

J P MORGAN CHASE & CO

Form 10-Q

May 10, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2010 Commission file number 1-5805
JPMORGAN CHASE & CO.
(Exact name of registrant as specified in its charter)**

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

Number of shares of common stock outstanding as of April 30, 2010: 3,978,693,997

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JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

(unaudited)
(in millions, except per share, ratio and headcount data)
As of or for the period ended,

	1Q10	4Q09	3Q09	2Q09	1Q09
Selected income statement data					
Total net revenue	\$ 27,671	\$ 23,164	\$ 26,622	\$ 25,623	\$ 25,025
Total noninterest expense	16,124	12,004	13,455	13,520	13,373
Pre-provision profit ^(a)	11,547	11,160	13,167	12,103	11,652
Provision for credit losses	7,010	7,284	8,104	8,031	8,596
Income before income tax expense and extraordinary gain	4,537	3,876	5,063	4,072	3,056
Income tax expense	1,211	598	1,551	1,351	915
Income before extraordinary gain	3,326	3,278	3,512	2,721	2,141
Extraordinary gain ^(b)			76		
Net income	\$ 3,326	\$ 3,278	\$ 3,588	\$ 2,721	\$ 2,141
Per common share data					
Basic earnings					
Income before extraordinary gain	\$ 0.75	\$ 0.75	\$ 0.80	\$ 0.28	\$ 0.40
Net income	0.75	0.75	0.82	0.28	0.40
Diluted earnings^(c)					
Income before extraordinary gain	\$ 0.74	\$ 0.74	\$ 0.80	\$ 0.28	\$ 0.40
Net income	0.74	0.74	0.82	0.28	0.40
Cash dividends declared per share	0.05	0.05	0.05	0.05	0.05
Book value per share	39.38	39.88	39.12	37.36	36.78
Common shares outstanding					
Weighted average: Basic	3,970.5	3,946.1	3,937.9	3,811.5	3,755.7
Diluted	3,994.7	3,974.1	3,962.0	3,824.1	3,758.7
Common shares at period end ^(d)	3,975.4	3,942.0	3,938.7	3,924.1	3,757.7
Share price^(e)					
High	\$ 46.05	\$ 47.47	\$ 46.50	\$ 38.94	\$ 31.64
Low	37.03	40.04	31.59	25.29	14.96
Close	44.75	41.67	43.82	34.11	26.58
Market capitalization	177,897	164,261	172,596	133,852	99,881
Selected ratios					
Return on common equity (ROE ^(c))					
Income before extraordinary gain	8%	8%	9%	3%	5%
Net income	8	8	9	3	5
Return on tangible common equity (ROTCE ^(c))					
Income before extraordinary gain	12	12	13	5	8
Net income	12	12	14	5	8

Return on assets (ROA)					
Income before extraordinary gain	0.66	0.65	0.70	0.54	0.42
Net income	0.66	0.65	0.71	0.54	0.42
Overhead ratio	58	52	51	53	53
Tier 1 capital ratio ^(f)	11.5	11.1	10.2	9.7	11.4
Total capital ratio	15.1	14.8	13.9	13.3	15.2
Tier 1 leverage ratio	6.6	6.9	6.5	6.2	7.1
Tier 1 common capital ratio ^(g)	9.1	8.8	8.2	7.7	7.3

Selected balance sheet data (period-end)

Trading assets ^(f)	\$ 426,128	\$ 411,128	\$ 424,435	\$ 395,626	\$ 429,700
Securities ^(f)	344,376	360,390	372,867	345,563	333,861
Loans ^(f)	713,799	633,458	653,144	680,601	708,243
Total assets ^(f)	2,135,796	2,031,989	2,041,009	2,026,642	2,079,188
Deposits ^(f)	925,303	938,367	867,977	866,477	906,969
Long-term debt	262,857	266,318	272,124	271,939	261,845
Common stockholders equity ^(f)	156,569	157,213	154,101	146,614	138,201
Total stockholders equity ^(f)	164,721	165,365	162,253	154,766	170,194
Headcount	226,623	222,316	220,861	220,255	219,569

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(unaudited)

(in millions, except ratios)

As of or for the period ended	1Q10	4Q09	3Q09	2Q09	1Q09
Credit quality metrics					
Allowance for credit losses ^(f)	\$ 39,126	\$ 32,541	\$ 31,454	\$ 29,818	\$ 28,019
Allowance for loan losses to total retained loans ^(f)	5.40%	5.04%	4.74%	4.33%	3.95%
Allowance for loan losses to retained loans excluding purchased credit-impaired loans ^{(f)(h)}	5.64	5.51	5.28	5.01	4.53
Nonperforming assets	\$ 19,019	\$ 19,741	\$ 20,362	\$ 17,517	\$ 14,654
Net charge-offs	7,910	6,177	6,373	6,019	4,396
Net charge-off rate	4.46%	3.85%	3.84%	3.52%	2.51%
Wholesale net charge-off rate	1.84	2.31	1.93	1.19	0.32
Consumer net charge-off rate	5.56	4.60	4.79	4.69	3.61

(a) *Pre-provision profit is total net revenue less noninterest expense. The Firm believes that this financial measure is useful in assessing the ability of a lending institution to generate income in excess of its provision for credit losses.*

(b) *On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual. The acquisition resulted in negative goodwill, and accordingly, the Firm recognized an extraordinary gain. A preliminary gain of \$1.9 billion was*

recognized at December 31, 2008. The final total extraordinary gain that resulted from the Washington Mutual transaction was \$2.0 billion.

- (c) *The calculation of second-quarter 2009 earnings per share and net income applicable to common equity includes a one-time, noncash reduction of \$1.1 billion, or \$0.27 per share, resulting from repayment of U.S. Troubled Asset Relief Program (TARP) preferred capital. Excluding this reduction, the adjusted ROE and ROTCE for the second quarter 2009 would have been 6% and 10%, respectively. The Firm views the adjusted ROE and ROTCE, both non-GAAP financial measures, as meaningful because they enable the comparability to prior periods. For further discussion, see Explanation and Reconciliation of the Firm's use of Non-GAAP Financial*

measures on pages 14-16 of this Form 10-Q and pages 50-52 of JPMorgan Chase's 2009 Annual Report.

- (d) On June 5, 2009, the Firm issued \$5.8 billion, or 163 million shares, of its common stock at \$35.25 per share.*
- (e) The principal market for JPMorgan Chase's common stock is the New York Stock Exchange. JPMorgan Chase's common stock is also listed and traded on the London Stock Exchange and the Tokyo Stock Exchange.*
- (f) Effective January 1, 2010, the Firm adopted new guidance that amended the accounting for the transfer of financial assets and the consolidation of variable interest entities (VIEs). Upon adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization*

trusts, Firm-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related, adding \$87.7 billion and \$92.2 billion of assets and liabilities, respectively, and decreasing stockholders equity and the Tier 1 capital ratio by \$4.5 billion and 34 basis points, respectively. The reduction to stockholders equity was driven by the establishment of an allowance for loan losses of \$7.5 billion (pretax) primarily related to receivables held in credit card securitization trusts that were consolidated on the adoption date.

- (g) *The Tier 1 common capital ratio is Tier 1 common capital divided by risk-weighted assets. Tier 1 common capital (Tier 1 common) is defined as Tier 1 capital less elements of capital*

not in the form of common equity such as perpetual preferred stock, noncontrolling interests in subsidiaries and trust preferred capital debt securities. The Tier 1 common capital ratio, a non-GAAP financial measure, is used by banking regulators, investors and analysts to assess and compare the quality and composition of the Firm's capital with the capital of other financial services companies. The Firm uses Tier 1 common capital along with the other capital measures to assess and monitor its capital position. For further discussion, see Regulatory capital on pages 82-84 of JPMorgan Chase's 2009 Annual Report.

- (h) *Excludes the impact of home lending purchased credit-impaired loans for all periods. Also excludes, as of December 31, 2009, September 30, 2009 and June 30,*

2009, the loans held by the Washington Mutual Master Trust, which were consolidated onto the balance sheet at fair value during the second quarter of 2009. Such loans had been fully repaid or charged off as of March 31, 2010. For further discussion, see Allowance for credit losses on pages 78-81 of this Form 10-Q.

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**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 of JPMorgan Chase. See the Glossary of terms on pages 156-159 for definitions of terms used throughout this Form 10-Q. The MD&A included in this Form 10-Q contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based on the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. These risks and uncertainties could cause the Firm's actual results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (See Forward-looking Statements on pages 162-163 and Part II, Item 1A: Risk Factors on page 171 of this Form 10-Q), and see Part I, Item 1A, Risk Factors in JPMorgan Chase's Annual Report on Form 10-K for the year ended December 31, 2009, filed with the U.S. Securities and Exchange Commission (2009 Annual Report or 2009 Form 10-K), to which reference is hereby made.

INTRODUCTION

JPMorgan Chase & Co., a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America (U.S.), with \$2.1 trillion in assets, \$164.7 billion in stockholders' equity and operations in more than 60 countries as of March 31, 2010. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

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

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

Investment Bank

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

Retail Financial Services

Retail Financial Services (RFS) serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking, as well as through auto dealerships and school financial-aid offices. Customers can use more than 5,100 bank branches (third-largest nationally) and 15,500 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 25,300 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. Consumers also can obtain loans through more than 15,800 auto dealerships and 2,200 schools and universities nationwide.

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Card Services

Card Services (CS) is one of the nation's largest credit card issuers, with nearly \$150 billion in managed loans and nearly 90 million open accounts. In the three months ended March 31, 2010, customers used Chase cards to meet nearly \$70 billion of their spending needs. Through its merchant acquiring business, Chase Paymentech Solutions, Card Services is a global leader in payment processing and merchant acquiring.

Commercial Banking

Commercial Banking (CB) serves nearly 25,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from \$10 million to \$2 billion, and more than 30,000 real estate investors/owners. Delivering extensive industry knowledge, local expertise and dedicated service, CB partners with the Firm's other businesses to provide comprehensive solutions, including lending, treasury services, investment banking and asset management to meet its clients' domestic and international financial needs.

Treasury & Securities Services

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

Asset Management

Asset Management (AM), with assets under supervision of \$1.7 trillion, is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity products, including money-market instruments and bank deposits. AM also provides trust and estate, banking and brokerage services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

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

Financial performance of JPMorgan Chase

(in millions, except per share data and ratios)	Three months ended March 31,		
	2010	2009	Change
Selected income statement data			
Total net revenue	\$ 27,671	\$ 25,025	11%
Total noninterest expense	16,124	13,373	21
Pre-provision profit	11,547	11,652	(1)
Provision for credit losses	7,010	8,596	(18)
Net income	3,326	2,141	55
Diluted earnings per share	\$ 0.74	\$ 0.40	85
Return on common equity	8%	5%	
Capital ratios			
Tier 1 capital	11.5	11.4	
Tier 1 common capital	9.1	7.3	

Business overview

JPMorgan Chase reported first-quarter 2010 net income of \$3.3 billion, or \$0.74 per share, compared with net income of \$2.1 billion, or \$0.40 per share, in the first quarter of 2009. Return on common equity for the quarter was 8%, compared with 5% in the prior year. The increase in earnings was driven by a lower provision for credit losses and higher net revenue, partially offset by higher noninterest expense. Strong Fixed Income Markets revenue in the Investment Bank and continued elevated levels of trading and securities gains from the investment portfolio in Corporate contributed to revenue growth. The decrease in the provision for credit losses was driven by a reduction in the allowance for loan losses due to lower loan balances in the Investment Bank (reflecting repayments and loan sales), and lower estimated losses in Card Services. Noninterest expense rose, reflecting increased litigation reserves, including those for mortgage-related matters.

The beginnings of an economic recovery in the U.S. gained momentum in the first quarter of 2010, with favorable developments in financial markets, capital spending and the labor market. These trends, combined with increasing corporate profitability and low inflation, provided support for improving stock markets, asset prices and credit spreads. Household spending expanded but continued to be constrained by high unemployment, modest income growth, lower household wealth and tight credit. The Federal Reserve indicated that these economic conditions were likely to warrant an exceptionally low federal funds rate for an extended period.

The Firm's net income in the first quarter reflected the improvement in the business environment, with a strong quarter in the Investment Bank and continued solid performance across Asset Management, Commercial Banking and Retail Banking. Although high losses continued in the consumer credit portfolios, delinquencies continued to stabilize and, in some cases, improved. Earnings generated additional capital, resulting in a very strong Tier 1 Capital ratio of 11.5% and a Tier 1 Common ratio of 9.1%. The total firmwide allowance for credit losses was more than \$39 billion, or 5.6% of total loans.

JPMorgan Chase continued to contribute to the economic recovery of small businesses and communities. Building on the efforts of the Obama Administration, the Firm expanded its efforts by launching an initiative to increase small-business lending to \$10 billion by the end of 2010. During the quarter, the Firm extended \$2.1 billion in new small-business credit, with Business Banking originations nearly doubling from last year. In addition, the Firm aims to

employ more people and create new jobs across the country and around the world, with plans to add nearly 9,000 new employees in the U.S. alone.

The Firm's efforts to prevent foreclosures have produced significant results. Since the beginning of 2009, JPMorgan Chase has offered approximately 750,000 trial modifications to struggling homeowners, of which nearly 25% were approved for permanent modification. The Firm approved more than 64,000 permanent modifications during the first quarter of 2010, a 146% increase from the previous quarter. In addition, the Firm recently announced its participation in the U.S. Government's Second-Lien Modification Program known as 2MP. These mortgage programs are complex to implement and take time to build momentum; however, management believes they could ultimately prevent millions of foreclosures.

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The discussion that follows highlights the current-quarter performance of each business segment, compared with the prior-year quarter. Managed basis starts with the reported U.S. GAAP results. For 2010, managed basis includes, for each line of business and the Firm as a whole, certain reclassifications to present total net revenue on a tax-equivalent basis. For 2009, managed basis includes i) the foregoing adjustment; and, ii) for Card Services and the Firm as a whole, certain classifications that assumed credit card loans securitized by Card Services remained on the Consolidated Balance Sheets. Effective January 1, 2010, the Firm adopted new accounting guidance that required the Firm to consolidate its Firm-sponsored credit card securitization trusts; as a result, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For more information about managed basis, as well as other non-GAAP financial measures used by management to evaluate the performance of each line of business, see pages 14-16 of this Form 10-Q.

Investment Bank net income increased from the prior year, driven by strong net revenue, particularly in Fixed Income Markets, and a benefit from the provision for credit losses. Fixed Income Markets revenue reflected strong results across most products. Investment banking fees also rose, driven by higher debt and equity underwriting fees. The provision for credit losses reflected lower loan balances, driven by repayments and loan sales. Noninterest expense was flat to the prior year, as lower performance-based compensation expense was largely offset by increased litigation reserves, including those for mortgage-related matters. Return on equity was 25% on \$40 billion of average allocated capital.

Retail Financial Services reported a net loss for the quarter, compared with net income in the first quarter of 2009. The decline was driven by lower net revenue, reflecting the impact of lower mortgage fees and related income, portfolio run-off and lower deposit balances, partially offset by a shift to wider-spread deposit products. The provision for credit losses (excluding purchased credit-impaired loans) decreased from the prior year as delinquency trends improved; however, the allowance for loan losses included an addition of \$1.2 billion for further estimated deterioration in the Washington Mutual purchased credit-impaired portfolio. Noninterest expense increased modestly from the prior year as higher default-related expense and increases in sales force and new branch builds were predominantly offset by lower mortgage insurance expense and efficiencies resulting from the Washington Mutual transaction.

Card Services reported an improved net loss compared with the prior year, as a lower provision for credit losses was partially offset by lower net revenue. The decrease in managed net revenue was driven by a decline in net interest income, reflecting lower average managed loan balances (including run-off from the Washington Mutual portfolio), the impact of legislative changes and a decreased level of fees. Partial offsets to the decline included wider loan spreads and a prior-year write-down of securitization interests. The decline in the provision for credit losses included a reduction of \$1.0 billion in the allowance for loan losses, reflecting lower estimated losses, partially offset by continued high levels of charge-offs. Noninterest expense increased due to higher marketing expense.

