable and consistent source of funding for the Firm. Deposits rose from December 31, 2007, due to increases in wholesale interest- and noninterest-bearing U.S. deposits in TSS, and in consumer deposits (in particular, interest-bearing deposits in RFS); both increases were driven by growth in business volumes. For more information on deposits, refer to the TSS and RFS segment discussions and the Liquidity Risk Management discussion on pages 31–32, 20–26, and 46–48, respectively, of this Form 10-Q. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 29–30 and 31–32, respectively, of this Form 10-Q.

**Long-term debt and trust preferred capital debt securities**

The Firm utilizes long-term debt and trust preferred capital debt securities to preserve stable, reliable and cost-effective sources of funding as part of its longer-term liquidity and capital management activities. Long-term debt and trust preferred capital debt securities increased from December 31, 2007, primarily reflecting net new issuances. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 46–48 of this Form 10-Q.

**Stockholders' equity**

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

**CAPITAL MANAGEMENT**

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

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

**Line of business equity**

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

In accordance with SFAS 142, the lines of business perform the required goodwill impairment testing. For a further discussion of goodwill and impairment testing, see Critical Accounting Estimates Used by the Firm and Note 18 on pages 98 and 154, respectively, of JPMorgan Chase’s 2007 Annual Report, and Note 16 on pages 98–99 of this Form 10-Q.

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

**Economic risk capital**

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

| Economic risk capital<br>(in billions)   | Quarterly Averages |                 |                 |
|--|--------------------|-----------------|-----------------|
|  | 1Q08               | 4Q07            | 1Q07            |
| Credit risk <sup>(a)</sup>               | \$ 32.9            | \$ 33.0         | \$ 27.7         |
| Market risk                              | 8.7                | 8.9             | 9.4             |
| Operational risk                         | 5.6                | 5.6             | 5.6             |
| Private equity risk                      | 4.3                | 3.9             | 3.6             |
| Economic risk capital                    | 51.5               | 51.4            | 46.3            |
| Goodwill                                 | 45.7               | 45.3            | 45.1            |
| Other <sup>(b)</sup>                     | 27.4               | 24.9            | 24.8            |
| <b>Total common stockholders’ equity</b> | <b>\$ 124.6</b>    | <b>\$ 121.6</b> | <b>\$ 116.2</b> |

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

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

**Regulatory capital**

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

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

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

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

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

- (a) Asset and capital amounts for JPMorgan Chase’s banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.
- (b) As defined by the regulations issued by the Federal Reserve Board, OCC and Federal Deposit Insurance Corporation (“FDIC”).
- (c) Includes off-balance sheet risk-weighted assets in the amounts of \$350.5 billion, \$334.5 billion and \$11.3 billion, respectively, at March 31, 2008, and of \$352.7 billion, \$336.8 billion and \$13.4 billion, respectively, at December 31, 2007, for JPMorgan Chase and its significant banking subsidiaries.
- (d) Average adjusted assets for purposes of calculating the leverage ratio include total average assets adjusted for unrealized gains/losses on securities, less deductions for disallowed goodwill and other intangible assets, investments in certain subsidiaries and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.
- (e) Represents requirements for banking subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.
- (f) The minimum Tier 1 leverage ratio for bank holding companies and banks is 3% or 4% depending on factors specified in regulations issued by the Federal Reserve Board and OCC.

**Basel II**

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

**Dividends**

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

**Issuance**

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

**Stock repurchases**

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

The current \$10.0 billion authorization to repurchase stock will be utilized at management’s discretion, and the timing of purchases and the exact number of shares purchased will depend on market conditions and alternative investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases, privately negotiated transactions or utilizing Rule 10b5-1 programs; and may be suspended at any time. For additional information regarding repurchases of the Firm’s equity securities, see Part II, Item 2, Unregistered Sales of Equity Securities and Use of Proceeds, on page 119 of this Form 10-Q.

**OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS**

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

**Special-purpose entities**

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

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

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

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

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

*Special-purpose entities revenue*

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

| Revenue from VIEs and QSPEs<br>(in millions) | Three months ended March 31, |               |
|--|------------------------------|---------------|
|  | 2008                         | 2007          |
| <b>VIEs:(a)</b>                              |                              |               |
| Multi-seller conduits                        | \$ 57                        | \$ 38         |
| Investor intermediation                      | (3)                          | 9             |
| <b>Total VIEs</b>                            | <b>54</b>                    | <b>47</b>     |
| <b>QSPEs</b>                                 | <b>898</b>                   | <b>846</b>    |
| <b>Total</b>                                 | <b>\$ 952</b>                | <b>\$ 893</b> |

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

*American Securitization Forum subprime adjustable rate mortgage loans modifications*

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

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

**Off-balance sheet lending-related financial instruments and guarantees**

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or the Firm be required to fulfill its obligation under the guarantee, and the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without a default occurring or without being drawn. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. Further, certain commitments, primarily related to consumer financings, are cancelable, upon notice, at the option of the Firm. For further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see Credit Risk Management on pages 73–89 and Note 31 on pages 170–173 of JPMorgan Chase's 2007 Annual Report.

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

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

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

(b) Includes unused advised lines of credit totaling \$37.7 billion at March 31, 2008, and \$38.4 billion at December 31, 2007, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable. See the Glossary of Terms on pages 109–111 of this Form 10-Q for the Firm's definition of advised lines of credit.

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

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

(e) Included in other unfunded commitments to extend credit are commitments to investment and noninvestment grade counterparties in connection with leveraged acquisitions of \$8.3 billion and \$8.2 billion at March 31, 2008, and December 31, 2007, respectively.

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

(g) JPMorgan Chase held collateral relating to \$17.1 billion and \$15.8 billion of these arrangements at March 31, 2008, and December 31, 2007, respectively.

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

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

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

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

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## **RISK MANAGEMENT**

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

For further discussion of these risks, see pages 69–95 of JPMorgan Chase's 2007 Annual Report.

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## **LIQUIDITY RISK MANAGEMENT**

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The following discussion of JPMorgan Chase's liquidity management framework highlights developments since December 31, 2007, and should be read in conjunction with pages 70–73 of JPMorgan Chase's 2007 Annual Report.

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

### **Funding**

#### **Sources of funds**

As of March 31, 2008, the Firm's liquidity position remained strong based upon its liquidity metrics. JPMorgan Chase's long-dated funding, including core liabilities, exceeded illiquid assets, and the Firm believes its obligations can be met even if access to funding is impaired.

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

The diversity of the Firm's funding sources enhances financial flexibility and limits dependence on any one source, thereby minimizing the cost of funds. The deposits held by the RFS, CB, TSS and AM lines of business are generally a consistent source of funding for JPMorgan Chase Bank, N.A. As of March 31, 2008, total deposits for the Firm were \$761.6 billion. A significant portion of the Firm's deposits are retail deposits, which are less sensitive to interest rate changes and therefore are considered more stable than market-based (i.e., wholesale) liability balances. The Firm also benefits from substantial liability balances originated by RFS, CB, TSS and AM through the normal course of business. Liability balances include deposits and deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased and securities sold under repurchase agreements). These franchise-generated liability balances are also a stable and consistent source of funding due to the nature of the businesses from which they are generated. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance Sheet Analysis on pages 15–35 and 38–40, respectively, of this Form 10-Q.

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

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

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

### **Issuance**

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

In connection with the issuance of certain of its trust preferred capital debt securities as well as the preferred stock issued on April 23, 2008, the Firm has entered into Replacement Capital Covenants ("RCCs") granting certain rights to the holder of "covered debt," as defined in the RCCs, that prohibit the repayment, redemption or purchase of the trust preferred capital debt securities except, with limited exceptions, to the extent that JPMorgan Chase has received specified amounts of proceeds from the sale of certain qualifying securities. Currently the Firm's covered debt is its 5.875% Junior Subordinated Deferrable Interest Debentures, Series O, due in 2035. For more information regarding these covenants, reference is made to the respective RCCs entered into by the Firm in connection with the issuances of such trust preferred capital debt securities, which are filed with the U.S. Securities and Exchange Commission under cover of Forms 8-K.

### **Cash Flows**

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

#### *Cash Flows from Operating Activities*

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

#### *Cash Flows from Investing Activities*

The Firm's investing activities primarily include originating loans to be held to maturity, other receivables, and the available-for-sale investment portfolio. For the quarter ended March 31, 2008, net cash of \$68.5 billion was used in investing activities, primarily for purchases of investment securities in Corporate's AFS portfolio to manage the Firm's exposure to interest rates; net additions to the wholesale loan portfolio, primarily from increased lending activities across all the wholesale businesses; additions to the mortgage portfolio as a result of the decision to retain rather than sell new originations of prime mortgage loans; and an increase in securities purchased under resale agreements reflecting a higher level of available funds for short-term investment opportunities, as well as growth in demand from clients for liquidity. Partially offsetting these uses of cash were proceeds from sales and maturities of AFS securities, credit card securitization activities, the seasonal decline in consumer credit card receivables and cash received from the sale of an investment net of acquisitions.



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

### *Cash Flows from Financing Activities*

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

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

### **Credit ratings**

The credit ratings of JPMorgan Chase's parent holding company and each of its significant banking subsidiaries as of March 31, 2008, were as follows.

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

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

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

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## **CREDIT RISK MANAGEMENT**

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

The Firm assesses its consumer credit exposure on a managed basis, which includes credit card receivables that have been securitized. For a reconciliation of the provision for credit losses on a reported basis to managed basis, see pages 13–14 of this Form 10-Q.

**CREDIT PORTFOLIO**

The following table presents JPMorgan Chase's credit portfolio as of March 31, 2008, and December 31, 2007. Total credit exposure at March 31, 2008, increased \$47.0 billion from December 31, 2007, reflecting increases of \$31.9 billion and \$15.1 billion in the wholesale and consumer portfolios, respectively. During the first quarter of 2008, derivative receivables increased \$22.0 billion, managed loans increased \$20.0 billion (\$18.2 billion and \$1.8 billion in the wholesale and consumer portfolios, respectively) and lending-related commitments increased \$5.0 billion (\$13.3 billion in the consumer portfolio offset by a decrease of \$8.3 billion in the wholesale portfolio).

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

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

| (in millions, except ratios)       | Three months ended March 31, |                 |                                    |              |
|------------------------------------|------------------------------|-----------------|------------------------------------|--------------|
|                                    | Net charge-offs              |                 | Average annual net charge-off rate |              |
|                                    | 2008                         | 2007            | 2008                               | 2007         |
| <b>Total credit portfolio</b>      |                              |                 |                                    |              |
| Loans – reported                   | \$ 1,906                     | \$ 903          | 1.53%                              | 0.85%        |
| Loans – securitized <sup>(b)</sup> | 681                          | 593             | 3.70                               | 3.56         |
| <b>Total managed loans</b>         | <b>\$ 2,587</b>              | <b>\$ 1,496</b> | <b>1.81%</b>                       | <b>1.22%</b> |

- (a) Loans (other than those for which the SFAS 159 fair value option has been elected) are presented net of unearned income and net deferred loan fees of \$811 million and \$1.0 billion at March 31, 2008, and December 31, 2007, respectively.
- (b) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Card Services on pages 26–28 of this Form 10-Q.
- (c) Loans past due 90 days and over and accruing includes credit card receivables-reported of \$1.6 billion and \$1.5 billion at March 31, 2008, and December 31, 2007, respectively, and related credit card securitizations of \$1.2 billion and \$1.1 billion at March 31, 2008, and December 31, 2007, respectively.
- (d) Included credit card and home equity lending-related commitments of \$730.5 billion and \$73.0 billion, respectively, at March 31, 2008; and \$714.8 billion and \$74.2 billion, respectively, at December 31, 2007. These amounts for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. For credit card commitments and if certain conditions are met for home equity commitments, the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.
- (e) Includes wholesale unused advised lines of credit totaling \$37.7 billion and \$38.4 billion at March 31, 2008, and December 31, 2007, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.
- (f) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. Includes \$33.9 billion and \$31.1 billion at March 31, 2008, and December 31, 2007, respectively, which represents the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio.
- (g) Represents other liquid securities collateral held by the Firm as of March 31, 2008, and December 31, 2007, respectively.

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- (h) Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.8 billion and \$1.5 billion at March 31, 2008, and December 31, 2007, respectively, and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of \$252 million and \$279 million at March 31, 2008, and December 31, 2007, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

## WHOLESALE CREDIT PORTFOLIO

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

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

(a) Includes loans greater or equal to 90 days past due that continue to accrue interest. The principal balance of these loans totaled \$78 million and \$75 million at March 31, 2008, and December 31, 2007, respectively. Also, see Note 4 on pages 80–81 and Note 12 on pages 86–88 respectively, of this Form 10-Q.

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

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

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

## Net charge-offs/(recoveries)

### Wholesale

| (in millions, except ratios)                                 | Three months ended March 31, |         |
|--|------------------------------|---------|
|  | 2008                         | 2007    |
| Loans – reported   |                              |         |
| Net charge-offs (recoveries)                                 | \$ 92                        | \$ (6)  |
| Average annual net charge-off (recovery) rate <sup>(a)</sup> | 0.18%                        | (0.02)% |

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

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

**Nonperforming loan activity**

**Wholesale**

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

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

**Wholesale credit exposure – maturity and ratings profile**

| At March 31, 2008<br>(in billions, except ratios)                  | Maturity profile <sup>(c)</sup> |             |            |             | Ratings profile                                    |   |               |                  |
|--|---------------------------------|-------------|------------|-------------|--|---|---------------|------------------|
|  | <1 year                         | 1 - 5 years | > 5 years  | Total       | Investment-grade ("IG")<br>AAA/Aaa to<br>BBB-/Baa3 | Noninvestment-grade<br>BB+/Ba1<br>& below | Total         | Total %<br>of IG |
| Loans  | 42%                             | 43%         | 15%        | 100%        | \$ 139   | \$ 73                                     | \$ 212        | 66%              |
| Derivative receivables   | 20                              | 41          | 39         | 100         | 80   | 19  | 99            | 81               |
| Lending-related commitments  | 37                              | 57          | 6          | 100         | 371  | 67  | 438           | 85               |
| <b>Total excluding loans held-for-sale and loans at fair value</b> | <b>36%</b>                      | <b>52%</b>  | <b>12%</b> | <b>100%</b> | <b>\$ 590</b>                                      | <b>\$ 159</b>                             | <b>\$ 749</b> | <b>79%</b>       |
| Loans held-for-sale and loans at fair value <sup>(a)</sup>         |                                 |             |            |             |  |   | 20            |                  |
| <b>Total exposure</b>  |                                 |             |            |             |  |   | <b>\$ 769</b> |                  |
| Net credit derivative hedges notional <sup>(b)</sup>               | 22%                             | 73%         | 5%         | 100%        | \$ (79)  | \$ —                                      | \$ (79)       | 100%             |

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

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

(b) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. Includes \$33.9 billion and \$31.1 billion at March 31, 2008, and December 31, 2007, respectively, which represents the notional amount of structured portfolio protection; the Firm retains a minimal first risk of loss on this portfolio. Prior periods have been revised to reflect the current presentation.

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

### Wholesale credit exposure – selected industry concentration

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

| Top 10 industries <sup>(a)</sup><br>(in millions, except ratios)   | March 31, 2008                 |                | December 31, 2007              |                |
|--|--------------------------------|----------------|--------------------------------|----------------|
|  | Credit exposure <sup>(d)</sup> | % of portfolio | Credit exposure <sup>(d)</sup> | % of portfolio |
| Banks and finance companies  | \$ 72,487                      | 10%            | \$ 65,288                      | 9%             |
| Asset managers   | 44,291                         | 6              | 38,554                         | 6              |
| Real estate  | 39,500                         | 5              | 38,295                         | 5              |
| Consumer products  | 35,685                         | 5              | 29,941                         | 4              |
| Healthcare   | 34,303                         | 4              | 30,746                         | 4              |
| State and municipal governments                                    | 31,910                         | 4              | 31,425                         | 5              |
| Utilities  | 30,862                         | 4              | 28,679                         | 4              |
| Securities firms and exchanges                                     | 30,789                         | 4              | 23,274                         | 3              |
| Retail and consumer services                                       | 27,563                         | 4              | 23,969                         | 3              |
| Oil and gas  | 26,634                         | 4              | 26,082                         | 4              |
| All other <sup>(b)</sup>   | 374,498                        | 50             | 376,962                        | 53             |
| <b>Total excluding loans held-for-sale and loans at fair value</b> | <b>\$ 748,522</b>              | <b>100%</b>    | <b>\$ 713,215</b>              | <b>100%</b>    |
| Loans held-for-sale and loans at fair value <sup>(c)</sup>         | 20,277                         |                | 23,649                         |                |
| <b>Total</b>   | <b>\$ 768,799</b>              |                | <b>\$ 736,864</b>              |                |

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

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

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

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

### Wholesale criticized exposure

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

### Wholesale criticized exposure – industry concentrations

| Top 10 industries <sup>(a)</sup><br>(in millions, except ratios)   | March 31, 2008   |                | December 31, 2007 |                |
|--|------------------|----------------|-------------------|----------------|
|  | Credit exposure  | % of portfolio | Credit exposure   | % of portfolio |
| Real estate  | \$ 1,811         | 18%            | \$ 1,070          | 16%            |
| Automotive   | 1,437            | 14             | 1,338             | 20             |
| Banks and finance companies  | 1,139            | 11             | 498               | 7              |
| Building materials/construction                                    | 765              | 7              | 345               | 5              |
| Asset managers   | 681              | 7              | 212               | 3              |
| Retail and consumer services                                       | 562              | 5              | 550               | 8              |
| State and municipal government                                     | 461              | 4              | 12                | —              |
| Media  | 393              | 4              | 303               | 4              |
| Utilities  | 303              | 3              | 212               | 3              |
| Consumer products  | 300              | 3              | 239               | 4              |
| All other  | 2,460            | 24             | 2,059             | 30             |
| <b>Total excluding loans held-for-sale and loans at fair value</b> | <b>\$ 10,312</b> | <b>100%</b>    | <b>\$ 6,838</b>   | <b>100%</b>    |
| Loans held-for-sale and loans at fair value <sup>(b)</sup>         | 1,615            |                | 205               |                |
| <b>Total</b>   | <b>\$ 11,927</b> |                | <b>\$ 7,043</b>   |                |

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

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

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**Derivative contracts**

In the normal course of business, the Firm uses derivative instruments to meet the needs of customers; to generate revenue through trading activities; to manage exposure to fluctuations in interest rates, currencies and other markets; and to manage the Firm's credit exposure. For further discussion of these contracts, see Note 21 on page 103 of this Form 10-Q, and derivative contracts on pages 79–82 and Note 30 on pages 168–169 of JPMorgan Chase's 2007 Annual Report.

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

**Notional amounts of derivative contracts**

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

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

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

**Derivative receivables marked-to-market**

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

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

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

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

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

### Ratings profile of derivative receivables MTM

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

The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm's derivatives transactions subject to collateral agreements decreased slightly to 80% as of March 31, 2008, from 82% at December 31, 2007.

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

### Credit derivatives

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

### Credit derivatives positions

| (in billions)         | Notional amount                        |                    |                         |                    | Total    |
|-----------------------|--|--------------------|-------------------------|--------------------|----------|
|                       | Credit portfolio                       |                    | Dealer/client           |                    |          |
|                       | Protection<br>purchased <sup>(a)</sup> | Protection<br>sold | Protection<br>purchased | Protection<br>sold |          |
| <b>March 31, 2008</b> | \$ 80                                  | \$ 1               | \$ 4,118                | \$ 4,026           | \$ 8,225 |
| December 31, 2007     | 70                                     | 2                  | 3,999                   | 3,896              | 7,967    |

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

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

### Dealer/client

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

[Table of Contents](#)**Credit portfolio management activities****Use of single-name and portfolio credit derivatives**

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

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

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

| (in millions)  | Three months ended March 31, |               |
|--|------------------------------|---------------|
|  | 2008                         | 2007          |
| Hedges of lending-related commitments <sup>(a)</sup> | \$ 387                       | \$ (9)        |
| CVA and hedges of CVA <sup>(a)</sup>                 | (734)                        | 7             |
| <b>Net gains (losses)<sup>(b)</sup></b>              | <b>\$ (347)</b>              | <b>\$ (2)</b> |

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

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

The Firm also actively manages wholesale credit exposure through IB and CB loan and commitment sales. During the first quarter of 2008 and 2007, the Firm sold \$1.1 billion and \$1.6 billion of loans and commitments, respectively, recognizing losses of \$5 million and \$6 million, respectively. These results include any gains or losses on sales of nonperforming loans as discussed on page 50 of this Form 10-Q. These activities are not related to the Firm's securitization activities, which are undertaken for liquidity and balance sheet management purposes. For further discussion of securitization activity, see Liquidity Risk Management and Note 14 on pages 46–48, and 89–94, respectively, of this Form 10-Q.

**Lending-related commitments**

Wholesale lending-related commitments were \$438.4 billion at March 31, 2008, compared with \$446.7 billion at December 31, 2007. See page 50 of this Form 10-Q for an explanation of the decrease in exposure. In the Firm's view, the total contractual amount of these instruments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these instruments, the Firm has established a "loan-equivalent" amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based upon average portfolio historical experience, to become outstanding in the event of a default by an obligor. The loan-equivalent amount of the Firm's lending-related commitments was \$233.9 billion and \$238.7 billion as of March 31, 2008, and December 31, 2007, respectively.



**Emerging markets country exposure**

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

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

**Top 5 emerging markets country exposure**

**At March 31, 2008**

| (in billions) | Cross-border           |                        |                      |        | Local <sup>(d)</sup> | Total exposure |
|---------------|------------------------|------------------------|----------------------|--------|----------------------|----------------|
|               | Lending <sup>(a)</sup> | Trading <sup>(b)</sup> | Other <sup>(c)</sup> | Total  |                      |                |
| South Korea   | \$ 3.0                 | \$ 3.2                 | \$ 0.8               | \$ 7.0 | \$ 2.8               | \$ 9.8         |
| India         | 2.7                    | 1.5                    | 0.9                  | 5.1    | 1.1                  | 6.2            |
| Brazil        | 1.5                    | (0.4)                  | 0.4                  | 1.5    | 4.6                  | 6.1            |
| Russia        | 2.9                    | 1.9                    | 0.2                  | 5.0    | 0.2                  | 5.2            |
| China         | 2.7                    | 0.5                    | 0.4                  | 3.6    | 1.2                  | 4.8            |

**At December 31, 2007**

| (in billions) | Cross-border           |                        |                      |        | Local <sup>(d)</sup> | Total exposure |
|---------------|------------------------|------------------------|----------------------|--------|----------------------|----------------|
|               | Lending <sup>(a)</sup> | Trading <sup>(b)</sup> | Other <sup>(c)</sup> | Total  |                      |                |
| South Korea   | \$ 3.2                 | \$ 2.6                 | \$ 0.7               | \$ 6.5 | \$ 3.4               | \$ 9.9         |
| India         | 1.9                    | 0.8                    | 0.8                  | 3.5    | 0.6                  | 4.1            |
| Brazil        | 1.1                    | (0.7)                  | 1.2                  | 1.6    | 5.0                  | 6.6            |
| Russia        | 2.9                    | 1.0                    | 0.2                  | 4.1    | 0.4                  | 4.5            |
| China         | 2.2                    | 0.3                    | 0.4                  | 2.9    | 0.3                  | 3.2            |

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

**CONSUMER CREDIT PORTFOLIO**

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

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

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

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

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

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

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

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

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

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

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- (e) *The credit card and home equity lending-related commitments represent the total available lines of credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit will be utilized at the same time. For credit card commitments and if certain conditions are met for home equity commitments, the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.*
- (f) *Excludes nonperforming assets related to (1) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.8 billion and \$1.5 billion for March 31, 2008, and December 31, 2007, respectively, and (2) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$252 million and \$279 million as of March 31, 2008, and December 31, 2007, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.*
- (g) *Net charge-off rates exclude average loans held-for-sale of \$4.4 billion and \$21.7 billion for the quarters ended March 31, 2008 and 2007, respectively.*

The Firm regularly evaluates market conditions and overall economic returns and makes an initial determination of whether new originations will be held-for-investment or sold within the foreseeable future. The Firm also periodically evaluates the expected economic returns of previously originated loans under prevailing market conditions to determine whether their designation as held-for-sale or held-for-investment continues to be appropriate. When the Firm determines that a change in this designation is appropriate, the loans are transferred to the appropriate classification. In response to changes in market conditions in the second half of 2007, the Firm has designated as held-for-investment all new originations of subprime mortgage loans, as well as subprime mortgage loans that were previously designated held-for-sale. In addition, all new nonconforming prime mortgage loan originations have been designated as held-for-investment. Prime mortgage loans originated with the intent to sell are accounted for at fair value under SFAS 159 and are classified as trading assets in the Consolidated Balance Sheets.

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

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

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

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

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

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**Credit card:** JPMorgan Chase analyzes its credit card portfolio on a managed basis, which includes credit card receivables on the Consolidated Balance Sheets and those receivables sold to investors through securitization. Managed credit card receivables were \$150.9 billion at March 31, 2008, a decrease of \$6.1 billion from year-end 2007, reflecting the typical seasonal decrease of outstanding loans.

The managed credit card net charge-off rate increased to 4.37% for the first quarter of 2008, from 3.57% in the first quarter of 2007. The 30-day managed delinquency rate increased to 3.66% at March 31, 2008, from 3.48% at December 31, 2007, and 3.07% at March 31, 2007. The increase in net charge-off and delinquency rate reflects a slight deterioration in underlying credit quality, partially a result of weakness in the current economic environment including continued weakness in housing markets. The managed credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification.

**All other loans:** All other loans primarily include business banking loans (which are highly collateralized loans, often with personal loan guarantees), and education loans. As of March 31, 2008, other loans, including loans held-for-sale, were \$29.3 billion, compared with \$28.7 billion at year-end 2007.

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

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

| <b>December 31, 2007</b><br>(in billions) | Home equity   | Mortgage      | Auto          | Card reported | All other loans | Total consumer loans – reported | Card securitized | Total consumer loans – managed |
|---|---------------|---------------|---------------|---------------|-----------------|---------------------------------|------------------|--------------------------------|
| <b>Top 12 states</b>                      |               |               |               |               |                 |                                 |                  |                                |
| California                                | \$14.9        | \$13.4        | \$ 5.0        | \$11.0        | \$ 1.0          | \$ 45.3                         | \$ 9.6           | \$ 54.9                        |
| New York                                  | 14.4          | 8.0           | 3.6           | 6.6           | 4.2             | 36.8                            | 5.6              | 42.4                           |
| Texas                                     | 6.1           | 2.0           | 3.7           | 5.8           | 3.5             | 21.1                            | 5.4              | 26.5                           |
| Florida                                   | 5.3           | 6.4           | 1.6           | 4.7           | 0.5             | 18.5                            | 4.2              | 22.7                           |
| Illinois                                  | 6.7           | 3.0           | 2.2           | 4.5           | 1.9             | 18.3                            | 3.9              | 22.2                           |
| Ohio                                      | 4.9           | 1.0           | 2.9           | 3.3           | 2.6             | 14.7                            | 3.1              | 17.8                           |
| New Jersey                                | 4.4           | 2.2           | 1.7           | 3.3           | 0.5             | 12.1                            | 3.1              | 15.2                           |
| Michigan                                  | 3.7           | 1.6           | 1.3           | 2.9           | 2.3             | 11.8                            | 2.5              | 14.3                           |
| Arizona                                   | 5.7           | 1.5           | 1.8           | 1.7           | 1.8             | 12.5                            | 1.4              | 13.9                           |
| Pennsylvania                              | 1.6           | 0.9           | 1.7           | 3.2           | 0.5             | 7.9                             | 2.9              | 10.8                           |
| Colorado                                  | 2.3           | 1.3           | 1.0           | 2.0           | 0.8             | 7.4                             | 1.7              | 9.1                            |
| Indiana                                   | 2.4           | 0.6           | 1.2           | 1.8           | 1.1             | 7.1                             | 1.5              | 8.6                            |
| All other                                 | 22.4          | 14.1          | 14.7          | 33.6          | 8.0             | 92.8                            | 27.8             | 120.6                          |
| <b>Total</b>                              | <b>\$94.8</b> | <b>\$56.0</b> | <b>\$42.4</b> | <b>\$84.4</b> | <b>\$28.7</b>   | <b>\$306.3</b>                  | <b>\$72.7</b>    | <b>\$379.0</b>                 |

**ALLOWANCE FOR CREDIT LOSSES**

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

**Summary of changes in the allowance for credit losses**

| Three months ended March 31,<br>(in millions)                        | 2008                          |                               |                  | 2007                          |                               |                 |
|--|-------------------------------|-------------------------------|------------------|-------------------------------|-------------------------------|-----------------|
|  | Wholesale                     | Consumer                      | Total            | Wholesale                     | Consumer                      | Total           |
| <b>Loans:</b>  |                               |                               |                  |                               |                               |                 |
| Beginning balance at January 1,                                      | \$ 3,154                      | \$ 6,080                      | \$ 9,234         | \$ 2,711                      | \$ 4,568                      | \$ 7,279        |
| Cumulative effect of changes in accounting principles <sup>(a)</sup> | —                             | —                             | —                | (56)                          | —                             | (56)            |
| <b>Beginning balance at January 1, adjusted</b>                      | <b>3,154</b>                  | <b>6,080</b>                  | <b>9,234</b>     | <b>2,655</b>                  | <b>4,568</b>                  | <b>7,223</b>    |
| Gross charge-offs  | (130)                         | (2,024)                       | (2,154)          | (17)                          | (1,088)                       | (1,105)         |
| Gross recoveries   | 38                            | 210                           | 248              | 23                            | 179                           | 202             |
| <b>Net (charge-offs) recoveries</b>                                  | <b>(92)</b>                   | <b>(1,814)</b>                | <b>(1,906)</b>   | <b>6</b>                      | <b>(909)</b>                  | <b>(903)</b>    |
| Provision for loan losses  | 742                           | 3,677                         | 4,419            | 48                            | 931                           | 979             |
| Other  | 33 <sup>(b)</sup>             | (34) <sup>(b)</sup>           | (1)              | (16) <sup>(c)</sup>           | 17 <sup>(c)</sup>             | 1               |
| <b>Ending balance at March 31</b>                                    | <b>\$ 3,837<sup>(d)</sup></b> | <b>\$ 7,909<sup>(e)</sup></b> | <b>\$ 11,746</b> | <b>\$ 2,693<sup>(d)</sup></b> | <b>\$ 4,607<sup>(e)</sup></b> | <b>\$ 7,300</b> |
| Components:  |                               |                               |                  |                               |                               |                 |
| Asset specific <sup>(f)</sup>  | \$ 146                        | \$ 75                         | \$ 221           | \$ 54                         | \$ 70                         | \$ 124          |
| Formula-based <sup>(f)</sup>   | 3,691                         | 7,834                         | 11,525           | 2,639                         | 4,537                         | 7,176           |
| <b>Total allowance for loan losses</b>                               | <b>\$ 3,837</b>               | <b>\$ 7,909</b>               | <b>\$ 11,746</b> | <b>\$ 2,693</b>               | <b>\$ 4,607</b>               | <b>\$ 7,300</b> |
| <b>Lending-related commitments:</b>                                  |                               |                               |                  |                               |                               |                 |
| Beginning balance at January 1,                                      | \$ 835                        | \$ 15                         | \$ 850           | \$ 499                        | \$ 25                         | \$ 524          |
| Provision for lending-related commitments                            | 5                             | —                             | 5                | 29                            | —                             | 29              |
| Other  | 6 <sup>(b)</sup>              | (6) <sup>(b)</sup>            | —                | —                             | —                             | —               |
| <b>Ending balance at March 31</b>                                    | <b>\$ 846</b>                 | <b>\$ 9</b>                   | <b>\$ 855</b>    | <b>\$ 528</b>                 | <b>\$ 25</b>                  | <b>\$ 553</b>   |
| Components:  |                               |                               |                  |                               |                               |                 |
| Asset specific   | \$ 23                         | \$ —                          | \$ 23            | \$ 40                         | \$ —                          | \$ 40           |
| Formula-based  | 823                           | 9                             | 832              | 488                           | 25                            | 513             |
| <b>Total allowance for lending-related commitments</b>               | <b>\$ 846</b>                 | <b>\$ 9</b>                   | <b>\$ 855</b>    | <b>\$ 528</b>                 | <b>\$ 25</b>                  | <b>\$ 553</b>   |
| <b>Total allowance for credit losses</b>                             | <b>\$ 4,683</b>               | <b>\$ 7,918</b>               | <b>\$ 12,601</b> | <b>\$ 3,221</b>               | <b>\$ 4,632</b>               | <b>\$ 7,853</b> |

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

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

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

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

(e) The ratio of the consumer allowance for loan losses to total consumer loans was 2.63% and 1.72%, excluding consumer held-for-sale loans and loans accounted for at fair value at March 31, 2008 and 2007, respectively.