Commercial Banking net income increased from the prior year, driven by a decrease in the provision for credit losses, lower noninterest expense and higher net revenue. Net revenue increased marginally, as overall growth in liability balances, higher lending-related and investment banking fees, and wider loan spreads were predominantly offset by spread compression on liability products and lower loan balances. The provision for credit losses reflected higher charge-offs due to continued weakness in commercial real estate. Noninterest expense declined modestly, driven by lower headcount-related expense, lower volume-related expense and lower FDIC insurance premiums, largely offset by higher performance-based compensation.

Treasury and Securities Services net income decreased from the prior year, driven by lower net revenue in both Worldwide Securities Services and Treasury Services, partially offset by a benefit from the provision for credit losses. Worldwide Securities Services revenue declined due to lower spreads in securities lending, lower liability balances, and the impact of lower volatility on foreign exchange, partially offset by the effects of higher market levels and net inflows on assets under custody. In Treasury Services, lower deposit spreads were partially offset by higher trade loan and card product volumes. Noninterest expense for TSS was flat compared with the prior year.

Asset Management net income increased from the prior year, as higher net revenue was offset partially by higher noninterest expense. Revenue growth was driven by the effect of higher market levels, higher placement fees, net inflows to products with higher margins and higher performance fees; these increases were offset partially by lower

net interest income due to narrower deposit spreads. The increase in noninterest expense was driven by higher performance-based compensation and higher headcount-related expense.

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Corporate/Private Equity reported net income, compared with a net loss in the first quarter of 2009. The improved results were driven by higher net revenue, reflecting continued elevated levels of net interest income, trading and securities gains from the investment portfolio, and higher private equity gains (compared with losses in the prior year); offsetting the higher revenue was an increase in litigation reserves, including those for mortgage-related matters.

Business outlook

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

JPMorgan Chase's outlook for the second quarter of 2010 should be viewed against the backdrop of the global and U.S. economies, financial markets activity, the geopolitical environment, the competitive environment and client activity levels. Each of these linked factors will affect the performance of the Firm and its lines of business.

As noted above, some normalization of the financial markets has occurred, and there are early indications of broad-based improvements in underlying economic trends. Specifically, the Firm began to see credit delinquencies stabilize and, in certain portfolios, improve. However, economic pressures on consumers continued to drive losses in the consumer loan portfolios in the first quarter of 2010. Further declines in U.S. housing prices in certain markets and increases in the unemployment rate remain possible; if this were to occur, it would adversely affect the Firm's results. At the same time, the U.S. Congress and regulators (as well as legislative and regulatory bodies in other countries) continue to intensify their focus on the regulation of financial institutions; any legislation or regulations that may be adopted as a result could limit or restrict the Firm's operations, impose additional costs on the Firm in order to comply with such new laws or regulations, or significantly and adversely affect the revenues of certain lines of business.

Accordingly, the Firm continues to monitor closely U.S. and international economies and political environments.

In the Retail Banking business within Retail Financial Services, management expects continued strong revenue over the next several quarters, despite continued economic pressure on consumers and consumer spending levels.

Additionally, the Firm has made changes consistent with and, in certain respects, beyond the requirements of newly-enacted legislation, in its policies relating to non-sufficient funds and overdraft fees. Although management estimates are subject to change, such changes may result in an annualized reduction in net income in Retail Banking of approximately \$500 million by the fourth quarter of 2010.

In the Mortgage Banking & Other Consumer Lending business within Retail Financial Services, management expects revenue to continue to be negatively affected by continued elevated levels of repurchases of mortgages previously sold to, for example, government-sponsored entities. In the Real Estate Portfolios business within Retail Financial Services, management has not changed prior loss guidance, that quarterly net charge-offs could reach \$1.4 billion for the home equity portfolio, \$600 million for the prime mortgage portfolio and \$500 million for the subprime mortgage portfolio over the next several quarters. However, if the initial improvements in delinquency and other loss trends currently being observed continue, net charge-offs may not reach these levels. Given current origination and production levels, combined with management's current estimate of portfolio run-off levels, the residential real estate portfolio is expected to decline by approximately 10-15% annually for the foreseeable future. Based on management's preliminary estimate, the effect of such a reduction in the residential real estate portfolio is expected to reduce 2010 net interest income in the portfolio by more than \$1.0 billion from the 2009 level, excluding any impact from changes in the interest rate environment.

Finally, management expects noninterest expense in Retail Financial Services to remain modestly above 2009 levels, reflecting investments in new branch builds and sales force hires, as well as continued elevated servicing-, default- and foreclosed asset-related costs.

Management expects average outstandings in Card Services to decline by approximately 10-15% in 2010 due to run-off of both the Washington Mutual portfolio and lower-yielding promotional balances. In addition, management estimates CS's annual net income may be adversely affected by approximately \$500 million to \$750 million as a result of the recently enacted credit card legislation; this estimate is subject to change as components of the new legislation are finalized. The net charge-off rate for Card Services (excluding the Washington Mutual credit card portfolio) is anticipated to be approximately 9.5% in the second quarter of 2010, with the potential for improvement in the second

half of 2010. The net charge-off rate for the Washington Mutual credit card portfolio is expected to remain at or above 20% over the next several quarters. Excluding the effect of any potential reserve actions, management currently expects CS to report a net loss in the second quarter of 2010; however, the loss will likely improve from the level reported in the first quarter of 2010. Results in the second half of 2010 will depend on the economic environment and potential reserve actions.

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Revenue in the Investment Bank, Treasury & Securities Services and Asset Management will be affected by market levels, volumes and volatility, which will influence client flows and assets under management, supervision and custody. In addition, Investment Bank and Commercial Banking results will continue to be affected by the credit environment, which will influence levels of charge-offs, repayments and reserving actions with regard to credit loss allowances.

Earnings in Private Equity (within the Corporate/Private Equity segment) will likely continue to be volatile and be influenced by capital markets activity, market levels, the performance of the broader economy and investment-specific issues. Corporate's net interest income levels and securities gains will generally trend with the size and duration of the investment securities portfolio in Corporate; however, the high level of trading and securities gains in the first quarter of 2010 is not likely to continue throughout 2010. While management currently anticipates that Corporate will realize additional securities gains in the second quarter of 2010, it is not anticipated that such gains will be of the same magnitude as those reported in the first quarter. Over the next several quarters, Corporate quarterly net income (excluding Private Equity, merger-related items and any significant nonrecurring items) is expected to decline to approximately \$300 million.

Lastly, with regard to any decision by the Firm's Board of Directors concerning any increase in the level of the common stock dividend, their determination will be subject to their judgment that the likelihood of another severe economic downturn has sufficiently diminished; that there is evidence of sustained underlying growth in employment for at least several months; that overall business performance and credit have stabilized or improved; and that such action is warranted, taking into consideration the Firm's earnings outlook, need to maintain adequate capital levels (in light of business needs and regulatory requirements), alternative investment opportunities and appropriate dividend payout ratios. Ultimately, the Board would seek to return to the Firm's historical dividend ratio of approximately 30% to 40% of normalized earnings over time, though it would consider moving to that level in stages.

Table of Contents**CONSOLIDATED RESULTS OF OPERATIONS**

This section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis. Factors that relate 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 86-88 of this Form 10-Q and pages 127-131 of JPMorgan Chase's 2009 Annual Report.

Revenue

(in millions)	Three months ended March 31,		
	2010	2009	Change
Investment banking fees	\$ 1,461	\$ 1,386	5%
Principal transactions	4,548	2,001	127
Lending- and deposit-related fees	1,646	1,688	(2)
Asset management, administration and commissions	3,265	2,897	13
Securities gains	610	198	208
Mortgage fees and related income	658	1,601	(59)
Credit card income	1,361	1,837	(26)
Other income	412	50	NM
Noninterest revenue	13,961	11,658	20
Net interest income	13,710	13,367	3
Total net revenue	\$ 27,671	\$ 25,025	11

Total net revenue for the first quarter of 2010 was \$27.7 billion, up by \$2.6 billion, or 11%, from the first quarter of 2009. The increase was driven by the following: higher principal transactions revenue, primarily from higher trading revenue and private equity gains (compared with losses in the prior year) in Corporate/Private Equity, as well as strong fixed income revenue in IB; and higher securities gains on the investment portfolio in Corporate. These were offset partially by lower mortgage fees and related income in RFS.

Investment banking fees increased from the first quarter of 2009, reflecting higher debt and equity underwriting fees, largely offset by lower advisory fees. For a further discussion of investment banking fees, which are primarily recorded in IB, see IB segment results on pages 18-21 of this Form 10-Q.

Principal transactions revenue, which consists of revenue from the Firm's trading and private equity investing activities, rose from the first quarter of 2009. Trading revenue increased, driven by elevated levels of trading gains on the portfolio in Corporate and strong trading results in fixed income in IB. Also contributing to the increase were higher private equity gains, compared with losses in the prior year. For a further discussion of principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 18-21 and 41-42 respectively, and Note 6 on page 117 of this Form 10-Q.

Lending- and deposit-related fees decreased from the first quarter of 2009, reflecting lower deposit fees in RFS predominantly offset by higher lending-related service fees in IB and CB. For a further discussion of lending- and deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 22-29, the TSS segment results on pages 36-37, and the CB segment results on pages 34-35 of this Form 10-Q.

Asset management, administration and commissions revenue increased compared with the first quarter of 2009, due to higher asset management fees in AM, which were driven by the effect of higher market levels, higher placement fees, net inflows to products with higher margins, and higher performance fees. Also contributing to the increase was higher administration fees in TSS, resulting from the effect of higher market levels and net inflows on assets under custody. For additional information on these fees and commissions, see the segment discussions for AM on pages 38-41 and TSS on pages 36-37 of this Form 10-Q.

Securities gains increased compared with the first quarter of 2009, due to continued repositioning of the Corporate investment securities portfolio in connection with managing the Firm's structural interest rate risk. For further information on securities gains, which are mostly recorded in the Firm's Corporate business, and Corporate's investment securities portfolio, see the Corporate/Private Equity segment discussion on pages 41-42 of this Form 10-Q.

Mortgage fees and related income decreased from the prior year, due to lower mortgage servicing rights (MSR) risk management results and lower mortgage production revenue, partially offset by higher mortgage operating income. For a discussion of mortgage fees and related income, which is recorded primarily in RFS, see RFS's Mortgage Banking & Other Consumer Lending discussion on pages 25-26 of this Form 10-Q.

Credit card income decreased from the first quarter of 2009, due predominantly to the impact of new consolidation guidance related to VIEs, effective January 1, 2010, that required the Firm to consolidate the assets and liabilities of its

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Firm-sponsored credit card securitization trusts. Adoption of the new guidance resulted in the elimination of all servicing fees received from Firm-sponsored credit card securitization trusts (offset by a respective increase in net interest income and provision for loan losses). For a more detailed discussion of the impact of the adoption on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 14-16 of this Form 10-Q. For a further discussion of credit card income, see the CS segment results on pages 30-33 of this Form 10-Q.

Other income increased from the prior year, predominantly reflecting the absence of a prior-year write-down of securitization interests in CS, and lower valuation losses on other real estate owned (REO).

Net interest income was \$13.7 billion, an increase of \$343 million from the first quarter of the prior year, driven by the impact of the new consolidation guidance related to VIEs, effective January 1, 2010; this increased net interest income by approximately \$1.8 billion, mainly as a result of the consolidation of Firm-sponsored credit card securitization trusts. The Firm's interest-earning assets were \$1.7 trillion, and the net yield on those assets, on a fully taxable-equivalent (FTE) basis, was 3.32%, an increase of 3 basis points from 2009. Excluding the impact of the adoption of the new consolidation guidance, the decrease in net interest income was driven by the following: lower average loans, including consumer loans in CS (which included run-off of Washington Mutual credit card loans) and RFS, as well as wholesale loans in IB, in part, from repayments and loan sales; the impact of legislative changes in CS; lower fees on credit card receivables; and lower average deposit balances. For a more detailed discussion of the impact of the adoption on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 14-16 of this Form 10-Q.

Provision for credit losses (in millions)	Three months ended March 31,		
	2010	2009	Change
Wholesale	\$ (236)	\$ 1,530	NM
Consumer	7,246	7,066	3%
Total provision for credit losses	\$ 7,010	\$ 8,596	(18)

Provision for credit losses

The provision for credit losses in the first quarter of 2010 was \$7.0 billion, a decrease of \$1.6 billion from the comparable quarter in 2009. The wholesale provision for credit losses was a benefit of \$236 million, compared with a charge of \$1.5 billion in the prior year, reflecting a reduction in the allowance for loan losses due to repayments and loan sales. The benefit was partially offset by higher provisions related to higher net charge-offs, mainly related to continued weakness in commercial real estate. The consumer provision for credit losses was \$7.2 billion, compared with \$7.1 billion in 2009, reflecting the following: the impact of new consolidation guidance related to VIEs, effective January 1, 2010, which added approximately \$1.7 billion to the provision; a \$1.2 billion addition to the allowance in RFS related to further estimated deterioration in the Washington Mutual prime and option adjustable-rate mortgage (ARM) purchased credit-impaired pools; and the continued high levels of charge-offs across most consumer portfolios. These were partially offset by a reduction of \$1.0 billion to the allowance in CS, reflecting lower estimated losses. In RFS and CS, the prior-year provision included additions of \$1.7 billion and \$1.2 billion, respectively, to the allowance. For a more detailed discussion of the impact of the adoption on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 14-16 of this Form 10-Q. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 22-29, CS on pages 30-33, IB on pages 18-21 and CB on pages 34-35, and the Allowance for Credit Losses section on pages 78-81 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,		
	2010	2009	Change
Compensation expense	\$ 7,276	\$ 7,588	(4)%
Noncompensation expense:			
Occupancy expense	869	885	(2)
Technology, communications and equipment expense	1,137	1,146	(1)
Professional and outside services	1,575	1,515	4
Marketing	583	384	52
Other expense ^{(a)(b)}	4,441	1,375	223
Amortization of intangibles	243	275	(12)
Total noncompensation expense	8,848	5,580	59
Merger costs		205	NM
Total noninterest expense	\$ 16,124	\$ 13,373	21

(a) *The first quarter of 2010 includes \$2.9 billion of litigation expense compared with a net benefit of \$270 million in the first quarter of 2009.*

(b) *Includes foreclosed property expense of \$303 million and \$325 million for the three months ended March 31, 2010 and 2009, respectively. For additional information regarding foreclosed property, see*

*Note 13 on page
196 of
JPMorgan
Chase's 2009
Annual Report.*

Total noninterest expense for the first quarter of 2010 was \$16.1 billion, up by \$2.8 billion, or 21%, from the first quarter of 2009. The increase was due to additions to litigation reserves in Corporate/Private Equity and IB, including those for mortgage-related matters and, to a lesser extent, higher marketing expense in CS. These were offset partially by lower compensation expense and the absence of merger costs in 2010, compared with \$205 million in the first quarter of 2009.

Compensation expense decreased in the first quarter of 2010 compared with the prior-year period, reflecting lower performance-based compensation expense in IB. This was offset partially by ongoing investments in the businesses, including the RFS sales force.

Noncompensation expense increased from the first quarter of 2009, due predominantly to additions to litigation reserves recorded in other expense for Corporate/Private Equity and IB, including those for mortgage-related matters. The increase was also due to higher marketing expense in CS and was partially offset by lower mortgage insurance expense.

There were no merger costs recorded in the first quarter of 2010, compared with \$205 million recorded in the first quarter of 2009. For information on merger costs, refer to Note 10 on page 119 of this Form 10-Q.

Income tax expense

The following table presents the Firm's income before income tax expense, income tax expense and effective tax rate.

(in millions, except rate)	Three months ended March 31,	
	2010	2009
Income before income tax expense	\$ 4,537	\$ 3,056
Income tax expense	1,211	915
Effective tax rate	26.7%	29.9%

The decrease in the effective tax rate compared with the first quarter of 2009 was primarily the result of tax benefits recognized upon the resolution of tax audits in the first quarter of 2010, increased tax-exempt income, increased business tax credits and increased non-U.S. income not subject to U.S. taxation. The decrease was partially offset by the impact of higher reported pretax income and higher state and local income taxes in the first quarter of 2010. For a further discussion of income taxes, see Critical Accounting Estimates Used by the Firm on pages 86-88 of this Form 10-Q.

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

The Firm prepares its consolidated financial statements using accounting principles generally accepted in the U.S. (U.S. GAAP); these financial statements appear on pages 90-93 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 results and the results of the lines of business on a managed basis, which is a non-GAAP financial measure. The Firm's definition of managed basis starts with the reported U.S. GAAP results and includes certain reclassifications to present total net revenue for the Firm (and each of the business segments) on a FTE basis. Accordingly, revenue from tax-exempt securities and investments that receive tax credits is presented in the managed results on a basis comparable to taxable securities and investments. This non-GAAP financial measure allows management to assess the comparability of revenue arising from both taxable and tax-exempt sources. The corresponding income tax impact related to these items is recorded within income tax expense. These adjustments have no impact on net income as reported by the Firm as a whole or by the lines of business.

Prior to January 1, 2010, the Firm's managed-basis presentation also included certain reclassification adjustments that assumed credit card loans securitized by CS remained on the balance sheet. Effective January 1, 2010, the Firm adopted new accounting guidance that required the Firm to consolidate its Firm-sponsored credit card securitization trusts. The income, expense and credit costs associated with these securitization activities are now recorded in the 2010 Consolidated Statements of Income in the same classifications that were previously used to report such items on a managed basis. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For additional information on the new accounting guidance, see Note 15 on pages 131-142 of this Form 10-Q.

The presentation in 2009 of CS results on a managed basis assumed that credit card loans that had been securitized and sold in accordance with U.S. GAAP remained on the Consolidated Balance Sheets, and that the earnings on the securitized loans were classified in the same manner as the earnings on retained loans recorded on the Consolidated Balance Sheets. JPMorgan Chase used the concept of managed basis to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations were funded and decisions were made about allocating resources, such as employees and capital, based on 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 affects both the securitized loans and the loans retained on the Consolidated Balance Sheets. JPMorgan Chase believed that this managed-basis information was useful to investors, as it enabled 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 2009 reported to managed basis results for CS, see CS segment results on pages 30-33 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 15 on pages 131-142 of this Form 10-Q.

Tangible common equity (TCE) represents common stockholders' equity (i.e., total stockholders' equity less preferred stock) less identifiable intangible assets (other than MSRs) and goodwill, net of related deferred tax liabilities.

ROTCE, a non-GAAP financial ratio, measures the Firm's earnings as a percentage of TCE and is, in management's view, a meaningful measure to assess the Firm's use of equity.

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.

(in millions, except per share and ratios)	Three months ended March 31, 2010			
	Reported results	Credit card	Fully tax-equivalent adjustments	Managed Basis
Revenue				
Investment banking fees	\$ 1,461	NA	\$	\$ 1,461
Principal transactions	4,548	NA		4,548
Lending- and deposit-related fees	1,646	NA		1,646
Asset management, administration and commissions	3,265	NA		3,265
Securities gains	610	NA		610
Mortgage fees and related income	658	NA		658
Credit card income	1,361	NA		1,361
Other income	412	NA	411	823
Noninterest revenue	13,961	NA	411	14,372
Net interest income	13,710	NA	90	13,800
Total net revenue	27,671	NA	501	28,172
Noninterest expense	16,124	NA		16,124
Pre-provision profit	11,547	NA	501	12,048
Provision for credit losses	7,010	NA		7,010
Income before income tax expense	4,537	NA	501	5,038
Income tax expense	1,211	NA	501	1,712
Net income	\$ 3,326	NA	\$	\$ 3,326
Diluted earnings per share	\$ 0.74	NA	\$	\$ 0.74
Return on assets	0.66%	NA	NM	0.66%
Overhead ratio	58	NA	NM	57

(in millions, except per share and ratios)	Three months ended March 31, 2009			
	Reported results	Credit card ^(a)	Fully tax-equivalent adjustments	Managed Basis
Revenue				
Investment banking fees	\$ 1,386	\$	\$	\$ 1,386
Principal transactions	2,001			2,001
Lending- and deposit-related fees	1,688			1,688
Asset management, administration and commissions	2,897			2,897
Securities gains	198			198
Mortgage fees and related income	1,601			1,601
Credit card income	1,837	(540)		1,297

Other income	50		337	387
Noninterest revenue	11,658	(540)	337	11,455
Net interest income	13,367	2,004	96	15,467
Total net revenue	25,025	1,464	433	26,922
Noninterest expense	13,373			13,373
Pre-provision profit	11,652	1,464	433	13,549
Provision for credit losses	8,596	1,464		10,060
Income before income tax expense	3,056		433	3,489
Income tax expense	915		433	1,348
Net income	\$ 2,141	\$	\$	\$ 2,141
Diluted earnings per share	\$ 0.40	\$	\$	\$ 0.40
Return on assets	0.42%	NM	NM	0.40%
Overhead ratio	53	NM	NM	50

(a) See pages 30-33 of this Form 10-Q for a discussion of the effect of credit card securitizations on CS results.

Three months ended March 31, (in millions)	2010			2009		
	Reported	Securitized ^(a)	Reported	Reported	Securitized ^(a)	Managed
Loans Period-end	\$ 713,799	NA	\$ 713,799	\$ 708,243	\$ 85,220	\$ 793,463
Total assets average	2,038,680	NA	2,038,680	2,067,119	82,782	2,149,901

(a) Loans securitized is defined as loans that were sold to nonconsolidated securitization trusts and were not included in reported loans as of March 31, 2009. For further discussion of the credit card

*securitizations,
see Note 15 on
pages 131-142 of
this Form 10-Q.*

Table of Contents**Average tangible common equity**

(in millions)	March 31, 2010	Dec. 31, 2009	Three months ended		
			Sept. 30, 2009	June 30, 2009	March 31, 2009
Common stockholders equity	\$ 156,094	\$ 156,525	\$ 149,468	\$ 140,865	\$ 136,493
Less: Goodwill	48,542	48,341	48,328	48,273	48,071
Less: Certain identifiable intangible assets	4,307	4,741	4,984	5,218	5,443
Add: Deferred tax liabilities ^(a)	2,541	2,533	2,531	2,518	2,609
Tangible common equity (TCE)	\$ 105,786	\$ 105,976	\$ 98,687	\$ 89,892	\$ 85,588

(a) Represents deferred tax liabilities related to tax-deductible goodwill and to identifiable intangibles created in non-taxable transactions, which are netted against goodwill and other intangibles when calculating TCE.

Other financial measures

The Firm also discloses the allowance for loan losses to total retained loans, excluding home lending purchased credit-impaired loans. For a further discussion of this credit metric, see Allowance for Credit Losses on pages 78-81 of this Form 10-Q.

Table of Contents**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 on the products and services provided, or the type of customer served, and reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis.

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 pages 53-54 of JPMorgan Chase's 2009 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.

Business segment capital allocation changes

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. Effective January 1, 2010, the Firm enhanced its line of business equity framework to better align equity assigned to each line of business with the changes anticipated to occur in the business, and in the competitive and regulatory landscape. Equity was assigned to the lines of business based on the Tier 1 common standard, rather than the Tier 1 capital standard. For a further discussion of the changes, see Capital Management Line of business equity on pages 51-52 of this Form 10-Q.

Segment Results Managed Basis^(a)

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

Three months ended March 31, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income/(loss)			Return on equity	
	2010	2009	Change	2010	2009	Change	2010	2009	Change	2010	2009
Investment Bank ^(b)	\$ 8,319	\$ 8,371	(1)%	\$ 4,838	\$ 4,774	1%	\$ 2,471	\$ 1,606	54%	25%	20%
Retail Financial Services	7,776	8,835	(12)	4,242	4,171	2	(131)	474	NM	(2)	8
Card Services	4,447	5,129	(13)	1,402	1,346	4	(303)	(547)	45	(8)	(15)
Commercial Banking	1,416	1,402	1	539	553	(3)	390	338	15	20	17
Treasury & Securities Services	1,756	1,821	(4)	1,325	1,319		279	308	(9)	17	25
Asset Management	2,131	1,703	25	1,442	1,298	11	392	224	75	24	13
Corporate/Private Equity ^(b)	2,327	(339)	NM	2,336	(88)	NM	228	(262)	NM	NM	NM
Total	\$ 28,172	\$ 26,922	5%	\$ 16,124	\$ 13,373	21%	\$ 3,326	\$ 2,141	55%	8%	5%

(a) Represents reported results on a tax-equivalent basis. The managed basis also assumes that credit card loans in Firm-sponsored

*credit card
securitization
trusts remained on
the balance sheet
for 2009.*

*Firm-sponsored
credit card
securitizations
were consolidated
at their carrying
values on
January 1, 2010,
under the new
consolidation
guidance related
to VIEs.*

- (b) *In the second
quarter of 2009, IB
began reporting
credit
reimbursement
from TSS as a
component of total
net revenue,
whereas TSS
continues to report
its credit
reimbursement to
IB as a separate
line item on its
income statement
(not part of total
net revenue).
Corporate/Private
Equity includes an
adjustment to
offset IB's
inclusion of the
credit
reimbursement in
total net revenue.*

Table of Contents**INVESTMENT BANK**

For a discussion of the business profile of IB, see pages 55-57 of JPMorgan Chase's 2009 Annual Report and page 5 of this Form 10-Q.

Selected income statement data (in millions, except ratios)	Three months ended March 31,		
	2010	2009	Change
Revenue			
Investment banking fees	\$ 1,446	\$ 1,380	5%
Principal transactions	3,931	3,515	12
Lending- and deposit-related fees	202	138	46
Asset management, administration and commissions	563	692	(19)
All other income ^(a)	49	(56)	NM
Noninterest revenue	6,191	5,669	9
Net interest income ^(b)	2,128	2,702	(21)
Total net revenue ^(c)	8,319	8,371	(1)
Provision for credit losses	(462)	1,210	NM
Noninterest expense			
Compensation expense	2,928	3,330	(12)
Noncompensation expense	1,910	1,444	32
Total noninterest expense	4,838	4,774	1
Income before income tax expense	3,943	2,387	65
Income tax expense	1,472	781	88
Net income	\$ 2,471	\$ 1,606	54
Financial ratios			
ROE	25%	20%	
ROA	1.48	0.89	
Overhead ratio	58	57	
Compensation expense as a percentage of total net revenue	35	40	
Revenue by business			
Investment banking fees:			
Advisory	\$ 305	\$ 479	(36)
Equity underwriting	413	308	34
Debt underwriting	728	593	23
Total investment banking fees	1,446	1,380	5
Fixed income markets	5,464	4,889	12
Equity markets	1,462	1,773	(18)

Credit portfolio ^(a)	(53)	329	NM
Total net revenue	\$ 8,319	\$ 8,371	(1)
Revenue by region^(a)			
Americas	\$ 4,562	\$ 4,316	6
Europe/Middle East/Africa	2,814	3,073	(8)
Asia/Pacific	943	982	(4)
Total net revenue	\$ 8,319	\$ 8,371	(1)

(a) TSS was charged a credit reimbursement related to certain exposures managed within IB credit portfolio on behalf of clients shared with TSS. IB recognizes this credit reimbursement in its credit portfolio business in all other income.

(b) The decrease in net interest income in the first quarter was primarily due to lower loan balances and lower Prime Services spreads.

(c) Total net revenue included tax-equivalent adjustments, predominantly due to income

tax credits related to affordable housing and alternative energy investments, as well as tax-exempt income from municipal bond investments of \$403 million and \$365 million for the quarters ended March 31, 2010 and 2009, respectively.

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Quarterly results

Net income was \$2.5 billion, an increase of \$865 million from the prior year. These results reflected strong net revenue, particularly in Fixed Income Markets, and a benefit from the provision for credit losses.

Net revenue was \$8.3 billion, compared with \$8.4 billion in the prior year. Investment banking fees increased by 5% to \$1.4 billion, consisting of debt underwriting fees of \$728 million (up 23%), equity underwriting fees of \$413 million (up 34%), and advisory fees of \$305 million (down 36%). Fixed Income Markets revenue was \$5.5 billion, compared with \$4.9 billion in the prior year, reflecting strong results across most products. Equity Markets revenue was \$1.5 billion, compared with \$1.8 billion in the prior year, reflecting solid client revenue and strong trading results. Credit Portfolio revenue was a loss of \$53 million.

The provision for credit losses was a benefit of \$462 million, compared with an expense of \$1.2 billion in the prior year. The current-quarter provision reflected lower loan balances, driven by repayments and loan sales. The allowance for loan losses to end-of-period loans retained was 4.9%, compared with 7.0% in the prior year. The decline in the allowance ratio was due largely to the high credit quality of the retained loans that were consolidated as assets of the Firm-administered multi-seller conduits in accordance with new consolidation guidance related to VIEs, effective January 1, 2010. Net charge-offs were \$697 million, compared with \$36 million in the prior year. Nonperforming loans were \$2.7 billion, down by \$763 million from last quarter, and up by \$946 million from the prior year.

Noninterest expense was \$4.8 billion, flat to the prior year, as lower performance-based compensation expense was largely offset by increased litigation reserves, including those for mortgage-related matters.

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Selected metrics (in millions, except headcount and ratios)	Three months ended March 31,		
	2010	2009	Change
Selected balance sheet data (period-end)			
Loans ^(a) :			
Loans retained ^(b)	\$ 53,010	\$ 66,506	(20)%
Loans held-for-sale and loans at fair value	3,594	10,993	(67)
Total loans	56,604	77,499	(27)
Equity	40,000	33,000	21
Selected balance sheet data (average)			
Total assets	\$ 676,122	\$ 733,166	(8)
Trading assets debt and equity instruments	284,085	272,998	4
Trading assets derivative receivables	66,151	125,021	(47)
Loans ^(a) :			
Loans retained ^(b)	58,501	70,041	(16)
Loans held-for-sale and loans at fair value	3,150	12,402	(75)
Total loans	61,651	82,443	(25)
Adjusted assets ^(c)	506,635	589,163	(14)
Equity	40,000	33,000	21
Headcount	24,977	26,142	(4)
Credit data and quality statistics			
Net charge-offs	\$ 697	\$ 36	NM
Nonperforming assets:			
Nonperforming loans:			
Nonperforming loans retained ^{(b)(d)}	2,459	1,738	41
Nonperforming loans held-for-sale and loans at fair value	282	57	395
Total nonperforming loans	2,741	1,795	53
Derivative receivables	363	1,010	(64)
Assets acquired in loan satisfactions	185	236	(22)
Total nonperforming assets	3,289	3,041	8
Allowance for credit losses:			
Allowance for loan losses	2,601	4,682	(44)
Allowance for lending-related commitments	482	295	63
Total allowance for credit losses	3,083	4,977	(38)
Net charge-off rate ^{(b)(e)}	4.83%	0.21%	
Allowance for loan losses to period-end loans retained ^{(b)(e)}	4.91	7.04	
Allowance for loan losses to average loans retained ^{(b)(e)}	4.45	6.68	
Allowance for loan losses to nonperforming loans retained ^{(b)(d)(e)}	106	269	
Nonperforming loans to total period-end loans	4.84	2.32	
Nonperforming loans to total average loans	4.45	2.18	

Market risk average trading and credit portfolio VaR 95% confidence level

Trading activities:			
Fixed income	\$	69	\$ 158 (56)
Foreign exchange		13	23 (43)
Equities		24	97 (75)
Commodities and other		15	20 (25)
Diversification ^(f)		(49)	(108) 55
Total trading VaR ^(g)		72	190 (62)
Credit portfolio VaR ^(h)		19	86 (78)
Diversification ^(f)		(9)	(63) 86
Total trading and credit portfolio VaR	\$	82	\$ 213 (62)

(a) *Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Upon adoption of the new guidance, the Firm consolidated its Firm-administered multi-seller conduits. As a result, \$15.1 billion of related loans were recorded in loans on the Consolidated Balance Sheets.*

(b) *Loans retained include credit portfolio loans, leveraged leases and other accrual loans, and exclude loans held-for-sale and loans accounted for at fair value.*

(c) *Adjusted assets, a non-GAAP financial measure, equals total assets*

minus:

(1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased;

(2) assets of consolidated VIEs;

(3) cash and securities segregated and on deposit for regulatory and other purposes;

(4) goodwill and intangibles;

(5) securities received as collateral; and

(6) investments purchased under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AML Facility).