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

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

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

### Provision for credit losses

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

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

## MARKET RISK MANAGEMENT

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

### Value-at-risk (“VAR”)

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

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

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

**IB trading and credit portfolio VAR**

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

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

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

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

Trading VAR includes substantially all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example, correlation risk or the credit spread sensitivity of certain mortgage products. Trading VAR does not include VAR related to held-for-sale funded loans and unfunded commitments, nor the debit valuation adjustments (“DVA”) taken on derivative and structured liabilities to reflect the credit quality of the Firm. See the DVA Sensitivity table on page 63 of this Form 10-Q for further details. Trading VAR also does not include the MSR portfolio or VAR related to other corporate functions, such as Corporate and Private Equity. For a discussion of MSRs and the corporate functions, see Note 3 on pages 74–79, Note 16 on pages 99–100 and Corporate/Private Equity on pages 36–37 of this Form 10-Q, and Note 18 on pages 154–156, Note 4 on page 113 and Corporate/Private Equity on pages 59–60 of JPMorgan Chase’s 2007 Annual Report.

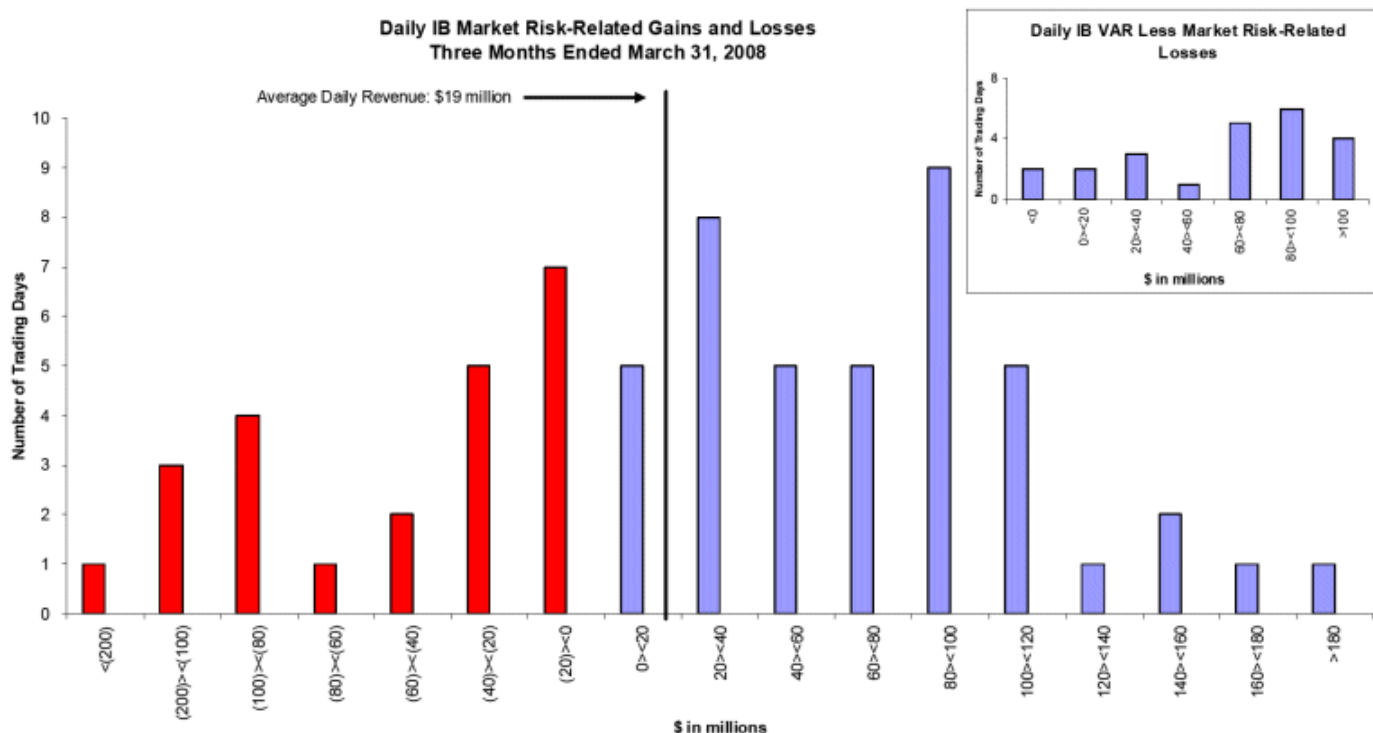
Credit portfolio VAR includes VAR on derivative credit valuation adjustments, hedges of the credit valuation adjustment and mark-to-market hedges of the retained loan portfolio, which are all reported in principal transactions revenue. For a discussion of credit valuation adjustments, see Note 4 on pages 111–118 of JPMorgan Chase’s 2007 Annual Report. This VAR does not include the retained loan portfolio, which is not marked-to-market.

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

**VAR backtesting**

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

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



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

**Debit Valuation Adjustment Sensitivity**

| (in millions)         | 1 Basis Point Increase in JPMorgan Chase Credit Spread |
|-----------------------|--|
| <b>March 31, 2008</b> | <b>\$36</b>  |
| December 31, 2007     | 38   |

**Economic value stress testing**

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



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### **Earnings-at-risk stress testing**

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

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

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

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

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

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

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### **PRIVATE EQUITY RISK MANAGEMENT**

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

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### **OPERATIONAL RISK MANAGEMENT**

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

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### **REPUTATION AND FIDUCIARY RISK MANAGEMENT**

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

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### **SUPERVISION AND REGULATION**

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

#### **Dividends**

At March 31, 2008, JPMorgan Chase's bank subsidiaries could pay, in the aggregate, \$19.8 billion in dividends to their respective bank holding companies without prior approval of their relevant banking regulators.

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**CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM**

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

**Allowance for credit losses**

JPMorgan Chase's allowance for credit losses covers the retained wholesale and consumer loan portfolios as well as the Firm's portfolio of wholesale and consumer lending-related commitments. The allowance for loan losses is intended to adjust the value of the Firm's loan assets for probable credit losses as of the balance sheet date. For a further discussion of the methodologies used in establishing the Firm's allowance for credit losses, see Note 15 on pages 138–139 of JPMorgan Chase's 2007 Annual Report. The methodology for calculating the allowance for loan losses and the allowance for lending-related commitments involves significant judgment. For a further description of these judgments, see Allowance for Credit Losses on pages 96–97 of JPMorgan Chase's 2007 Annual Report; for amounts recorded as of March 31, 2008 and 2007, see Allowance for Credit Losses on page 60 and Note 13 on pages 88–89 of this Form 10-Q.

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

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

**Fair value of financial instruments, MSRs and commodities inventory**

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

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

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

| <b>March 31, 2008</b><br>(in billions) | Debt and<br>equity securities | Derivative<br>receivables | AFS<br>securities | Mortgage<br>servicing rights | Private<br>equity | Other <sup>(b)</sup> | Total              |
|--|-------------------------------|---------------------------|-------------------|------------------------------|-------------------|----------------------|--------------------|
| Level 1                                | 43%                           | —% <sup>(a)</sup>         | 79%               | —%                           | 4%                | 23%                  | 13% <sup>(a)</sup> |
| Level 2                                | 46                            | 98 <sup>(a)</sup>         | 21                | —                            | 5                 | 51                   | 82 <sup>(a)</sup>  |
| Level 3                                | 11                            | 2 <sup>(a)</sup>          | —                 | 100                          | 91                | 26                   | 5 <sup>(a)</sup>   |

|                           |          |         |          |        |        |         |          |
|---------------------------|----------|---------|----------|--------|--------|---------|----------|
| Assets held at fair value | \$ 386.2 | \$ 99.1 | \$ 101.6 | \$ 8.4 | \$ 6.6 | \$ 44.1 | \$ 646.0 |
|---------------------------|----------|---------|----------|--------|--------|---------|----------|

Level 3 assets<sup>(c)</sup> as a percentage of total Firm:

|                      |     |
|----------------------|-----|
| Assets at fair value | 15% |
| Assets               | 6   |

| <b>December 31, 2007</b><br>(in billions) | Debt and<br>equity securities | Derivative<br>receivables | AFS<br>securities | Mortgage<br>servicing rights | Private<br>equity | Other <sup>(b)</sup> | Total              |
|---|-------------------------------|---------------------------|-------------------|------------------------------|-------------------|----------------------|--------------------|
| Level 1                                   | 49%                           | 2% <sup>(a)</sup>         | 84%               | —%                           | 1%                | 25%                  | 21% <sup>(a)</sup> |
| Level 2                                   | 45                            | 96 <sup>(a)</sup>         | 16                | —                            | 5                 | 48                   | 74 <sup>(a)</sup>  |
| Level 3                                   | 6                             | 2 <sup>(a)</sup>          | —                 | 100                          | 94                | 27                   | 5 <sup>(a)</sup>   |

|                           |          |         |         |        |        |         |          |
|---------------------------|----------|---------|---------|--------|--------|---------|----------|
| Assets held at fair value | \$ 414.3 | \$ 77.1 | \$ 85.4 | \$ 8.6 | \$ 7.2 | \$ 42.9 | \$ 635.5 |
|---------------------------|----------|---------|---------|--------|--------|---------|----------|

Level 3 assets<sup>(c)</sup> as a percentage of total Firm:

|                      |     |
|----------------------|-----|
| Assets at fair value | 13% |
| Assets               | 5   |

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

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

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

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

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

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

**Goodwill impairment**

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

**Income taxes**

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

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**ACCOUNTING AND REPORTING DEVELOPMENTS**

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**Derivatives netting – amendment of FASB Interpretation No. 39**

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

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

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

**Fair value measurements – written loan commitments**

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

**Business combinations / Noncontrolling interests in consolidated financial statements**

On December 4, 2007, the FASB issued SFAS 141R and SFAS 160, which amend the accounting and reporting of business combinations, as well as noncontrolling (i.e., minority) interests. JPMorgan Chase is currently evaluating the impact that SFAS 141R and SFAS 160 will have on its consolidated financial statements. For JPMorgan Chase, SFAS 141R is effective for business combinations that close on or after January 1, 2009. SFAS 160 is effective for JPMorgan Chase for fiscal years beginning on or after December 15, 2008.

**Accounting for transfers of financial assets and repurchase financing transactions**

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

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

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

**Investment companies**

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

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

| (in millions, except per share data)             | Three months ended March 31, |                 |
|--|------------------------------|-----------------|
|  | 2008                         | 2007            |
| <b>Revenue</b>                                   |                              |                 |
| Investment banking fees                          | \$ 1,216                     | \$ 1,739        |
| Principal transactions                           | (803)                        | 4,487           |
| Lending & deposit-related fees                   | 1,039                        | 895             |
| Asset management, administration and commissions | 3,596                        | 3,186           |
| Securities gains (losses)                        | 33                           | 2               |
| Mortgage fees and related income                 | 525                          | 476             |
| Credit card income                               | 1,796                        | 1,563           |
| Other income                                     | 1,829                        | 518             |
| <b>Noninterest revenue</b>                       | <b>9,231</b>                 | <b>12,866</b>   |
| Interest income                                  | 17,532                       | 16,620          |
| Interest expense                                 | 9,873                        | 10,518          |
| <b>Net interest income</b>                       | <b>7,659</b>                 | <b>6,102</b>    |
| <b>Total net revenue</b>                         | <b>16,890</b>                | <b>18,968</b>   |
| Provision for credit losses                      | 4,424                        | 1,008           |
| <b>Noninterest expense</b>                       |                              |                 |
| Compensation expense                             | 4,951                        | 6,234           |
| Occupancy expense                                | 648                          | 640             |
| Technology, communications and equipment expense | 968                          | 922             |
| Professional & outside services                  | 1,333                        | 1,200           |
| Marketing  | 546                          | 482             |
| Other expense                                    | 169                          | 735             |
| Amortization of intangibles                      | 316                          | 353             |
| Merger costs                                     | —                            | 62              |
| <b>Total noninterest expense</b>                 | <b>8,931</b>                 | <b>10,628</b>   |
| Income before income tax expense                 | 3,535                        | 7,332           |
| Income tax expense                               | 1,162                        | 2,545           |
| <b>Net income</b>                                | <b>\$ 2,373</b>              | <b>\$ 4,787</b> |
| <b>Net income applicable to common stock</b>     | <b>\$ 2,373</b>              | <b>\$ 4,787</b> |
| <b>Net income per common share data</b>          |                              |                 |
| Basic earnings per share                         | \$ 0.70                      | \$ 1.38         |
| Diluted earnings per share                       | \$ 0.68                      | \$ 1.34         |
| Average basic shares                             | 3,396.0                      | 3,456.4         |
| Average diluted shares                           | 3,494.7                      | 3,559.5         |
| <b>Cash dividends per common share</b>           | <b>\$ 0.38</b>               | <b>\$ 0.34</b>  |

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

**JPMORGAN CHASE & CO.**  
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| (in millions, except share data)   | March 31,<br>2008   | December 31,<br>2007 |
|--|---------------------|----------------------|
| <b>Assets</b>  |                     |                      |
| Cash and due from banks  | \$ 46,888           | \$ 40,144            |
| Deposits with banks  | 12,414              | 11,466               |
| Federal funds sold and securities purchased under resale agreements (included \$19,743 and \$19,131 at fair value at March 31, 2008, and December 31, 2007, respectively)  | 203,176             | 170,897              |
| Securities borrowed  | 81,014              | 84,184               |
| Trading assets (included assets pledged of \$82,728 at March 31, 2008, and \$79,229 at December 31, 2007)  | 485,280             | 491,409              |
| Securities (included \$101,605 and \$85,406 at fair value at March 31, 2008, and December 31, 2007, respectively, and assets pledged of \$4,483 and \$3,958 at March 31, 2008, and December 31, 2007, respectively)      | 101,647             | 85,450               |
| Loans (included \$9,777 and \$8,739 at fair value at March 31, 2008, and December 31, 2007, respectively)  | 537,056             | 519,374              |
| Allowance for loan losses  | (11,746)            | (9,234)              |
| <b>Loans, net of allowance for loan losses</b>   | <b>525,310</b>      | <b>510,140</b>       |
| Accrued interest and accounts receivable   | 50,989              | 24,823               |
| Premises and equipment   | 9,457               | 9,319                |
| Goodwill   | 45,695              | 45,270               |
| Other intangible assets:   |                     |                      |
| Mortgage servicing rights  | 8,419               | 8,632                |
| Purchased credit card relationships  | 2,140               | 2,303                |
| All other intangibles  | 3,815               | 3,796                |
| Other assets (included \$21,207 and \$22,151 at fair value at March 31, 2008, and December 31, 2007, respectively)   | 66,618              | 74,314               |
| <b>Total assets</b>  | <b>\$ 1,642,862</b> | <b>\$ 1,562,147</b>  |
| <b>Liabilities</b>   |                     |                      |
| Deposits (included \$6,639 and \$6,389 at fair value at March 31, 2008, and December 31, 2007, respectively)   | \$ 761,626          | \$ 740,728           |
| Federal funds purchased and securities sold under repurchase agreements (included \$4,906 and \$5,768 at fair value at March 31, 2008, and December 31, 2007, respectively)  | 192,633             | 154,398              |
| Commercial paper   | 50,602              | 49,596               |
| Other borrowed funds (included \$11,877 and \$10,777 at fair value at March 31, 2008, and December 31, 2007, respectively)   | 28,430              | 28,835               |
| Trading liabilities  | 157,965             | 157,867              |
| Accounts payable, accrued expense and other liabilities (included the allowance for lending-related commitments of \$855 at March 31, 2008, and \$850 at December 31, 2007, and \$25 at fair value at December 31, 2007) | 106,088             | 94,476               |
| Beneficial interests issued by consolidated variable interest entities (included \$3,076 and \$3,004 at fair value at March 31, 2008, and December 31, 2007, respectively)   | 14,524              | 14,016               |
| Long-term debt (included \$68,923 and \$70,456 at fair value at March 31, 2008, and December 31, 2007, respectively)   | 189,995             | 183,862              |
| Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities   | 15,372              | 15,148               |
| <b>Total liabilities</b>   | <b>1,517,235</b>    | <b>1,438,926</b>     |
| Commitments and contingencies (see Note 20 of this Form 10-Q)  |                     |                      |
| <b>Stockholders' equity</b>  |                     |                      |
| Preferred stock (\$1 par value; authorized 200,000,000 shares at March 31, 2008, and December 31, 2007; issued 0 shares at March 31, 2008, and December 31, 2007)  | —                   | —                    |
| Common stock (\$1 par value; authorized 9,000,000,000 shares at March 31, 2008, and December 31, 2007; issued 3,657,683,278 shares and 3,657,671,234 shares at March 31, 2008, and December 31, 2007, respectively)      | 3,658               | 3,658                |
| Capital surplus  | 78,072              | 78,597               |
| Retained earnings  | 55,762              | 54,715               |
| Accumulated other comprehensive income (loss)  | (512)               | (917)                |
| Treasury stock, at cost (256,840,322 shares at March 31, 2008, and 290,288,540 shares at December 31, 2007)  | (11,353)            | (12,832)             |
| <b>Total stockholders' equity</b>  | <b>125,627</b>      | <b>123,221</b>       |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 1,642,862</b> | <b>\$ 1,562,147</b>  |

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

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

| (in millions, except per share data)   | Three months ended March 31, |                   |
|--|------------------------------|-------------------|
|  | 2008                         | 2007              |
| <b>Common stock</b>  |                              |                   |
| Balance at January 1   | \$ 3,658                     | \$ 3,658          |
| Issuance of common stock   | —                            | —                 |
| <b>Balance at March 31</b>   | <b>3,658</b>                 | <b>3,658</b>      |
| <b>Capital surplus</b>   |                              |                   |
| Balance at January 1   | 78,597                       | 77,807            |
| Shares issued and commitments to issue common stock for employee stock-based compensation awards and related tax effects | (525)                        | (47)              |
| <b>Balance at March 31</b>   | <b>78,072</b>                | <b>77,760</b>     |
| <b>Retained earnings</b>   |                              |                   |
| Balance at January 1   | 54,715                       | 43,600            |
| Cumulative effect of change in accounting principles   | —                            | 915               |
| <b>Balance at January 1, adjusted</b>  | <b>54,715</b>                | <b>44,515</b>     |
| Net income   | 2,373                        | 4,787             |
| Cash dividends declared:   |                              |                   |
| Common stock (\$0.38 and \$0.34 per share for the three months ended March 31, 2008 and 2007, respectively)              | (1,326)                      | (1,197)           |
| <b>Balance at March 31</b>   | <b>55,762</b>                | <b>48,105</b>     |
| <b>Accumulated other comprehensive income (loss)</b>   |                              |                   |
| Balance at January 1   | (917)                        | (1,557)           |
| Cumulative effect of change in accounting principles   | —                            | (1)               |
| <b>Balance at January 1, adjusted</b>  | <b>(917)</b>                 | <b>(1,558)</b>    |
| Other comprehensive income   | 405                          | 76                |
| <b>Balance at March 31</b>   | <b>(512)</b>                 | <b>(1,482)</b>    |
| <b>Treasury stock, at cost</b>   |                              |                   |
| Balance at January 1   | (12,832)                     | (7,718)           |
| Purchase of treasury stock   | —                            | (4,002)           |
| Reissuance from treasury stock   | 1,479                        | 1,512             |
| Share repurchases related to employee stock-based compensation awards  | —                            | (129)             |
| <b>Balance at March 31</b>   | <b>(11,353)</b>              | <b>(10,337)</b>   |
| <b>Total stockholders' equity</b>  | <b>\$ 125,627</b>            | <b>\$ 117,704</b> |
| <b>Comprehensive income</b>  |                              |                   |
| Net income   | \$ 2,373                     | \$ 4,787          |
| Other comprehensive income   | 405                          | 76                |
| <b>Comprehensive income</b>  | <b>\$ 2,778</b>              | <b>\$ 4,863</b>   |

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



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

| (in millions)   | Three months ended March 31, |                  |
|---|------------------------------|------------------|
|   | 2008                         | 2007             |
| <b>Operating activities</b>   |                              |                  |
| Net income  | \$ 2,373                     | \$ 4,787         |
| Adjustments to reconcile net income to net cash used in operating activities: |                              |                  |
| Provision for credit losses   | 4,424                        | 1,008            |
| Depreciation and amortization   | 607                          | 523              |
| Amortization of intangibles   | 316                          | 353              |
| Deferred tax (benefit) expense  | (409)                        | 1,054            |
| Investment securities gains   | (33)                         | (2)              |
| Proceeds on sale of investment  | (1,540)                      | —                |
| Stock-based compensation  | 660                          | 511              |
| Originations and purchases of loans held-for-sale                             | (11,180)                     | (29,250)         |
| Proceeds from sales, securitizations and paydowns of loans held-for-sale      | 10,469                       | 31,667           |
| Net change in:  |                              |                  |
| Trading assets  | (10,920)                     | (42,056)         |
| Securities borrowed   | 3,170                        | (11,112)         |
| Accrued interest and accounts receivable                                      | (16,602)                     | (772)            |
| Other assets  | (13,846)                     | (4,341)          |
| Trading liabilities   | 13,553                       | (3,070)          |
| Accounts payable, accrued expense and other liabilities                       | 11,229                       | (181)            |
| Other operating adjustments   | 5,306                        | (637)            |
| <b>Net cash used in operating activities</b>                                  | <b>(2,423)</b>               | <b>(51,518)</b>  |
| <b>Investing activities</b>   |                              |                  |
| Net change in:  |                              |                  |
| Deposits with banks   | (948)                        | (17,426)         |
| Federal funds sold and securities purchased under resale agreements           | (31,730)                     | (3,803)          |
| Held-to-maturity securities:  |                              |                  |
| Proceeds  | 2                            | 4                |
| Available-for-sale securities:  |                              |                  |
| Proceeds from maturities  | 9,248                        | 7,791            |
| Proceeds from sales   | 21,766                       | 14,829           |
| Purchases   | (46,956)                     | (28,038)         |
| Proceeds from sales and securitization of loans held-for-investment           | 5,616                        | 14,195           |
| Other changes in loans, net   | (25,952)                     | 1,649            |
| Net cash received from sale of an investment net of acquisitions              | 802                          | —                |
| All other investing activities, net   | (341)                        | (1,047)          |
| <b>Net cash used in investing activities</b>                                  | <b>(68,493)</b>              | <b>(11,846)</b>  |
| <b>Financing activities</b>   |                              |                  |
| Net change in:  |                              |                  |
| Deposits  | 38,740                       | (14,612)         |
| Federal funds purchased and securities sold under repurchase agreements       | 38,168                       | 56,764           |
| Commercial paper and other borrowed funds                                     | (651)                        | 8,319            |
| Proceeds from the issuance of long-term debt and capital debt securities      | 19,506                       | 23,231           |
| Repayments of long-term debt and capital debt securities                      | (17,480)                     | (14,880)         |
| Net proceeds from the issuance of stock and stock-related awards              | (156)                        | 658              |
| Excess tax benefits related to stock-based compensation                       | 99                           | 216              |
| Repurchases of treasury stock   | —                            | (4,002)          |
| Cash dividends paid   | (1,319)                      | (1,207)          |
| All other financing activities, net   | 382                          | 256              |
| <b>Net cash provided by financing activities</b>                              | <b>77,289</b>                | <b>54,743</b>    |
| Effect of exchange rate changes on cash and due from banks                    | 371                          | 45               |
| Net increase (decrease) in cash and due from banks                            | 6,744                        | (8,576)          |
| Cash and due from banks at the beginning of the year                          | 40,144                       | 40,412           |
| <b>Cash and due from banks at the end of the period</b>                       | <b>\$ 46,888</b>             | <b>\$ 31,836</b> |
| Cash interest paid  | \$ 9,998                     | \$ 10,699        |
| Cash income taxes paid  | 502                          | 1,596            |

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### **NOTE 1 – BASIS OF PRESENTATION**

JPMorgan Chase & Co. (“JPMorgan Chase” or the “Firm”), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America (“U.S.”), with operations in more than 60 countries. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. For a discussion of the Firm’s business segment information, see Note 23 on pages 105–107 of this Form 10-Q.

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

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

### **NOTE 2 – BUSINESS CHANGES AND DEVELOPMENTS**

#### **Issuance of noncumulative perpetual preferred stock**

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

#### **Proceeds from Visa Inc. shares**

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

#### **Merger with The Bear Stearns Companies Inc.**

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

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

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

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

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

### **Purchase of additional interest in Highbridge Capital Management**

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

### **NOTE 3 – FAIR VALUE MEASUREMENT**

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

#### **Valuation Hierarchy**

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

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

**Assets and liabilities measured at fair value on a recurring basis**

| March 31, 2008 (in millions)   | Quoted market<br>prices in active<br>markets<br>(Level 1) | Internal models<br>with significant<br>observable market<br>parameters<br>(Level 2) | Internal models<br>with significant<br>unobservable<br>market parameters<br>(Level 3) | FIN 39<br>netting <sup>(d)</sup> | Total carrying<br>value in the<br>Consolidated<br>Balance Sheets |
|--|---|---|---|----------------------------------|--|
| Federal funds sold and securities purchased<br>under resale agreements     | \$ —  | \$ 19,743   | \$ —  | \$ —                             | \$ 19,743  |
| Trading assets:  |   |   |   |                                  |  |
| Debt and equity instruments <sup>(a)(b)</sup>                              | 167,827   | 177,516   | 40,827  | —                                | 386,170  |
| Derivative receivables   | 2,741   | 1,348,641   | 21,983  | (1,274,255)                      | 99,110   |
| <b>Total trading assets</b>  | <b>170,568</b>  | <b>1,526,157</b>  | <b>62,810</b>   | <b>(1,274,255)</b>               | <b>485,280</b>   |
| Available-for-sale securities  | 80,175  | 21,094  | 336   | —                                | 101,605  |
| Loans  | —   | 1,321   | 8,456   | —                                | 9,777  |
| Mortgage servicing rights  | —   | —   | 8,419   | —                                | 8,419  |
| Other assets:  |   |   |   |                                  |  |
| Private equity investments   | 285   | 318   | 6,002   | —                                | 6,605  |
| All other  | 10,096  | 1,239   | 3,267   | —                                | 14,602   |
| <b>Total other assets</b>  | <b>10,381</b>   | <b>1,557</b>  | <b>9,269</b>  | <b>—</b>                         | <b>21,207</b>  |
| <b>Total assets at fair value</b>  | <b>\$ 261,124</b>   | <b>\$ 1,569,872</b>   | <b>\$ 89,290</b>  | <b>\$(1,274,255)</b>             | <b>\$ 646,031</b>  |
| Deposits   | \$ —  | \$ 5,431  | \$ 1,208  | \$ —                             | \$ 6,639   |
| Federal funds purchased and securities sold<br>under repurchase agreements | —   | 4,906   | —   | —                                | 4,906  |
| Other borrowed funds   | —   | 11,738  | 139   | —                                | 11,877   |
| Trading liabilities:   |   |   |   |                                  |  |
| Debt and equity instruments  | 58,881  | 19,374  | 727   | —                                | 78,982   |
| Derivative payables  | 3,386   | 1,315,549   | 18,930  | (1,258,882)                      | 78,983   |
| <b>Total trading liabilities</b>   | <b>62,267</b>   | <b>1,334,923</b>  | <b>19,657</b>   | <b>(1,258,882)</b>               | <b>157,965</b>   |
| Accounts payable, accrued expense and other<br>liabilities <sup>(c)</sup>  | —   | —   | —   | —                                | —  |
| Beneficial interests issued by consolidated<br>VIEs                        | —   | 3,025   | 51  | —                                | 3,076  |
| Long-term debt   | —   | 47,819  | 21,104  | —                                | 68,923   |
| <b>Total liabilities at fair value</b>                                     | <b>\$ 62,267</b>  | <b>\$ 1,407,842</b>   | <b>\$ 42,159</b>  | <b>\$(1,258,882)</b>             | <b>\$ 253,386</b>  |

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| December 31, 2007 (in millions)   | Quoted market prices in active markets (Level 1) | Internal models with significant observable market parameters (Level 2) | Internal models with significant unobservable market parameters (Level 3) | FIN 39 netting <sup>(d)</sup> | Total carrying value in the Consolidated Balance Sheets |
|---|--|---|---|-------------------------------|---|
| Federal funds sold and securities purchased under resale agreements     | \$ —   | \$ 19,131   | \$ —  | \$ —                          | \$ 19,131   |
| Trading assets:   |  |   |   |                               |   |
| Debt and equity instruments <sup>(a)(b)</sup>                           | 202,483  | 187,724   | 24,066  | —                             | 414,273   |
| Derivative receivables  | 18,574   | 871,105   | 20,188  | (832,731)                     | 77,136  |
| <b>Total trading assets</b>   | <b>221,057</b>                                   | <b>1,058,829</b>  | <b>44,254</b>   | <b>(832,731)</b>              | <b>491,409</b>  |
| Available-for-sale securities   | 71,941   | 13,364  | 101   | —                             | 85,406  |
| Loans   | —  | 359   | 8,380   | —                             | 8,739   |
| Mortgage servicing rights   | —  | —   | 8,632   | —                             | 8,632   |
| Other assets:   |  |   |   |                               |   |
| Private equity investments  | 68   | 322   | 6,763   | —                             | 7,153   |
| All other   | 10,784   | 1,054   | 3,160   | —                             | 14,998  |
| <b>Total other assets</b>   | <b>10,852</b>                                    | <b>1,376</b>  | <b>9,923</b>  | <b>—</b>                      | <b>22,151</b>   |
| <b>Total assets at fair value</b>                                       | <b>\$ 303,850</b>                                | <b>\$ 1,093,059</b>   | <b>\$ 71,290</b>  | <b>\$ (832,731)</b>           | <b>\$ 635,468</b>                                       |
| Deposits  | \$ —   | \$ 5,228  | \$ 1,161  | \$ —                          | \$ 6,389  |
| Federal funds purchased and securities sold under repurchase agreements | —  | 5,768   | —   | —                             | 5,768   |
| Other borrowed funds  | —  | 10,672  | 105   | —                             | 10,777  |
| Trading liabilities:  |  |   |   |                               |   |
| Debt and equity instruments   | 73,023   | 15,659  | 480   | —                             | 89,162  |
| Derivative payables   | 19,553   | 852,055   | 19,555  | (822,458)                     | 68,705  |
| <b>Total trading liabilities</b>  | <b>92,576</b>                                    | <b>867,714</b>  | <b>20,035</b>   | <b>(822,458)</b>              | <b>157,867</b>  |
| Accounts payable, accrued expense and other liabilities <sup>(c)</sup>  | —  | —   | 25  | —                             | 25  |
| Beneficial interests issued by consolidated VIEs                        | —  | 2,922   | 82  | —                             | 3,004   |
| Long-term debt  | —  | 48,518  | 21,938  | —                             | 70,456  |
| <b>Total liabilities at fair value</b>                                  | <b>\$ 92,576</b>                                 | <b>\$ 940,822</b>   | <b>\$ 43,346</b>  | <b>\$ (822,458)</b>           | <b>\$ 254,286</b>                                       |

(a) Included loans classified as trading assets. For additional detail, see Note 6 on page 122 of JPMorgan Chase's 2007 Annual Report and Note 5 on pages 81–83 of this Form 10-Q.

(b) Included physical commodities inventories that are accounted for at the lower of cost or fair value.

(c) Included within accounts payable, accrued expense and other liabilities is the fair value adjustment for unfunded lending-related commitments accounted for at fair value.

(d) As permitted under FIN 39, the Firm has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. The increase in FIN 39 netting from December 31, 2007, was primarily driven by increases in foreign exchange and credit derivatives due to the decline in the U.S. dollar and increased credit spreads, respectively, as well as a decline in interest rates.

**Changes in level 3 recurring fair value measurements**

The table below includes a rollforward of the balance sheet amounts for the three months ended March 31, 2008 and 2007 (including the change in fair value), for financial instruments classified by the Firm within level 3 of the valuation hierarchy. When a determination is made to classify a financial instrument within level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, the Firm risk manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the valuation hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the tables do not reflect the effect of the Firm's risk management activities related to such level 3 instruments.

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| Three months ended<br>March 31, 2008<br>(in millions)   | Fair value measurements using significant unobservable inputs <sup>(c)</sup> |  |                                       |                                    |                            | Change in unrealized gains and (losses) related to financial instruments at March 31, 2008 |
|---|--|--|---------------------------------------|------------------------------------|----------------------------|--|
|   | Fair value, January 1, 2008  | Total realized/unrealized gains/(losses) | Purchases, issuances settlements, net | Transfers in and/or out of Level 3 | Fair value, March 31, 2008 |  |
| <b>Assets:</b>  |  |  |                                       |                                    |                            |  |
| Trading assets:   |  |  |                                       |                                    |                            |  |
| Debt and equity instruments                             | \$ 24,066  | \$ (689) <sup>(d)(e)</sup>               | \$ 3,831                              | \$ 13,619 <sup>(h)</sup>           | \$ 40,827                  | \$ (640) <sup>(d)(e)</sup>   |
| Net derivative receivables                              | 633  | 1,494 <sup>(d)</sup>                     | 204                                   | 722                                | 3,053                      | 1,413 <sup>(d)</sup>   |
| Available-for-sale securities                           | 101  | (101) <sup>(f)</sup>                     | 336                                   | —                                  | 336                        | (102) <sup>(f)</sup>   |
| Loans   | 8,380  | (199) <sup>(d)</sup>                     | 275                                   | —                                  | 8,456                      | (203) <sup>(d)</sup>   |
| Other assets:   |  |  |                                       |                                    |                            |  |
| Private equity instruments                              | 6,763  | 209 <sup>(d)</sup>                       | (970)                                 | —                                  | 6,002                      | (6) <sup>(d)</sup>   |
| All other   | 3,160  | 31 <sup>(g)</sup>                        | 46                                    | 30                                 | 3,267                      | 34 <sup>(g)</sup>  |
| <b>Liabilities:<sup>(b)</sup></b>                       |  |  |                                       |                                    |                            |  |
| Deposits  | \$ (1,161)   | \$ (13) <sup>(d)</sup>                   | \$ (32)                               | \$ (2) <sup>(i)</sup>              | \$ (1,208)                 | \$ (12) <sup>(d)</sup>   |
| Other borrowed funds                                    | (105)  | 36 <sup>(d)</sup>                        | (138)                                 | 68 <sup>(i)</sup>                  | (139)                      | (15) <sup>(d)</sup>  |
| Trading liabilities:                                    |  |  |                                       |                                    |                            |  |
| Debt and equity instruments                             | (480)  | (59) <sup>(d)</sup>                      | (9)                                   | (179) <sup>(i)</sup>               | (727)                      | (341) <sup>(d)</sup>   |
| Accounts payable, accrued expense and other liabilities | (25)   | 25 <sup>(d)</sup>                        | —                                     | —                                  | —                          | —  |
| Beneficial interests issued by consolidated VIEs        | (82)   | 31 <sup>(d)</sup>                        | —                                     | —                                  | (51)                       | 31 <sup>(d)</sup>  |
| Long-term debt  | (21,938)   | 245 <sup>(d)</sup>                       | 1,089                                 | (500) <sup>(i)</sup>               | (21,104)                   | 197 <sup>(d)</sup>   |

| Three months ended<br>March 31, 2007<br>(in millions)   | Fair value measurements using significant unobservable inputs <sup>(c)</sup> |  |                                       |                                    |                            | Change in unrealized gains and (losses) related to financial instruments at March 31, 2007 |
|---|--|--|---------------------------------------|------------------------------------|----------------------------|--|
|   | Fair value, January 1, 2007  | Total realized/unrealized gains/(losses) | Purchases, issuances settlements, net | Transfers in and/or out of Level 3 | Fair value, March 31, 2007 |  |
| <b>Assets:</b>  |  |  |                                       |                                    |                            |  |
| Trading assets:   |  |  |                                       |                                    |                            |  |
| Debt and equity instruments                             | \$ 9,320   | \$ (87) <sup>(d)(e)</sup>                | \$ 190                                | \$ (422)                           | \$ 9,001                   | \$ (95) <sup>(d)(e)</sup>  |
| Available-for-sale securities                           | 177  | —  | (6)                                   | —                                  | 171                        | —  |
| Loans   | 643  | 8 <sup>(d)</sup>                         | 259                                   | —                                  | 910                        | 6 <sup>(d)</sup>   |
| Other assets:   |  |  |                                       |                                    |                            |  |
| Private equity instruments <sup>(a)</sup>               | 5,493  | 1,134 <sup>(d)</sup>                     | (578)                                 | (12)                               | 6,037                      | 619 <sup>(d)</sup>   |
| All other <sup>(a)</sup>                                | 1,591  | (1) <sup>(g)</sup>                       | 15                                    | —                                  | 1,605                      | (3) <sup>(g)</sup>   |
| <b>Liabilities:<sup>(b)</sup></b>                       |  |  |                                       |                                    |                            |  |
| Deposits  | \$ (385)   | \$ (4) <sup>(d)</sup>                    | \$ 6                                  | \$ —                               | \$ (383)                   | \$ —   |
| Other borrowed funds                                    | —  | —  | —                                     | —                                  | —                          | —  |
| Trading liabilities:                                    |  |  |                                       |                                    |                            |  |
| Debt and equity instruments                             | (32)   | —  | 25                                    | —                                  | (7)                        | (4) <sup>(d)</sup>   |
| Net derivative payables                                 | (2,800)  | 127 <sup>(d)</sup>                       | (54)                                  | (45) <sup>(i)</sup>                | (2,772)                    | 223 <sup>(d)</sup>   |
| Accounts payable, accrued expense and other liabilities | —  | —  | —                                     | —                                  | —                          | —  |
| Beneficial interests issued by consolidated VIEs        | (8)  | 6 <sup>(d)</sup>                         | —                                     | —                                  | (2)                        | 6 <sup>(d)</sup>   |
| Long-term debt  | (11,386)   | (313) <sup>(d)</sup>                     | (1,709)                               | —                                  | (13,408)                   | (323) <sup>(d)</sup>   |

- (a) Private equity instruments represent investments within the Corporate/Private Equity line of business. Prior period amounts for private equity instruments and all other have been revised to reflect the current presentation.
- (b) Level 3 liabilities as a percentage of total Firm liabilities at fair value was 17% at both March 31, 2008, and December 31, 2007.
- (c) MSRs are classified within level 3 of the valuation hierarchy. For a rollforward of balance sheet amounts related to MSRs, see Note 16 on pages 99–100 of this Form 10-Q.
- (d) Reported in principal transactions revenue.
- (e) Changes in fair value for Retail Financial Services mortgage loans originated with the intent to sell are measured at fair value and reported in mortgage fees and related income.
- (f) Realized gains (losses) are reported in securities gains (losses). Unrealized gains (losses) are reported in accumulated other comprehensive income (loss).
- (g) Reported in other income.
- (h) Included in the transfers in balance is approximately \$1.4 billion of losses recorded during the period principally related to mortgage-related assets.
- (i) Represents a net transfer of a liability balance.

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

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

| March 31, 2008<br>(in millions)  | Quoted market<br>prices in active<br>markets<br>(Level 1) | Internal models<br>with significant<br>observable market<br>parameters<br>(Level 2) | Internal models<br>with significant<br>unobservable<br>market<br>parameters<br>(Level 3) | Total carrying<br>value in the<br>Consolidated<br>Balance Sheets |
|--|---|---|--|--|
| Loans <sup>(a)</sup>   | \$ —  | \$ 1,396  | \$ 9,566   | \$ 10,962  |
| Other assets   | —   | 466   | —  | 466  |
| <b>Total assets at fair value on a nonrecurring basis</b>              | <b>\$ —</b>   | <b>\$ 1,862</b>   | <b>\$ 9,566</b>  | <b>\$ 11,428</b>   |
| Accounts payable, accrued expense and other liabilities <sup>(b)</sup> | \$ —  | \$ —  | \$ 100   | \$ 100   |
| <b>Total liabilities at fair value on a nonrecurring basis</b>         | <b>\$ —</b>   | <b>\$ —</b>   | <b>\$ 100</b>  | <b>\$ 100</b>  |

| December 31, 2007<br>(in millions)                                     | Quoted market<br>prices in active<br>markets<br>(Level 1) | Internal models<br>with significant<br>observable market<br>parameters<br>(Level 2) | Internal models<br>with significant<br>unobservable<br>market<br>parameters<br>(Level 3) | Total carrying<br>value in the<br>Consolidated<br>Balance Sheets |
|--|---|---|--|--|
| Loans <sup>(a)</sup>   | \$ —  | \$ 2,818  | \$ 16,196  | \$ 19,014  |
| Other assets   | —   | 267   | 126  | 393  |
| <b>Total assets at fair value on a nonrecurring basis</b>              | <b>\$ —</b>   | <b>\$ 3,085</b>   | <b>\$ 16,322</b>   | <b>\$ 19,407</b>   |
| Accounts payable, accrued expense and other liabilities <sup>(b)</sup> | \$ —  | \$ —  | \$ 103   | \$ 103   |
| <b>Total liabilities at fair value on a nonrecurring basis</b>         | <b>\$ —</b>   | <b>\$ —</b>   | <b>\$ 103</b>  | <b>\$ 103</b>  |

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

(b) Represents the fair value adjustment associated with \$630 million and \$3.2 billion of unfunded held-for-sale lending-related commitments at March 31, 2008, and December 31, 2007, respectively.

**Nonrecurring fair value changes**

The following table presents the total change in value of financial instruments for which a fair value adjustment has been included in the Consolidated Statements of Income for the three months ended March 31, 2008 and 2007, related to financial instruments held at March 31, 2008 and 2007.

| (in millions)   | Three months ended March 31, |                 |
|---|------------------------------|-----------------|
|   | 2008                         | 2007            |
| Loans   | \$ (941)                     | \$ (47)         |
| Other assets  | (121)                        | (95)            |
| Accounts payable, accrued expense and other liabilities | (55)                         | —               |
| <b>Total nonrecurring fair value gains (losses)</b>     | <b>\$ (1,117)</b>            | <b>\$ (142)</b> |

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

**Level 3 assets analysis**

Level 3 assets (including assets measured at the lower of cost or fair value) were 6% of total Firm assets at March 31, 2008. The following describes significant changes to level 3 assets during the quarter.

*Transfers in/Purchases*

Due to a significant reduction in new deal issuance that limited the Firm's ability to obtain independent quotes for certain mortgage instruments, \$8.6 billion of mortgage-related assets were transferred from level 2 into level 3. Such assets included commercial mortgage-backed securities with a rating below AAA, other noninvestment grade mortgage securities, and certain prime mortgage loans.

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The fair value of these instruments is estimated utilizing a variety of techniques emphasizing observable prices for similar instruments, where available.

- **Loans:** For commercial and residential mortgage loans that are expected to be securitized, fair value is estimated based on observable prices of asset-backed securities with similar collateral and incorporates adjustments (i.e., reductions) to these prices to account for securitization uncertainties including portfolio composition, market conditions and liquidity. If a loan is considered impaired because of obligor concerns and therefore does not qualify for inclusion in a securitization, fair value is estimated based on potential liquidation proceeds and property repossession/liquidation information, as appropriate.
- **Mortgage-backed securities:** For mortgage-backed securities, the determination of fair value may encompass benchmarking to similar instruments or analyzing default and recovery rates. In addition, indices such as ABX and CMBX, which track the performance of a series of credit default swaps based on specific types of underlying mortgages, are used in the benchmarking process where applicable.

Liquidity in certain auction rate securities markets was also significantly reduced in the first quarter of 2008 due to credit concerns with monoline bond insurers; this resulted in wide-spread auction failures and increasing rates for auction-rate securities. Third-party pricing services are either no longer providing valuations for failed auction-rate securities or are valuing such securities at par (which may not necessarily reflect prices that would be obtained in the secondary market for such securities if such a market were to develop). As a result, the Firm transferred \$2.8 billion of these securities from level 2 to level 3. In the absence of a secondary market, fair value was estimated based on a number of factors including the credit quality of the obligor, the credit quality of the bond insurer, the coupon, and the likelihood of refinancing by the issuer.

During the first quarter of 2008 the Firm also purchased approximately \$4.4 billion of reverse mortgages. These loans were classified within level 3 because of the lack of market liquidity and the limited availability of external pricing data. Fair value is estimated by benchmarking to similar instruments and utilizing a cash flow model. The primary model inputs include assumptions regarding home price inflation/volatility, life expectancy, prepayment rates, and interest rates.

### *Transfers out/Sales*

The net increase in level 3 assets due to the transfers in/purchases noted above was partially offset by the transfer of certain leveraged loans from the loans held-for-sale portfolio to the loans held-for-investment portfolio, as these loans are no longer measured at fair value on a nonrecurring basis, they are no longer included within level 3 nonrecurring fair value assets. In addition, level 3 assets declined as a result of sales of private equity investments.

### *Gains and Losses*

Gains and losses in the tables above include losses on trading debt and equity instruments of approximately \$700 million, principally from mortgage-related transactions and losses of approximately \$900 million on leveraged loans. Offsetting the losses in level 3 were gains of approximately \$1.5 billion, principally related to fixed income and equity derivatives. The Firm risk manages level 3 financial instruments using securities and derivative positions classified within level 1 or 2 of the valuation hierarchy; the effect of these risk management activities are not reflected in level 3 gains and losses included in the tables above.

For a discussion of changes in fair value of the MSR asset see Note 16 on pages 99–100 of this Form 10-Q.



**NOTE 4 – FAIR VALUE OPTION**

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

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

**Changes in value under the fair value option election**

The following tables present the changes in fair value included in the Consolidated Statements of Income for the three months ended March 31, 2008 and 2007, for items for which the fair value election was made. The profit and loss information presented below only includes the financial instruments that were elected to be measured at fair value; related risk management instruments, which are required to be measured at fair value, are not included in the table.

| Three months ended March 31,<br>(in millions)                           | 2008                                  |                     |                                      | 2007                                  |                    |                                      |
|---|---------------------------------------|---------------------|--------------------------------------|---------------------------------------|--------------------|--------------------------------------|
|   | Principal transactions <sup>(b)</sup> | Other income        | Total changes in fair value recorded | Principal transactions <sup>(b)</sup> | Other income       | Total changes in fair value recorded |
| Federal funds sold and securities purchased under resale agreements     | \$ 549                                | \$ —                | \$ 549                               | \$ 32                                 | \$ —               | \$ 32                                |
| Trading assets:   |                                       |                     |                                      |                                       |                    |                                      |
| Debt and equity instruments, excluding loans                            | 189                                   | (6) <sup>(c)</sup>  | 183                                  | 76                                    | —                  | 76                                   |
| Loans reported as trading assets:                                       |                                       |                     |                                      |                                       |                    |                                      |
| Changes in instrument-specific credit risk                              | (1,136)                               | (52) <sup>(c)</sup> | (1,188)                              | 416                                   | 5 <sup>(c)</sup>   | 421                                  |
| Other changes in fair value   | 228                                   | 393 <sup>(c)</sup>  | 621                                  | —                                     | 201 <sup>(c)</sup> | 201                                  |
| Loans:  |                                       |                     |                                      |                                       |                    |                                      |
| Changes in instrument-specific credit risk                              | (261)                                 | —                   | (261)                                | 10                                    | —                  | 10                                   |
| Other changes in fair value   | 28                                    | —                   | 28                                   | 8                                     | —                  | 8                                    |
| Other assets  | —                                     | 38 <sup>(d)</sup>   | 38                                   | —                                     | (4) <sup>(d)</sup> | (4)                                  |
| Deposits <sup>(a)</sup>   | (399)                                 | —                   | (399)                                | (144)                                 | —                  | (144)                                |
| Federal funds purchased and securities sold under repurchase agreements | (67)                                  | —                   | (67)                                 | (5)                                   | —                  | (5)                                  |
| Other borrowed funds <sup>(a)</sup>                                     | (72)                                  | —                   | (72)                                 | (38)                                  | —                  | (38)                                 |
| Trading liabilities   | (1)                                   | —                   | (1)                                  | —                                     | —                  | —                                    |
| Beneficial interests issued by consolidated VIEs                        | (175)                                 | —                   | (175)                                | (10)                                  | —                  | (10)                                 |
| Long-term debt:   |                                       |                     |                                      |                                       |                    |                                      |
| Changes in instrument-specific credit risk <sup>(a)</sup>               | 875                                   | —                   | 875                                  | 61                                    | —                  | 61                                   |
| Other changes in fair value   | (848)                                 | —                   | (848)                                | (106)                                 | —                  | (106)                                |

(a) Total change in instrument-specific credit risk related to structured notes was \$898 million and \$64 million for the three months ended March 31, 2008 and 2007, respectively, which includes adjustments for structured notes classified within deposits and other borrowed funds as well as long-term debt.

(b) Included in the amounts are gains and losses related to certain financial instruments previously carried at fair value by the Firm such as structured liabilities elected pursuant to SFAS 155 and loans purchased as part of the Investment Bank's trading activities.

(c) Reported in mortgage fees and related income.

(d) Reported in other income.

**Determination of instrument-specific credit risk for items for which a fair value election was made**

The following describes how the gains and losses included in earnings during the quarters ended March 31, 2008 and 2007, that were attributable to changes in instrument-specific credit risk, were determined.

- Loans: for floating-rate instruments, changes in value are all attributed to instrument-specific credit risk. For fixed-rate instruments, an allocation of the changes in value for the period is made between those changes in value that are interest rate-related and changes in value that are credit-related. Allocations are generally based upon an analysis of borrower-specific credit spread and recovery information, where available, or benchmarking to similar entities or industries.
- Long-term debt: changes in value attributable to instrument-specific credit risk were derived principally from observable changes in the Firm's credit spread. The gain for 2008 and 2007 was attributable to the widening of the Firm's credit spread.

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- Resale and repurchase agreements: generally, with a resale or repurchase agreement, there is a requirement that collateral be maintained with a market value equal to or in excess of the principal amount loaned. As a result, there would be no adjustment or an immaterial adjustment for instrument-specific credit related to these agreements.

### Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of March 31, 2008, and December 31, 2007, for loans and long-term debt for which the SFAS 159 fair value option has been elected. The loans were classified in trading assets – debt and equity instruments or loans.

| (in millions)                                       | March 31, 2008   |                  |  | December 31, 2007  |                   |  |
|---|--|------------------|--|--|-------------------|--|
|   | Remaining aggregate contractual principal amount outstanding | Fair value       | Fair value over (under) remaining aggregate contractual principal amount outstanding | Remaining aggregate contractual principal amount outstanding | Fair value        | Fair value over (under) remaining aggregate contractual principal amount outstanding |
| <b>Loans</b>  |  |                  |  |  |                   |  |
| Performing loans 90 days or more past due           |  |                  |  |  |                   |  |
| Loans reported as trading assets                    | \$ 14  | \$ 12            | \$ (2)   | \$ —   | \$ —              | \$ —   |
| Loans   | 11   | 11               | —  | 11   | 11                | —  |
| Nonaccrual loans                                    |  |                  |  |  |                   |  |
| Loans reported as trading assets                    | 2,899  | 915              | (1,984)  | 3,044  | 1,176             | (1,868)  |
| Loans   | 26   | 7                | (19)   | 15   | 5                 | (10)   |
| <b>Subtotal</b>                                     | <b>2,950</b>   | <b>945</b>       | <b>(2,005)</b>   | <b>3,070</b>   | <b>1,192</b>      | <b>(1,878)</b>   |
| All other performing loans                          |  |                  |  |  |                   |  |
| Loans reported as trading assets                    | 60,265   | 58,181           | (2,084)  | 56,164   | 56,638            | 474  |
| Loans   | 10,324   | 9,606            | (718)  | 9,011  | 8,580             | (431)  |
| <b>Total loans</b>                                  | <b>\$ 73,539</b>   | <b>\$ 68,732</b> | <b>\$(4,807)</b>   | <b>\$ 68,245</b>   | <b>\$ 66,410</b>  | <b>\$(1,835)</b>   |
| <b>Long-term debt</b>                               |  |                  |  |  |                   |  |
| Principal protected debt                            | \$(25,926)   | \$(26,566)       | \$ 640   | \$(24,262)   | \$(24,033)        | \$ (229)   |
| Nonprincipal protected debt <sup>(a)</sup>          | NA   | (42,357)         | NA   | NA   | (46,423)          | NA   |
| <b>Total long-term debt</b>                         | <b>NA</b>  | <b>(68,923)</b>  | <b>NA</b>  | <b>NA</b>  | <b>\$(70,456)</b> | <b>NA</b>  |
| <b>FIN 46R long-term beneficial interests</b>       |  |                  |  |  |                   |  |
| Principal protected debt                            | \$ (28)  | \$ (28)          | \$ —   | \$ (58)  | \$ (58)           | \$ —   |
| Nonprincipal protected debt <sup>(a)</sup>          | NA   | (3,048)          | NA   | NA   | (2,946)           | NA   |
| <b>Total FIN 46R long-term beneficial interests</b> | <b>NA</b>  | <b>(3,076)</b>   | <b>NA</b>  | <b>NA</b>  | <b>\$ (3,004)</b> | <b>NA</b>  |

(a) Remaining contractual principal not applicable as the return of principal is based upon performance of an underlying variable, and therefore may not occur in full.

The fair value of unfunded lending-related commitments for which the fair value option was elected was zero and \$25 million at March 31, 2008, and December 31, 2007, respectively, which was reflected as a liability and included in accounts payable, accrued expense and other liabilities. The contractual amount of such commitments was \$5 million and \$1.0 billion at March 31, 2008, and December 31, 2007, respectively.

### NOTE 5 – PRINCIPAL TRANSACTIONS

Principal transactions revenue consists of realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value), changes in fair value associated with financial instruments held by the Investment Bank (“IB”) for which the SFAS 159 fair value option was elected, and loans held-for-sale within the wholesale lines of business. Principal transactions revenue also includes private equity gains and losses.

The following table presents principal transactions revenue.

| (in millions)                               | Three months ended March 31, |                 |
|---|------------------------------|-----------------|
|   | 2008                         | 2007            |
| Trading revenue                             | \$ (1,003)                   | \$ 3,141        |
| Private equity gains <sup>(a)</sup>         | 200                          | 1,346           |
| <b>Total principal transactions revenue</b> | <b>\$ (803)</b>              | <b>\$ 4,487</b> |

(a) Includes revenue on private equity investments held in the Private Equity business within Corporate/Private Equity and those held in other business segments.

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**Trading assets and liabilities**

Trading assets include debt and equity instruments held for trading purposes that JPMorgan Chase owns (“long” positions), certain loans for which the Firm manages on a fair value basis and has elected the SFAS 159 fair value option and physical commodities inventories that are accounted for at the lower of cost or fair value. Trading liabilities include debt and equity instruments that the Firm has sold to other parties but does not own (“short” positions). The Firm is obligated to purchase instruments at a future date to cover the short positions. Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. Trading positions are carried at fair value on the Consolidated Balance Sheets. For a discussion of the valuation of trading assets and trading liabilities, see Note 4 on pages 111–118 of JPMorgan Chase’s 2007 Annual Report.