The amount of adjusted assets is presented to assist the reader in comparing IB s asset and capital levels to other investment banks in the securities industry.

Asset-to-equity leverage ratios are commonly used as one measure to assess a company s capital adequacy. IB believes an

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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.

(d) *Allowance for loan losses of \$811 million and \$767 million were held against these nonperforming loans at March 31, 2010 and 2009, respectively.*

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

(f) *Average VaR was less than the sum of the VaRs of the components described above, which is due to portfolio diversification.*

The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves. For a further discussion of VaR, see pages 81-83 of this Form 10-Q. The risk of a portfolio of positions is usually less than the sum of the risks of the positions themselves.

- (g) *Trading VaR includes predominantly all trading activities in IB, as well as syndicated lending facilities that the Firm intends to distribute; however, particular risk parameters of certain products are not fully captured, for example, correlation risk. Trading VaR does not include*

the debit valuation adjustments (DVA) taken on derivative and structured liabilities to reflect the credit quality of the Firm. See VaR discussion on pages 81-83 and the DVA Sensitivity table on page 84 of this Form 10-Q for further details. Trading VaR includes the estimated credit spread sensitivity of certain mortgage products.

- (h) *Includes VaR on derivative credit valuation adjustments (CVA), hedges of the CVA and mark-to-market (MTM) hedges of the retained loan portfolio, which were all reported in principal transactions revenue. This VaR does not include the retained loan portfolio.*

According to Dealogic, for the first three months of 2010, the Firm was ranked #1 in Global Debt, Equity and Equity-Related; #1 in Global Equity and Equity-Related; #3 in Global Long-Term Debt; #1 in Global Syndicated Loans and #5 in Global Announced M&A based on volume.

According to Dealogic, the Firm was ranked #1 in Investment Banking fees generated for the first three months of 2010, based on revenue.

Market shares and rankings ^(a)	Three months ended March 31, 2010		Full-year 2009	
	Market Share	Rankings	Market Share	Rankings
Global investment banking fees ^(b)	8%	#1	9%	#1
Global debt, equity and equity-related	7	1	9	1
Global syndicated loans	9	1	8	1
Global long-term debt ^(c)	7	3	8	1
Global equity and equity-related ^(d)	9	1	12	1
Global announced M&A ^(e)	18	5	25	3
U.S. debt, equity and equity-related	12	2	15	1
U.S. syndicated loans	21	1	22	1
U.S. long-term debt ^(c)	11	2	14	1
U.S. equity and equity-related ^(d)	20	1	16	2
U.S. announced M&A ^(e)	29	3	37	2

(a) Source: Dealogic.
Global Investment Banking fees reflects fee rank and share. Remainder of rankings reflect volume rank and share.

(b) Global IB fees exclude money market, short-term debt and shelf deals.

(c) Long-term debt tables include investment-grade, high-yield, supranationals, sovereigns, agencies, covered bonds, asset-backed securities and mortgage-backed securities; and exclude money market, short-term debt, and U.S.

municipal securities.

- (d) *Equity and equity-related rankings include rights offerings and Chinese A-Shares.*
- (e) *Global announced M&A is based on value at announcement; all other rankings are based on 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%. M&A for the first quarter of 2010 and full-year 2009 reflects the removal of any withdrawn transactions. U.S. announced M&A represents any U.S. involvement ranking.*

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Retail Financial Services (RFS) serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking, as well as through auto dealerships and school financial-aid offices. Customers can use more than 5,100 bank branches (third-largest nationally) and 15,500 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 25,300 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. Consumers also can obtain loans through more than 15,800 auto dealerships and 2,200 schools and universities nationwide. Prior to January 1, 2010, RFS was reported as: Retail Banking and Consumer Lending. Commencing January 1, 2010, RFS is presenting Consumer Lending for reporting purposes as: (1) Mortgage Banking & Other Consumer Lending, and (2) Real Estate Portfolios. Mortgage Banking & Other Consumer Lending comprises mortgage production and servicing, auto finance, and student and other lending activities. Real Estate Portfolios comprises residential mortgages and home equity loans, including the purchased credit-impaired portfolio acquired in the Washington Mutual transaction. This change is intended solely to provide further clarity around the Real Estate Portfolios. Retail Banking, which includes branch banking and business banking activities, is not affected by these reporting revisions.

Selected income statement data (in millions, except ratios)	Three months ended March		
	2010	31, 2009	Change
Revenue			
Lending- and deposit-related fees	\$ 841	\$ 948	(11)%
Asset management, administration and commissions	452	435	4
Mortgage fees and related income	655	1,633	(60)
Credit card income	450	367	23
Other income	354	214	65
Noninterest revenue	2,752	3,597	(23)
Net interest income	5,024	5,238	(4)
Total net revenue	7,776	8,835	(12)
Provision for credit losses	3,733	3,877	(4)
Noninterest expense			
Compensation expense	1,770	1,631	9
Noncompensation expense	2,402	2,457	(2)
Amortization of intangibles	70	83	(16)
Total noninterest expense	4,242	4,171	2
Income/(loss) before income tax expense/(benefit)	(199)	787	NM
Income tax expense/(benefit)	(68)	313	NM
Net income/(loss)	\$ (131)	\$ 474	NM
Financial ratios			
ROE	(2)%	8%	

Overhead ratio	55	47
Overhead ratio excluding core deposit intangibles ^(a)	54	46

(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 would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would therefore result in an improving overhead ratio over time, all things remaining equal. The non-GAAP ratio excludes Retail Banking s CDI amortization expense related to prior business combination transactions of \$70 million and \$83 million for the quarters*

*ended
March 31, 2010
and 2009,
respectively.*

Quarterly results

Retail Financial Services reported a net loss of \$131 million, compared with net income of \$474 million in the prior year.

Net revenue was \$7.8 billion, a decrease of \$1.1 billion, or 12%, from the prior year. Net interest income was \$5.0 billion, down by \$214 million, or 4%, reflecting the impact of lower loan and deposit balances, partially offset by a shift to wider-spread deposit products. Noninterest revenue was \$2.8 billion, down by \$845 million, or 23%, driven by lower mortgage fees and related income.

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The provision for credit losses was \$3.7 billion, a decrease of \$144 million from the prior year. Economic pressure on consumers continued to drive losses for the mortgage and home equity portfolios. The provision included an addition of \$1.2 billion to the allowance for loan losses for further estimated deterioration in the Washington Mutual purchased credit-impaired portfolio. The prior-year provision included an addition to the allowance for loan losses of \$1.7 billion. Home equity net charge-offs were \$1.1 billion (4.59% net charge-off rate), compared with \$1.1 billion (3.93% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were \$457 million (13.43% net charge-off rate), compared with \$364 million (9.91% net charge-off rate) in the prior year. Prime mortgage net charge-offs were \$459 million (3.10% net charge-off rate), compared with \$312 million (1.95% net charge-off rate) in the prior year.

Noninterest expense was \$4.2 billion, an increase of \$71 million, or 2%, from the prior year.

Selected metrics

(in millions, except headcount and ratios)

Three months ended March 31,
2010 2009 Change

Selected balance sheet data (period-end)

Assets	\$ 382,475	\$ 412,505	(7)%
Loans:			
Loans retained	339,002	364,220	(7)
Loans held-for-sale and loans at fair value ^(a)	11,296	12,529	(10)
Total loans	350,298	376,749	(7)
Deposits	362,470	380,140	(5)
Equity	28,000	25,000	12

Selected balance sheet data (average)

Assets	\$ 393,867	\$ 423,472	(7)
Loans:			
Loans retained	342,997	366,925	(7)
Loans held-for-sale and loans at fair value ^(a)	17,055	16,526	3
Total loans	360,052	383,451	(6)
Deposits	356,934	370,278	(4)
Equity	28,000	25,000	12

Headcount

112,616 100,677 12

Credit data and quality statistics

Net charge-offs	\$ 2,438	\$ 2,176	12
Nonperforming loans:			
Nonperforming loans retained	10,769	7,714	40
Nonperforming loans held-for-sale and loans at fair value	217	264	(18)
Total nonperforming loans ^{(b)(c)(d)}	10,986	7,978	38
Nonperforming assets ^{(b)(c)(d)}	12,191	9,846	24
Allowance for loan losses	16,200	10,619	53
Net charge-off rate ^(e)	2.88%	2.41%	
Net charge-off rate excluding purchased credit-impaired loans ^{(e)(f)}	3.76	3.16	
Allowance for loan losses to ending loans retained ^(e)	4.78	2.92	

Allowance for loan losses to ending loans retained excluding purchased credit-impaired loans ^{(e)(f)}	5.16	3.84
Allowance for loan losses to nonperforming loans retained ^{(b)(e)(f)}	124	138
Nonperforming loans to total loans	3.14	2.12
Nonperforming loans to total loans excluding purchased credit-impaired loans ^(b)	4.05	2.76

(a) *Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets. These loans totaled \$8.4 billion and \$8.9 billion at March 31, 2010 and 2009, respectively. Average balances of these loans totaled \$14.2 billion and \$13.4 billion for the quarters ended March 31, 2010 and 2009, respectively.*

(b) *Excludes purchased credit-impaired loans that were acquired as part of the Washington Mutual transaction. These loans are*

*accounted for
on a pool basis,
and the pools
are considered
to be
performing.*

*(c) Certain of these
loans are
classified as
trading assets
on the
Consolidated
Balance Sheets.*

*(d) At March 31,
2010 and 2009,
nonperforming
loans and assets
exclude:
(1) mortgage
loans insured by
U.S. government
agencies of
\$10.5 billion
and \$4.2 billion,
respectively;
(2) real estate
owned insured
by U.S.
government
agencies of
\$707 million
and
\$433 million,
respectively;
and (3) student
loans that are
90 days past due
and still
accruing, which
are insured by
U.S. government
agencies under
the Federal
Family
Education Loan
Program, of
\$581 million
and
\$433 million,*

*respectively.
These amounts
are excluded as
reimbursement
is proceeding
normally.*

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

- (f) Excludes the
impact of
purchased
credit-impaired
loans that were
acquired as part
of the
Washington
Mutual
transaction.
These loans
were accounted
for at fair value
on the
acquisition date,
which
incorporated
management's
estimate, as of
that date, of
credit losses
over the
remaining life of
the portfolio. An
allowance for
loan losses of
\$2.8 billion was
recorded for
these loans at
March 31, 2010,
which has also
been excluded*

from applicable ratios. No allowance for loan losses was recorded for these loans at March 31, 2009. To date, no charge-offs have been recorded for these loans.

Table of Contents**RETAIL BANKING**

Selected income statement data (in millions, except ratios)	Three months ended March 31,		
	2010	2009	Change
Noninterest revenue	\$ 1,702	\$ 1,718	(1)%
Net interest income	2,635	2,614	1
Total net revenue	4,337	4,332	
Provision for credit losses	191	325	(41)
Noninterest expense	2,577	2,580	
Income before income tax expense	1,569	1,427	10
Net income	\$ 898	\$ 863	4
Overhead ratio	59%	60%	
Overhead ratio excluding core deposit intangibles ^(a)	58	58	

(a) Retail Banking uses the overhead ratio (excluding the amortization of CDI), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would therefore result in an improving overhead ratio over time, all

*things
remaining
equal. The
non-GAAP ratio
excludes Retail
Banking's CDI
amortization
expense related
to prior
business
combination
transactions of
\$70 million and
\$83 million for
the quarters
ended
March 31, 2010
and 2009,
respectively.*

Quarterly results

Retail Banking reported net income of \$898 million, an increase of \$35 million, or 4%, compared with the prior year. Net revenue was \$4.3 billion, flat compared with the prior year. Net interest income benefited from a shift to wider-spread deposit products, largely offset by a decline in time deposit balances. The decrease in noninterest revenue was driven by declining deposit-related fees, predominantly offset by an increase in debit card income. The provision for credit losses was \$191 million, compared with \$325 million in the prior year. The prior-year provision reflected a \$150 million increase in the allowance for loan losses for Business Banking. Noninterest expense was \$2.6 billion, flat compared with the prior year, as efficiencies from the Washington Mutual integration offset increases in sales force and new branch builds.

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Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended March 31,		
	2010	2009	Change
Business metrics			
Business banking origination volume	\$ 0.9	\$ 0.5	96%
End-of-period loans owned	16.8	18.2	(8)
End-of-period deposits:			
Checking	\$ 123.8	\$ 113.9	9
Savings	163.4	152.4	7
Time and other	53.2	86.5	(38)
Total end-of-period deposits	340.4	352.8	(4)
Average loans owned	\$ 16.9	\$ 18.4	(8)
Average deposits:			
Checking	\$ 119.7	\$ 109.4	9
Savings	158.6	148.2	7
Time and other	55.6	88.2	(37)
Total average deposits	333.9	345.8	(3)
Deposit margin	3.02%	2.85%	
Average assets	\$ 28.9	\$ 30.2	(4)
Credit data and quality statistics (in millions, except ratio)			
Net charge-offs	\$ 191	\$ 175	9
Net charge-off rate	4.58%	3.86%	
Nonperforming assets	\$ 872	\$ 579	51
Retail branch business metrics			
Investment sales volume (in millions)	\$ 5,956	\$ 4,398	35
Number of:			
Branches	5,155	5,186	(1)
ATMs	15,549	14,159	10
Personal bankers	19,003	15,544	22
Sales specialists	6,315	5,454	16
Active online customers (in thousands)	16,208	12,882	26
Checking accounts (in thousands)	25,830	24,984	3
MORTGAGE BANKING & OTHER CONSUMER LENDING			
Selected income statement data			
(in millions, except ratio)	Three months ended March 31,		
	2010	2009	Change
Noninterest revenue ^(a)	\$ 1,018	\$ 1,921	(47)%
Net interest income	893	808	11

Total net revenue	1,911	2,729	(30)
Provision for credit losses	217	405	(46)
Noninterest expense	1,246	1,137	10
Income before income tax expense	448	1,187	(62)
Net income^(a)	\$ 257	\$ 730	(65)
Overhead ratio	65%	42%	

(a) *Losses related to the repurchase of previously-sold loans are recorded as a reduction of production revenue. These losses totaled \$432 million and \$220 million for the quarters ended March 31, 2010 and 2009, respectively. The losses resulted in a negative impact on net income of \$252 million and \$135 million for the quarters ended March 31, 2010 and 2009, respectively. For further discussion, see Repurchase Liability on pages 47-48 and Note 22 on pages 149-152 of this Form 10-Q, and Note 31 on pages 230-234 of*

*JPMorgan
Chase's 2009
Annual Report.*

Quarterly results

Mortgage Banking & Other Consumer Lending reported net income of \$257 million, compared with \$730 million in the prior year. The decrease was driven by lower noninterest revenue and higher noninterest expense, partially offset by the lower provision for credit losses.

Net revenue was \$1.9 billion, down by \$818 million, or 30%, from the prior year. The decline was driven by lower mortgage fees and related income, partially offset by an increase in net interest income, reflecting the impact of higher auto loan balances and wider auto loan spreads. Mortgage fees and related income decreased due to lower MSR risk management results and lower mortgage production revenue, partially offset by higher mortgage operating income. MSR risk management results were \$152 million, compared with \$1.0 billion in the prior year. Mortgage production revenue was \$1 million, compared with \$481 million in the prior year, as a result of an increase in losses from the repurchase of

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previously-sold loans, a decline in new originations and narrower spreads. Mortgage operating revenue, which represents loan servicing revenue net of other changes in fair value of the MSR asset, was \$502 million, up by \$353 million. The increase was driven by other changes in the fair value of the MSR asset, partially offset by lower servicing revenue as a result of lower third-party loans serviced.

The provision for credit losses, predominantly related to the auto and student loan portfolios, was \$217 million, compared with \$405 million in the prior year. The prior-year provision reflected a \$150 million increase in the allowance for loan losses for student loans.

Noninterest expense was \$1.2 billion, up by \$109 million, or 10%, from the prior year, driven by default-related expense, partially offset by a decrease in mortgage insurance expense.

Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended March 31,		
	2010	2009	Change
Business metrics			
End-of-period loans owned:			
Auto loans	\$ 47.4	\$ 43.1	10%
Mortgage ^(a)	13.7	8.8	56
Student loans and other	17.4	17.4	
Total end-of-period loans owned	78.5	69.3	13
Average loans owned:			
Auto loans	\$ 46.9	\$ 42.5	10
Mortgage ^(a)	12.5	7.4	69
Student loans and other	18.4	17.6	5
Total average loans owned^(b)	77.8	67.5	15
Credit data and quality statistics (in millions, except ratios)			
Net charge-offs:			
Auto loans	\$ 102	\$ 174	(41)
Mortgage	6	5	20
Student loans and other	64	34	88
Total net charge-offs	172	213	(19)
Net charge-off rate:			
Auto loans	0.88%	1.66%	
Mortgage	0.20	0.29	
Student loans and other	1.64	0.92	
Total net charge-off rate^(b)	0.93	1.34	
30+ day delinquency rate ^{(c)(d)}	1.47%	1.56%	
Nonperforming assets (in millions) ^(e)	\$ 1,006	\$ 830	21
Origination volume:			
Mortgage origination volume by channel			

Retail	\$ 11.4	\$ 13.6	(16)%
Wholesale ^(f)	0.4	1.6	(75)
Correspondent ^(f)	16.0	18.0	(11)
CNT (negotiated transactions)	3.9	4.5	(13)
Total mortgage origination volume	31.7	37.7	(16)
Student loans	\$ 1.6	\$ 1.7	(6)
Auto	6.3	5.6	13

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Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended March 31,		
	2010	2009	Change
Application volume:			
Mortgage application volume by channel			
Retail	\$ 20.3	\$ 32.7	(38)%
Wholesale ^(f)	0.8	1.8	(56)
Correspondent ^(f)	18.2	29.2	(38)
Total mortgage application volume	\$ 39.3	\$ 63.7	(38)
Average mortgage loans held-for-sale and loans at fair value ^(g) :	\$ 14.5	\$ 14.0	4
Average assets	124.8	113.4	10
Third-party mortgage loans serviced (ending)	1,075.0	1,148.8	(6)
Third-party mortgage loans serviced (average)	1,076.4	1,155.0	(7)
MSR net carrying value (ending)	15.5	10.6	46
Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending)	1.44%	0.92%	
Supplemental mortgage fees and related income details (in millions)			
Production revenue:	\$ 1	\$ 481	(100)
Net mortgage servicing revenue:			
Operating revenue:			
Loan servicing revenue	1,107	1,222	(9)
Other changes in MSR asset fair value	(605)	(1,073)	44
Total operating revenue	502	149	237
Risk management:			
Changes in MSR asset fair value due to inputs or assumptions in model	(96)	1,310	NM
Derivative valuation adjustments and other	248	(307)	NM
Total risk management	152	1,003	(85)
Total net mortgage servicing revenue	654	1,152	(43)
Mortgage fees and related income	\$ 655	\$ 1,633	(60)
Ratio of annualized loan servicing revenue to third-party mortgage loans serviced (average)	0.42%	0.43%	
MSR revenue multiple ^(h)	3.43x	2.14x	

(a) Predominantly represents prime loans

*repurchased
from
Government
National
Mortgage
Association
(Ginnie Mae)
pools, which are
insured by U.S.
government
agencies.*

*(b) Total average
loans owned
includes loans
held-for-sale of
\$2.9 billion and
\$3.1 billion for
the quarters
ended March 31,
2010 and 2009,
respectively.
These amounts
are excluded
when calculating
the net
charge-off rate.*

*(c) Excludes
mortgage loans
that are insured
by U.S.
government
agencies of
\$11.2 billion and
\$4.9 billion at
March 31, 2010
and 2009,
respectively.
These amounts
are excluded as
reimbursement is
proceeding
normally.*

*(d) Excludes 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 \$1.0 billion and \$770 million at March 31, 2010 and 2009, respectively. These amounts are excluded as reimbursement is proceeding normally.

- (e) *At March 31, 2010 and 2009, nonperforming loans and assets exclude:*
- (1) mortgage loans insured by U.S. government agencies of \$10.5 billion and \$4.2 billion, respectively;*
 - (2) real estate owned insured by U.S. government agencies of \$707 million and \$433 million, respectively; and*
 - (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of \$581 million and \$433 million, respectively. These amounts*

are excluded as reimbursement is proceeding normally.

- (f) Includes rural housing loans sourced through brokers and correspondents, which are underwritten under U.S. Department of Agriculture guidelines. Prior period amounts have been revised to conform with the current period presentation.*
- (g) Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets. Average balances of these loans totaled \$14.2 billion and \$13.4 billion for the quarters ended March 31, 2010 and 2009, respectively.*
- (h) Represents the ratio of MSR net carrying value (ending) to third-party mortgage loans*

serviced
(ending) divided
by the ratio of
annualized loan
servicing
revenue to
third-party
mortgage loans
serviced
(average). The
increase is
driven by higher
expected future
servicing cash
flows resulting
from lower
assumed
prepayments.

REAL ESTATE PORTFOLIOS

Selected income statement data

(in millions, except ratios)

	Three months ended March 31,		
	2010	2009	Change
Noninterest revenue	\$ 32	\$ (42)	NM
Net interest income	1,496	1,816	(18)%
Total net revenue	1,528	1,774	(14)
Provision for credit losses	3,325	3,147	6
Noninterest expense	419	454	(8)
Income/(loss) before income tax expense/(benefit)	(2,216)	(1,827)	(21)
Net income/(loss)	\$ (1,286)	\$ (1,119)	(15)
Overhead ratio	27%	26%	

Table of Contents**Quarterly results**

Real Estate Portfolios reported a net loss of \$1.3 billion, compared with a net loss of \$1.1 billion in the prior year. The deterioration was driven by lower net revenue and the higher provision for credit losses, partially offset by lower noninterest expense.

Net revenue was \$1.5 billion, down by \$246 million, or 14%, from the prior year. The decrease was predominantly driven by a decline in net interest income as a result of lower loan balances, reflecting portfolio run-off, as well as narrower loan spreads.

The provision for credit losses was \$3.3 billion, compared with \$3.1 billion in the prior year. The current-quarter provision reflected an addition of \$1.2 billion to the allowance for loan losses for further estimated deterioration in the Washington Mutual prime and option ARM purchased credit-impaired pools. The prior-year provision was driven by an addition of \$1.4 billion to the allowance for loan losses. (For further detail, see RFS discussion of the provision for credit losses above on page 23 of this Form 10-Q.)

Noninterest expense was \$419 million, down by \$35 million, or 8%, from the prior year, reflecting lower foreclosed asset expense.

Selected metrics

(in billions)

Three months ended March 31,
2010 2009 Change**Loans excluding purchased credit-impaired loans^(a)**

End-of-period loans owned:

Home equity	\$ 97.7	\$ 111.7	(13)%
Prime mortgage	46.8	56.6	(17)
Subprime mortgage	13.2	14.6	(10)
Option ARMs	8.6	9.0	(4)
Other	1.0	0.9	11
Total end-of-period loans owned	\$ 167.3	\$ 192.8	(13)

Average loans owned:

Home equity	\$ 99.5	\$ 113.4	(12)
Prime mortgage	47.9	58.0	(17)
Subprime mortgage	13.8	14.9	(7)
Option ARMs	8.7	8.8	(1)
Other	1.1	0.9	22
Total average loans owned	\$ 171.0	\$ 196.0	(13)

Purchased credit-impaired loans^(a)

End-of-period loans owned:

Home equity	\$ 26.0	\$ 28.4	(8)
Prime mortgage	19.2	21.4	(10)
Subprime mortgage	5.8	6.6	(12)
Option ARMs	28.3	31.2	(9)
Total end-of-period loans owned	\$ 79.3	\$ 87.6	(9)

Average loans owned:			
Home equity	\$ 26.2	\$ 28.4	(8)
Prime mortgage	19.5	21.6	(10)
Subprime mortgage	5.9	6.7	(12)
Option ARMs	28.6	31.4	(9)
Total average loans owned	\$ 80.2	\$ 88.1	(9)
Total Real Estate Portfolios			
End-of-period loans owned:			
Home equity	\$ 123.7	\$ 140.1	(12)
Prime mortgage	66.0	78.0	(15)
Subprime mortgage	19.0	21.2	(10)
Option ARMs	36.9	40.2	(8)
Other	1.0	0.9	11
Total end-of-period loans owned	\$ 246.6	\$ 280.4	(12)
Average loans owned:			
Home equity	\$ 125.7	\$ 141.8	(11)
Prime mortgage	67.4	79.6	(15)
Subprime mortgage	19.7	21.6	(9)
Option ARMs	37.3	40.2	(7)
Other	1.1	0.9	22
Total average loans owned	\$ 251.2	\$ 284.1	(12)
Average assets	\$ 240.2	\$ 279.9	(14)
Home equity origination volume	0.3	0.9	(67)

(a) *Purchased credit-impaired loans represent loans acquired in the Washington Mutual transaction for which a deterioration in credit quality occurred between the origination date and JPMorgan Chase's acquisition date. These loans were initially recorded at fair*

value and accrete interest income over the estimated lives of the loan as long as cash flows are reasonably estimable, even if the underlying loans are contractually past due.

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Included within Real Estate Portfolios are purchased credit-impaired loans that the Firm acquired in the Washington Mutual transaction. For purchased credit-impaired loans, the excess of the undiscounted gross cash flows initially expected to be collected over the fair value of the loans at the acquisition date is accreted into interest income at a level rate of return over the expected life of the loans. This is commonly referred to as the accretable yield. The estimate of gross cash flows expected to be collected is updated each reporting period based on updated assumptions. Probable decreases in expected loan principal cash flows require recognition of an allowance for loan losses; probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan losses with any remaining increases recognized over time through interest income.

The net spread between the purchased credit-impaired loans and the related liabilities should be relatively constant over time, except for any basis risk or other residual interest rate risk that remains and changes in the accretable yield percentage (e.g., extended loan liquidation periods). As of March 31, 2010, the weighted-average life of the portfolio is expected to be 6.6 years. For further information, see Note 13, Purchased credit-impaired loans, on page 129 of this Form 10-Q. The loan balances are expected to decline more rapidly in the earlier years as the most troubled loans are liquidated, and more slowly thereafter as the remaining troubled borrowers have limited refinancing opportunities. Similarly, default and servicing expenses are expected to be higher in the earlier years and decline over time as liquidations slow down.

To date the impact of the purchased credit-impaired loans on Real Estate Portfolios net income has been modestly negative. This is due to the current net spread of the portfolio, the provision for loan losses recognized subsequent to its acquisition, and the higher level of default and servicing expenses associated with the portfolio. Over time, the Firm expects that this portfolio will contribute positively to income.

Credit data and quality statistics

(in millions, except ratios)

	Three months ended March 31,		
	2010	2009	Change
Net charge-offs excluding purchased credit-impaired loans ^(a) :			
Home equity	\$ 1,126	\$ 1,098	3%
Prime mortgage	453	307	48
Subprime mortgage	457	364	26
Option ARMs	23	4	475
Other	16	15	7
Total net charge-offs	\$ 2,075	\$ 1,788	16
Net charge-off rate excluding purchased credit-impaired loans ^(a) :			
Home equity	4.59%	3.93%	
Prime mortgage	3.84	2.15	
Subprime mortgage	13.43	9.91	
Option ARMs	1.07	0.18	
Other	5.90	6.76	
Total net charge-off rate excluding purchased credit-impaired loans	4.92	3.70	
Net charge-off rate reported:			
Home equity	3.63%	3.14%	
Prime mortgage	2.73	1.56	
Subprime mortgage	9.41	6.83	
Option ARMs	0.25	0.04	
Other	5.90	6.76	
Total net charge-off rate reported	3.35	2.55	

30+ day delinquency rate excluding purchased credit-impaired loans ^(b)	7.28%	5.87%	
Allowance for loan losses	\$ 14,127	\$ 8,870	59
Nonperforming assets ^(c)	10,313	8,437	22
Allowance for loan losses to ending loans retained	5.73%	3.16%	
Allowance for loan losses to ending loans retained excluding purchased credit-impaired loans ^(a)	6.76	4.60	

(a) Excludes the impact of purchased credit-impaired loans that were acquired as part of the Washington Mutual transaction. These loans were accounted for at fair value on the acquisition date, which incorporated management's estimate, as of that date, of credit losses over the remaining life of the portfolio. An allowance for loan losses of \$2.8 billion was recorded for these loans at March 31, 2010, which has also been excluded from applicable ratios. No allowance for loan losses was recorded for these loans at March 31, 2009. To date, no charge-offs have been recorded for these loans.

- (b) *The delinquency rate for purchased credit-impaired loans was 28.49% and 21.36% at March 31, 2010 and 2009, respectively.*
- (c) *Excludes purchased credit-impaired loans that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis, and the pools are considered to be performing.*

Table of Contents**CARD SERVICES**

For a discussion of the business profile of CS, see pages 64-66 of JPMorgan Chase's 2009 Annual Report and Introduction on page 6 of this Form 10-Q.

Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Prior to the adoption of the new guidance JPMorgan Chase used the concept of "managed basis" to evaluate the credit performance of its credit card loans, both loans on the balance sheet and loans that had been securitized. For further information, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 14-16 of this Form 10-Q. Managed results excluded the impact of credit card securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Securitization did not change reported net income; however, it did affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets. As a result of the consolidation of the securitization trusts, reported and managed basis are comparable for periods beginning after January 1, 2010.

Selected income statement data-managed basis^(a)

(in millions, except ratios)	Three months ended March 31,		
	2010	2009	Change
Revenue			
Credit card income	\$ 813	\$ 844	(4)%
All other income	(55)	(197)	72
Noninterest revenue	758	647	17
Net interest income	3,689	4,482	(18)
Total net revenue	4,447	5,129	(13)
Provision for credit losses	3,512	4,653	(25)
Noninterest expense			
Compensation expense	330	357	(8)
Noncompensation expense	949	850	12
Amortization of intangibles	123	139	(12)
Total noninterest expense	1,402	1,346	4
Income/(loss) before income tax expense/(benefit)	(467)	(870)	46
Income tax expense/(benefit)	(164)	(323)	49
Net income/(loss)	\$ (303)	\$ (547)	45
Memo: Net securitization income/(loss)	NA	\$ (180)	NM
Financial ratios^(a)			
ROE	(8)%	(15)%	
Overhead ratio	32	26	

(a) *Effective January 1, 2010, the Firm adopted*

new consolidation guidance related to VIEs. Upon adoption, the Firm recorded a net increase in U.S. GAAP assets of \$60.9 billion on the Consolidated Balance Sheets, which comprised: \$84.7 billion of loans; \$7.4 billion of allowance for loan losses; \$4.4 billion of other assets, offset partially by \$20.8 billion of previously recognized assets, consisting primarily of retained available-for-sale (AFS) securities, which were eliminated upon consolidation.