The following table presents the fair value of trading assets and trading liabilities for the dates indicated.

| (in millions)  | March 31,<br>2008 | December 31,<br>2007 |
|--|-------------------|----------------------|
| <b>Trading assets</b>  |                   |                      |
| Debt and equity instruments:                                       |                   |                      |
| U.S. government and federal agency obligations                     | \$ 29,074         | \$ 36,535            |
| U.S. government-sponsored enterprise obligations                   | 26,998            | 43,838               |
| Obligations of state and political subdivisions                    | 15,769            | 13,090               |
| Certificates of deposit, bankers’ acceptances and commercial paper | 6,257             | 8,252                |
| Debt securities issued by non-U.S. governments                     | 64,896            | 69,606               |
| Corporate debt securities  | 51,766            | 51,033               |
| Equity securities  | 89,538            | 91,212               |
| Loans  | 59,108            | 57,814               |
| Other <sup>(a)</sup>   | 42,764            | 42,893               |
| <b>Total debt and equity instruments</b>                           | <b>386,170</b>    | <b>414,273</b>       |
| Derivative receivables: <sup>(b)</sup>                             |                   |                      |
| Interest rate  | 40,371            | 36,020               |
| Credit derivatives   | 27,551            | 22,083               |
| Commodity  | 12,395            | 9,419                |
| Foreign exchange   | 12,280            | 5,616                |
| Equity   | 6,513             | 3,998                |
| <b>Total derivative receivables</b>                                | <b>99,110</b>     | <b>77,136</b>        |
| <b>Total trading assets</b>  | <b>\$ 485,280</b> | <b>\$ 491,409</b>    |
| <b>Trading liabilities</b>   |                   |                      |
| Debt and equity instruments <sup>(c)</sup>                         |                   |                      |
|  | \$ 78,982         | \$ 89,162            |
| Derivative payables: <sup>(b)</sup>                                |                   |                      |
| Interest rate  | 22,598            | 25,542               |
| Credit derivatives   | 13,686            | 11,613               |
| Commodity  | 8,417             | 6,942                |
| Foreign exchange   | 12,584            | 7,552                |
| Equity   | 21,698            | 17,056               |
| <b>Total derivative payables</b>                                   | <b>78,983</b>     | <b>68,705</b>        |
| <b>Total trading liabilities</b>                                   | <b>\$ 157,965</b> | <b>\$ 157,867</b>    |

(a) Consists primarily of private-label mortgage-backed securities, asset-backed securities and physical commodities.

(b) Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. As permitted under FIN 39, the Firm has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. The netted amount of cash collateral received and paid was \$52.7 billion and \$37.3 billion, respectively, at March 31, 2008, and \$34.9 billion and \$24.6 billion, respectively, at December 31, 2007. The Firm received and paid excess collateral of \$19.7 billion and \$3.5 billion, respectively, at March 31, 2008, and \$17.4 billion and \$2.4 billion, respectively, at December 31, 2007. This additional collateral received and paid secures potential exposure that could arise in the derivatives portfolio should the mark-to-market of the transactions move in the Firm’s favor or the client’s favor, respectively, and is not nettable against the derivative receivables or payables in the table above.

(c) Primarily represents securities sold, not yet purchased.

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

| (in millions)  | Three months ended March 31, |            |
|--|------------------------------|------------|
|  | 2008                         | 2007       |
| Trading assets – debt and equity instruments                     | \$ 401,796                   | \$ 345,870 |
| Trading assets – derivative receivables                          | 97,863                       | 58,781     |
| Trading liabilities – debt and equity instruments <sup>(a)</sup> | \$ 89,701                    | \$ 95,538  |
| Trading liabilities – derivative payables                        | 81,094                       | 57,465     |

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

### **Private equity**

Private equity investments are recorded in other assets on the Consolidated Balance Sheets. The following table presents the carrying value and cost of the private equity investment portfolio, held by the Private Equity business within Corporate/Private Equity, for the dates indicated.

| (in millions)                           | March 31, 2008 |          | December 31, 2007 |          |
|---|----------------|----------|-------------------|----------|
|   | Carrying value | Cost     | Carrying value    | Cost     |
| <b>Total private equity investments</b> | \$ 6,605       | \$ 6,536 | \$ 7,153          | \$ 6,231 |

Private equity includes investments in buyouts, growth equity and venture opportunities. These investments are accounted for under investment company guidelines. Accordingly, these investments, irrespective of the percentage of equity ownership interest held, are carried on the Consolidated Balance Sheets at fair value. Realized and unrealized gains and losses arising from changes in value are reported in principal transactions revenue in the Consolidated Statements of Income in the period that the gains or losses occur. For a discussion of the valuation of private equity investments, see Note 4 on pages 111–118 of JPMorgan Chase's 2007 Annual Report.

### **NOTE 6 – OTHER NONINTEREST REVENUE**

For a discussion of the components of and the accounting policies for the Firm's other noninterest revenue, see Note 7 on page 123 of JPMorgan Chase's 2007 Annual Report.

The following table presents the components of investment banking fees.

| (in millions)             | Three months ended March 31, |                 |
|---------------------------|------------------------------|-----------------|
|                           | 2008                         | 2007            |
| Underwriting:             |                              |                 |
| Equity                    | \$ 359                       | \$ 393          |
| Debt                      | 370                          | 868             |
| <b>Total underwriting</b> | <b>729</b>                   | <b>1,261</b>    |
| Advisory                  | 487                          | 478             |
| <b>Total</b>              | <b>\$ 1,216</b>              | <b>\$ 1,739</b> |

**NOTE 7 – INTEREST INCOME AND INTEREST EXPENSE**

Details of interest income and interest expense were as follows.

| (in millions)   | Three months ended March 31, |                 |
|---|------------------------------|-----------------|
|   | 2008                         | 2007            |
| <b>Interest income<sup>(a)</sup></b>                                |                              |                 |
| Loans   | \$ 9,285                     | \$ 8,691        |
| Securities  | 1,179                        | 1,298           |
| Trading assets  | 4,539                        | 3,737           |
| Federal funds sold and securities purchased under resale agreements | 1,455                        | 1,655           |
| Securities borrowed   | 738                          | 1,053           |
| Deposits with banks   | 336                          | 186             |
| <b>Total interest income</b>  | <b>17,532</b>                | <b>16,620</b>   |
| <b>Interest expense<sup>(a)</sup></b>                               |                              |                 |
| Interest-bearing deposits   | 4,608                        | 4,995           |
| Short-term and other liabilities                                    | 3,231                        | 3,964           |
| Long-term debt  | 1,902                        | 1,408           |
| Beneficial interests issued by consolidated VIEs                    | 132                          | 151             |
| <b>Total interest expense</b>                                       | <b>9,873</b>                 | <b>10,518</b>   |
| <b>Net interest income</b>  | <b>7,659</b>                 | <b>6,102</b>    |
| Provision for credit losses   | 4,424                        | 1,008           |
| <b>Net interest income after provision for credit losses</b>        | <b>\$ 3,235</b>              | <b>\$ 5,094</b> |

(a) Interest income and interest expense include the current period interest accruals for financial instruments measured at fair value except for financial instruments containing embedded derivatives that would be separately accounted for in accordance with SFAS 133 absent the SFAS 159 fair value election; for those instruments, all changes in value, including any interest elements, are reported in principal transactions revenue.

**NOTE 8 – PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFIT PLANS**

For a discussion of JPMorgan Chase's pension and other postretirement employee benefit ("OPEB") plans, see Note 9 on pages 124–130 of JPMorgan Chase's 2007 Annual Report.

The following table presents the components of net periodic benefit cost reported in the Consolidated Statements of Income for the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans.

| Three months ended March 31, (in millions)                          | Defined benefit pension plans |              |              |              | OPEB plans    |             |
|---|-------------------------------|--------------|--------------|--------------|---------------|-------------|
|   | U.S.                          |              | Non-U.S.     |              | 2008          | 2007        |
|   | 2008                          | 2007         | 2008         | 2007         |               |             |
| <b>Components of net periodic benefit cost</b>                      |                               |              |              |              |               |             |
| Benefits earned during the year                                     | \$ 64                         | \$ 63        | \$ 7         | \$ 9         | \$ 2          | \$ 1        |
| Interest cost on benefit obligations                                | 122                           | 117          | 38           | 36           | 19            | 21          |
| Expected return on plan assets                                      | (180)                         | (178)        | (41)         | (38)         | (25)          | (23)        |
| Amortization:   |                               |              |              |              |               |             |
| Net loss  | —                             | —            | 7            | 13           | —             | 8           |
| Prior service cost (credit)   | 1                             | 1            | —            | —            | (4)           | (4)         |
| <b>Net periodic benefit cost</b>                                    | <b>7</b>                      | <b>3</b>     | <b>11</b>    | <b>20</b>    | <b>(8)</b>    | <b>3</b>    |
| Other defined benefit pension plans <sup>(a)</sup>                  | 3                             | 1            | 4            | 16           | NA            | NA          |
| <b>Total defined benefit plans</b>                                  | <b>10</b>                     | <b>4</b>     | <b>15</b>    | <b>36</b>    | <b>(8)</b>    | <b>3</b>    |
| Total defined contribution plans                                    | 66                            | 63           | 80           | 53           | NA            | NA          |
| <b>Total pension and OPEB cost included in Compensation expense</b> | <b>\$ 76</b>                  | <b>\$ 67</b> | <b>\$ 95</b> | <b>\$ 89</b> | <b>\$ (8)</b> | <b>\$ 3</b> |

(a) Includes various defined benefit pension plans, which are individually immaterial.

The fair value of plan assets for the U.S. defined benefit pension and OPEB plans and material non-U.S. defined benefit pension plans was \$10.6 billion and \$2.8 billion, respectively, as of March 31, 2008, and \$11.4 billion and \$2.9 billion, respectively, as of December 31, 2007.

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The amount of 2008 potential contributions for the U.S. qualified defined benefit pension plan, if any, is not reasonably estimable at this time. The amount of 2008 potential contributions for U.S. non-qualified defined benefit pension plans is \$39 million. The amount of 2008 potential contributions for non-U.S. defined benefit pension plans is \$33 million and for OPEB plans is \$3 million.

**NOTE 9 – EMPLOYEE STOCK-BASED INCENTIVES**

For a discussion of the accounting policies and other information relating to employee stock-based compensation, see Note 10 on pages 131–133 of JPMorgan Chase’s 2007 Annual Report.

The Firm recognized noncash compensation expense related to its various employee stock-based incentives of \$660 million and \$511 million for the quarters ended March 31, 2008 and 2007, respectively, in its Consolidated Statements of Income. These amounts included an accrual for the estimated cost of stock awards to be granted to full career eligible employees of \$134 million and \$130 million for the quarters ended March 31, 2008 and 2007, respectively.

In the first quarter of 2008, the Firm granted 64 million restricted stock units (RSUs) with a grant date fair value of \$39.83 per RSU in connection with its annual incentive grant.

**NOTE 10 – SECURITIES**

For a discussion of accounting policies relating to securities, see Note 12 on pages 134-136 of JPMorgan Chase’s 2007 Annual Report. The following table presents realized gains and losses from available-for-sale (“AFS”) securities.

| (in millions)   | Three months ended March 31, |             |
|---|------------------------------|-------------|
|   | 2008                         | 2007        |
| Realized gains  | \$ 137                       | \$ 32       |
| Realized losses <sup>(a)</sup>                              | (104)                        | (30)        |
| <b>Net realized securities gains (losses)<sup>(b)</sup></b> | <b>\$ 33</b>                 | <b>\$ 2</b> |

(a) Includes \$16 million of losses in the first quarter of 2008 due to the permanent impairment of certain mortgage-backed securities held by the Asset Management business.

(b) Proceeds from securities sold were within approximately 2% of amortized cost for the three months ended March 31, 2008 and 2007.

The amortized cost and estimated fair value of AFS and held-to-maturity securities were as follows for the dates indicated.

| (in millions)                                    | March 31, 2008    |                        |                         |                   | December 31, 2007 |                        |                         |                  |
|--|-------------------|------------------------|-------------------------|-------------------|-------------------|------------------------|-------------------------|------------------|
|  | Amortized cost    | Gross unrealized gains | Gross unrealized losses | Fair value        | Amortized cost    | Gross unrealized gains | Gross unrealized losses | Fair value       |
| <b>Available-for-sale securities</b>             |                   |                        |                         |                   |                   |                        |                         |                  |
| U.S. government and federal agency obligations:  |                   |                        |                         |                   |                   |                        |                         |                  |
| U.S. treasuries                                  | \$ 331            | \$ —                   | \$ —                    | \$ 331            | \$ 2,470          | \$ 14                  | \$ 2                    | \$ 2,482         |
| Mortgage-backed securities                       | 312               | 1                      | 1                       | 312               | 8                 | 1                      | —                       | 9                |
| Agency obligations                               | 73                | 12                     | —                       | 85                | 73                | 9                      | —                       | 82               |
| U.S. government-sponsored enterprise obligations | 74,549            | 1,153                  | 57                      | 75,645            | 62,511            | 643                    | 55                      | 63,099           |
| Obligations of state and political subdivisions  | 440               | 1                      | 3                       | 438               | 92                | 1                      | 2                       | 91               |
| Debt securities issued by non-U.S. governments   | 5,842             | 26                     | 16                      | 5,852             | 6,804             | 18                     | 28                      | 6,794            |
| Corporate debt securities                        | 1,589             | 1                      | 2                       | 1,588             | 1,927             | 1                      | 4                       | 1,924            |
| Equity securities                                | 4,069             | 44                     | 6                       | 4,107             | 4,124             | 55                     | 1                       | 4,178            |
| Other <sup>(a)</sup>                             | 13,679            | 50                     | 482                     | 13,247            | 6,779             | 48                     | 80                      | 6,747            |
| <b>Total available-for-sale securities</b>       | <b>\$ 100,884</b> | <b>\$ 1,288</b>        | <b>\$ 567</b>           | <b>\$ 101,605</b> | <b>\$ 84,788</b>  | <b>\$ 790</b>          | <b>\$ 172</b>           | <b>\$ 85,406</b> |
| <b>Held-to-maturity securities<sup>(b)</sup></b> | <b>\$ 42</b>      | <b>\$ 1</b>            | <b>\$ —</b>             | <b>\$ 43</b>      | <b>\$ 44</b>      | <b>\$ 1</b>            | <b>\$ —</b>             | <b>\$ 45</b>     |

(a) Primarily includes privately issued mortgage-backed securities, asset-backed securities and negotiable certificates of deposit.

(b) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored entities.

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The majority of the gross unrealized losses on AFS securities at March 31, 2008, have existed for a period less than 12 months. The impairment of AFS securities is based on a variety of factors, including the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer of a security; where applicable under EITF Issue 99-20, the Firm's current estimate of the cash flows over the life of the security; and the Firm's intent and ability to retain the security in order to allow for an anticipated recovery in fair value. Based on the Firm's evaluation of these factors and other objective evidence, the Firm believes that the securities are not other than temporarily impaired as of March 31, 2008.

Included in the \$567 million of gross unrealized losses on AFS securities at March 31, 2008, was \$17 million of unrealized losses that have existed for a period of 12 months or longer. These securities are predominately rated AAA and the unrealized losses are primarily due to overall increases in market interest rates and not concerns regarding the underlying credit of the issuers. The majority of the securities with unrealized losses existing for a period of 12 months or longer are obligations of foreign governments that are members of the Organization for Economic Cooperation and Development ("OECD") and have a fair value at March 31, 2008, that is within 2% of their amortized cost basis.

### **NOTE 11 – SECURITIES FINANCING ACTIVITIES**

For a discussion of accounting policies relating to securities financing activities, see Note 13 on page 136 of JPMorgan Chase's 2007 Annual Report.

Resale agreements and repurchase agreements are generally treated as collateralized financing transactions carried on the Consolidated Balance Sheets at the amounts the securities will be subsequently sold or repurchased, plus accrued interest. On January 1, 2007, pursuant to the adoption of SFAS 159, the Firm elected fair value measurement for certain resale and repurchase agreements. For a further discussion of SFAS 159, see Note 4 on pages 80–81 of this Form 10-Q. These agreements continue to be reported within securities purchased under resale agreements and securities sold under repurchase agreements on the Consolidated Balance Sheets. Generally for agreements carried at fair value, current period interest accruals are recorded within interest income and interest expense with changes in fair value reported in principal transactions revenue. However, for financial instruments containing embedded derivatives that would be separately accounted for in accordance with SFAS 133, all changes in fair value, including any interest elements, are reported in principal transactions revenue. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41.

The following table details the components of securities financing activities at each of the dates indicated.

| (in millions)   | March 31, 2008 | December 31, 2007 |
|---|----------------|-------------------|
| Securities purchased under resale agreements <sup>(a)</sup> | \$ 201,831     | \$ 169,305        |
| Securities borrowed   | 81,014         | 84,184            |
| Securities sold under repurchase agreements <sup>(b)</sup>  | \$ 149,292     | \$ 126,098        |
| Securities loaned   | 19,514         | 10,922            |

<sup>(a)</sup> Includes resale agreements of \$19.7 billion and \$19.1 billion accounted for at fair value at March 31, 2008, and December 31, 2007, respectively.

<sup>(b)</sup> Includes repurchase agreements of \$4.9 billion and \$5.8 billion accounted for at fair value at March 31, 2008, and December 31, 2007, respectively.

JPMorgan Chase pledges certain financial instruments it owns to collateralize repurchase agreements and other securities financings. Pledged securities that can be sold or repledged by the secured party are identified as financial instruments owned (pledged to various parties) on the Consolidated Balance Sheets.

At March 31, 2008, the Firm had received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately \$413.4 billion. This collateral was generally obtained under resale or securities borrowing agreements. Of these securities, approximately \$381.3 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

### **NOTE 12 – LOANS**

The accounting for a loan may differ based upon the type of loan and/or its use in an investing or trading strategy. The measurement framework for loans in the consolidated financial statements is one of the following:

- At the principal amount outstanding, net of the allowance for loans losses, unearned income and any net deferred loan fees for loans held-for-investment;

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- At the lower of cost or fair value, with valuation changes recorded in noninterest revenue for loans that are classified as held-for-sale; or
- At fair value, with changes in fair value recorded in noninterest revenue for loans classified as trading assets or risk managed on a fair value basis.

For a detailed discussion of accounting policies relating to loans, see Note 14 on pages 137–138 of JPMorgan Chase's 2007 Annual Report. See Note 4 on pages 80–81 of this Form 10-Q for further information on the Firm's elections of fair value accounting under SFAS 159. See Note 5 on pages 81–83 of this Form 10-Q for further information on loans carried at fair value and classified as trading assets.

Interest income is recognized using the interest method, or on a basis approximating a level rate or return over the term of the loan.

Loans within the held-for-investment portfolio that management decides to sell are transferred to the held-for-sale portfolio. Transfers to held-for-sale are recorded at the lower of cost or fair value on the date of transfer. Losses attributed to credit losses are charged off to the allowance for loan losses and losses due to changes in interest rates, or exchange rates, are recognized in noninterest revenue.

Loans within the held-for-sale portfolio that management decides to retain are transferred to the held-for-investment portfolio at fair value. The allowance for loan losses is based on the Firm's allowance methodology. For a further discussion of the methodologies used in establishing the Firm's allowance for loans losses, see Note 15 on page 138 of JPMorgan Chase's 2007 Annual Report.

The composition of the loan portfolio at each of the dates indicated was as follows.

| (in millions)  | March 31,<br>2008 | December 31,<br>2007 |
|--|-------------------|----------------------|
| <b>U.S. wholesale loans:</b>                             |                   |                      |
| Commercial and industrial                                | \$ 97,608         | \$ 97,347            |
| Real estate  | 13,647            | 13,388               |
| Financial institutions                                   | 23,810            | 14,760               |
| Lease financing  | 2,268             | 2,353                |
| Other  | 4,589             | 5,405                |
| <b>Total U.S. wholesale loans</b>                        | <b>141,922</b>    | <b>133,253</b>       |
| <b>Non-U.S. wholesale loans:</b>                         |                   |                      |
| Commercial and industrial                                | 62,384            | 59,153               |
| Real estate  | 1,747             | 2,110                |
| Financial institutions                                   | 23,922            | 17,225               |
| Lease financing  | 1,154             | 1,198                |
| Other  | 168               | 137                  |
| <b>Total non-U.S. wholesale loans</b>                    | <b>89,375</b>     | <b>79,823</b>        |
| <b>Total wholesale loans:<sup>(a)</sup></b>              |                   |                      |
| Commercial and industrial                                | 159,992           | 156,500              |
| Real estate <sup>(b)</sup>                               | 15,394            | 15,498               |
| Financial institutions                                   | 47,732            | 31,985               |
| Lease financing  | 3,422             | 3,551                |
| Other  | 4,757             | 5,542                |
| <b>Total wholesale loans</b>                             | <b>231,297</b>    | <b>213,076</b>       |
| <b>Total consumer loans:<sup>(c)</sup></b>               |                   |                      |
| Home equity  | 94,968            | 94,832               |
| Mortgage   | 60,855            | 56,031               |
| Auto loans and leases                                    | 44,714            | 42,350               |
| Credit card <sup>(d)</sup>                               | 75,888            | 84,352               |
| Other  | 29,334            | 28,733               |
| <b>Total consumer loans</b>                              | <b>305,759</b>    | <b>306,298</b>       |
| <b>Total loans<sup>(e)</sup></b>                         | <b>\$ 537,056</b> | <b>\$ 519,374</b>    |
| <b>Memo:</b>   |                   |                      |
| Loans held-for-sale                                      | \$ 15,034         | \$ 18,899            |
| Loans at fair value                                      | 9,777             | 8,739                |
| <b>Total loans held-for-sale and loans at fair value</b> | <b>\$ 24,811</b>  | <b>\$ 27,638</b>     |

(a) Includes Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management.

(b) Represents credits extended for real estate-related purposes to borrowers who are primarily in the real estate development or investment businesses and for which the primary repayment is from the sale, lease, management, operations or refinancing of the property.

(c) Includes Retail Financial Services, Card Services and the Corporate/Private Equity segment.

(d) Includes billed finance charges and fees net of an allowance for uncollectible amounts.



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

The following table reflects information about the Firm's loan sales.

| (in millions)   | Three months ended March 31, |        |
|---|------------------------------|--------|
|   | 2008                         | 2007   |
| Net gains (losses) on sales of loans (including lower of cost or fair value adjustments) <sup>(a)</sup> | \$ (617)                     | \$ 218 |

(a) Excludes sales related to loans accounted for at fair value.

### Impaired loans

JPMorgan Chase accounts for and discloses nonaccrual loans as impaired loans. The following are excluded from impaired loans: small-balance, homogeneous consumer loans; loans carried at fair value or the lower of cost or fair value; debt securities; and leases.

The table below sets forth information about JPMorgan Chase's impaired loans. The Firm primarily uses the discounted cash flow method when estimating the allowance for impaired loans.

| (in millions)  | March 31,<br>2008 | December 31,<br>2007 |
|--|-------------------|----------------------|
| Impaired loans with an allowance                           | \$ 1,022          | \$ 782               |
| Impaired loans without an allowance <sup>(a)</sup>         | 18                | 28                   |
| <b>Total impaired loans</b>                                | <b>\$ 1,040</b>   | <b>\$ 810</b>        |
| Allowance for impaired loans under SFAS 114 <sup>(b)</sup> | 254               | 224                  |

(a) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance under SFAS 114.

(b) The allowance for impaired loans under SFAS 114 is included in JPMorgan Chase's allowance for loan losses.

| (in millions)  | Three months ended March 31, |        |
|--|------------------------------|--------|
|  | 2008                         | 2007   |
| Average balance of impaired loans during the period            | \$ 955                       | \$ 615 |
| Interest income recognized on impaired loans during the period | —                            | —      |

Excluded from the table above are \$383 million of mortgage and home equity loans which were modified in troubled debt restructurings as a concession to borrowers experiencing financial difficulties. The impact of these modifications was not material to the Firm's consolidated results.

### NOTE 13 – ALLOWANCE FOR CREDIT LOSSES

For a further discussion of the allowance for credit losses and the related accounting policies, see Note 15 on pages 138–139 of JPMorgan Chase's 2007 Annual Report. The table below summarizes the changes in the allowance for loan losses.

| (in millions)  | Three months ended March 31, |                 |
|--|------------------------------|-----------------|
|  | 2008                         | 2007            |
| Allowance for loan losses at January 1                               | \$ 9,234                     | \$ 7,279        |
| Cumulative effect of changes in accounting principles <sup>(a)</sup> | —                            | (56)            |
| Allowance for loan losses at January 1, adjusted                     | 9,234                        | 7,223           |
| Gross charge-offs  | (2,154)                      | (1,105)         |
| Gross recoveries   | 248                          | 202             |
| <b>Net charge-offs</b>   | <b>(1,906)</b>               | <b>(903)</b>    |
| Provision for loan losses  | 4,419                        | 979             |
| Other  | (1)                          | 1               |
| <b>Allowance for loan losses at March 31</b>                         | <b>\$ 11,746</b>             | <b>\$ 7,300</b> |
| Components:  |                              |                 |
| Asset-specific <sup>(b)</sup>  | \$ 221                       | \$ 124          |
| Formula-based <sup>(b)</sup>   | 11,525                       | 7,176           |
| <b>Total allowance for loan losses</b>                               | <b>\$ 11,746</b>             | <b>\$ 7,300</b> |

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

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

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The table below summarizes the changes in the allowance for lending-related commitments.

| (in millions)  | Three months ended March 31, |               |
|--|------------------------------|---------------|
|  | 2008                         | 2007          |
| Allowance for lending-related commitments at January 1       | \$ 850                       | \$ 524        |
| Provision for lending-related commitments                    | 5                            | 29            |
| <b>Allowance for lending-related commitments at March 31</b> | <b>\$ 855</b>                | <b>\$ 553</b> |
| Components:  |                              |               |
| Asset-specific   | \$ 23                        | \$ 40         |
| Formula-based  | 832                          | 513           |
| <b>Total allowance for lending-related commitments</b>       | <b>\$ 855</b>                | <b>\$ 553</b> |

### **NOTE 14 – LOAN SECURITIZATIONS**

For a discussion of the accounting policies relating to loan securitizations, see Note 16 on pages 139–145 of JPMorgan Chase’s 2007 Annual Report. JPMorgan Chase securitizes and sells a variety of its consumer and wholesale loans, including warehouse loans that are classified in trading assets. Consumer activities include securitizations of residential real estate, credit card, automobile and education loans that are originated or purchased by Retail Financial Services (“RFS”) and Card Services (“CS”). Wholesale activities include securitizations of purchased residential real estate loans and commercial loans (primarily real estate-related) originated by the IB.

JPMorgan Chase-sponsored securitizations utilize special purpose entities (“SPEs”) as part of the securitization process. These SPEs are structured to meet the definition of a qualifying special purpose entity (“QSPE”) (for a further discussion, see Note 1 on page 108 of JPMorgan Chase’s 2007 Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected in the Firm’s Consolidated Balance Sheets (except for retained interests, as described below) but are included on the balance sheet of the QSPE purchasing the assets. The primary purpose of these vehicles is to meet investor needs and to generate liquidity for the Firm through the sale of loans to the QSPEs. Assets held by JPMorgan Chase-sponsored securitization-related QSPEs as of March 31, 2008, and December 31, 2007, were as follows.

| (in billions)                          | March 31, 2008  | December 31, 2007 |
|--|-----------------|-------------------|
| <b>Consumer activities</b>             |                 |                   |
| Credit card                            | \$ 97.5         | \$ 92.7           |
| Auto                                   | 1.8             | 2.3               |
| Residential mortgage:                  |                 |                   |
| Prime <sup>(a)</sup>                   | 44.3            | 45.4              |
| Subprime                               | 2.8             | 3.1               |
| Education loans                        | 1.1             | 1.1               |
| <b>Wholesale activities</b>            |                 |                   |
| Residential mortgage:                  |                 |                   |
| Prime <sup>(a)</sup>                   | 31.8            | 32.9              |
| Subprime                               | 19.5            | 20.6              |
| Commercial and other <sup>(b)(c)</sup> | 108.8           | 109.6             |
| <b>Total</b>                           | <b>\$ 307.6</b> | <b>\$ 307.7</b>   |

(a) Includes Alt-A loans.

(b) Cosponsored securitizations include non-JPMorgan Chase originated assets.

(c) Commercial and other consists of commercial loans (primarily real estate) and non-mortgage consumer receivables purchased from third parties.

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The following tables summarize new securitization transactions that were completed during the three months ended March 31, 2008 and 2007; the resulting gains arising from such securitizations; certain cash flows received from such securitizations; and the key economic assumptions used in measuring the retained interests (if any) other than residential MSRs (for a discussion of residential MSRs, see Note 16 on pages 98–101 of this Form 10-Q) as of the dates of such sales.

| (in millions, except rates and where otherwise noted)             | Three months ended March 31, 2008 |      |                      |                         |                 |                      |          |                      |
|---|-----------------------------------|------|----------------------|-------------------------|-----------------|----------------------|----------|----------------------|
|   | Consumer activities               |      |                      |                         |                 | Wholesale activities |          |                      |
|   | Credit card                       | Auto | Residential mortgage |                         | Education loans | Residential mortgage |          | Commercial and other |
|   |                                   |      | Prime <sup>(b)</sup> | Subprime <sup>(e)</sup> |                 | Prime <sup>(b)</sup> | Subprime |                      |
| Principal securitized   | \$ 4,545                          | \$ — | \$ —                 | \$ —                    | \$ —            | \$ —                 | \$ —     | \$ —                 |
| Pretax gains  | 39                                | —    | —                    | —                       | —               | —                    | —        | —                    |
| <b>Cash flow information:</b>                                     |                                   |      |                      |                         |                 |                      |          |                      |
| Proceeds from securitizations                                     | \$ 4,545                          | \$ — | \$ —                 | \$ —                    | \$ —            | \$ —                 | \$ —     | \$ —                 |
| Servicing fees collected  | 14                                | —    | —                    | —                       | —               | —                    | —        | —                    |
| Other cash flows received   | 78                                | —    | —                    | —                       | —               | —                    | —        | —                    |
| Proceeds from collections reinvested in revolving securitizations | 37,467                            | —    | —                    | —                       | —               | —                    | —        | —                    |
| <b>Key assumptions (rates per annum):</b>                         |                                   |      |                      |                         |                 |                      |          |                      |
| Prepayment rate <sup>(a)</sup>                                    | 18.9%                             |      |                      |                         |                 |                      |          |                      |
|   | <b>PPR</b>                        |      |                      |                         |                 |                      |          |                      |
| Weighted-average life (in years)                                  | 0.4                               |      |                      |                         |                 |                      |          |                      |
| Expected credit losses  | 4.2%                              |      |                      |                         |                 |                      |          |                      |
| Discount rate   | 12.0%                             |      |                      |                         |                 |                      |          |                      |

| (in millions, except rates and where otherwise noted)             | Three months ended March 31, 2007 |      |                      |                         |                 |                      |            |                         |
|---|-----------------------------------|------|----------------------|-------------------------|-----------------|----------------------|------------|-------------------------|
|   | Consumer activities               |      |                      |                         |                 | Wholesale activities |            |                         |
|   | Credit card                       | Auto | Residential mortgage |                         | Education loans | Residential mortgage |            | Commercial and other    |
|   |                                   |      | Prime <sup>(b)</sup> | Subprime <sup>(e)</sup> |                 | Prime <sup>(b)</sup> | Subprime   |                         |
| Principal securitized   | \$ 5,770                          | \$ — | \$ 10,437            | \$ 2,594                | \$ —            | \$ 3,195             | \$ —       | \$ 4,755                |
| Pretax gains  | 47                                | —    | 15 <sup>(c)</sup>    | 23                      | —               | 7 <sup>(c)</sup>     | —          | —                       |
| <b>Cash flow information:</b>                                     |                                   |      |                      |                         |                 |                      |            |                         |
| Proceeds from securitizations                                     | \$ 5,770                          | \$ — | \$ 10,320            | \$ 2,631                | \$ —            | \$ 3,142             | \$ —       | \$ 4,884                |
| Servicing fees collected  | 17                                | —    | 4                    | 1                       | —               | —                    | —          | 1                       |
| Other cash flows received   | 79                                | —    | —                    | —                       | —               | —                    | —          | —                       |
| Proceeds from collections reinvested in revolving securitizations | 36,911                            | —    | —                    | —                       | —               | —                    | —          | —                       |
| <b>Key assumptions (rates per annum):</b>                         |                                   |      |                      |                         |                 |                      |            |                         |
| Prepayment rate <sup>(a)</sup>                                    | 20.4%                             |      | 18.2-24.2%           |                         |                 | 24.5-37.2%           | 29.6-37.8% | 0.0-8.0%                |
|   | <b>PPR</b>                        |      | <b>CPR</b>           |                         |                 | <b>CPR</b>           | <b>CPR</b> | <b>CPR</b>              |
| Weighted-average life (in years)                                  | 0.4                               |      | 3.2-4.0              |                         |                 | 1.3-5.2              | 2.5        | 1.3-10.2                |
| Expected credit losses  | 3.8%                              |      | — <sup>(d)</sup>     |                         |                 | 0.6-0.8%             | 1.1-1.6%   | 0.0-1.0% <sup>(d)</sup> |
| Discount rate   | 12.0%                             |      | 5.8-13.4%            |                         |                 | 6.3-20.0%            | 15.6-16.2% | 10.0-14.0%              |

(a) PPR: principal payment rate; CPR: constant prepayment rate.

(b) Includes Alt-A loans.

(c) The Firm adopted the fair value election for the IB warehouse and a portion of the RFS mortgage warehouse. The carrying value of these loans accounted for at fair value approximates the proceeds received from securitization.

(d) Expected credit losses for prime residential mortgage and certain wholesale securitizations are minimal and are incorporated into other assumptions.

(e) Interests in subprime residential mortgage securitizations for consumer activities are held by the Investment Bank and the key assumptions used in measuring these retained interests are reported under subprime residential mortgages for wholesale activities.

In addition to the amounts reported for securitization activity on the previous page, the Firm sold residential mortgage loans totaling \$29.7 billion and \$17.1 billion during the first three months of 2008 and 2007, respectively, primarily for securitization by the Government National Mortgage Association (“GNMA”), Federal National Mortgage Association (“FNMA”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”); these sales resulted in pretax gains/(losses) of \$(10) million and \$84 million, respectively.

### Retained servicing

JPMorgan Chase retains servicing responsibilities for all originated and for certain purchased residential mortgage, credit card, education and automobile loan securitizations and for certain commercial activity securitizations it sponsors, and receives servicing fees based upon the securitized loan balance plus certain ancillary fees. The Firm also retains the right to service the residential mortgage loans it sells to GNMA, FNMA and Freddie Mac. For a discussion of mortgage servicing rights, see Note 16 on pages 98–101 of this Form 10-Q.

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The Firm provides mortgage servicing on a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to the Firm is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans such as FNMA or Freddie Mac or with a private investor, insurer or guarantor. Losses on recourse servicing occur primarily when foreclosure sale proceeds of the property underlying a defaulted mortgage are less than the outstanding principal balance and accrued interest of the loan and the cost of holding and disposing of the underlying property. The Firm's mortgage loan securitizations are primarily nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the securities issued by the trust. As of March 31, 2008, and December 31, 2007, the amount of recourse obligations totaled \$545 million and \$557 million, respectively.

### Retained securitization interests

At March 31, 2008, and December 31, 2007, the Firm had, with respect to its credit card master trusts, \$18.5 billion and \$18.6 billion, respectively, related to undivided interests, and \$2.9 billion and \$2.7 billion, respectively, related to subordinated interests in accrued interest and fees on the securitized receivables, net of an allowance for uncollectible amounts. Credit card securitization trusts require the Firm to maintain a minimum undivided interest of 4% to 12% of the principal receivables in the trusts. The Firm maintained an average undivided interest in principal receivables in the trusts of approximately 21% for the three months ended March 31, 2008, and 19% for the year ended December 31, 2007.

The Firm also maintains escrow accounts up to predetermined limits for some credit card, automobile and education securitizations to cover the unlikely event of deficiencies in cash flows owed to investors. The amounts available in such escrow accounts are recorded in other assets and, as of March 31, 2008, amounted to \$80 million, \$9 million and \$3 million for credit card, automobile and education securitizations, respectively; as of December 31, 2007, these amounts were \$97 million, \$21 million and \$3 million for credit card, automobile and education securitizations, respectively.

The following table summarizes other retained securitization interests, which are primarily subordinated or residual interests, and are carried at fair value on the Firm's Consolidated Balance Sheets.

| (in millions)                                | March 31, 2008  | December 31, 2007 |
|--|-----------------|-------------------|
| <b>Consumer activities</b>                   |                 |                   |
| Credit card <sup>(a)(b)</sup>                | \$ 942          | \$ 887            |
| Auto <sup>(a)</sup>                          | 73              | 85                |
| Residential mortgage <sup>(a)</sup> :        |                 |                   |
| Prime <sup>(c)</sup>                         | 116             | 128               |
| Subprime                                     | 90              | 93                |
| Education loans                              | 56              | 55                |
| <b>Wholesale activities<sup>(d)(e)</sup></b> |                 |                   |
| Residential mortgage:                        |                 |                   |
| Prime <sup>(c)</sup>                         | 223             | 253               |
| Subprime                                     | 283             | 294               |
| Commercial and other                         | 29              | 42                |
| <b>Total<sup>(f)</sup></b>                   | <b>\$ 1,812</b> | <b>\$ 1,837</b>   |

(a) Pretax unrealized gains (losses) recorded in stockholders' equity that relate to retained securitization interests on consumer activities totaled \$(37) million and \$(14) million for credit card; \$4 million and \$3 million for automobile and \$44 million and \$44 million for residential mortgages at March 31, 2008, and December 31, 2007, respectively.

(b) The credit card retained interest amount noted above includes subordinated securities retained by the Firm totaling \$260 million and \$284 million at March 31, 2008, and December 31, 2007, respectively, that are classified as AFS securities. The securities are valued using quoted market prices and therefore are not included in the key economic assumptions and sensitivities table that follows.

(c) Includes Alt-A loans.

(d) In addition to these wholesale retained interests, the Firm also retained subordinated securities totaling \$19 million at March 31, 2008, and \$22 million at December 31, 2007, predominantly from resecuritizations activities that are classified as trading assets. These securities are valued using quoted market prices and therefore are not included in the key assumptions and sensitivities table that follows.

(e) Some consumer activities securitization interests are retained by the Investment Bank and reported under wholesale activities.

(f) In addition to the retained interests described above, the Firm also held investment-grade interests of \$7.2 billion and \$9.7 billion at March 31, 2008, and December 31, 2007, respectively, that the Firm expects to sell to investors in the normal course of its underwriting activity or that are purchased in connection with secondary market-making activities.

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The table below outlines the key economic assumptions used to determine the fair value of the Firm's retained interests other than residential MSRs (for a discussion of residential MSRs, see Note 16 on pages 98–101 of this Form 10-Q) in its securitizations at March 31, 2008, and December 31, 2007, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions.

| March 31, 2008<br>(in millions, except rates and where otherwise noted) | Consumer activities |        |                      |                           |                   | Wholesale activities |            |                          |
|---|---------------------|--------|----------------------|---------------------------|-------------------|----------------------|------------|--------------------------|
|   | Credit card         | Auto   | Residential mortgage |                           | Education loans   | Residential mortgage |            | Commercial and other     |
|   |                     |        | Prime <sup>(b)</sup> | Subprime                  |                   | Prime <sup>(b)</sup> | Subprime   |                          |
| Weighted-average life (in years)  | 0.4-0.5             | 0.9    | 4.0                  | 1.3                       | 8.1               | 0.6-9.5              | 3.3-6.0    | 0.1-8.8                  |
| Prepayment rate <sup>(a)</sup>  | 15.6-20.0%          | 1.4%   | 22.5%                | 35.5%                     | 1.0-8.0%          | 4.1-25.3%            | 19.0-29.3% | 0.0-50.0% <sup>(e)</sup> |
|   | PPR                 | ABS    | CPR                  | CPR                       | CPR               | CPR                  | CPR        | CPR                      |
| Impact of 10% adverse change  | \$ (67)             | \$ (1) | \$ (9)               | \$ —                      | \$ (1)            | \$ (9)               | \$ (15)    | \$ (1)                   |
| Impact of 20% adverse change  | (134)               | (1)    | (14)                 | (1)                       | (2)               | (18)                 | (29)       | (2)                      |
| Loss assumption   | 3.6-4.7%            | 0.6%   | —% <sup>(c)</sup>    | 0.7%                      | —% <sup>(c)</sup> | 0.8-6.2%             | 3.1%       | 0.0-1.3% <sup>(f)</sup>  |
| Impact of 10% adverse change  | \$ (112)            | \$ (1) | \$ —                 | \$ (2)                    | \$ —              | \$ (27)              | \$ (40)    | \$ (1)                   |
| Impact of 20% adverse change  | (224)               | (3)    | —                    | (4)                       | —                 | (50)                 | (101)      | (2)                      |
| Discount rate   | 13.0%               | 5.0%   | 8.7%                 | 15.0-30.0% <sup>(d)</sup> | 9.0%              | 7.3-78.0%            | 17.5-20.9% | 0.8-18.0%                |
| Impact of 10% adverse change  | \$ (2)              | \$ —   | \$ (7)               | \$ (3)                    | \$ (2)            | \$ (12)              | \$ (9)     | \$ —                     |
| Impact of 20% adverse change  | (4)                 | —      | (13)                 | (6)                       | (5)               | (23)                 | (18)       | (1)                      |

| December 31, 2007<br>(in millions, except rates and where otherwise noted) | Consumer activities |        |                      |                           |                   | Wholesale activities |          |                          |
|--|---------------------|--------|----------------------|---------------------------|-------------------|----------------------|----------|--------------------------|
|  | Credit card         | Auto   | Residential mortgage |                           | Education loans   | Residential mortgage |          | Commercial and other     |
|  |                     |        | Prime <sup>(b)</sup> | Subprime                  |                   | Prime <sup>(b)</sup> | Subprime |                          |
| Weighted-average life (in years)   | 0.4-0.5             | 0.9    | 3.7                  | 1.8                       | 8.8               | 2.9-4.9              | 3.3      | 0.3-11.0                 |
| Prepayment rate <sup>(a)</sup>   | 15.6-18.9%          | 1.4%   | 21.1%                | 26.2%                     | 1.0-8.0%          | 19.0-25.3%           | 25.6%    | 0.0-50.0% <sup>(e)</sup> |
|  | PPR                 | ABS    | CPR                  | CPR                       | CPR               | CPR                  | CPR      | CPR                      |
| Impact of 10% adverse change   | \$ (59)             | \$ (1) | \$ (8)               | \$ (1)                    | \$ (1)            | \$ (6)               | \$ (29)  | \$ (1)                   |
| Impact of 20% adverse change   | (118)               | (1)    | (13)                 | (1)                       | (2)               | (12)                 | (53)     | (2)                      |
| Loss assumption  | 3.3-4.6%            | 0.6%   | —% <sup>(c)</sup>    | 1.0%                      | —% <sup>(c)</sup> | 0.6-3.0%             | 4.1%     | 0.0-0.9% <sup>(f)</sup>  |
| Impact of 10% adverse change   | \$ (117)            | \$ (2) | \$ —                 | \$ (2)                    | \$ —              | \$ (13)              | \$ (66)  | \$ (1)                   |
| Impact of 20% adverse change   | (234)               | (3)    | —                    | (5)                       | —                 | (25)                 | (115)    | (1)                      |
| Discount rate  | 12.0%               | 6.8%   | 12.2%                | 15.0-30.0% <sup>(d)</sup> | 9.0%              | 11.0-23.9%           | 19.3%    | 1.0-18.0%                |
| Impact of 10% adverse change   | \$ (2)              | \$ —   | \$ (5)               | \$ (2)                    | \$ (3)            | \$ (13)              | \$ (14)  | \$ —                     |
| Impact of 20% adverse change   | (4)                 | (1)    | (10)                 | (4)                       | (5)               | (26)                 | (27)     | (1)                      |

(a) PPR: principal payment rate; ABS: absolute prepayment speed; CPR: constant prepayment rate.

(b) Includes Alt-A loans.

(c) Expected credit losses are minimal and are incorporated into other assumptions, as the retained interest relates to high credit quality senior securities or the underlying loans are guaranteed.

(d) Residual interests from subprime mortgage net interest margin ("NIM") securitizations are valued using a 30% discount rate.

(e) Prepayment risk on certain wholesale retained interests for commercial and other are minimal and are incorporated into other assumptions.

(f) Credit losses are minimal and incorporated into other assumptions.

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based upon a 10% or 20% variation in assumptions generally cannot be extrapolated easily because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in the table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might counteract or magnify the sensitivities.

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The table below presents information about delinquencies, net charge-offs (recoveries) and components of reported and securitized financial assets at March 31, 2008, and December 31, 2007.

| (in millions)   | Total loans                    |                                | Nonaccrual and 90 days<br>or more past due <sup>(e)</sup> |                            | Net loan charge-offs<br>(recoveries) |                |
|---|--------------------------------|--------------------------------|---|----------------------------|--------------------------------------|----------------|
|   | March 31, 2008                 | Dec. 31, 2007                  | March 31, 2008  | Dec. 31, 2007              | Three months ended March 31,         |                |
|   |                                |                                |   |                            | 2008                                 | 2007           |
| Home equity   | \$ 94,968                      | \$ 94,832                      | \$ 948  | \$ 810                     | \$ 447                               | \$ 68          |
| Mortgage  | 60,855                         | 56,031                         | 2,537   | 1,798                      | 199                                  | 23             |
| Auto loans and leases   | 44,714                         | 42,350                         | 94  | 116                        | 118                                  | 59             |
| Credit card   | 75,888                         | 84,352                         | 1,572   | 1,554                      | 989                                  | 721            |
| All other loans   | 29,334                         | 28,733                         | 335   | 341                        | 61                                   | 38             |
| <b>Total consumer loans</b>                                   | <b>305,759</b>                 | <b>306,298</b>                 | <b>5,486<sup>(f)</sup></b>                                | <b>4,619<sup>(f)</sup></b> | <b>1,814</b>                         | <b>909</b>     |
| <b>Total wholesale loans</b>                                  | <b>231,297</b>                 | <b>213,076</b>                 | <b>859</b>  | <b>589</b>                 | <b>92</b>                            | <b>(6)</b>     |
| <b>Total loans reported</b>                                   | <b>537,056</b>                 | <b>519,374</b>                 | <b>6,345</b>  | <b>5,208</b>               | <b>1,906</b>                         | <b>903</b>     |
| <b>Securitized consumer loans:</b>                            |                                |                                |   |                            |                                      |                |
| Residential mortgage  |                                |                                |   |                            |                                      |                |
| Prime <sup>(a)</sup>  | 9,292                          | 9,510                          | 103   | 64                         | —                                    | —              |
| Subprime  | 2,587                          | 2,823                          | 137   | 146                        | 13                                   | 14             |
| Automobile  | 1,755                          | 2,276                          | 5   | 6                          | 3                                    | 4              |
| Credit card   | 75,062                         | 72,701                         | 1,214   | 1,050                      | 681                                  | 593            |
| Other loans   | 1,122                          | 1,141                          | —   | —                          | —                                    | —              |
| <b>Total consumer loans<br/>securitized</b>                   | <b>89,818</b>                  | <b>88,451</b>                  | <b>1,459</b>  | <b>1,266</b>               | <b>697</b>                           | <b>611</b>     |
| <b>Securitized wholesale activities</b>                       |                                |                                |   |                            |                                      |                |
| Residential mortgage  |                                |                                |   |                            |                                      |                |
| Prime <sup>(a)</sup>  | 16,224                         | 16,839                         | 1,246   | 846                        | 9                                    | —              |
| Subprime  | 18,567                         | 19,638                         | 3,821   | 3,027                      | 242                                  | 27             |
| Commercial and other  | 3,397                          | 3,419                          | —   | —                          | 2                                    | 6              |
| <b>Total securitized wholesale<br/>activities</b>             | <b>38,188</b>                  | <b>39,896</b>                  | <b>5,067</b>  | <b>3,873</b>               | <b>253</b>                           | <b>33</b>      |
| <b>Total loans securitized<sup>(b)</sup></b>                  | <b>128,006</b>                 | <b>128,347</b>                 | <b>6,526</b>  | <b>5,139</b>               | <b>950</b>                           | <b>644</b>     |
| <b>Total loans reported and<br/>securitized<sup>(c)</sup></b> | <b>\$665,062<sup>(d)</sup></b> | <b>\$647,721<sup>(d)</sup></b> | <b>\$12,871</b>   | <b>\$10,347</b>            | <b>\$2,856</b>                       | <b>\$1,547</b> |

(a) Includes Alt-A loans.

(b) Total assets held in securitization-related SPEs were \$307.6 billion and \$307.7 billion at March 31, 2008, and December 31, 2007, respectively. The \$128.0 billion and \$128.3 billion of loans securitized at March 31, 2008, and December 31, 2007, respectively, excludes: \$156.9 billion and \$159.3 billion of securitized loans, respectively, in which the Firm's only continuing involvement is the servicing of the assets; \$18.5 billion and \$18.6 billion of seller's interests in credit card master trusts, respectively; and \$4.2 billion and \$1.5 billion of escrow accounts and other assets, respectively.

(c) Represents both loans on the Consolidated Balance Sheets and loans that have been securitized, but excludes loans for which the Firm's only continuing involvement is servicing of the assets.

(d) Includes securitized loans that were previously recorded at fair value and classified as trading assets.

(e) Includes nonperforming loans held-for-sale and loans at fair value of \$70 million and \$50 million at March 31, 2008, and December 31, 2007, respectively.

(f) Excludes nonperforming assets related to (i) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies of \$1.8 billion and \$1.5 billion at March 31, 2008, and December 31, 2007, respectively, and (ii) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$252 million and \$279 million at March 31, 2008, and December 31, 2007, respectively. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

### Subprime adjustable-rate mortgage loan modifications

In December 2007, the American Securitization Forum ("ASF") issued the "Streamlined Foreclosure and Loss Avoidance Framework for Securitized Subprime Adjustable Rate Mortgage Loans" ("the Framework"). For a further discussion of the ASF Framework, see Note 16 on page 145 of JPMorgan Chase's 2007 Annual Report.

JPMorgan Chase has adopted the loss mitigation approaches under the Framework for securitized subprime mortgage loans that meet the specific Segment 2 screening criteria, and began modifying Segment 2 loans during the quarter ended March 31, 2008. The adoption of the Framework does not affect the off-balance sheet accounting treatment of JPMorgan Chase-sponsored QSPEs that hold Segment 2 subprime loans.

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The total amount of assets owned by Firm-sponsored QSPEs that hold ASF Framework Loans (including those loans that are not serviced by the Firm) as of March 31, 2008, and December 31, 2007, were \$19.0 billion and \$20.0 billion, respectively. Of these amounts, \$9.0 billion and \$9.7 billion, respectively, related to ASF Framework Loans serviced by the Firm. Approximately 15%, 10% and 75% at March 31, 2008, compared with 20%, 10% and 70% at December 31, 2007, of the ASF Framework Loans the Firm services that are owned by Firm-sponsored QSPEs fell within Segments 1, 2 and 3, respectively. This estimate could change substantially as a result of unanticipated changes in housing values, economic conditions, borrower/investor behavior and other factors. Included within the assets owned by the Firm-sponsored QSPEs was repossessed real estate owned, for which JPMorgan Chase is the servicer, in the amount of \$800 million and \$637 million at March 31, 2008, and December 31, 2007, respectively. The growth in real estate owned in the first quarter of 2008 is attributable to increased foreclosures resulting from current market conditions in the housing market.

The total principal amount of beneficial interests issued by Firm-sponsored securitizations that hold ASF Framework Loans as of March 31, 2008, and December 31, 2007, were as follows.

| (in millions)     | March 31, 2008   | December 31, 2007 |
|-------------------|------------------|-------------------|
| Third-party       | \$ 18,707        | \$ 19,636         |
| Retained interest | 301              | 412               |
| <b>Total</b>      | <b>\$ 19,008</b> | <b>\$ 20,048</b>  |

For those ASF Framework Loans serviced by the Firm and owned by Firm-sponsored QSPEs, the Firm modified \$187 million of Segment 2 subprime mortgages during the quarter ended March 31, 2008. For Segment 3 loans, an appropriate loss mitigation approach that is intended to maximize the recoveries to the securitization trust is chosen without employing the fast track modifications prescribed for Segment 2 subprime mortgages. The loss mitigation approach chosen by JPMorgan Chase is consistent with the applicable servicing agreements, and could include rate reductions, principal forgiveness, forbearance, short sales, short payoff, or foreclosure. During the quarter ended March 31, 2008, \$41 million of Segment 3 loans were modified through the Firm's loss mitigation activities, and \$33 million were prepaid by borrowers. The impact of loss mitigation efforts on the fair value of the Firm's retained interests in ASF Framework loans was not material at March 31, 2008.

### **NOTE 15 – VARIABLE INTEREST ENTITIES**

Refer to Note 1 on page 108 and Note 17 on page 146 of JPMorgan Chase's 2007 Annual Report for a further description of JPMorgan Chase's policies regarding consolidation of variable interest entities and the Firm's principal involvement with variable interest entities ("VIEs").

#### **Multi-seller conduits**

The following table summarizes the Firm's involvement with nonconsolidated Firm-administered, multi-seller conduits. There were no consolidated Firm-administered, multi-seller conduits as of March 31, 2008, and December 31, 2007.

| (in billions)  | March 31, 2008 | December 31, 2007 |
|--|----------------|-------------------|
| <b>Total assets held by conduits</b>                           | <b>\$ 54.2</b> | <b>\$ 61.2</b>    |
| <b>Total commercial paper issued by conduits</b>               | <b>54.5</b>    | <b>62.6</b>       |
| <b>Liquidity and credit enhancements</b>                       |                |                   |
| Deal-specific liquidity facilities (Asset purchase agreements) | 81.4           | 87.3              |
| Program-wide liquidity facilities                              | 13.2           | 13.2              |
| Program-wide limited credit enhancements                       | 2.2            | 2.5               |
| <b>Maximum exposure to loss<sup>(a)</sup></b>                  | <b>83.1</b>    | <b>88.9</b>       |

(a) The Firm's maximum exposure to loss is limited to the amount of drawn commitments (i.e., sellers' assets held by the multi-seller conduits for which the Firm provides liquidity support) of \$54.2 billion and \$61.2 billion at March 31, 2008, and December 31, 2007, respectively, plus contractual but undrawn commitments of \$28.9 billion and \$27.7 billion at March 31, 2008, and December 31, 2007, respectively. Since the Firm provides credit enhancement and liquidity to Firm-administered, multi-seller conduits, the maximum exposure is not adjusted to exclude exposure that would be absorbed by third-party liquidity providers.

#### **Assets funded by the multi-seller conduits**

JPMorgan Chase's administered multi-seller conduits fund a variety of asset types for the Firm's clients. Asset types primarily include credit card receivables, auto loans and leases, trade receivables, education loans, commercial loans, residential mortgages, capital commitments (e.g., loans to private equity, mezzanine and real estate opportunity funds secured by capital commitments of highly rated institutional investors), and various other asset types. It is the Firm's

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intention that the assets funded by its administered multi-seller conduits be sourced only from the Firm's clients and not be originated by or transferred from JPMorgan Chase.

The following table presents information on the commitments and assets held by JPMorgan Chase's administered multi-seller conduits as of March 31, 2008, and December 31, 2007.

**Summary of exposure to Firm-administered, nonconsolidated multi-seller conduits**

| (in billions)        | March 31, 2008                      |                |                                     |                | December 31, 2007                   |                |                                     |                |
|----------------------|-------------------------------------|----------------|-------------------------------------|----------------|-------------------------------------|----------------|-------------------------------------|----------------|
|                      | Unfunded commitments <sup>(a)</sup> | Funded assets  | Liquidity provided by third parties | Total exposure | Unfunded commitments <sup>(a)</sup> | Funded assets  | Liquidity provided by third parties | Total exposure |
| <b>Asset types:</b>  |                                     |                |                                     |                |                                     |                |                                     |                |
| Credit card          | \$ 3.5                              | \$ 11.7        | \$ (0.2)                            | \$ 15.0        | \$ 3.3                              | \$ 14.2        | \$ —                                | \$ 17.5        |
| Automobile           | 4.2                                 | 9.9            | —                                   | 14.1           | 4.5                                 | 10.2           | —                                   | 14.7           |
| Trade receivables    | 5.7                                 | 6.9            | —                                   | 12.6           | 6.0                                 | 6.6            | —                                   | 12.6           |
| Education loans      | 3.0                                 | 6.6            | —                                   | 9.6            | 0.8                                 | 9.2            | —                                   | 10.0           |
| Commercial           | 2.6                                 | 5.6            | (0.5)                               | 7.7            | 2.7                                 | 5.5            | (0.4)                               | 7.8            |
| Residential mortgage | 4.3                                 | 1.6            | —                                   | 5.9            | 4.6                                 | 3.1            | —                                   | 7.7            |
| Capital commitments  | 2.1                                 | 5.1            | (0.6)                               | 6.6            | 2.0                                 | 5.1            | (0.6)                               | 6.5            |
| Other                | 3.5                                 | 6.8            | (0.4)                               | 9.9            | 3.8                                 | 7.3            | (0.6)                               | 10.5           |
| <b>Total</b>         | <b>\$ 28.9</b>                      | <b>\$ 54.2</b> | <b>\$ (1.7)</b>                     | <b>\$ 81.4</b> | <b>\$ 27.7</b>                      | <b>\$ 61.2</b> | <b>\$ (1.6)</b>                     | <b>\$ 87.3</b> |

| March 31, 2008<br>(in billions) | Ratings profile of VIE assets <sup>(b)</sup> |                |               |               |                     |                | Funded assets | Wt. avg. expected life (years) <sup>(c)</sup> |
|---------------------------------|--|----------------|---------------|---------------|---------------------|----------------|---------------|---|
|                                 | Investment-grade                             |                |               |               | Noninvestment-grade |                |               |   |
|                                 | AAA to AAA-                                  | AA+ to AA-     | A+ to A-      | BBB to BBB-   | BB+ and below       |                |               |   |
| <b>Asset types:</b>             |  |                |               |               |                     |                |               |   |
| Credit card                     | \$ 4.5                                       | \$ 6.5         | \$ 0.6        | \$ 0.1        | \$ —                | \$ 11.7        | 1.5           |   |
| Automobile                      | 1.8  | 6.5            | 1.4           | 0.1           | 0.1                 | 9.9            | 2.2           |   |
| Trade receivables               | —  | 5.1            | 1.7           | 0.1           | —                   | 6.9            | 1.3           |   |
| Education loans                 | 5.3  | 1.1            | —             | 0.1           | 0.1                 | 6.6            | 1.0           |   |
| Commercial                      | 0.9  | 3.8            | 0.7           | 0.2           | —                   | 5.6            | 2.5           |   |
| Residential mortgage            | 0.5  | 0.2            | —             | 0.9           | —                   | 1.6            | 0.9           |   |
| Capital commitments             | —  | 5.1            | —             | —             | —                   | 5.1            | 3.1           |   |
| Other                           | 1.8  | 4.4            | 0.4           | 0.2           | —                   | 6.8            | 2.1           |   |
| <b>Total</b>                    | <b>\$ 14.8</b>                               | <b>\$ 32.7</b> | <b>\$ 4.8</b> | <b>\$ 1.7</b> | <b>\$ 0.2</b>       | <b>\$ 54.2</b> | <b>1.8</b>    |   |

| December 31, 2007<br>(in billions) | Ratings profile of VIE assets <sup>(b)</sup> |                |               |               |                     |                | Funded assets | Wt. avg. expected life (years) <sup>(c)</sup> |
|------------------------------------|--|----------------|---------------|---------------|---------------------|----------------|---------------|---|
|                                    | Investment-grade                             |                |               |               | Noninvestment-grade |                |               |   |
|                                    | AAA to AAA-                                  | AA+ to AA-     | A+ to A-      | BBB to BBB-   | BB+ and below       |                |               |   |
| <b>Asset types:</b>                |  |                |               |               |                     |                |               |   |
| Credit card                        | \$ 4.2                                       | \$ 9.4         | \$ 0.6        | \$ —          | \$ —                | \$ 14.2        | 1.5           |   |
| Automobile                         | 1.8  | 6.9            | 1.4           | —             | 0.1                 | 10.2           | 2.3           |   |
| Trade receivables                  | —  | 4.7            | 1.7           | 0.2           | —                   | 6.6            | 1.3           |   |
| Education loans                    | 1.0  | 8.1            | 0.1           | —             | —                   | 9.2            | 0.5           |   |
| Commercial                         | 0.5  | 4.2            | 0.7           | 0.1           | —                   | 5.5            | 2.6           |   |
| Residential mortgage               | 1.5  | 0.8            | 0.8           | —             | —                   | 3.1            | 1.5           |   |
| Capital commitments                | —  | 5.1            | —             | —             | —                   | 5.1            | 3.4           |   |
| Other                              | 2.0  | 4.6            | 0.4           | 0.2           | 0.1                 | 7.3            | 2.0           |   |
| <b>Total</b>                       | <b>\$ 11.0</b>                               | <b>\$ 43.8</b> | <b>\$ 5.7</b> | <b>\$ 0.5</b> | <b>\$ 0.2</b>       | <b>\$ 61.2</b> | <b>1.8</b>    |   |

(a) Unfunded commitments held by the conduits represent asset purchase agreements between the conduits and the Firm.