Quarterly results

Card Services reported a net loss of \$303 million, compared with a net loss of \$547 million in the prior year. The improved results were driven by the lower provision for credit losses, partially offset by lower net revenue.

End-of-period managed loans were \$149.3 billion, a decrease of \$26.9 billion, or 15%, from the prior year. Average managed loans were \$155.8 billion, a decrease of \$27.6 billion, or 15%, from the prior year.

Managed net revenue was \$4.4 billion, a decrease of \$682 million, or 13%, from the prior year. Net interest income was \$3.7 billion, down by \$793 million, or 18%. The decrease was driven by lower average managed loan balances (including run-off from the Washington Mutual portfolio), the impact of legislative changes, and a decreased level of fees, partially offset by wider loan spreads. Noninterest revenue was \$758 million, an increase of \$111 million, or 17%. The increase was driven by a prior-year write-down of securitization interests, partially offset by run-off from the Washington Mutual portfolio.

The managed provision for credit losses was \$3.5 billion, compared with \$4.7 billion in the prior year. The decline in the provision for credit losses included a reduction of \$1.0 billion to the allowance for loan losses, reflecting lower estimated losses (primarily related to improved delinquency trends) as well as lower levels of outstandings, partially offset by continued high levels of charge-offs. The prior-year provision included an addition of \$1.2 billion to the allowance for loan losses. The managed net charge-off rate for the quarter was 11.75%, up from 7.72% in the prior year. The current-quarter net charge-off rate was negatively affected by approximately 60 basis points from a payment-holiday program

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offered in the second quarter of 2009. The 30-day managed delinquency rate was 5.62%, down from 6.16% in the prior year. Excluding the impact of the Washington Mutual transaction, the managed net charge-off rate for the first quarter was 10.54%, and the 30-day delinquency rate was 4.99%.

Noninterest expense was \$1.4 billion, an increase of \$56 million, or 4%, due to higher marketing expense.

Credit Card Legislation

In May 2009, the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (CARD Act) was enacted. Management estimates that, as a result of continuing its phased implementation of the CARD Act during 2010, Card Services' annual net income may be adversely affected by approximately \$500 million to \$750 million. This estimate is subject to change as certain components of the new legislation are finalized and implemented.

The most significant effects of the CARD Act include: (a) the inability to change the pricing of existing balances; (b) the allocation of customer payments above the minimum payment to the existing balance with the highest APR; (c) the requirement that customers opt-in in order to receive, for a fee, overlimit protection that permits an authorized transaction over their credit limit; and (d) the requirement that statements must be mailed or delivered not later than 21 days before the payment due date. In addition, certain rules have not yet been finalized, including those limiting the amount of penalty fees that can be assessed and those that would require Card Services to review customer accounts for potential interest rate reductions in certain circumstances.

As a result of the CARD Act, Card Services has implemented certain changes to its business practices to manage its inability to price loans to customers at rates that are commensurate with their risk over time. These changes include: (a) selectively increasing pricing; (b) reducing the volume and duration of low-rate promotional pricing offered to customers; and (c) reducing the amount of credit that is granted to certain new and existing customers.

Selected metrics

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

Three months ended March 31,
2010 2009 Change

Financial ratios^(a)

Percentage of average outstandings:

Net interest income	9.60%	9.91%	
Provision for credit losses	9.14	10.29	
Noninterest revenue	1.97	1.43	
Risk adjusted margin ^(b)	2.43	1.05	
Noninterest expense	3.65	2.98	
Pretax income/(loss) (ROO) ^(c)	(1.22)	(1.92)	
Net income/(loss)	(0.79)	(1.21)	

Business metrics

Sales volume (in billions)	\$ 69.4	\$ 66.6	4%
New accounts opened (in millions)	2.5	2.2	14
Open accounts (in millions)	88.9	105.7	(16)
Merchant acquiring business			
Bank card volume (in billions)	\$ 108.0	\$ 94.4	14
Total transactions (in billions)	4.7	4.1	15

Selected balance sheet data (period-end)

Loans:

Loans on balance sheets	\$ 149,260	\$ 90,911	64
Securitized loans ^(a)	NA	85,220	NM
Total loans	\$ 149,260	\$ 176,131	(15)

Equity	\$ 15,000	\$ 15,000	
Selected balance sheet data (average)			
Managed assets	\$ 156,968	\$ 201,200	(22)
Loans:			
Loans on balance sheets	\$ 155,790	\$ 97,783	59
Securitized loans ^(a)	NA	85,619	NM
Total average loans	\$ 155,790	\$ 183,402	(15)
Equity	\$ 15,000	\$ 15,000	
Headcount	22,478	23,759	(5)

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Selected metrics (in millions, except ratios)	Three months ended March 31,		
	2010	2009	Change
Credit quality statistics^(a)			
Net charge-offs	\$ 4,512	\$ 3,493	29%
Net charge-off rate ^(d)	11.75%	7.72%	
Delinquency rates^(a)			
30+ day	5.62%	6.16%	
90+ day	3.15	3.22	
Allowance for loan losses ^{(a)(e)}	\$ 16,032	\$ 8,849	81
Allowance for loan losses to period-end loans ^{(a)(e)}	10.74%	9.73%	
Key stats – Washington Mutual only			
Loans	\$ 17,204	\$ 25,908	(34)
Average loans	18,607	27,578	(33)
Net interest income ^(f)	15.06%	16.45%	
Risk adjusted margin ^{(b)(f)}	2.47	4.42	
Net charge-off rate ^(g)	24.14	14.57	
30+ day delinquency rate	10.49	10.89	
90+ day delinquency rate	6.32	5.79	
Key stats – excluding Washington Mutual			
Loans	\$ 132,056	\$ 150,223	(12)
Average loans	137,183	155,824	(12)
Net interest income ^(f)	8.86%	8.75%	
Risk adjusted margin ^{(b)(f)}	2.43	0.46	
Net charge-off rate	10.54	6.86	
30+ day delinquency rate	4.99	5.34	
90+ day delinquency rate	2.74	2.78	

(a) Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Upon adoption, the Firm recorded a net increase in U.S. GAAP assets of \$60.9 billion on the Consolidated Balance Sheets, which comprised: \$84.7 billion of loans; \$7.4 billion of allowance for

*loan losses;
\$4.4 billion of
other assets, offset
partially by
\$20.8 billion of
previously
recognized assets,
consisting
primarily of
retained
available-for-sale
(AFS)
securities, which
were eliminated
upon
consolidation.*

- (b) Represents total
net revenue less
provision for
credit losses.*
- (c) Pretax return on
average managed
outstandings.*
- (d) Results reflect the
impact of
purchase
accounting
adjustments
related to the
Washington
Mutual
transaction and
the consolidation
of the Washington
Mutual Master
Trust in the
second quarter of
2009.*
- (e) Based on loans on
the Consolidated
Balance Sheets.*
- (f) As a percentage of
average managed
outstandings.*
- (g)*

Excludes the impact of purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the Washington Mutual Master Trust in the second quarter of 2009.

NA: Not applicable.

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

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

(in millions)	Three months ended March 31,		
	2010	2009	Change
Income statement data			
Credit card income			
Reported	\$ 813	\$ 1,384	(41)%
Securitization adjustments ^(a)	NA	(540)	NM
Managed credit card income	\$ 813	\$ 844	(4)
Net interest income			
Reported	3,689	\$ 2,478	49
Securitization adjustments ^(a)	NA	2,004	NM
Managed net interest income	\$ 3,689	\$ 4,482	(18)
Total net revenue			
Reported	\$ 4,447	\$ 3,665	21
Securitization adjustments ^(a)	NA	1,464	NM
Managed total net revenue	\$ 4,447	\$ 5,129	(13)
Provision for credit losses			
Reported	\$ 3,512	\$ 3,189	10
Securitization adjustments ^(a)	NA	1,464	NM
Managed provision for credit losses	\$ 3,512	\$ 4,653	(25)
Balance sheet average balances			
Total average assets			
Reported	\$ 156,968	\$ 118,418	33
Securitization adjustments ^(a)	NA	82,782	NM
Managed average assets	\$ 156,968	\$ 201,200	(22)
Credit quality statistics			
Net charge-offs			
Reported	\$ 4,512	\$ 2,029	122
Securitization adjustments ^(a)	NA	1,464	NM

Managed net charge-offs	\$ 4,512	\$ 3,493	29
Net charge-off rates			
Reported	11.75%	8.42%	
Securitized ^(a)	NA	6.93	
Managed net charge-off rate	11.75	7.72	

(a) *Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Prior to the adoption of the new guidance JPMorgan Chase used 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 continues to use the credit card for ongoing charges, a borrower's credit performance affects both the securitized loans and the loans retained on the Consolidated Balance Sheets. Thus, in its 2009 disclosures regarding*

*managed
receivables,
JPMorgan
Chase treated
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
excluded the
impact of credit
card
securitizations
on total net
revenue, the
provision for
credit losses, net
charge-offs and
loan
receivables.
Securitization
did not change
reported net
income versus
managed
earnings;
however, it did
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 14-16 of
this Form 10-Q.*

Table of Contents**COMMERCIAL BANKING**

For a discussion of the business profile of CB, see pages 67-68 of JPMorgan Chase's 2009 Annual Report and Introduction on page 6 of this Form 10-Q.

Selected income statement data (in millions, except ratios)	Three months ended March 31,		
	2010	2009	Change
Revenue:			
Lending- and deposit-related fees	\$ 277	\$ 263	5%
Asset management, administration and commissions	37	34	9
All other income ^(a)	186	125	49
Noninterest revenue	500	422	18
Net interest income	916	980	(7)
Total net revenue	1,416	1,402	1
Provision for credit losses	214	293	(27)
Noninterest expense			
Compensation expense	206	200	3
Noncompensation expense	324	342	(5)
Amortization of intangibles	9	11	(18)
Total noninterest expense	539	553	(3)
Income before income tax expense	663	556	19
Income tax expense	273	218	25
Net income	\$ 390	\$ 338	15
Revenue by product:			
Lending	\$ 658	\$ 665	(1)
Treasury services	638	646	(1)
Investment banking	105	73	44
Other	15	18	(17)
Total Commercial Banking revenue	\$ 1,416	\$ 1,402	1
IB revenue, gross^(b)	\$ 311	\$ 206	51
Revenue by client segment:			
Middle Market Banking	\$ 746	\$ 752	(1)
Commercial Term Lending	229	228	
Mid-Corporate Banking	263	242	9
Real Estate Banking	100	120	(17)
Other	78	60	30

Total Commercial Banking revenue	\$ 1,416	\$ 1,402	1
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Financial ratios

ROE	20%	17%
Overhead ratio	38	39

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

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

Quarterly results

Net income was \$390 million, an increase of \$52 million, or 15%, from the prior year. The increase was driven by a decrease in the provision for credit losses, lower noninterest expense and higher net revenue.

Net revenue was \$1.4 billion, up by \$14 million, or 1%, compared with the prior year. Net interest income was \$916 million, down by \$64 million, or 7%, driven by spread compression on liability products and lower loan balances, largely offset by overall growth in liability balances and wider loan spreads. Noninterest revenue was \$500 million, an increase of \$78 million, or 18%, reflecting higher lending-related and investment banking fees.

Revenue from Middle Market Banking was \$746 million, a decrease of \$6 million, or 1%, from the prior year.

Revenue from Commercial Term Lending was \$229 million, an increase of \$1 million. Revenue from Mid-Corporate Banking was \$263 million, an increase of \$21 million, or 9%. Revenue from Real Estate Banking was \$100 million, a decrease of \$20 million, or 17%.

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The provision for credit losses was \$214 million, compared with \$293 million in the prior year. Net charge-offs were \$229 million (0.96% net charge-off rate), compared with \$134 million (0.48% net charge-off rate) in the prior year, driven by continued weakness in commercial real estate. The allowance for loan losses to end-of-period loans retained was 3.15%, up from 2.65% in the prior year. Nonperforming loans were \$3.0 billion, up by \$1.5 billion from the prior year reflecting increases in each client segment.

Noninterest expense was \$539 million, a decrease of \$14 million, or 3%, compared with the prior year, reflecting lower headcount-related expense, lower volume-related expense and lower FDIC insurance premiums, largely offset by higher performance-based compensation.

Selected metrics (in millions, except headcount and ratios)	Three months ended March 31,		
	2010	2009	Change
Selected balance sheet data (period-end):			
Loans:			
Loans retained	\$ 95,435	\$ 110,923	(14)%
Loans held-for-sale and loans at fair value	294	272	8
Total loans	95,729	111,195	(14)
Equity	8,000	8,000	
Selected balance sheet data (average):			
Total assets	\$ 133,013	\$ 144,298	(8)
Loans:			
Loans retained	96,317	113,568	(15)
Loans held-for-sale and loans at fair value	297	297	
Total loans	96,614	113,865	(15)
Liability balances ^(a)	133,142	114,975	16
Equity	8,000	8,000	
Average loans by client segment:			
Middle Market Banking	\$ 33,919	\$ 40,728	(17)
Commercial Term Lending	36,057	36,814	(2)
Mid-Corporate Banking	12,258	18,416	(33)
Real Estate Banking	10,438	13,264	(21)
Other	3,942	4,643	(15)
Total Commercial Banking loans	\$ 96,614	\$ 113,865	(15)
Headcount	4,701	4,545	3
Credit data and quality statistics:			
Net charge-offs	\$ 229	\$ 134	71
Nonperforming loans:			
Nonperforming loans retained ^(b)	2,947	1,531	92
Nonperforming loans held-for-sale and loans at fair value	49		NM
Total nonperforming loans	2,996	1,531	96
Nonperforming assets	3,186	1,651	93

Allowance for credit losses:			
Allowance for loan losses	3,007	2,945	2
Allowance for lending-related commitments	359	240	50
Total allowance for credit losses	3,366	3,185	6
Net charge-off rate	0.96%	0.48%	
Allowance for loan losses to period-end loans retained	3.15	2.65	
Allowance for loan losses to average loans retained	3.12	2.59	
Allowance for loan losses to nonperforming loans retained	102	192	
Nonperforming loans to total period-end loans	3.13	1.38	
Nonperforming loans to total average loans	3.10	1.34	

(a) *Liability balances include deposits, as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased, time deposits and securities loaned or sold under repurchase agreements) as part of customer cash management programs.*

(b) *Allowance for loan losses of \$612 million and \$352 million were held against nonperforming loans retained at March 31, 2010 and 2009, respectively.*

Table of Contents**TREASURY & SECURITIES SERVICES**

For a discussion of the business profile of TSS, see pages 69-70 of JPMorgan Chase's 2009 Annual Report and Introduction on page 6 of this Form 10-Q.

Selected income statement data (in millions, except headcount and ratios)	Three months ended March 31,		
	2010	2009	Change
Revenue			
Lending- and deposit-related fees	\$ 311	\$ 325	(4)%
Asset management, administration and commissions	659	626	5
All other income	176	197	(11)
Noninterest revenue	1,146	1,148	
Net interest income	610	673	(9)
Total net revenue	1,756	1,821	(4)
Provision for credit losses	(39)	(6)	NM
Credit reimbursement to IB ^(a)	(30)	(30)	
Noninterest expense			
Compensation expense	657	629	4
Noncompensation expense	650	671	(3)
Amortization of intangibles	18	19	(5)
Total noninterest expense	1,325	1,319	
Income before income tax expense	440	478	(8)
Income tax expense	161	170	(5)
Net income	\$ 279	\$ 308	(9)
Revenue by business			
Treasury Services	\$ 882	\$ 931	(5)
Worldwide Securities Services	874	890	(2)
Total net revenue	\$ 1,756	\$ 1,821	(4)
Financial ratios			
ROE	17%	25%	
Overhead ratio	75	72	
Pretax margin ratio ^(b)	25	26	
Selected balance sheet data (period-end)			
Loans ^(c)	\$ 24,066	\$ 18,529	30
Equity	6,500	5,000	30

Selected balance sheet data (average)

Total assets	\$ 38,273	\$ 38,682	(1)
Loans ^(c)	19,578	20,140	(3)
Liability balances ^(d)	247,905	276,486	(10)
Equity	6,500	5,000	30
Headcount	27,223	26,998	1

(a) *IB credit portfolio group manages certain exposures on behalf of clients shared with TSS. TSS reimburses IB for a portion of the total cost of managing the credit portfolio. IB recognizes this credit reimbursement as a component of noninterest revenue.*

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

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

(d) *Liability balances include deposits, as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased, time deposits and securities loaned or sold under repurchase agreements) as part of customer cash management programs.*

Quarterly results

Net income was \$279 million, a decrease of \$29 million, or 9%, from the prior year. The results reflected lower net revenue and a benefit from the provision for credit losses.