(b) The ratings scale is presented on an S&P equivalent basis.

(c) Weighted average expected life for each asset type is based upon the remainder of each conduit transaction's committed liquidity plus the expected weighted average life of the assets should the committed liquidity expire without renewal, or the expected time to sell the underlying assets in the securitization market.

The assets held by the multi-seller conduits are structured so that if they were rated, the Firm believes the majority of them would receive an "A" rating or better by external rating agencies. However, it is unusual for the assets held by the conduits to be explicitly rated by an external rating agency. Instead, the Firm's Credit Risk group assigns each asset purchase liquidity facility an internal risk-rating based on its assessment of the probability of default for the transaction.



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The ratings provided in the above table reflect the S&P-equivalent ratings of the internal rating grades assigned by the Firm.

The risk ratings are periodically reassessed as information becomes available. As of March 31, 2008, 97% of the assets in the conduits were risk rated "A-" or better.

### Commercial paper issued by the multi-seller conduits

The weighted average life of commercial paper issued and held by the multi-seller conduits was 28 days at March 31, 2008, compared with 21 days at December 31, 2007, and the average yield on the commercial paper held was 3.0% at March 31, 2008, compared with 5.7% at December 31, 2007.

In the normal course of business, JPMorgan Chase trades and invests in commercial paper, including paper issued by the Firm-administered conduits. The percentage of commercial paper purchased by the Firm across all Firm-administered conduits during the quarter ended March 31, 2008, ranged from less than 1% to approximately 3% on any given day. The largest daily amount held by the Firm in any one multi-seller conduit during the quarter ended March 31, 2008 was approximately \$715 million, or 4.9%, of the conduit's commercial paper outstanding. Total commercial paper held by the Firm at March 31, 2008, and December 31, 2007, was \$94 million and \$131 million, respectively. The Firm is not obligated under any agreement (contractual or noncontractual) to purchase the commercial paper issued by JPMorgan Chase-administered conduits.

### Consolidated sensitivity analysis on capital

It is possible that the Firm could be required to consolidate a VIE if it were determined that the Firm became the primary beneficiary of the VIE under the provisions of FIN 46R. The factors involved in making the determination of whether or not a VIE should be consolidated are discussed above and in Note 1 on page 108 of JPMorgan Chase's 2007 Annual Report.

The table below shows the impact on the Firm's reported assets, liabilities, net income, Tier 1 capital ratio and Tier 1 leverage ratio if the Firm were required to consolidate all of the multi-seller conduits that it administers.

### As of or for the quarter ending

**March 31, 2008**

(in billions, except ratios)

|                       | Reported   | Pro forma  |
|-----------------------|------------|------------|
| Assets                | \$ 1,642.9 | \$ 1,697.0 |
| Liabilities           | 1,517.2    | 1,571.8    |
| Net income            | 2.4        | 2.0        |
| Tier 1 capital ratio  | 8.3%       | 8.3%       |
| Tier 1 leverage ratio | 5.9        | 5.7        |

The Firm could fund purchases of assets from VIEs should it become necessary.

### Investor intermediation

#### Municipal bond vehicles

Exposure to nonconsolidated municipal bond VIEs at March 31, 2008, and December 31, 2007, including the ratings profile of the VIE's assets, were as follows.

| (in billions)  | March 31, 2008                    |                                     |                                  |                | December 31, 2007                 |                                     |                                  |                |
|--|-----------------------------------|-------------------------------------|----------------------------------|----------------|-----------------------------------|-------------------------------------|----------------------------------|----------------|
|  | Fair value of assets held by VIEs | Liquidity facilities <sup>(d)</sup> | Excess/ (deficit) <sup>(e)</sup> | Total exposure | Fair value of assets held by VIEs | Liquidity facilities <sup>(d)</sup> | Excess/ (deficit) <sup>(e)</sup> | Total exposure |
| Nonconsolidated Municipal bond vehicles <sup>(a)(b)(c)</sup> | \$11.2                            | \$9.5                               | \$1.7                            | \$9.5          | \$19.2                            | \$18.1                              | \$1.1                            | \$18.1         |

| (in billions)  | Ratings profile of VIE assets <sup>(f)</sup> |            |          |             |                     |        | Fair value of assets held by VIEs | Wt. avg. expected life (years) |
|--|--|------------|----------|-------------|---------------------|--------|-----------------------------------|--------------------------------|
|  | Investment-grade                             |            |          |             | Noninvestment-grade |        |                                   |                                |
|  | AAA to AAA-                                  | AA+ to AA- | A+ to A- | BBB to BBB- | BB+ and below       |        |                                   |                                |
| Nonconsolidated municipal bond vehicles <sup>(a)</sup> |  |            |          |             |                     |        |                                   |                                |
| <b>March 31, 2008</b>                                  | \$ 7.4                                       | \$3.6      | \$0.2    | \$—         | \$—                 | \$11.2 | 12.9                              |                                |
| December 31, 2007                                      | 14.6   | 4.4        | 0.2      | —           | —                   | 19.2   | 10.0                              |                                |

(a) Excluded \$6.6 billion and \$6.9 billion at March 31, 2008, and December 31, 2007, respectively, which were consolidated due to the Firm owning the residual interests.

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- (b) Certain of the municipal bond vehicles are structured to meet the definition of a QSPE (as discussed in Note 1 on page 108 of JPMorgan Chase's 2007 Annual Report); accordingly, the assets and liabilities of QSPEs are not reflected in the Firm's Consolidated Balance Sheets (except for retained interests that are reported at fair value). Excluded nonconsolidated amounts of \$5.0 billion and \$7.1 billion at March 31, 2008, and December 31, 2007, respectively, related to QSPE municipal bond vehicles in which the Firm owned the residual interests.
- (c) The decline in balances at March 31, 2008, compared with December 31, 2007, was due to third-party residual interest holders exercising their right to terminate the municipal bond vehicles. The proceeds from the sales of municipal bonds were sufficient to repay the putable floating-rate certificates and the Firm did not incur losses as a result of these terminations.
- (d) The Firm may serve as credit enhancement provider in municipal bond vehicles in which it serves as liquidity provider. The Firm provided insurance on underlying municipal bonds in the form of letters of credit in the amount of \$98 million and \$103 million at March 31, 2008, and December 31, 2007, respectively.
- (e) Represents the excess (deficit) of municipal bond asset fair value available to repay the liquidity facilities if drawn.
- (f) The ratings scale is presented on an S&P equivalent basis.

At March 31, 2008, and December 31, 2007, respectively, the Firm held \$372 million and \$617 million of putable floating-rate certificates on its Consolidated Balance Sheets. The largest amount held by the Firm at any time during the first quarter of 2008 was \$2.2 billion, or 11%, of the municipal bond vehicles' outstanding putable floating-rate certificates. During the first quarter of 2008 and full-year 2007, the Firm did not experience a draw on the liquidity facilities.

At March 31, 2008, and December 31, 2007, 98% and 99%, respectively, of the municipal bonds held by vehicles to which the Firm served as liquidity provider were rated "AA-" or better, based on either the rating of the underlying municipal bond itself, or the rating including any credit enhancement. At March 31, 2008, and December 31, 2007, \$5.9 billion and \$12.0 billion, respectively, of the bonds were insured by monoline bond insurers. During the quarter ended March 31, 2008, the municipal bond vehicles did not experience any bankruptcy or downgrade termination events.

The Firm sometimes invests in the residual interests of municipal bond vehicles. For VIEs in which the Firm owns the residual interests, the Firm consolidates the VIEs. The likelihood that the Firm would have to consolidate VIEs where the Firm does not own the residual interests and that are currently off-balance sheet is remote.

### Credit-linked note vehicles

Exposure to nonconsolidated credit-linked note VIEs at March 31, 2008, and December 31, 2007, was as follows.

| (in billions)                      | March 31, 2008         |                               |                               |                                      | December 31, 2007      |                               |                               |                                      |
|------------------------------------|------------------------|-------------------------------|-------------------------------|--------------------------------------|------------------------|-------------------------------|-------------------------------|--------------------------------------|
|                                    | Derivative receivables | Trading assets <sup>(c)</sup> | Total exposure <sup>(d)</sup> | Par value of collateral held by VIEs | Derivative receivables | Trading assets <sup>(c)</sup> | Total exposure <sup>(d)</sup> | Par value of collateral held by VIEs |
| Credit linked notes <sup>(a)</sup> |                        |                               |                               |                                      |                        |                               |                               |                                      |
| Static structure                   | \$ 2.0                 | \$ 0.7                        | \$ 2.7                        | \$ 16.5                              | \$ 0.8                 | \$ 0.4                        | \$ 1.2                        | \$ 13.5                              |
| Managed structure <sup>(b)</sup>   | 2.9                    | 0.4                           | 3.3                           | 12.1                                 | 4.5                    | 0.9                           | 5.4                           | 12.8                                 |
| <b>Total</b>                       | <b>\$ 4.9</b>          | <b>\$ 1.1</b>                 | <b>\$ 6.0</b>                 | <b>\$ 28.6</b>                       | <b>\$ 5.3</b>          | <b>\$ 1.3</b>                 | <b>\$ 6.6</b>                 | <b>\$ 26.3</b>                       |

(a) Excluded fair value of collateral of \$2.2 billion and \$2.5 billion at March 31, 2008, and December 31, 2007, respectively, which were consolidated.

(b) Includes synthetic collateralized debt obligation vehicles, which have similar risk characteristics to managed credit-linked note vehicles. At March 31, 2008, and December 31, 2007, trading assets included \$118 million and \$291 million, respectively, of transactions with subprime collateral.

(c) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.

(d) On-balance sheet exposure that includes derivative receivables and trading assets.

### Collateralized Debt Obligations vehicles

Exposures to collateralized debt obligation ("CDO") warehouse VIEs at March 31, 2008, and December 31, 2007 were as follows.

| March 31, 2008<br>(in billions)    | March 31, 2008 |                                     | December 31, 2007 |                                     |
|------------------------------------|----------------|-------------------------------------|-------------------|-------------------------------------|
|                                    | Funded loans   | Unfunded commitments <sup>(a)</sup> | Funded loans      | Unfunded commitments <sup>(a)</sup> |
| CDO warehouse VIEs                 |                |                                     |                   |                                     |
| Consolidated                       | \$ 1.5         | \$ 2.1                              | \$ 2.4            | \$ 1.9                              |
| Nonconsolidated                    | 2.6            | 2.7                                 | 2.7               | 3.4                                 |
| <b>Total</b>                       | <b>\$ 4.1</b>  | <b>\$ 4.8</b>                       | <b>\$ 5.1</b>     | <b>\$ 5.3</b>                       |
| December 31, 2007<br>(in billions) |                |                                     |                   |                                     |
| CDO warehouse VIEs                 |                |                                     |                   |                                     |
| Consolidated                       | \$ 2.4         | \$ 1.9                              | \$ 2.4            | \$ 1.9                              |
| Nonconsolidated                    | 2.7            | 3.4                                 | 2.7               | 3.4                                 |
| <b>Total</b>                       | <b>\$ 5.1</b>  | <b>\$ 5.3</b>                       | <b>\$ 5.1</b>     | <b>\$ 5.3</b>                       |

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| (in billions)                      | Ratings profile of VIE assets <sup>(c)</sup> |            |          |             |                     | Total exposure |
|------------------------------------|--|------------|----------|-------------|---------------------|----------------|
|                                    | Investment-grade                             |            |          |             | Noninvestment-grade |                |
|                                    | AAA to AAA-                                  | AA+ to AA- | A+ to A- | BBB to BBB- | BB+ and below       |                |
| Nonconsolidated CDO warehouse VIEs |  |            |          |             |                     |                |
| March 31, 2008                     | \$—  | \$—        | \$—      | \$—         | \$2.6               | \$2.6          |
| December 31, 2007                  | —  | —          | —        | —           | 2.7                 | 2.7            |

(a) Typically contingent upon certain asset-quality conditions being met by asset managers.

(b) The aggregate of the fair value of loan exposure and any unfunded contractually committed financing.

(c) The ratings scale is based upon JPMorgan Chase's internal risk ratings and is presented on an S&P equivalent basis.

Once a CDO vehicle closes and issues securities, the Firm has no further obligation to provide support to the vehicle. At the time of closing, the Firm may hold unsold positions that the Firm was not able to place with third-party investors. The amount of unsold positions at March 31, 2008, was insignificant. In addition, the Firm may on occasion hold some of the CDO vehicles' securities as a secondary market-maker or as a principal investor, or it may be a derivative counterparty to the vehicles. At March 31, 2008, and December 31, 2007, these amounts were not significant.

**Consolidated VIE assets**

The following table summarizes the Firm's total consolidated VIE assets, by classification, on the Consolidated Balance Sheets, as of March 31, 2008, and December 31, 2007.

| (in billions)                                | March 31, 2008 | December 31, 2007 |
|--|----------------|-------------------|
| Consolidated VIE assets                      |                |                   |
| Securities purchased under resale agreements | \$ 0.1         | \$ 0.1            |
| Trading assets <sup>(a)</sup>                | 12.4           | 14.4              |
| Loans  | 5.7            | 4.4               |
| Other assets                                 | 0.9            | 0.7               |
| <b>Total consolidated assets</b>             | <b>\$ 19.1</b> | <b>\$ 19.6</b>    |

(a) Included the fair value of securities and derivative receivables.

The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item titled, "Beneficial interests issued by consolidated variable interest entities" on the Consolidated Balance Sheets. The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. See Note 21 on page 159 of JPMorgan Chase's 2007 Annual Report for the maturity profile of FIN 46 long-term beneficial interests.

**NOTE 16 – GOODWILL AND OTHER INTANGIBLE ASSETS**

For a discussion of accounting policies related to goodwill and other intangible assets, see Note 18 on pages 154–157 of JPMorgan Chase's 2007 Annual Report.

Goodwill and other intangible assets consist of the following.

| (in millions)                            | March 31, 2008  | December 31, 2007 |
|--|-----------------|-------------------|
| Goodwill                                 | \$ 45,695       | \$ 45,270         |
| Mortgage servicing rights                | 8,419           | 8,632             |
| Purchased credit card relationships      | 2,140           | 2,303             |
| All other intangibles:                   |                 |                   |
| Other credit card-related intangibles    | \$ 330          | \$ 346            |
| Core deposit intangibles                 | 1,947           | 2,067             |
| Other intangibles                        | 1,538           | 1,383             |
| <b>Total all other intangible assets</b> | <b>\$ 3,815</b> | <b>\$ 3,796</b>   |

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### Goodwill

The \$425 million increase in goodwill from 2007 largely resulted from the purchase of an additional equity interest in Highbridge. For additional information, see Note 2 on page 74 of this Form 10-Q.

Goodwill was not impaired at March 31, 2008, or December 31, 2007, nor was any goodwill written off due to impairment during either the three months ended March 31, 2008, or March 31, 2007.

Goodwill attributed to the business segments was as follows.

| (in millions)                  | March 31, 2008   | December 31, 2007 |
|--------------------------------|------------------|-------------------|
| Investment Bank                | \$ 3,576         | \$ 3,578          |
| Retail Financial Services      | 16,842           | 16,848            |
| Card Services                  | 12,805           | 12,810            |
| Commercial Banking             | 2,872            | 2,873             |
| Treasury & Securities Services | 1,661            | 1,660             |
| Asset Management               | 7,562            | 7,124             |
| Corporate/Private Equity       | 377              | 377               |
| <b>Total goodwill</b>          | <b>\$ 45,695</b> | <b>\$ 45,270</b>  |

### Mortgage servicing rights

For a further description of the MSR asset, interest rate risk management, and valuation methodology of MSRs, see Notes 4 and 18 on pages 113 and 154–157 of JPMorgan Chase's 2007 Annual Report, respectively. The fair value of MSRs is sensitive to changes in interest rates, including their effect on prepayment speeds. JPMorgan Chase uses a combination of derivatives and trading instruments to manage changes in the fair value of MSRs. The intent is to offset any changes in the fair value of MSRs with changes in the fair value of the related risk management instruments. MSRs decrease in value when interest rates decline. Conversely, securities (such as mortgage-backed securities), principal-only certificates and certain derivatives (when the Firm receives fixed-rate interest payments) increase in value when interest rates decline.

The following table summarizes MSR activity for the three months ended March 31, 2008 and 2007.

| (in millions)   | Three months ended March 31, |                 |
|---|------------------------------|-----------------|
|   | 2008                         | 2007            |
| Fair value at January 1   | \$ 8,632                     | \$ 7,546        |
| Originations of MSRs  | 737                          | 564             |
| Purchases of MSRs   | 107                          | 97              |
| <b>Total additions</b>  | <b>844</b>                   | <b>661</b>      |
| Change in valuation due to inputs and assumptions <sup>(a)</sup>  | (632)                        | 108             |
| Other changes in fair value <sup>(b)</sup>  | (425)                        | (378)           |
| <b>Total change in fair value</b>   | <b>(1,057)</b>               | <b>(270)</b>    |
| <b>Fair value at March 31</b>   | <b>\$ 8,419</b>              | <b>\$ 7,937</b> |
| Change in unrealized gains (losses) included in income related to MSRs held at March 31                   | \$ (632)                     | \$ 108          |
| Contractual service fees, late fees and other ancillary fees included in mortgage fees and related income | \$ 628                       | \$ 556          |

(a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model. This caption also represents total realized and unrealized gains (losses) included in net income per the SFAS 157 disclosure for fair value measurement using significant unobservable inputs (level 3). These changes in fair value are recorded in mortgage fees and related income.

(b) Includes changes in the MSR value due to modeled servicing portfolio runoff (or time decay). This caption represents the impact of cash settlements per the SFAS 157 disclosure for fair value measurement using significant unobservable inputs (level 3). These changes in fair value are recorded in mortgage fees and related income.

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The table below outlines the key economic assumptions used to determine the fair value of the Firm's MSRs at March 31, 2008, and December 31, 2007, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions.

| (in millions, except rates and where otherwise noted) | March 31, 2008 | December 31, 2007 |
|---|----------------|-------------------|
| Weighted-average prepayment speed assumption (CPR)    | 12.59%         | 12.49%            |
| Impact on fair value of 10% adverse change            | \$ (576)       | \$ (481)          |
| Impact on fair value of 20% adverse change            | (1,118)        | (926)             |
| Weighted-average discount rate                        | 9.70%          | 10.53%            |
| Impact on fair value of 10% adverse change            | \$ (347)       | \$ (345)          |
| Impact on fair value of 20% adverse change            | (667)          | (664)             |
| Third-party mortgage loans serviced (in billions)     | \$ 627.1       | \$ 614.7          |

CPR: Constant prepayment rate

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. Changes in fair value based upon a 10% and 20% variation in assumptions generally cannot be easily extrapolated because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

### Purchased credit card relationships and all other intangible assets

For the quarter ended March 31, 2008, purchased credit card relationships, other credit card-related intangibles and core deposit intangibles decreased \$299 million, primarily as a result of amortization expense. Other intangibles increased \$155 million, as a result of the purchase of an additional equity interest in Highbridge.

Except for \$514 million of indefinite-lived intangibles related to asset management advisory contracts which are not amortized, but instead are tested for impairment at least annually, the remainder of the Firm's other acquired intangible assets are subject to amortization.

The components of credit card relationships, core deposits and other intangible assets were as follows.

| (in millions)                         | March 31, 2008 |                          |                    | December 31, 2007 |                          |                    |
|---------------------------------------|----------------|--------------------------|--------------------|-------------------|--------------------------|--------------------|
|                                       | Gross amount   | Accumulated amortization | Net carrying value | Gross amount      | Accumulated amortization | Net carrying value |
| Purchased credit card relationships   | \$ 5,790       | \$ 3,650                 | \$ 2,140           | \$ 5,794          | \$ 3,491                 | \$ 2,303           |
| All other intangibles:                |                |                          |                    |                   |                          |                    |
| Other credit card-related intangibles | \$ 411         | \$ 81                    | \$ 330             | \$ 422            | \$ 76                    | \$ 346             |
| Core deposit intangibles              | 4,280          | 2,333                    | 1,947              | 4,281             | 2,214                    | 2,067              |
| Other intangibles                     | 2,216          | 678 <sup>(a)</sup>       | 1,538              | 2,026             | 643 <sup>(a)</sup>       | 1,383              |

(a) Includes amortization expense related to servicing assets on securitized automobile loans, which is recorded in lending & deposit-related fees, of \$2 million and \$3 million for the three months ended March 31, 2008 and 2007, respectively.

### Amortization expense

The following table presents amortization expense related to credit card relationships, core deposits and all other intangible assets.

| (in millions)                         | Three months ended March 31, |               |
|---------------------------------------|------------------------------|---------------|
|                                       | 2008                         | 2007          |
| Purchased credit card relationships   | \$ 159                       | \$ 182        |
| All other intangibles:                |                              |               |
| Other credit card-related intangibles | 5                            | 2             |
| Core deposit intangibles              | 119                          | 140           |
| Other intangibles                     | 33                           | 29            |
| <b>Total amortization expense</b>     | <b>\$ 316</b>                | <b>\$ 353</b> |

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**Future amortization expense**

The following table presents estimated future amortization expense related to credit card relationships, core deposits and all other intangible assets at March 31, 2008.

| For the year: (in millions) | Purchased credit card relationships | Other credit card-related intangibles | Core deposit intangibles | Other intangibles | Total    |
|-----------------------------|-------------------------------------|---------------------------------------|--------------------------|-------------------|----------|
| 2008 <sup>(a)</sup>         | \$ 614                              | \$ 22                                 | \$ 470                   | \$ 131            | \$ 1,237 |
| 2009                        | 436                                 | 28                                    | 390                      | 120               | 974      |
| 2010                        | 354                                 | 36                                    | 329                      | 104               | 823      |
| 2011                        | 291                                 | 40                                    | 285                      | 93                | 709      |
| 2012                        | 252                                 | 48                                    | 239                      | 91                | 630      |

<sup>(a)</sup> Includes \$159 million, \$5 million, \$119 million and \$33 million of amortization expense related to purchased credit card relationships, other credit card-related intangibles, core deposit intangibles and other intangibles, respectively, recognized during the first three months of 2008.

**NOTE 17 – DEPOSITS**

At March 31, 2008, and December 31, 2007, noninterest-bearing and interest-bearing deposits were as follows.

| (in millions)  | March 31, 2008    | December 31, 2007 |
|--|-------------------|-------------------|
| U.S. offices:  |                   |                   |
| Noninterest-bearing  | \$ 132,072        | \$ 129,406        |
| Interest-bearing (included \$1,741 and \$1,909 at fair value at March 31, 2008, and December 31, 2007, respectively) | 394,613           | 376,194           |
| Non-U.S. offices:  |                   |                   |
| Noninterest-bearing  | 7,232             | 6,342             |
| Interest-bearing (included \$4,898 and \$4,480 at fair value at March 31, 2008, and December 31, 2007, respectively) | 227,709           | 228,786           |
| <b>Total</b>   | <b>\$ 761,626</b> | <b>\$ 740,728</b> |

**NOTE 18 – EARNINGS PER SHARE**

For a discussion of the computation of basic and diluted earnings per share (“EPS”), see Note 24 on page 161 of JPMorgan Chase’s 2007 Annual Report. The following table presents the calculation of basic and diluted EPS for the three months ended March 31, 2008 and 2007.

| (in millions, except per share amounts)                          | Three months ended March 31, |                |
|--|------------------------------|----------------|
|  | 2008                         | 2007           |
| <b>Basic earnings per share</b>                                  |                              |                |
| Net income   | \$ 2,373                     | \$ 4,787       |
| Weighted-average basic shares outstanding                        | 3,396                        | 3,456          |
| <b>Net income per share</b>                                      | <b>\$ 0.70</b>               | <b>\$ 1.38</b> |
| <b>Diluted earnings per share</b>                                |                              |                |
| Net income   | \$ 2,373                     | \$ 4,787       |
| Weighted-average basic shares outstanding                        | 3,396                        | 3,456          |
| Add: Employee restricted stock, RSUs, stock options and SARs     | 99                           | 104            |
| <b>Weighted-average diluted shares outstanding<sup>(a)</sup></b> | <b>3,495</b>                 | <b>3,560</b>   |
| <b>Net income per share</b>                                      | <b>\$ 0.68</b>               | <b>\$ 1.34</b> |

<sup>(a)</sup> Options issued under employee benefit plans to purchase 173 million and 104 million shares of common stock were outstanding for the three months ended March 31, 2008 and 2007, respectively, but were not included in the computation of diluted EPS because the options were antidilutive.

**NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Accumulated other comprehensive income (loss) includes the after-tax change in SFAS 115 unrealized gains and losses on AFS securities, SFAS 52 foreign currency translation adjustments (including the impact of related derivatives), SFAS 133 cash flow hedging activities and SFAS 158 net loss and prior service cost (credit) related to the Firm’s defined benefit pension and OPEB plans.

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| Three months ended<br>March 31, 2008<br>(in millions) | Unrealized<br>gains (losses)<br>on AFS securities <sup>(a)</sup> | Translation<br>adjustments,<br>net of hedges | Cash<br>flow<br>hedges | Net loss and prior<br>service costs<br>(credit) of defined<br>benefit pension and<br>OPEB plans | Accumulated other<br>comprehensive<br>income (loss) |
|---|--|--|------------------------|---|---|
| Balance at January 1, 2008                            | \$ 380   | \$ 8   | \$ (802)               | \$ (503)  | \$ (917)  |
| Net change  | 58 <sup>(b)</sup>  | 197 <sup>(c)</sup>                           | 115 <sup>(d)</sup>     | 35 <sup>(e)</sup>   | 405   |
| Balance at March 31, 2008                             | \$ 438   | \$ 205                                       | \$ (687)               | \$ (468)  | \$ (512)  |

| Three months ended<br>March 31, 2007<br>(in millions)               | Unrealized<br>gains (losses)<br>on AFS securities <sup>(a)</sup> | Translation<br>adjustments,<br>net of hedges | Cash<br>flow<br>hedges | Net loss and prior<br>service costs<br>(credit) of defined<br>benefit pension and<br>OPEB plans | Accumulated other<br>comprehensive<br>income (loss) |
|---|--|--|------------------------|---|---|
| Balance at January 1, 2007  | \$ 29  | \$ 5   | \$ (489)               | \$ (1,102)  | \$ (1,557)  |
| Cumulative effect of changes in accounting<br>principles (SFAS 159) | (1)  | —  | —                      | —   | (1)   |
| Balance at January 1, 2007, adjusted                                | 28   | 5  | (489)                  | (1,102)   | (1,558)   |
| Net change  | 84 <sup>(b)</sup>  | 2 <sup>(c)</sup>                             | (49) <sup>(d)</sup>    | 39 <sup>(e)</sup>   | 76  |
| Balance at March 31, 2007   | \$ 112   | \$ 7   | \$ (538)               | \$ (1,063)  | \$ (1,482)  |

- (a) Represents the after-tax difference between the fair value and amortized cost of the AFS securities portfolio and retained interests in securitizations recorded in other assets.
- (b) The net change for the quarter ended March 31, 2008, was due primarily to declining interest rates, partially offset by recognition of gains from sales of investment securities. The net change for the quarter ended March 31, 2007, was due primarily to a reduction of unrealized losses resulting from sales of investment securities, purchases of investment securities during the quarter at current yields and declining interest rates.
- (c) March 31, 2008 and 2007, included \$283 million and \$51 million, respectively, of after-tax gains (losses) on foreign currency translation from operations for which the functional currency is other than the U.S. dollar offset by \$(86) million and \$(49) million, respectively, of after-tax gains (losses) on hedges.
- (d) The net change for the quarter ended March 31, 2008, included \$76 million of after-tax losses recognized in income and \$39 million of after-tax gains representing the net change in derivative fair value that was reported in comprehensive income. The net change for the quarter ended March 31, 2007, included \$4 million of after-tax gains recognized in income and \$45 million of after-tax losses representing the net change in derivative fair value that was reported in comprehensive income.
- (e) The net change for the three months ended March 31, 2008 and 2007, was primarily due to adjustments, net of tax, based upon the respective 2007 and 2006 final year-end actuarial valuations for the U.S. and non-U.S. defined benefit pension plans, and the amortization of net loss and prior service credit, net of tax, into net periodic benefit cost.

**NOTE 20 – COMMITMENTS AND CONTINGENCIES**

For a discussion of the Firm's potential liability related to The Bank of New York Mellon Corporation's ("BNYM") difficulties in locating certain documentation, including IRS Forms W-8 and W-9, related to certain accounts transferred to BNYM in connection with the Firm's sale of its corporate trust business, see Note 29 on page 167 of JPMorgan Chase's 2007 Annual Report.

**Litigation reserve**

The Firm maintains litigation reserves for certain of its outstanding litigation. In accordance with the provisions of SFAS 5, JPMorgan Chase accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. When the Firm is named a defendant in a litigation and may be subject to joint and several liability and a judgment sharing agreement is in place, the Firm recognizes expense and obligations net of amounts expected to be paid by other signatories to the judgment-sharing agreement.

While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at March 31, 2008, the Firm's litigation reserves were adequate at such date. Management reviews litigation reserves periodically, and the reserves may be increased or decreased in the future to reflect further relevant developments. The Firm believes it has meritorious defenses to claims asserted against it in its currently outstanding litigation and, with respect to such litigation, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of stockholders.

**NOTE 21 – ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

The majority of JPMorgan Chase's derivatives are entered into for trading purposes. Derivatives are also utilized by the Firm as an end-user to hedge market exposures, to modify the interest rate characteristics of related balance sheet instruments or to meet longer-term investment objectives. Both trading and end-user derivatives are recorded in trading assets and trading liabilities. For a further discussion of the Firm's use of and accounting policies regarding derivative instruments, see Note 30 on pages 168–169 of JPMorgan Chase's 2007 Annual Report. The following table presents derivative instrument hedging-related activities for the periods indicated.

| (in millions)  | Three months ended March 31, |      |
|--|------------------------------|------|
|  | 2008                         | 2007 |
| Fair value hedge ineffective net gains/(losses) <sup>(a)</sup>                   | \$ (9)                       | \$ 8 |
| Cash flow hedge ineffective net gains/(losses) <sup>(a)</sup>                    | (15)                         | 1    |
| Cash flow hedging gains/(losses) on forecasted transactions that failed to occur | —                            | —    |

<sup>(a)</sup> Includes ineffectiveness and the components of hedging instruments that have been excluded from the assessment of hedge effectiveness.

Over the next 12 months, it is expected that \$282 million (after-tax) of net losses recorded in other comprehensive income (loss) at March 31, 2008, will be recognized in earnings. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

**NOTE 22 – OFF-BALANCE SHEET LENDING-RELATED FINANCIAL INSTRUMENTS AND GUARANTEES**

For a discussion of off-balance sheet lending-related financial instruments and guarantees, and the Firm's related accounting policies, see Note 31 on pages 170–173 of JPMorgan Chase's 2007 Annual Report. To provide for the risk of loss inherent in wholesale-related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 13 on pages 88–89 of this Form 10-Q for a further discussion regarding the allowance for credit losses on lending-related commitments.



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The following table summarizes the contractual amounts of off-balance sheet lending-related financial instruments and guarantees (excluding those related to Bear Stearns) and the related allowance for credit losses on lending-related commitments at March 31, 2008, and December 31, 2007.

**Off-balance sheet lending-related financial instruments and guarantees**

| (in millions)   | Contractual amount |                     | Allowance for lending-related commitments |                   |
|---|--------------------|---------------------|---|-------------------|
|   | March 31, 2008     | December 31, 2007   | March 31, 2008                            | December 31, 2007 |
| <b>Lending-related</b>  |                    |                     |   |                   |
| Consumer <sup>(a)</sup>   | \$ 829,189         | \$ 815,936          | \$ 9                                      | \$ 15             |
| Wholesale:  |                    |                     |   |                   |
| Other unfunded commitments to extend credit <sup>(b)(c)(d)(e)</sup> | 256,408            | 250,954             | 558                                       | 571               |
| Asset purchase agreements <sup>(f)</sup>                            | 82,028             | 90,105              | 11  | 9                 |
| Standby letters of credit and guarantees <sup>(c)(g)(h)</sup>       | 94,514             | 100,222             | 276                                       | 254               |
| Other letters of credit <sup>(c)</sup>                              | 5,442              | 5,371               | 1   | 1                 |
| <b>Total wholesale</b>  | <b>438,392</b>     | <b>446,652</b>      | <b>846</b>                                | <b>835</b>        |
| <b>Total lending-related</b>  | <b>\$1,267,581</b> | <b>\$ 1,262,588</b> | <b>\$ 855</b>                             | <b>\$ 850</b>     |
| <b>Other guarantees</b>   |                    |                     |   |                   |
| Securities lending guarantees <sup>(i)</sup>                        | \$ 410,565         | \$ 385,758          | NA  | NA                |
| Derivatives qualifying as guarantees <sup>(j)</sup>                 | 96,136             | 85,262              | NA  | NA                |

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

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

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

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

(e) Included in other unfunded commitments to extend credit are commitments to investment and noninvestment grade counterparties in connection with leveraged acquisitions of \$8.3 billion and \$8.2 billion at March 31, 2008, and December 31, 2007, respectively.

(f) Largely represents asset purchase agreements to the Firm's administered multi-seller, asset-backed commercial paper conduits. It also includes \$860 million and \$1.1 billion of asset purchase agreements to other third-party entities at March 31, 2008, and December 31, 2007, respectively.

(g) JPMorgan Chase held collateral relating to \$17.1 billion and \$15.8 billion of these arrangements at March 31, 2008, and December 31, 2007, respectively.

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

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

(j) Represents notional amounts of derivatives qualifying as guarantees.

Included in other unfunded commitments to extend credit are commitments to investment and noninvestment grade counterparties in connection with leveraged acquisitions. These commitments are dependent on whether the acquisition by the borrower is successful, tend to be short-term in nature and, in most cases, are subject to certain conditions based on the borrower's financial condition or other factors. Additionally, the Firm often syndicates portions of the initial position to other investors, depending on market conditions. These commitments generally contain flexible pricing features to adjust for changing market conditions prior to closing. Alternatively, the borrower may turn to the capital markets for required funding instead of drawing on the commitment provided by the Firm, and the commitment may expire unused. As such, these commitments are not necessarily indicative of the Firm's actual risk and the total commitment amount may not reflect actual future cash flow requirements. The amount of these commitments at March 31, 2008, and December 31, 2007, were \$8.3 billion and \$8.2 billion, respectively.

For a further discussion of the off-balance sheet lending-related arrangements the Firm considers to be guarantees under FIN 45, and the related accounting policies, see Note 31 on pages 170–173 of JPMorgan Chase's 2007 Annual Report. The amount of the liability related to FIN 45 guarantees recorded at March 31, 2008, and December 31, 2007, excluding the allowance for credit losses on lending-related commitments and derivative contracts and those related to Bear Stearns as discussed below, was \$360 million and \$335 million, respectively.

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In addition to the contracts described above, there are certain derivative contracts to which the Firm is a counterparty that meet the characteristics of a guarantee under FIN 45. For a discussion of the derivatives the Firm considers to be guarantees, and the related accounting policies, see Note 31 on pages 170–173 of JPMorgan Chase’s 2007 Annual Report. The total notional value of the derivatives that the Firm deems to be guarantees was \$96.1 billion and \$85.3 billion at March 31, 2008, and December 31, 2007, respectively. The fair value related to these contracts was a derivative receivable of \$205 million and \$213 million, and a derivative payable of \$6.1 billion and \$2.5 billion at March 31, 2008, and December 31, 2007, respectively.

### **Bear Stearns**

In connection with the merger agreement with Bear Stearns, JPMorgan Chase entered into agreements to guarantee (A) certain obligations of Bear Stearns and certain of its affiliates, including (1) revolving and term loan obligations, (2) brokerage and trading contract obligations and (3) obligations to deliver cash, securities or other property to customers pursuant to customary custody arrangements and (B) obligations of Bear Stearns and certain of its affiliates to the FRBNY in order to ensure continued access by Bear Stearns to the discount window facility established by the FRBNY for primary dealers. These guarantees are secured by liens on assets of Bear Stearns that are not otherwise pledged. These assets are comprised mainly of fixed assets and other nonfinancial assets. The carrying amount of the liability to stand ready to perform under the Bear Stearns guarantees was \$669 million at March 31, 2008. These amounts are not included in the amounts disclosed above. It is not possible to calculate the maximum potential amount of future payments under the guarantees, or the extent to which proceeds from the liquidation of the assets pledged to JPMorgan Chase would be expected to cover the maximum potential amount of future payments under the guarantees since the underlying contract amounts that are guaranteed change on a daily basis. However, the Firm believes the risk of loss to be remote.

### **NOTE 23 – BUSINESS SEGMENTS**

JPMorgan Chase is organized into six major reportable business segments – Investment Bank, Retail Financial Services, Card Services, Commercial Banking (“CB”), Treasury & Securities Services (“TSS”) and Asset Management (“AM”), as well as a Corporate/Private Equity segment. The segments are 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 a definition of managed basis, see the footnotes to the table below. For a further discussion concerning JPMorgan Chase’s business segments, see Business Segment Results on page 15 of this Form 10-Q, and pages 38–39 and Note 34 on pages 175–177 of JPMorgan Chase’s 2007 Annual Report.

#### **Segment results**

The following tables provide a summary of the Firm’s segment results for the three months ended March 31, 2008 and 2007, on a managed basis. The impact of credit card securitization adjustments have been included in reconciling items so that the total Firm results are on a reported basis. Finally, total net revenue (noninterest revenue and net interest income) for each of the segments is presented on a tax-equivalent basis. Accordingly, revenue from tax-exempt securities and investments that receive tax credits are presented in the managed results on a basis comparable to taxable securities and investments. This approach allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources. The corresponding income tax impact related to these items is recorded within income tax expense (benefit). The following tables summarize the business segment results and reconciliation to reported U.S. GAAP results.

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**Segment results and reconciliation<sup>(a)</sup>**

| <b>Three months ended March 31, 2008</b><br>(in millions, except ratios) | Investment<br>Bank | Retail Financial<br>Services | Card<br>Services <sup>(d)</sup> | Commercial<br>Banking |
|--|--------------------|------------------------------|---------------------------------|-----------------------|
| Noninterest revenue  | \$ 1,188           | \$ 1,691                     | \$ 719                          | \$ 334                |
| Net interest income  | 1,823              | 3,011                        | 3,185                           | 733                   |
| <b>Total net revenue</b>   | <b>3,011</b>       | <b>4,702</b>                 | <b>3,904</b>                    | <b>1,067</b>          |
| Provision for credit losses  | 618                | 2,492                        | 1,670                           | 101                   |
| Credit reimbursement (to)/from TSS <sup>(b)</sup>                        | 30                 | —                            | —                               | —                     |
| Noninterest expense <sup>(c)</sup>                                       | 2,553              | 2,570                        | 1,272                           | 485                   |
| <b>Income (loss) before income tax expense</b>                           | <b>(130)</b>       | <b>(360)</b>                 | <b>962</b>                      | <b>481</b>            |
| Income tax expense (benefit)   | (43)               | (133)                        | 353                             | 189                   |
| <b>Net income (loss)</b>   | <b>\$ (87)</b>     | <b>\$ (227)</b>              | <b>\$ 609</b>                   | <b>\$ 292</b>         |
| Average equity   | \$ 22,000          | \$ 17,000                    | \$ 14,100                       | \$ 7,000              |
| Average assets   | 755,828            | 227,560                      | 159,602                         | 101,979               |
| Return on average equity   | (2)%               | (5)%                         | 17%                             | 17%                   |
| Overhead ratio   | 85                 | 55                           | 33                              | 45                    |

| <b>Three months ended March 31, 2008</b><br>(in millions, except ratios) | Treasury &<br>Securities Services | Asset<br>Management | Corporate/<br>Private<br>Equity | Reconciling<br>Items <sup>(d)(e)</sup> | Total           |
|--|-----------------------------------|---------------------|---------------------------------|--|-----------------|
| Noninterest revenue  | \$ 1,289                          | \$ 1,590            | \$ 1,686                        | \$ 734                                 | \$ 9,231        |
| Net interest income  | 624                               | 311                 | (286)                           | (1,742)                                | 7,659           |
| <b>Total net revenue</b>   | <b>1,913</b>                      | <b>1,901</b>        | <b>1,400</b>                    | <b>(1,008)</b>                         | <b>16,890</b>   |
| Provision for credit losses  | 12                                | 16                  | 196                             | (681)                                  | 4,424           |
| Credit reimbursement (to)/from TSS <sup>(b)</sup>                        | (30)                              | —                   | —                               | —                                      | —               |
| Noninterest expense <sup>(c)</sup>                                       | 1,228                             | 1,323               | (500)                           | —                                      | 8,931           |
| <b>Income (loss) before income tax expense</b>                           | <b>643</b>                        | <b>562</b>          | <b>1,704</b>                    | <b>(327)</b>                           | <b>3,535</b>    |
| Income tax expense (benefit)   | 240                               | 206                 | 677                             | (327)                                  | 1,162           |
| <b>Net income</b>  | <b>\$ 403</b>                     | <b>\$ 356</b>       | <b>\$ 1,027</b>                 | <b>\$ —</b>                            | <b>\$ 2,373</b> |
| Average equity   | \$ 3,500                          | \$ 5,000            | \$ 55,980                       | \$ —                                   | \$ 124,580      |
| Average assets   | 57,204                            | 60,286              | 278,927                         | (71,589)                               | 1,569,797       |
| Return on average equity   | 46%                               | 29%                 | NM                              | NM                                     | 8%              |
| Overhead ratio   | 64                                | 70                  | NM                              | NM                                     | 53              |

| Three months ended March 31, 2007<br>(in millions, except ratios) | Investment<br>Bank | Retail Financial<br>Services | Card<br>Services <sup>(d)</sup> | Commercial<br>Banking |
|---|--------------------|------------------------------|---------------------------------|-----------------------|
| Noninterest revenue   | \$ 5,647           | \$ 1,489                     | \$ 691                          | \$ 335                |
| Net interest income   | 607                | 2,617                        | 2,989                           | 668                   |
| <b>Total net revenue</b>  | <b>6,254</b>       | <b>4,106</b>                 | <b>3,680</b>                    | <b>1,003</b>          |
| Provision for credit losses                                       | 63                 | 292                          | 1,229                           | 17                    |
| Credit reimbursement (to)/from TSS <sup>(b)</sup>                 | 30                 | —                            | —                               | —                     |
| Noninterest expense <sup>(c)</sup>                                | 3,831              | 2,407                        | 1,241                           | 485                   |
| <b>Income before income tax expense</b>                           | <b>2,390</b>       | <b>1,407</b>                 | <b>1,210</b>                    | <b>501</b>            |
| Income tax expense  | 850                | 548                          | 445                             | 197                   |
| <b>Net income</b>   | <b>\$ 1,540</b>    | <b>\$ 859</b>                | <b>\$ 765</b>                   | <b>\$ 304</b>         |
| Average equity  | \$ 21,000          | \$ 16,000                    | \$ 14,100                       | \$ 6,300              |
| Average assets  | 658,724            | 217,135                      | 156,271                         | 82,545                |
| Return on average equity  | 30%                | 22%                          | 22%                             | 20%                   |
| Overhead ratio  | 61                 | 59                           | 34                              | 48                    |

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| Three months ended March 31, 2007<br>(in millions, except ratios) | Treasury &<br>Securities Services | Asset<br>Management | Corporate/<br>Private<br>Equity | Reconciling<br>Items <sup>(d)(e)</sup> | Total      |
|---|-----------------------------------|---------------------|---------------------------------|--|------------|
| Noninterest revenue   | \$ 1,024                          | \$ 1,659            | \$ 1,385                        | \$ 636                                 | \$ 12,866  |
| Net interest income   | 502                               | 245                 | (117)                           | (1,409)                                | 6,102      |
| <b>Total net revenue</b>  | 1,526                             | 1,904               | 1,268                           | (773)                                  | 18,968     |
| Provision for credit losses                                       | 6                                 | (9)                 | 3                               | (593)                                  | 1,008      |
| Credit reimbursement (to)/from TSS <sup>(b)</sup>                 | (30)                              | —                   | —                               | —                                      | —          |
| Noninterest expense <sup>(c)</sup>                                | 1,075                             | 1,235               | 354                             | —                                      | 10,628     |
| <b>Income (loss) before income tax expense</b>                    | 415                               | 678                 | 911                             | (180)                                  | 7,332      |
| Income tax expense (benefit)                                      | 152                               | 253                 | 280                             | (180)                                  | 2,545      |
| <b>Net income</b>   | \$ 263                            | \$ 425              | \$ 631                          | \$ —                                   | \$ 4,787   |
| Average equity  | \$ 3,000                          | \$ 3,750            | \$ 52,095                       | \$ —                                   | \$ 116,245 |
| Average assets  | 46,005                            | 45,816              | 237,533                         | (65,114)                               | 1,378,915  |
| Return on average equity  | 36%                               | 46%                 | NM                              | NM                                     | 17%        |
| Overhead ratio  | 70                                | 65                  | NM                              | NM                                     | 56         |

- (a) In addition to analyzing the Firm's results on a reported basis, management reviews the Firm's 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 do not have any impact on net income as reported by the lines of business or by the Firm as a whole.
- (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) Includes merger costs which are reported in the Corporate/Private Equity segment. Merger costs attributed to the business segments for the three months ended March 31, 2007 were as follows. There were no merger costs for the months ended March 31, 2008.

| (in millions)                  | Three months ended March 31, |       |
|--------------------------------|------------------------------|-------|
|                                | 2008                         | 2007  |
| Investment Bank                |                              | \$ —  |
| Retail Financial Services      |                              | 10    |
| Card Services                  |                              | —     |
| Commercial Banking             |                              | —     |
| Treasury & Securities Services |                              | 32    |
| Asset Management               |                              | 2     |
| Corporate/Private Equity       |                              | 18    |
| <b>Total merger costs</b>      |                              | \$ 62 |

- (d) Managed results for CS exclude the impact of credit card securitizations on total net revenue, provision for credit losses and average assets, as JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in evaluating credit performance of CS' entire managed credit card portfolio as operations are funded, and decisions are made about allocating resources such as employees and capital, based upon managed information. These adjustments are eliminated in reconciling items to arrive at the Firm's reported U.S. GAAP results. The related securitization adjustments were as follows.

| (in millions)               | Three months ended March 31, |               |
|-----------------------------|------------------------------|---------------|
|                             | 2008                         | 2007          |
| Noninterest revenue         | \$ (937)                     | \$ (746)      |
| Net interest income         | 1,618                        | 1,339         |
| Provision for credit losses | 681                          | 593           |
| <b>Average assets</b>       | <b>71,589</b>                | <b>65,114</b> |

- (e) Segment managed results reflect revenue on a tax-equivalent basis with the corresponding income tax impact recorded within income tax expense. These adjustments are eliminated in reconciling items to arrive at the Firm's reported U.S. GAAP results. Tax-equivalent adjustments for the three months ended March 31, 2008 and 2007 were as follows.

| (in millions)             | Three months ended March 31, |            |
|---------------------------|------------------------------|------------|
|                           | 2008                         | 2007       |
| Noninterest revenue       | \$ 203                       | \$ 110     |
| Net interest income       | 124                          | 70         |
| <b>Income tax expense</b> | <b>327</b>                   | <b>180</b> |

**JPMORGAN CHASE & CO.**  
**CONSOLIDATED AVERAGE BALANCE SHEETS, INTEREST AND RATES**  
**(Taxable-Equivalent Interest and Rates; in millions, except rates)**

|  | Three months ended March 31, 2008 |                 |                      | Three months ended March 31, 2007 |                 |                      |
|--|-----------------------------------|-----------------|----------------------|-----------------------------------|-----------------|----------------------|
|  | Average<br>Balance                | Interest        | Rate<br>(Annualized) | Average<br>Balance                | Interest        | Rate<br>(Annualized) |
| <b>Assets</b>  |                                   |                 |                      |                                   |                 |                      |
| Deposits with banks  | \$ 31,975                         | \$ 336          | 4.22%                | \$ 16,224                         | \$ 186          | 4.65%                |
| Federal funds sold and securities<br>purchased under resale<br>agreements            | 153,864                           | 1,455           | 3.80                 | 135,499                           | 1,655           | 4.95                 |
| Securities borrowed  | 83,490                            | 738             | 3.56                 | 78,768                            | 1,053           | 5.42                 |
| Trading assets – debt instruments  | 322,986                           | 4,618           | 5.75                 | 257,079                           | 3,779           | 5.96                 |
| Securities   | 89,757                            | 1,220           | 5.47 <sup>(b)</sup>  | 95,326                            | 1,334           | 5.68 <sup>(b)</sup>  |
| Loans  | 526,598                           | 9,289           | 7.10                 | 467,453                           | 8,683           | 7.53                 |
| <b>Total interest-earning assets</b>   | <b>1,208,670</b>                  | <b>17,656</b>   | <b>5.88</b>          | <b>1,050,349</b>                  | <b>16,690</b>   | <b>6.44</b>          |
| Allowance for loan losses  | (9,754)                           |                 |                      | (7,259)                           |                 |                      |
| Cash and due from banks  | 34,509                            |                 |                      | 30,188                            |                 |                      |
| Trading assets – equity instruments  | 78,810                            |                 |                      | 88,791                            |                 |                      |
| Trading assets – derivative<br>receivables   | 97,863                            |                 |                      | 58,781                            |                 |                      |
| Goodwill   | 45,699                            |                 |                      | 45,125                            |                 |                      |
| Other intangible assets  |                                   |                 |                      |                                   |                 |                      |
| Mortgage servicing rights  | 8,273                             |                 |                      | 7,784                             |                 |                      |
| Purchased credit card<br>relationships   | 2,222                             |                 |                      | 2,843                             |                 |                      |
| All other intangibles  | 3,980                             |                 |                      | 4,296                             |                 |                      |
| Other assets   | 99,525                            |                 |                      | 98,017                            |                 |                      |
| <b>Total assets</b>  | <b>\$ 1,569,797</b>               |                 |                      | <b>\$ 1,378,915</b>               |                 |                      |
| <b>Liabilities</b>   |                                   |                 |                      |                                   |                 |                      |
| Interest-bearing deposits  | \$ 600,132                        | \$ 4,608        | 3.09%                | \$ 498,717                        | \$ 4,995        | 4.06%                |
| Federal funds purchased and<br>securities sold under repurchase<br>agreements        | 179,897                           | 1,482           | 3.31                 | 199,252                           | 2,500           | 5.09                 |
| Commercial paper   | 47,584                            | 403             | 3.41                 | 22,339                            | 269             | 4.89                 |
| Other borrowings <sup>(a)</sup>  | 107,552                           | 1,346           | 5.03                 | 95,664                            | 1,195           | 5.07                 |
| Beneficial interests issued by<br>consolidated VIEs                                  | 14,082                            | 132             | 3.78                 | 15,993                            | 151             | 3.82                 |
| Long-term debt   | 200,354                           | 1,902           | 3.82                 | 148,146                           | 1,408           | 3.85                 |
| <b>Total interest-bearing liabilities</b>  | <b>1,149,601</b>                  | <b>9,873</b>    | <b>3.45</b>          | <b>980,111</b>                    | <b>10,518</b>   | <b>4.35</b>          |
| Noninterest-bearing deposits   | 119,017                           |                 |                      | 123,947                           |                 |                      |
| Trading liabilities – derivative<br>payables   | 81,094                            |                 |                      | 57,465                            |                 |                      |
| All other liabilities, including the<br>allowance for lending-related<br>commitments | 95,505                            |                 |                      | 101,147                           |                 |                      |
| <b>Total liabilities</b>   | <b>1,445,217</b>                  |                 |                      | <b>1,262,670</b>                  |                 |                      |
| <b>Total stockholders' equity</b>  | <b>124,580</b>                    |                 |                      | <b>116,245</b>                    |                 |                      |
| <b>Total liabilities and stockholders'<br/>equity</b>                                | <b>\$ 1,569,797</b>               |                 |                      | <b>\$ 1,378,915</b>               |                 |                      |
| <b>Interest rate spread</b>  |                                   |                 | <b>2.43%</b>         |                                   |                 | <b>2.09%</b>         |
| <b>Net interest income and net yield<br/>on interest-earning assets</b>              |                                   | <b>\$ 7,783</b> | <b>2.59%</b>         |                                   | <b>\$ 6,172</b> | <b>2.38%</b>         |

<sup>(a)</sup> Includes securities sold but not yet purchased.

<sup>(b)</sup> For the quarters ended March 31, 2008 and 2007, the annualized rate for available-for-sale securities based upon amortized cost was 5.53% and 5.68%, respectively.

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**GLOSSARY OF TERMS**

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**ACH:** Automated Clearing House.

**AICPA Statement of Position (“SOP”) 07-1:** “Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies.”

**Advised lines of credit:** An authorization which specifies the maximum amount of a credit facility the Firm has made available to an obligor on a revolving but non-binding basis. The borrower receives written or oral advice of this facility. The Firm may cancel this facility at any time.

**Assets under management:** Represent assets actively managed by Asset Management on behalf of institutional, private banking, private client services and retail clients. Excludes assets managed by American Century Companies, Inc., in which the Firm has a 44% ownership interest.

**Assets under supervision:** Represent assets under management as well as custody, brokerage, administration and deposit accounts.

**Average managed assets:** Refers to total assets on the Firm’s balance sheet plus credit card receivables that have been securitized.

**Beneficial interest issued by consolidated VIEs:** Represents the interest of third-party holders of debt/equity securities, or other obligations, issued by VIEs that JPMorgan Chase consolidates under FIN 46R. The underlying obligations of the VIEs consist of short-term borrowings, commercial paper and long-term debt. The related assets consist of trading assets, available-for-sale securities, loans and other assets.

**Benefit obligation:** Refers to the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for OPEB plans.

**Combined effective loan-to-value ratio:** For residential real estate loans, an indicator of how much equity a borrower has in a secured borrowing based on current estimates of the value of the collateral and considering all lien positions related to the property.

**Contractual credit card charge-off:** In accordance with the Federal Financial Institutions Examination Council policy, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification of the filing of bankruptcy, whichever is earlier.

**Credit derivatives:** Contractual agreements that provide protection against a credit event of one or more referenced credits. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event.

**EITF:** Emerging Issues Task Force.

**EITF Issue 06-11:** “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards.”

**EITF Issue 99-20:** “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.”

**FASB:** Financial Accounting Standards Board.

**FICO:** Fair Isaac Corporation.

**FIN 39:** FASB Interpretation No. 39, “Offsetting of Amounts Related to Certain Contracts – an interpretation of APB Opinion No. 10 and FASB Statement No. 105.”

**FIN 41:** FASB Interpretation No. 41, “Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements – an interpretation of APB Opinion No. 10 and a Modification of FASB Interpretation No. 39.”

**FIN 45:** FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others – an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34.”

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**FIN 46R:** FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities – an interpretation of ARB No. 51.”

**FSP:** FASB Staff Position.

**FSP FAS 140-3:** “Accounting for Transfers of Financial Assets and Repurchase Financing Transactions.”

**FSP FIN 39-1:** “Amendment of FASB Interpretation No. 39.”

**FSP FIN 46(R)-7:** “Application of FASB Interpretation No. 46(R) to Investment Companies.”

**Interchange income:** A fee that is paid to a credit card issuer in the clearing and settlement of a sales or cash advance transaction.

**Investment-grade:** An indication of credit quality based upon JPMorgan Chase’s internal risk assessment system. “Investment-grade” generally represents a risk profile similar to a rating of a BBB-/Baa3 or better, as defined by independent rating agencies.

**Managed basis:** A non-GAAP presentation of financial results that includes reclassifications related to credit card securitizations and taxable equivalents. Management uses this non-GAAP financial measure at the segment level because it believes this provides information to investors in understanding the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.

**Managed credit card receivables:** Refers to credit card receivables on the Firm’s balance sheet plus credit card receivables that have been securitized.

**Mark-to-market exposure:** A measure, at a point in time, of the value of a derivative or foreign exchange contract in the open market. When the mark-to-market value is positive, it indicates the counterparty owes JPMorgan Chase and, therefore, creates a repayment risk for the Firm. When the mark-to-market value is negative, JPMorgan Chase owes the counterparty. In this situation, the Firm does not have repayment risk.

**Master netting agreement:** An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts and the related cash collateral through a single payment, in a single currency, in the event of default on or termination of any one contract.

**MSR risk management revenue:** Includes changes in MSR asset fair value due to inputs or assumptions in model and derivative valuation adjustments.

**NA:** Data is not applicable or available for the period presented.

**Net yield on interest-earning assets:** The average rate for interest-earning assets less the average rate paid for all sources of funds.