Net revenue was \$1.8 billion, a decrease of \$65 million, or 4% from the prior year. Worldwide Securities Services net revenue was \$874 million, a decrease of \$16 million, or 2%. The decrease reflected lower spreads in securities lending, lower liability balances, and the impact of lower volatility on foreign exchange, partially offset by the effects of higher market levels and net inflows on assets under custody. Treasury Services net revenue was \$882 million, a decrease of

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\$49 million, or 5%. The decrease reflected lower deposit spreads, partially offset by higher trade loan and card product volumes.

TSS generated firmwide net revenue of \$2.5 billion, including \$1.6 billion by Treasury Services; of that amount, \$882 million was recorded in Treasury Services, \$638 million was recorded in Commercial Banking and \$56 million was recorded in other lines of business. The remaining \$874 million of net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was a benefit of \$39 million, up \$33 million from the prior year.

Noninterest expense was \$1.3 billion, flat compared with the prior year.

Selected metrics (in millions, except ratios and where otherwise noted)	Three months ended March 31,		
	2010	2009	Change
TSS firmwide disclosures			
Treasury Services revenue reported	\$ 882	\$ 931	(5)%
Treasury Services revenue reported in CB	638	646	(1)
Treasury Services revenue reported in other lines of business	56	62	(10)
Treasury Services firmwide revenue^(a)	1,576	1,639	(4)
Worldwide Securities Services revenue	874	890	(2)
Treasury & Securities Services firmwide revenue^(a)	\$ 2,450	\$ 2,529	(3)
Treasury Services firmwide liability balances (average) ^(b)	\$ 305,105	\$ 289,645	5
Treasury & Securities Services firmwide liability balances (average) ^(b)	381,047	391,461	(3)
TSS firmwide financial ratios			
Treasury Services firmwide overhead ratio ^(c)	55%	53%	
Treasury & Securities Services firmwide overhead ratio ^(c)	65	63	
Firmwide business metrics			
Assets under custody (in billions)	\$ 15,283	\$ 13,532	13
Number of:			
U.S.\$ ACH transactions originated (in millions)	949	978	(3)
Total U.S.\$ clearing volume (in thousands)	28,669	27,186	5
International electronic funds transfer volume (in thousands) ^(d)	55,754	44,365	26
Wholesale check volume (in millions)	478	568	(16)
Wholesale cards issued (in thousands) ^(e)	27,352	23,757	15
Credit data and quality statistics			
Net charge-offs	\$	\$ 2	NM
Nonperforming loans	14	30	(53)
Allowance for credit losses:			
Allowance for loan losses	57	51	12
Allowance for lending-related commitments	76	77	(1)
Total allowance for credit losses	133	128	4

Net charge-off rate	%	0.04%
Allowance for loan losses to period-end loans	0.24	0.28
Allowance for loan losses to average loans	0.29	0.25
Allowance for loan losses to nonperforming loans	407	170
Nonperforming loans to period-end loans	0.06	0.16
Nonperforming loans to average loans	0.07	0.15

(a) *TSS firmwide revenue includes foreign exchange (FX) revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of IB. However, some of the FX revenue associated with TSS customers who are FX customers of IB is not included in TS and TSS firmwide revenue. These amounts were \$137 million and \$154 million for the three months ended March 31, 2010 and 2009, respectively.*

(b) *Firmwide liability balances include liability balances recorded in CB.*

(c) *Overhead ratios have been calculated based on*

firmwide revenue and TSS and TS expense, respectively, including those allocated to certain other lines of business. FX revenue and expense recorded in IB for TSS-related FX activity are not included in this ratio.

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

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

Table of Contents**ASSET MANAGEMENT**

For a discussion of the business profile of AM, see pages 71-73 of JPMorgan Chase's 2009 Annual Report and Introduction on page 6 of this Form 10-Q.

Selected income statement data (in millions, except ratios)	Three months ended March 31,		
	2010	2009	Change
Revenue:			
Asset management, administration and commissions	\$ 1,508	\$ 1,231	23%
All other income	266	69	286
Noninterest revenue	1,774	1,300	36
Net interest income	357	403	(11)
Total net revenue	2,131	1,703	25
Provision for credit losses	35	33	6
Noninterest expense:			
Compensation expense	910	800	14
Noncompensation expense	514	479	7
Amortization of intangibles	18	19	(5)
Total noninterest expense	1,442	1,298	11
Income before income tax expense	654	372	76
Income tax expense	262	148	77
Net income	\$ 392	\$ 224	75
Revenue by client segment			
Private Bank	\$ 698	\$ 583	20
Institutional	566	460	23
Retail	415	253	64
Private Wealth Management	343	312	10
JPMorgan Securities ^(a)	109	95	15
Total net revenue	\$ 2,131	\$ 1,703	25
Financial ratios			
ROE	24%	13%	
Overhead ratio	68	76	
Pretax margin ratio ^(b)	31	22	

(a) *JPMorgan Securities was formerly known as Bear Stearns*

*Private Client
Services prior to
January 1,
2010.*

*(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 \$392 million, an increase of \$168 million, or 75%, from the prior year. These results reflected higher net revenue offset partially by higher noninterest expense.

Net revenue was \$2.1 billion, an increase of \$428 million, or 25%, from the prior year. Noninterest revenue was \$1.8 billion, up by \$474 million, or 36%, due to the effect of higher market levels, higher placement fees, net inflows to products with higher margins, and higher performance fees. Net interest income was \$357 million, down by \$46 million, or 11%, primarily due to narrower deposit spreads.

Revenue from the Private Bank was \$698 million, up 20% from the prior year. Revenue from Institutional was \$566 million, up 23%. Revenue from Retail was \$415 million, up 64%. Revenue from Private Wealth Management was \$343 million, up 10%. Revenue from JPMorgan Securities was \$109 million, up 15%.

The provision for credit losses was \$35 million, an increase of \$2 million from the prior year.

Noninterest expense was \$1.4 billion, an increase of \$144 million, or 11%, from the prior year, reflecting higher performance-based compensation and higher headcount-related expense.

Table of Contents**Business metrics**

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

	Three months ended March 31,		
	2010	2009	Change
Number of:			
Client advisors	1,987	1,872	6%
Retirement planning services participants (in thousands)	1,651	1,628	1
JPMorgan Securities brokers ^(a)	390	359	9
% of customer assets in 4 & 5 Star Funds ^(b)	43%	42%	2
% of AUM in 1 st and 2 nd quartiles: ^(c)			
1 year	55%	54%	2
3 years	67%	62%	8
5 years	77%	66%	17
Selected balance sheet data (period-end)			
Loans	\$ 37,088	\$ 33,944	9
Equity	6,500	7,000	(7)
Selected balance sheet data (average)			
Total assets	\$ 62,525	\$ 58,227	7
Loans	36,602	34,585	6
Deposits	80,662	81,749	(1)
Equity	6,500	7,000	(7)
Headcount	15,321	15,109	1
Credit data and quality statistics			
Net charge-offs	\$ 28	\$ 19	47
Nonperforming loans	475	301	58
Allowance for credit losses:			
Allowance for loan losses	261	215	21
Allowance for lending-related commitments	13	4	225
Total allowance for credit losses	274	219	25
Net charge-off rate	0.31%	0.22%	
Allowance for loan losses to period-end loans	0.70	0.63	
Allowance for loan losses to average loans	0.71	0.62	
Allowance for loan losses to nonperforming loans	55	71	
Nonperforming loans to period-end loans	1.28	0.89	
Nonperforming loans to average loans	1.30	0.87	

(a) JPMorgan

*Securities was
formerly known
as Bear Stearns
Private Client*

*Services prior to
January 1,
2010.*

*(b) Derived from
Morningstar for
the United
States, the
United
Kingdom,
Luxembourg,
France, Hong
Kong and
Taiwan; and
Nomura for
Japan.*

*(c) Quartile
rankings
sourced from
Lipper for the
United States
and Taiwan;
Morningstar for
the United
Kingdom,
Luxembourg,
France and
Hong Kong;
and Nomura for
Japan.*

Table of Contents**Assets under supervision**

Assets under supervision were \$1.7 trillion, an increase of \$243 billion, or 17%, from the prior year. Assets under management were \$1.2 trillion, an increase of \$104 billion, or 9%. The increases were due to the effect of higher market levels and inflows in fixed income and equity products offset largely by outflows in liquidity products. Custody, brokerage, administration and deposit balances were \$488 billion, up by \$139 billion, or 40%, due to the effect of higher market levels on custody and brokerage balances, and custody inflows in the Private Bank.

ASSETS UNDER SUPERVISION^(a) (in billions)

As of March 31,	2010	2009
Assets by asset class		
Liquidity	\$ 521	\$ 625
Fixed income	246	180
Equities and multi-asset	355	215
Alternatives	97	95
Total assets under management	1,219	1,115
Custody/brokerage/administration/deposits	488	349
Total assets under supervision	\$ 1,707	\$ 1,464

Assets by client segment

Institutional	\$ 669	\$ 668
Private Bank	184	181
Retail	282	184
Private Wealth Management	70	68
JPMorgan Securities ^(b)	14	14
Total assets under management	\$ 1,219	\$ 1,115

Institutional	\$ 670	\$ 669
Private Bank	476	375
Retail	371	250
Private Wealth Management	133	120
JPMorgan Securities ^(b)	57	50
Total assets under supervision	\$ 1,707	\$ 1,464

Assets by geographic region

U.S./Canada	\$ 815	\$ 789
International	404	326
Total assets under management	\$ 1,219	\$ 1,115
U.S./Canada	\$ 1,189	\$ 1,066

International	518	398
Total assets under supervision	\$ 1,707	\$ 1,464

Mutual fund assets by asset class

Liquidity	\$ 470	\$ 570
Fixed income	76	42
Equities	150	85
Alternatives	9	8
Total mutual fund assets	\$ 705	\$ 705

(a) *Excludes assets under management of American Century Companies, Inc., in which the Firm had a 42% ownership at both March 31, 2010 and 2009.*

(b) *JPMorgan Securities was formerly known as Bear Stearns Private Client Services prior to January 1, 2010.*

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Assets under management rollforward (in billions)	Three months ended March 31,	
	2010	2009
Beginning balance	\$ 1,249	\$ 1,133
Net asset flows:		
Liquidity	(62)	19
Fixed income	16	1
Equities, multi-asset and alternatives	6	(5)
Market/performance/other impacts	10	(33)
Total assets under management	\$ 1,219	\$ 1,115

Assets under supervision rollforward

Beginning balance	\$ 1,701	\$ 1,496
Net asset flows	(10)	25
Market/performance/other impacts	16	(57)
Total assets under supervision	\$ 1,707	\$ 1,464

CORPORATE / PRIVATE EQUITY

For a discussion of the business profile of Corporate/Private Equity, see pages 74-75 of JPMorgan Chase's 2009 Annual Report.

Selected income statement data

(in millions, except headcount)

	Three months ended March 31,		
	2010	2009	Change
Revenue			
Principal transactions	\$ 547	\$ (1,493)	NM
Securities gains	610	214	185%
All other income	124	(19)	NM
Noninterest revenue	1,281	(1,298)	NM
Net interest income	1,076	989	9
Total net revenue	2,357	(309)	NM
Provision for credit losses	17		NM
Noninterest expense			
Compensation expense	475	641	(26)
Noncompensation expense ^(a)	3,041	345	NM
Merger costs		205	NM
Subtotal	3,516	1,191	195
Net expense allocated to other businesses	(1,180)	(1,279)	8

Total noninterest expense	2,336	(88)	NM
Income/(loss) before income tax expense/(benefit)	4	(221)	NM
Income tax expense/(benefit) ^(b)	(224)	41	NM
Net income/(loss)	\$ 228	\$ (262)	NM
Total net revenue			
Private equity	\$ 115	\$ (449)	NM
Corporate	2,242	140	NM
Total net revenue	\$ 2,357	\$ (309)	NM
Net income/(loss)			
Private equity	\$ 55	\$ (280)	NM
Corporate ^(c)	173	18	NM
Total net income/(loss)	\$ 228	\$ (262)	NM
Headcount	19,307	22,339	(14)

(a) *The first quarter of 2010 includes a \$2.3 billion increase reflecting increased litigation reserves, including those for mortgage-related matters.*

(b) *The income tax benefit in the first quarter of 2010 includes tax benefits recognized upon the resolution of tax audits.*

(c) *The 2009 period included merger costs and extraordinary gain related to*

*the Washington
Mutual
transaction, as
well as items
related to the
Bear Stearns
merger, including
merger costs,
asset
management
liquidation costs
and Bear Stearns
Private Client
Services (which
was renamed to
JPMorgan
Securities
effective
January 1, 2010)
broker retention
expense.*

Table of Contents**Quarterly results**

Net income was \$228 million, compared with a net loss of \$262 million in the prior year.

Private Equity reported net income of \$55 million, compared with a net loss of \$280 million in the prior year. Net revenue was \$115 million, an increase of \$564 million, reflecting private equity gains of \$136 million due primarily to more favorable market conditions and underlying performance on certain portfolio investments compared with losses of \$462 million. Noninterest expense was \$30 million, an increase of \$41 million.

Corporate net income was \$173 million, compared with \$18 million in the prior year. Net revenue was \$2.2 billion, reflecting continued elevated levels of net interest income and trading and securities gains from the investment portfolio. Noninterest expense reflected an increase of \$2.3 billion for litigation reserves, including those for mortgage-related matters.

Treasury and Chief Investment Office (CIO)**Selected income statement and balance sheet data**

(in millions)	Three months ended March 31,		
	2010	2009	Change
Securities gains ^(a)	\$ 610	\$ 214	185%
Investment securities portfolio (average)	330,584	265,785	24
Investment securities portfolio (ending)	337,442	316,498	7
Mortgage loans (average)	8,162	7,210	13
Mortgage loans (ending)	8,368	7,162	17

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

For further information on the investment portfolio, see Note 3 and Note 11 on pages 96-107 and 120-124, respectively, of this Form 10-Q. For further information on CIO VaR and the Firm's earnings-at-risk, see the Market Risk Management section on pages 81-84 of this Form 10-Q.

Private Equity**Selected income statement and balance sheet data**

(in millions)	Three months ended March 31,		
	2010	2009	Change
Private equity gains/(losses)			
Realized gains	\$ 113	\$ 15	NM
Unrealized gains/(losses) ^(a)	(75)	(409)	82%
Total direct investments	38	(394)	NM
Third-party fund investments	98	(68)	NM
Total private equity gains/(losses)^(b)	\$ 136	\$ (462)	NM

Private equity portfolio information^(c)

	March 31, 2010	December 31, 2009	Change
Direct investments			
Publicly held securities			
Carrying value	\$ 890	\$ 762	17%
Cost	793	743	7
Quoted public value	982	791	24
Privately held direct securities			
Carrying value	4,782	5,104	(6)
Cost	5,795	5,959	(3)
Third-party fund investments^(d)			
Carrying value	1,603	1,459	10
Cost	2,134	2,079	3
Total private equity portfolio Carrying value	\$ 7,275	\$ 7,325	(1)
Total private equity portfolio Cost	\$ 8,722	\$ 8,781	(1)

(a) *Unrealized gains/(losses) contain reversals of unrealized gains and losses that were recognized in prior periods and have now been realized.*

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

(c) *For more information on the Firm's policies regarding the valuation of the private equity portfolio, see Note 3 on pages 96-107 of this*

Form 10-Q.