**NM:** Not meaningful.

**Nonconforming mortgage loans:** Mortgage loans that do not meet the requirements for sale to U.S. government agencies and U.S. government sponsored enterprises. These requirements include limits on loan-to-value ratios, loan terms, loan amounts, down payments, borrower credit worthiness and other requirements.

**OPEB:** Other postretirement employee benefits.

**Overhead ratio:** Noninterest expense as a percentage of total net revenue.

**Portfolio activity:** Describes changes to the risk profile of existing lending-related exposures and their impact on the allowance for credit losses from changes in customer profiles and inputs used to estimate the allowances.

**Principal transactions:** Realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value) and changes in fair value associated with instruments held by the Investment Bank for which the SFAS 159 fair value option was elected. Principal transactions also include private equity gains and losses.

**Reported basis:** Financial statements prepared under accounting principles generally accepted in the United States of America (“U.S. GAAP”). The reported basis includes the impact of credit card securitizations, but excludes the impact of taxable-equivalent adjustments.

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**Return on common equity less goodwill:** Represents net income applicable to common stock divided by total average common equity (net of goodwill). The Firm uses return on equity less goodwill, a non-GAAP financial measure, to evaluate the operating performance of the Firm. The Firm also utilizes this measure to facilitate operating comparisons to other competitors.

**Risk layered loans:** Loans with multiple high risk elements.

**SAB:** Staff Accounting Bulletin.

**SAB 105:** “Application of Accounting Principles to Loan Commitments.”

**SAB 109:** “Written Loan Commitments Recorded at Fair Value Through Earnings.”

**SFAS:** Statement of Financial Accounting Standards.

**SFAS 5:** “Accounting for Contingencies.”

**SFAS 52:** “Foreign Currency Translation.”

**SFAS 114:** “Accounting by Creditors for Impairment of a Loan – an amendment of FASB Statements No. 5 and 15.”

**SFAS 115:** “Accounting for Certain Investments in Debt and Equity Securities.”

**SFAS 133:** “Accounting for Derivative Instruments and Hedging Activities.”

**SFAS 140:** “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FASB Statement No. 125.”

**SFAS 141R:** “Business Combinations.”

**SFAS 142:** “Goodwill and Other Intangible Assets.”

**SFAS 155:** “Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140.”

**SFAS 157:** “Fair Value Measurements.”

**SFAS 158:** “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R).”

**SFAS 159:** “The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115.”

**SFAS 160:** “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51.”

**SFAS 161:** “Disclosures About Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133.”

**Stress testing:** A scenario that measures market risk under unlikely but plausible events in abnormal markets.

**Unaudited:** The financial statements and information included throughout this document, which are labeled unaudited, have not been subjected to auditing procedures sufficient to permit an independent certified public accountant to express an opinion thereon.

**U.S. GAAP:** Accounting principles generally accepted in the United States of America.

**U.S. government and federal agency obligations:** Obligations of the U.S. government or an instrumentality of the U.S. government whose obligations are fully and explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

**U.S. government-sponsored enterprise obligations:** Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.

**Value-at-risk (“VAR”):** A measure of the dollar amount of potential loss from adverse market moves in an ordinary market environment.



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**LINE OF BUSINESS METRICS**

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**Investment Banking**

*IB's revenue comprises the following:*

**Investment banking fees** include advisory, equity underwriting, bond underwriting and loan syndication fees.

**Fixed income markets** include client and portfolio management revenue related to both market-making and proprietary risk-taking across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets.

**Equities markets** include client and portfolio management revenue related to market-making and proprietary risk-taking across global equity products, including cash instruments, derivatives and convertibles.

**Credit portfolio revenue** includes net interest income, fees and loan sale activity, as well as gains or losses on securities received as part of a loan restructuring, for IB's credit portfolio. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities, and changes in the credit valuation adjustment ("CVA"), which is the component of the fair value of a derivative that reflects the credit quality of the counterparty.

**Retail Financial Services**

*Description of selected business metrics within Regional Banking:*

**Personal bankers** – Retail branch office personnel who acquire, retain and expand new and existing customer relationships by assessing customer needs and recommending and selling appropriate banking products and services.

**Sales specialists** – Retail branch office personnel who specialize in the marketing of a single product, including mortgages, investments and business banking, by partnering with the personal bankers.

*Mortgage banking revenue comprises the following:*

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

**Net mortgage servicing revenue includes the following components:**

- (a) Servicing revenue represents all gross income earned from servicing third-party mortgage loans including stated service fees, excess service fees, late fees, and other ancillary fees.
- (b) Changes in MSR asset fair value due to:
  - market-based inputs such as interest rates and volatility, as well as updates to assumptions used in the MSR valuation model.
  - modeled servicing portfolio runoff (or time decay).
- (c) Derivative valuation adjustments and other, which represents changes in the fair value of derivative instruments used to offset the impact of changes in the market-based inputs to the MSR valuation model.

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

*Mortgage Banking's origination channels comprise the following:*

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

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

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

**Correspondent negotiated transactions ("CNT")** – These transactions occur when mid- to large-sized mortgage lenders, banks and bank-owned mortgage companies sell servicing to the Firm on an as-originated basis, and exclude purchased bulk servicing transactions. These transactions supplement traditional production channels and provide growth opportunities in the servicing portfolio in stable and rising-rate periods.

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### **Card Services**

*Description of selected business metrics within CS:*

**Charge volume** – Represents the dollar amount of cardmember purchases, balance transfers and cash advance activity.

**Net accounts opened** – Includes originations, purchases and sales.

**Merchant acquiring business** – Represents an entity that processes bank card transactions for merchants. JPMorgan Chase is a partner in Chase Paymentech Solutions, LLC, a merchant acquiring business.

**Bank card volume** – Represents the dollar amount of transactions processed for merchants.

**Total transactions** – Represents the number of transactions and authorizations processed for merchants.

### **Commercial Banking**

*Commercial Banking revenue comprises the following:*

**Lending** includes a variety of financing alternatives, which are primarily provided on a basis secured by receivables, inventory, equipment, real estate or other assets. Products include term loans, revolving lines of credit, bridge financing, asset-based structures and leases.

**Treasury services** includes a broad range of products and services enabling clients to transfer, invest and manage the receipt and disbursement of funds, while providing the related information reporting. These products and services include U.S. dollar and multi-currency clearing, ACH, lockbox, disbursement and reconciliation services, check deposits, other check and currency-related services, trade finance and logistics solutions, commercial card, and deposit products, sweeps and money market mutual funds.

**Investment banking** products provide clients with sophisticated capital-raising alternatives, as well as balance sheet and risk management tools through loan syndications, investment-grade debt, asset-backed securities, private placements, high-yield bonds, equity underwriting, advisory, interest rate derivatives, foreign exchange hedges and securities sales.

*Description of selected business metrics within CB:*

**Liability balances** include deposits and deposits that are swept to on-balance sheet liabilities such as commercial paper, federal funds purchased and repurchase agreements.

**IB revenue, gross** – Represents total revenue related to investment banking products sold to CB clients.

### **Treasury & Securities Services**

Treasury & Securities Services **firmwide metrics** include certain TSS product revenue and liability balances reported in other lines of business related to customers who are also customers of those other lines of business. In order to capture the firmwide impact of Treasury Services and TSS products and revenue, management reviews firmwide metrics such as liability balances, revenue and overhead ratios in assessing financial performance for TSS. Firmwide metrics are necessary, in management's view, in order to understand the aggregate TSS business.

*Description of selected business metrics within TSS:*

**Liability balances** include deposits and deposits that are swept to on-balance sheet liabilities such as commercial paper, federal funds purchased and securities sold under repurchase agreements.

### **Asset Management**

**Assets under management:** Represent assets actively managed by Asset Management on behalf of institutional, private banking, private client services and retail clients. Excludes assets managed by American Century Companies, Inc., in which the Firm has a 44% ownership interest as of March 31, 2008.

**Assets under supervision:** Represent assets under management as well as custody, brokerage, administration and deposit accounts.

**Alternative assets:** The following types of assets constitute alternative investments – hedge funds, currency, real estate and private equity.

*AM's client segments comprise the following:*

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

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

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

**Private Client Services** offers high-net-worth individuals, families and business owners in the U.S. comprehensive wealth management solutions, including investment management, capital markets and risk management, tax and estate planning, banking and specialty-wealth advisory services.

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## FORWARD-LOOKING STATEMENTS

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

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

- local, regional and international business, economic and political conditions and geopolitical events;
- changes in trade, monetary and fiscal policies and laws;
- securities and capital markets behavior, including changes in market liquidity and volatility;
- changes in investor sentiment or consumer spending or saving behavior;
- ability of the Firm to manage effectively its liquidity;
- credit ratings assigned to the Firm or its subsidiaries;
- the Firm’s reputation;
- ability of the Firm to deal effectively with an economic slowdown or other economic or market difficulty;
- technology changes instituted by the Firm, its counterparties or competitors;
- mergers and acquisitions, including the Firm’s ability to integrate acquisitions;
- ability of the Firm to develop new products and services;
- acceptance of the Firm’s new and existing products and services by the marketplace and the ability of the Firm to increase market share;
- ability of the Firm to attract and retain employees;
- ability of the Firm to control expense;
- competitive pressures;
- changes in the credit quality of the Firm’s customers;
- adequacy of the Firm’s risk management framework;
- changes in laws and regulatory requirements or adverse judicial proceedings;
- changes in applicable accounting policies;

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- ability of the Firm to determine accurate values of certain assets and liabilities;
- occurrence of natural or man-made disasters or calamities or conflicts;
- the other risks and uncertainties detailed in Part 1, Item 1A: Risk Factors in the Firm's Annual Report on Form 10-K for the year ended December 31, 2007, and in Item 1A: Risk Factors in this Form 10-Q.

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

### Item 3 Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see the Market Risk Management section of the MD&A on pages 61–64 of this Form 10-Q.

### Item 4 Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the Firm's management, including its Chairman and Chief Executive Officer and its Chief Financial Officer, of the effectiveness of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chairman and Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective. See Exhibits 31.1 and 31.2 for the Certification statements issued by the Chairman and Chief Executive Officer, and Chief Financial Officer.

The Firm is committed to maintaining high standards of internal control over financial reporting. Nevertheless, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.

There was no change in the Firm's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during the first quarter of 2008 that has materially affected, or is reasonably likely to materially affect, the Firm's internal control over financial reporting.

## **Part II Other Information**

### Item 1 Legal proceedings

The following information supplements and amends the disclosure set forth under Part I, Item 3 "Legal proceedings" in the Firm's 2007 Annual Report on Form 10-K.

*Enron Litigation.* As previously disclosed, there is pending a putative class action on behalf of JPMorgan Chase employees who participated in the Firm's 401(k) plan, alleging claims under the Employee Retirement Income Security Act ("ERISA") against the Firm, its directors and named officers. On February 20, 2008, plaintiffs sought remand of their appeal, based on new controlling authority by the United States Supreme Court. Defendants opposed the motion, arguing that the District Court's decision could be affirmed based on other arguments that had been presented to that court. The United States Court of Appeals for the Second Circuit denied plaintiffs' request for remand on April 9, 2008, but allowed plaintiffs the opportunity to submit a reply brief.

*IPO Allocation Litigation.* With respect to the IPO securities cases, on March 26, 2008, the District Court issued an order granting in part and denying in part the Underwriter Defendants' motion to dismiss the Amended Master Allegations and second amended class action complaints filed in the six class certification "focus" cases. The District Court granted the Underwriter Defendants' motion to dismiss with respect to claims brought under Section 11 of the Securities Act of 1933 by plaintiffs who sold their securities for a price in excess of the initial public offering price, and by those plaintiffs who purchased outside the previously certified class period, but denied the Underwriter Defendants' motion to dismiss on all other grounds. In addition, the class certification motion in the "focus" cases have been fully briefed. Finally, a motion by the Underwriter Defendants to strike the class allegations in 26 cases on grounds relating to the status of the putative class representatives in those cases has been fully briefed. With respect to the cases filed by plaintiff Vanessa Simmonds in the United States District Court for the Western District of Washington, all of the cases were reassigned to Judge James L. Robart to whom the first case had been assigned, and amended complaints have been filed.

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*National Century Financial Enterprises Litigation.* The Firm completed a settlement with the Securities and Exchange Commission pursuant to which it consented to an order that it agreed to cease and desist from committing or causing any future violations of the Securities Act of 1933, and paid disgorgement of \$1,286,808.82 and prejudgment interest of \$711,335.76. The Firm also has completed settlements with MetLife and with Lloyds TSB in the multidistrict civil litigation.

*In re JPMorgan Chase Cash Balance Litigation.* On March 17, 2008, the District Court stayed the original cash balance plan litigation for up to one year pending a decision by the United States Court of Appeals for the Second Circuit in *Hirt v. The Equitable Ret. Plan of Employees, Manager & Agents*, No. 06-cv-4757, a case in which the Firm is not involved but which raises similar issues, including the question of whether the conversion to, and use of, a cash balance formula violates ERISA's proscription against age discrimination. The *Hirt* appeal was argued on April 22, 2008. In accordance with the scheduling order in *Bilello v. JPMorgan Chase Retirement Plan, et al.*, No. 07-cv-7379 (S.D.N.Y.), defendants filed a motion to dismiss the amended complaint, and that motion is now fully briefed.

*Interchange Litigation.* Plaintiffs had filed a supplemental complaint challenging MasterCard's 2006 initial public offering, alleging that the offering violates the Section 7 of the Clayton Act, Section 1 of the Sherman Act and that the offering was a fraudulent conveyance. Defendants filed a motion to dismiss both of those claims. On February 13, 2008, the Magistrate Judge issued a Report and Recommendation granting the motion to dismiss the fraudulent conveyance claims against the Defendant Banks and MasterCard, and the Clayton Act claims as to the Defendant Banks, with leave to replead all claims consistent with the decision. The Magistrate Judge denied the motion to dismiss the Clayton Act claims against MasterCard and the Section 1 Sherman Act claims against all defendants. On April 4, 2008, the Defendants filed their objections to the Report and Recommendation. Plaintiffs will file a response to the objections on May 12, 2008. The District Court will then review the Report and Recommendation as well as the objections and issue a final decision. Discovery in the case is ongoing.

*GIC Investigation.* On March 18, 2008, the staff of the Philadelphia Regional Office of the SEC issued a "Wells" notice advising J.P. Morgan Securities, Inc. ("JPMSI"), that it is considering recommending that the Commission bring an enforcement action against JPMSI, alleging that JPMSI violated the federal securities laws "in connection with the bidding of various financial instruments associated with municipal securities." In addition, beginning in March 2008, the Firm, along with numerous other commercial banks, investment banks, insurance companies and brokers, were named as defendants in several putative class action lawsuits filed in federal court in the District of Columbia, the Southern District of New York, and the Northern District of California for alleged antitrust violations in connection with the bidding or sale of guaranteed investment contracts and other derivatives to municipal issuers. Plaintiffs in one of the pending actions moved before the Judicial Panel on Multidistrict Litigation to transfer and coordinate these cases in the District of Columbia. The Firm and the majority of its co-defendants have joined in the request for coordination but have argued that the coordination should take place in the Southern District of New York. In addition, the Firm is continuing to cooperate with the investigations being conducted by the New York State field office of the Department of Justice's Antitrust Division and the Philadelphia Regional Office of the SEC.

*Bear Stearns Merger Litigation.* During the week of March 17, 2008, various stockholders of Bear Stearns filed two putative class actions naming as defendants Bear Stearns, certain members of its board of directors, and certain of Bear Stearns' present and former executive officers (collectively, the "Bear Stearns defendants"), as well as the Firm. The Firm's officers and directors are not named as defendants. The actions which were filed in the Supreme Court of the New York State Court allege, among other things, that the individual defendants breached their fiduciary duties and obligations to Bear Stearns' shareholders by agreeing to the proposed merger. The Firm is alleged to have aided and abetted the alleged breaches of fiduciary duty. Three similar putative class actions were also filed in the Supreme Court of the State of New York by shareholders that named only the Bear Stearns defendants. These actions have been consolidated in the Supreme Court of the State of New York as a putative class action, under the caption *In re Bear Stearns Litigation* (the "New York action"). The Firm is named as a defendant in the consolidated action. Plaintiffs initially sought to enjoin the proposed merger and enjoin the Firm from voting certain shares acquired by the Firm in connection with the proposed merger. A hearing on the plaintiffs' motion for a preliminary injunction in the consolidated New York State action was scheduled for May 8, 2008, but the plaintiffs informed the Court that they were withdrawing the motion. Plaintiffs have also informed the Court that they intend to pursue their claims, which include a claim for an unspecified amount of compensatory damages, in the ordinary course. The defendants have informed the Court that they intend to move for summary judgement. That motion will be argued on July 21. Two actions related to the proposed merger were also filed in Delaware Court of Chancery making similar allegations to the New York action and those actions were consolidated in the Delaware Chancery Court (the "Delaware action"). On April 9, 2008, the Delaware Chancery Court granted the Firm's and Bear Stearns' motion to stay the Delaware action in favor of the New York action, at least until the preliminary injunction motion is resolved. The plaintiffs in the Delaware action intervened in the

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New York action and on May 7, 2008, the Delaware Chancery Court signed a stipulation and proposed order submitted by the parties dismissing the Delaware action. In addition, the plaintiffs in a shareholder derivative lawsuit pending against Bear Stearns (to which the Firm is not a party) in federal court in the Southern District of New York, which does contain merger-related allegations, have sent a letter to the Court seeking expedited discovery and stating their intention to seek a preliminary injunction against the merger. The Firm has submitted a letter to the Court opposing this request and requesting an opportunity to be heard on the motion should the Court agree to entertain it.

In addition to the various cases, proceedings and investigations discussed above, JPMorgan Chase and its subsidiaries are named as defendants or otherwise involved in a number of other legal actions and governmental proceedings arising in connection with their businesses. Additional actions, investigations or proceedings may be initiated from time to time in the future. In view of the inherent difficulty of predicting the outcome of legal matters, particularly where the claimants seek very large or indeterminate damages, or where the cases present novel legal theories, involve a large number of parties or are in early stages of discovery, the Firm cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines, penalties or impact related to each pending matter may be. JPMorgan Chase believes, based upon its current knowledge, after consultation with counsel and after taking into account its current litigation reserves, that the outcome of the legal actions, proceedings and investigations currently pending against it should not have a material, adverse effect on the consolidated financial condition of the Firm. However, in light of the uncertainties involved in such proceedings, actions and investigations, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by the Firm; as a result, the outcome of a particular matter may be material to JPMorgan Chase's operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and the level of JPMorgan Chase's income for that period.

### Item 1A Risk Factors

For a discussion of certain risk factors affecting the Firm, see Part 1, Item 1A: Risk Factors, on pages 4-6 of JPMorgan Chase's 2007 Annual Report on Form 10-K and Forward-Looking Statements on page 114 of this Form 10-Q. Additionally, below are outlined some of the more important risk factors relating to JPMorgan Chase's proposed merger with Bear Stearns and related transactions that could materially affect the Firm's financial condition and operations. For a discussion of the terms of the merger and related transactions, see Other Business Events, beginning on page 5 of this Form 10-Q.

*If the merger is not consummated, JPMorgan Chase would nevertheless continue to have exposure as a result of its guaranties of certain Bear Stearns liabilities.*

As of March 24, 2008, Bear Stearns had virtually no available cash and insufficient unencumbered assets to secure funding in the credit markets from any source other than JPMorgan Chase and the Federal Reserve Bank of New York ("FRBNY"). As of the close of business on Friday, March 21, 2008, Bear Stearns had outstanding borrowings of approximately \$32.5 billion from the FRBNY, had borrowed approximately \$3.7 billion from the Firm through repurchase agreements and had borrowed approximately an additional \$9.7 billion from the Firm. In addition, Bear Stearns has been engaging in continued business activities, albeit at significantly reduced levels since the merger announcement. As such, Bear Stearns has incurred operating liabilities for which JPMorgan Chase is a guarantor. It is not possible to quantify the amount of those liabilities, as they are subject to constant change. There is no assurance any of the borrowings or obligations of Bear Stearns that are covered by the Firm's guarantees will not increase over time, and such amounts could have a negative impact on the Firm's financial results.

Currently, there are cases pending in the New York State and federal courts that assert various claims against Bear Stearns and JPMorgan Chase, seeking, among other things, to enjoin the proposed merger. See Part II, Item 1, Legal proceedings, beginning on page 115 of this Form 10-Q.

If Bear Stearns' stockholders fail to approve the merger, then either party may terminate the merger agreement 120 days following such failure. In the event of such termination, or upon any other termination of the merger agreement, the merger would not be consummated, and the operating guarantee would terminate in accordance with its terms for any liabilities or obligations arising thereafter. Nevertheless, other than following a termination due to a change in recommendation by the board of directors of Bear Stearns prompted by a competing transaction proposal, JPMorgan Chase's guarantee of obligations up to that date would remain in effect. In addition, if the merger agreement were terminated, JPMorgan Chase would have the right to terminate its guarantee of Bear Stearns' borrowings from the FRBNY. If either or both of these actions were to occur, Bear Stearns would most likely be unable to finance its operations. In addition, absent the operating guarantee, Bear Stearns would face the increased risk of rapid loss of clients and counterparties. The lack of liquidity and the loss of additional clients and counterparties would seriously jeopardize Bear Stearns' financial viability, which would raise substantial doubt as to its ability to continue as a going concern.

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Accordingly, Bear Stearns could be forced to file for bankruptcy protection and to liquidate its assets, and creditors could look to JPMorgan Chase as guarantor to satisfy Bear Stearns' obligations covered by the operating guarantee. In a bankruptcy proceeding, the likelihood of the Firm recovering all of the funds owed to it would be uncertain and this could have a negative impact on its financial condition and results of operations.

*Even if the merger is consummated, the Firm may fail to realize any benefits and may incur unanticipated losses related to Bear Stearns assets and liabilities that it is assuming pursuant to the merger.*

In connection with the merger agreement, the FRBNY has agreed to provide JPMorgan Chase with \$30 billion in funding secured by a pool of collateral consisting primarily of mortgage-related securities and other mortgage-related assets and related hedges. Of this \$30 billion financing, JPMorgan Chase would bear the first \$1 billion in losses associated with the collateral pool, and the remaining \$29 billion will be non-recourse. There can be no assurance that JPMorgan Chase will not incur this \$1 billion in losses.

Furthermore, JPMorgan Chase will assume all assets and liabilities of Bear Stearns and its subsidiaries (other than the \$30 billion of assets subject to the funding being provided by the FRBNY). Given recent market volatility and uncertainty, there could be substantial risk associated with assuming the assets and liabilities of Bear Stearns that the Firm will acquire as a result of the merger. Some of those assets could become nonperforming or defaulting, requiring write-downs and additional reserves. As a result, JPMorgan Chase may experience increased credit costs or need to take markdowns on assets that could negatively affect its financial condition and results of operations.

If the merger is consummated, its success will depend, in part, on JPMorgan Chase's ability to successfully combine its business with Bear Stearns' business. To realize these anticipated benefits, after the completion of the merger the Firm expects to integrate Bear Stearns' business into its own. As with any merger of financial institutions, there may be business disruptions that cause Bear Stearns to lose customers or cause customers to remove their accounts from Bear Stearns and move their business to competing financial institutions. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect JPMorgan Chase's ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits of the merger. The loss of key employees could adversely affect JPMorgan Chase's ability to successfully conduct its business in the markets in which Bear Stearns now operates, which could have an adverse effect on the Firm's financial results. Integration efforts between the two companies will also divert management attention and resources. If JPMorgan Chase experiences difficulties with the integration process, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected.

In addition, immediately prior to entering into the merger agreement, Bear Stearns experienced a significant liquidity crisis during the end of the week of March 10, 2008, which seriously jeopardized its financial viability. As a result of this liquidity crisis and the events that followed, Bear Stearns' earnings capacity has declined significantly. During and following the liquidity crisis, a substantial number of prime brokerage clients moved accounts to other clearing brokers. Customer margin balances at Bear Stearns were \$66 billion at March 24, 2008, down 23% from \$86 billion at November 30, 2007; customer shorts at March 24, 2008 were \$66 billion, down from \$88 billion at the fiscal year end; and assets under management declined to approximately \$36 billion at March 24, 2008, down 20% from \$45 billion at the fiscal year end. As of April 14, 2008, institutional equity and fixed income commission and sales activity had declined precipitously to more than 50% below the activity levels in 2007 and the first quarter of 2008.

Consequently the Bear Stearns franchise has experienced substantial deterioration of its earnings capacity subsequent to its liquidity crisis, including continued deterioration in recent weeks. There is no assurance that customers and counterparties will return to doing business with Bear Stearns now that the operating guarantee is in place. If such customers and counterparties determine to conduct their business with financial institutions other than Bear Stearns, there is no assurance that, upon consummation of the merger, such former customers and counterparties will transfer their business from their then current financial institution to the combined company. Accordingly, the pro forma financial statements of the two entities filed with the SEC by the Firm in a Current Report on Form 8-K on April 16, 2008, as amended May 6, 2008, should not be viewed as an indication of the results of the combined firm that would have occurred had the merger been effected at the beginning of the period presented therein, nor as an indication of financial results of operations of the combined company that may occur in the future.

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### Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

For a discussion of the Firm's current stock repurchase program, see Stock repurchases, on page 43, and Item 5: Market for Registrant's common equity, related stockholder matters and issuer purchases of equity securities on pages 13–14 of JPMorgan Chase's 2007 Annual Report on Form 10-K.

During the first quarter of 2008, shares of common stock of JPMorgan Chase & Co. were issued in transactions exempt from registration under the Securities Act of 1933, pursuant to Section 4(2) thereof, as follows: (i) on January 2, 2008, 9,694 shares were issued to retired directors who had deferred receipt of such common stock pursuant to the Deferred Compensation Plan for Non-Employee Directors; and (ii) on January 22, 2008, 678 shares and on January 30, 2008, 57,449 shares were issued to retired employees who had deferred receipt of such common shares pursuant to the Corporate Performance Incentive Plan.

On April 17, 2007, the Board of Directors authorized the repurchase of up to \$10.0 billion of the Firm's common shares. The new authorization commenced April 19, 2007, and replaced the Firm's previous \$8.0 billion repurchase program.

During the first quarter of 2008, under the current \$10.0 billion stock repurchase program, the Firm did not repurchase any shares. During the first quarter of 2007, under the \$8.0 billion stock repurchase program, the Firm repurchased 81 million shares for \$4.0 billion at an average price per share of \$49.45. As of March 31, 2008, \$6.2 billion of authorized repurchase capacity remained under the current stock repurchase program.

The Firm has determined that it may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of common stock in accordance with the repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase shares during periods when it would not otherwise be repurchasing common stock, for example during internal trading "black-out periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan that is established when the Firm is not aware of material nonpublic information.

Participants in the Firm's stock-based incentive plans may have shares withheld to cover income taxes. Shares withheld to pay income taxes are repurchased pursuant to the terms of the applicable plan and not under the Firm's share repurchase program. Shares repurchased pursuant to these plans during the first quarter of 2008 were as follows.

| <b>For the three months ended</b> |              | Average         |
|-----------------------------------|--------------|-----------------|
| <b>March 31, 2008</b>             | Total shares | price paid      |
|                                   | repurchased  | per share       |
| January                           | 2,043        | \$ 45.61        |
| February                          | —            | —               |
| March                             | —            | —               |
| <b>Total</b>                      | <b>2,043</b> | <b>\$ 45.61</b> |

### Item 3 Defaults Upon Senior Securities

None

### Item 4 Submission of Matters to a Vote of Security Holders

None

### Item 5 Other Information

None

### Item 6 Exhibits

- 31.1 – Certification
- 31.2 – Certification
- 32 – Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

\_\_\_\_\_  
JPMORGAN CHASE & CO.  
(Registrant)

Date: May 12, 2008

By

\_\_\_\_\_  
/s/ Louis Rauchenberger  
Louis Rauchenberger

Managing Director and Controller  
[Principal Accounting Officer]

**INDEX TO EXHIBITS**

**SEQUENTIALLY NUMBERED**

| <b><u>EXHIBIT NO.</u></b> | <b><u>EXHIBITS</u></b> | <b><u>PAGE AT WHICH LOCATED</u></b> |
|---------------------------|------------------------|-------------------------------------|
| 31.1                      | Certification          | 122                                 |
| 31.2                      | Certification          | 123                                 |

The following exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section. In addition, Exhibit No. 32 shall not be deemed incorporated into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

|    |   |     |
|----|---|-----|
| 32 | Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | 124 |
|----|---|-----|

## CERTIFICATION

I, James Dimon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of JPMorgan Chase & Co.;
2. Based upon my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based upon my knowledge, the Consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based upon our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008

/s/ James Dimon

James Dimon  
Chairman and Chief Executive Officer

## CERTIFICATION

I, Michael J. Cavanagh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of JPMorgan Chase & Co.;
2. Based upon my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based upon my knowledge, the Consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal controls over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based upon such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based upon our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 12, 2008

/s/ Michael J. Cavanagh

Michael J. Cavanagh  
Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of JPMorgan Chase & Co. on Form 10-Q for the period ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of JPMorgan Chase & Co., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of JPMorgan Chase & Co.

Date: May 12, 2008

By: /s/ James Dimon

James Dimon  
Chairman and Chief Executive Officer

Date: May 12, 2008

By: /s/ Michael J. Cavanagh

Michael J. Cavanagh  
Executive Vice President and Chief Financial Officer

This certification accompanies this Form 10-Q and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that Section.