(d) *Unfunded commitments to third-party equity funds were \$1.4 billion and \$1.5 billion at March 31, 2010, and December 31, 2009, respectively.*

The carrying value of the private equity portfolio at both March 31, 2010, and December 31, 2009, was \$7.3 billion. During the first quarter, the decline in the portfolio from realized gains and distributions and net unrealized losses on markdowns was primarily offset by unrealized gains on third party fund investments. The portfolio represented 6.3% of the Firm's stockholders' equity less goodwill at both March 31, 2010, and December 31, 2009.

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Table of Contents**BALANCE SHEET ANALYSIS**

Selected Consolidated Balance Sheets data (in millions)	March 31, 2010	December 31, 2009
Assets		
Cash and due from banks	\$ 31,422	\$ 26,206
Deposits with banks	59,014	63,230
Federal funds sold and securities purchased under resale agreements	230,123	195,404
Securities borrowed	126,741	119,630
Trading assets:		
Debt and equity instruments	346,712	330,918
Derivative receivables	79,416	80,210
Securities	344,376	360,390
Loans	713,799	633,458
Allowance for loan losses	(38,186)	(31,602)
Loans, net of allowance for loan losses	675,613	601,856
Accrued interest and accounts receivable	53,991	67,427
Premises and equipment	11,123	11,118
Goodwill	48,359	48,357
Mortgage servicing rights	15,531	15,531
Other intangible assets	4,383	4,621
Other assets	108,992	107,091
Total assets	\$2,135,796	\$ 2,031,989
Liabilities		
Deposits	\$ 925,303	\$ 938,367
Federal funds purchased and securities loaned or sold under repurchase agreements	295,171	261,413
Commercial paper	50,554	41,794
Other borrowed funds	48,981	55,740
Trading liabilities:		
Debt and equity instruments	78,228	64,946
Derivative payables	62,741	60,125
Accounts payable and other liabilities	154,185	162,696
Beneficial interests issued by consolidated VIEs	93,055	15,225
Long-term debt	262,857	266,318
Total liabilities	1,971,075	1,866,624
Stockholders equity	164,721	165,365
Total liabilities and stockholders equity	\$2,135,796	\$ 2,031,989

Consolidated Balance Sheets overview

The following is a discussion of the significant changes in the Consolidated Balance Sheets from December 31, 2009. For a description of the specific line captions discussed below, see pages 76-78 of JPMorgan Chase's 2009 Annual

Report.

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

The slight decrease in deposits with banks primarily reflected lower interbank lending. The increase in securities purchased under resale agreements was largely due to higher financing volume in IB, resulting from increased client flows offset partially by reduced activity in Corporate Treasury due to tightening of financing spreads. The increase in securities borrowed was primarily driven by the need to cover trading liabilities in IB. For additional information on the Firm's Liquidity Risk Management, see pages 52-55 of this Form 10-Q.

Trading assets and liabilities debt and equity instruments

The increase in trading assets debt and equity instruments primarily reflected favorable developments in financial markets, which provided support for improving stock markets, asset prices and credit spreads, as well as an increase in business activity in markets outside of the United States, partially offset by sales of debt securities. The increase in trading liabilities debt and equity instruments also reflected favorable developments in financial markets, as well as an increase in business activity in markets outside of the United States. For additional information, refer to Note 3 on pages 96-107 of this Form 10-Q.

Trading assets and liabilities derivative receivables and payables

The changes in derivative receivables and payables was primarily due to the effect of lower levels of foreign exchange-rate volatility and tightening credit spreads, partially offset by a decline in interest rate swap rates. For additional information,

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refer to Derivative contracts on pages 63-65, and Note 3 and Note 5 on pages 96-107 and 110-116, respectively, of this Form 10-Q.

Securities

The decrease in securities was primarily due to the January 1, 2010, adoption of new consolidation guidance related to VIEs, which resulted in the elimination of retained AFS securities issued by Firm-sponsored credit card securitization trusts. For additional information related to securities, refer to the Corporate/Private Equity segment on pages 41-42, and Note 3 and Note 11 on pages 96-107 and 120-124, respectively, of this Form 10-Q.

Loans and allowance for loan losses

The increase in loans was due to the adoption of new consolidation guidance, which resulted in the consolidation of Firm-sponsored credit card securitization trusts, Firm-administered multi-seller conduits and certain other consumer securitization entities primarily mortgage-related. Excluding the effect of this adoption, loans decreased driven by the seasonal decline in credit card receivables, continued run-off of the residential real estate portfolios, and repayments and loan sales predominantly in IB.

The allowance for loan losses increased by \$6.6 billion, due to the addition of \$7.5 billion primarily related to the receivables held in Firm-sponsored credit card securitization trusts that were consolidated on January 1, 2010.

Excluding the effect of this adoption, the allowance decreased as a result of a \$1.2 billion reduction in the wholesale allowance, due predominantly to repayments and loan sales; and a \$1.0 billion reduction in the consumer allowance, reflecting lower estimated losses on the credit card portfolio. These items were offset by an addition of \$1.2 billion in the consumer allowance, due to further estimated deterioration in the Washington Mutual prime and option ARM purchased credit-impaired pools. For a more detailed discussion of the adoption, see Note 1 on pages 94-95 of this Form 10-Q. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Portfolio on pages 56-81, and Notes 3, 4, 13 and 14 on pages 96-107, 108-109, 125-129 and 130-131, respectively, of this Form 10-Q.

Accrued interest and accounts receivable

The decrease in accrued interest and accounts receivable was due to the elimination of retained securitization interests upon the consolidation of Firm-sponsored credit card securitization trusts on January 1, 2010. For a more detailed discussion of the adoption, see Note 15 on pages 131-142 of this Form 10-Q.

Mortgage servicing rights

MSRs remained unchanged, as increases due to sales in RFS of originated loans for which servicing rights were retained were offset by decreases in the fair value of the MSR asset, related primarily to servicing portfolio run-off, as well as changes to inputs and assumptions in the MSR valuation model. For additional information on MSRs, see Note 16 on pages 144-145 of this Form 10-Q.

Other intangible assets

The decrease in other intangible assets primarily reflects amortization expense offset partially by foreign currency translation adjustments related to the Firm's Canadian credit card operations. For additional information on other intangible assets, see Note 16 on pages 145-146 of this Form 10-Q.

Deposits

The decrease in deposits reflected normalization of TSS deposit levels from year-end inflows, offset partially by net inflows from existing customers and new business in CB, RFS and AM. For more information on deposits, refer to the RFS and AM segment discussions on pages 22-29 and 38-41, respectively; the Liquidity Risk Management discussion on pages 52-55; and Note 17 on page 146 of this Form 10-Q. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 34-35 and 36-37, respectively, of this Form 10-Q.

Federal funds purchased and securities loaned or sold under repurchase agreements

The increase in securities sold under repurchase agreements was primarily to facilitate the increase in IB's securities purchased under resale agreements. For additional information on the Firm's Liquidity Risk Management, see pages 52-55 of this Form 10-Q.

Commercial paper and other borrowed funds

Commercial paper increased, primarily reflecting the Firm's ongoing efforts to further build liquidity, and growth in the volume of liability balances in sweep accounts in connection with TSS's cash management product, whereby clients' excess funds are transferred into commercial paper overnight sweep accounts. Other borrowed funds decreased predominantly due to lower advances from Federal Home Loan Banks. For additional information on the Firm's Liquidity Risk Management and other borrowed funds, see pages 52-55, and Note 18 on page 146 of this Form 10-Q.

Table of Contents**Accounts payable and other liabilities**

The decrease in accounts payable and other liabilities primarily reflected lower customer payables in IB's Prime Services business as customers increased their investment activity, which reduced their credit balances.

Beneficial interests issued by consolidated VIEs

The increase in these interests was predominantly due to the adoption of new consolidation guidance related to VIEs. For additional information on Firm-administered VIEs and loan securitization trusts, see Note 15 on pages 131-142 of this Form 10-Q.

Long-term debt

The slight decrease in long-term debt was predominantly due to maturities and redemptions, partially offset by new issuances. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 52-55 of this Form 10-Q.

Stockholders' equity

The decrease in total stockholders' equity reflected, in part, the impact of the adoption of the new consolidation guidance related to VIEs. Adoption of the guidance resulted in a reduction in stockholders' equity of \$4.5 billion, driven by the establishment of an allowance for loan losses of \$7.5 billion (pretax) primarily related to receivables held in credit card securitization trusts that were consolidated at the adoption date. Also contributing to the decrease were the purchase of the remaining interest in a consolidated subsidiary from noncontrolling shareholders and the declaration of cash dividends on preferred and common stocks. These factors were offset partially by net income for the first quarter of 2010; net issuances under the Firm's employee stock-based compensation plans; a net increase in accumulated other comprehensive income, due primarily to the narrowing of spreads on commercial and nonagency residential mortgage-backed securities and collateralized loan obligations, and increased market values on pass-through agency residential mortgage-backed securities. For a more detailed discussion of the adoption, see Note 15 on pages 131-142 of this Form 10-Q. For a further discussion of stockholders' equity, see the Capital Management section on pages 49-52, and Note 20 on pages 147-148 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 through special-purpose entities (SPEs), which are a type of variable interest entity, and through 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 pages 78-81 of JPMorgan Chase's 2009 Annual Report.

Special-purpose entities

SPEs are the most common type of VIE, used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. As a result of new accounting guidance, certain VIEs were consolidated on to the Firm's Consolidated Balance Sheets effective January 1, 2010. Nevertheless, SPEs continue to be an important part of the financial markets, including the mortgage- and asset-backed securities and commercial paper markets, as they provide market liquidity by facilitating investors' access to specific portfolios of assets and risks. 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. For further information on the Firm's involvement with SPEs, see Note 1 on pages 94-95 and Note 15 on pages 131-142 of this Form 10-Q; and Note 1 on pages 142-143, Note 15 on pages 198-205 and Note 16 on pages 206-214 of JPMorgan Chase's 2009 Annual Report. The Firm has no commitments to issue its own stock to support any SPE transaction, and its policies require that transactions with SPEs be conducted at arm's length and reflect market pricing. Consistent with this policy, no JPMorgan Chase employee is permitted to invest in SPEs with which the Firm is involved where such investment would violate the Firm's Code of Conduct. These rules prohibit employees from self-dealing and acting on behalf of the Firm in transactions with which they or their family have any significant financial interest.

Table of Contents*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., were downgraded below specific levels, primarily P-1, A-1 and F1 for Moody's, Standard & Poor's and Fitch, respectively. The amounts of these liquidity commitments, to both consolidated and nonconsolidated SPEs, were \$32.7 billion and \$34.2 billion at March 31, 2010, and December 31, 2009, 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.

Special-purpose entities revenue

The following table summarizes certain revenue information related to consolidated and nonconsolidated VIEs 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 Securitization Entities (in millions)	Three months ended March	
	2010	31, 2009
Multi-seller conduits	\$ 67	\$ 120
Investor intermediation	13	6
Other securitization entities ^(a)	544	637
Total	\$ 624	\$ 763

(a) Excludes servicing revenue from loans sold to and securitized by third parties.

Loan modifications

The Firm modifies loans that it services, and that were sold to off-balance sheet SPEs, pursuant to the U.S. Treasury's Making Home Affordable (MHA) programs and the Firm's other loss mitigation programs. For both the Firm's on-balance sheet loans and loans serviced for others, approximately 160,000 mortgage modifications had been offered to borrowers during the first quarter of 2010; and, more than 64,000 permanent mortgage modifications were approved during the quarter. The majority of the loans contractually modified to date were modified under the Firm's other loss mitigation programs. See Consumer Credit Portfolio on pages 67-78 of this Form 10-Q for more details on these loan modifications.

Off balance sheet lending-related financial instruments, guarantees and other commitments

JPMorgan Chase uses lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and the counterparty subsequently fail to perform according to the terms of the contract. These commitments and guarantees often expire without being drawn, and even higher proportions expire without a default. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. For further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see page 65 and Note 22 on pages 149-152 of this Form 10-Q; and page 105 and Note 31 on pages 230-234 of JPMorgan Chase's 2009 Annual Report.

The following table presents, as of March 31, 2010, the amounts by contractual maturity of off-balance sheet lending-related financial instruments, guarantees and other commitments. The amounts in the table 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 would be utilized at the same time. The Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law. The table excludes certain commitments and guarantees that do not have a contractual maturity date (e.g., loan sale and securitization-related indemnifications). For further discussion, see discussion of repurchase liability below and Note 22 on pages 149-152 of this Form 10-Q, and Note 31 on pages 230-234 of JPMorgan Chase's 2009 Annual Report.

Table of Contents**Off balance sheet lending-related financial instruments, guarantees and other commitments**

By remaining maturity (in millions)	Due in 1 year or less	March 31, 2010			Total	Total	Dec. 31,
		Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years			2009
Lending-related							
Consumer:							
Home equity senior lien	\$ 344	\$ 1,908	\$ 5,830	\$10,788	\$ 18,870	\$ 19,246	
Home equity junior lien	688	4,650	11,978	18,337	35,653	37,231	
Prime mortgage	1,136				1,136	1,654	
Subprime mortgage							
Option ARMs							
Auto loans	6,070	175	5		6,250	5,467	
Credit card	556,207				556,207	569,113	
All other loans	8,941	293	106	994	10,334	11,229	
Total consumer	\$573,386	\$ 7,026	\$17,919	\$30,119	\$628,450	\$643,940	
Wholesale:							
Other unfunded commitments to extend credit ^{(a)(b)}	63,914	104,584	19,128	4,627	192,253	192,145	
Asset purchase agreements ^(b)						22,685	
Standby letters of credit and other financial guarantees ^{(a)(c)(d)}	26,886	46,388	14,812	2,278	90,364	91,485	
Unused advised lines of credit	33,782	4,993	100	202	39,077	35,673	
Other letters of credit ^{(a)(d)}	3,915	965	342	5	5,227	5,167	
Total wholesale	128,497	156,930	34,382	7,112	326,921	347,155	
Total lending-related	\$701,883	\$163,956	\$52,301	\$37,231	\$955,371	\$991,095	
Other guarantees and commitments							
Securities lending guarantees ^(e)	\$171,529	\$	\$	\$	\$171,529	\$170,777	
Derivatives qualifying as guarantees ^(f)	17,621	17,866	11,681	34,678	81,846	87,191	
Equity investment commitments ^(g)	1,423	9	13	955	2,400	2,374	
Building purchase commitment ^(h)	670				670	670	

- (a) *At March 31, 2010, and December 31, 2009, represents the contractual amount net of risk participations totaling \$1.6 billion and \$643 million, respectively, for other unfunded commitments to extend credit; \$25.4 billion and \$24.6 billion, respectively, for standby letters of credit and other financial guarantees; and \$630 million and \$690 million, respectively, for other letters of credit. In regulatory filings with the Federal Reserve Board these commitments are shown gross of risk participations.*
- (b) *Upon the adoption of the new consolidation guidance related to VIEs, \$24.2 billion of lending-related commitments between the Firm and the Firm-administered multi-seller conduits were eliminated upon consolidation. The decrease in lending-related commitments was partially offset by*

the addition of \$6.5 billion of unfunded commitments directly between the multi-seller conduits and clients. These unfunded commitments of the consolidated conduits are now included as off-balance sheet lending-related commitments of the Firm.

- (c) Includes unissued standby letters of credit commitments of \$40.0 billion and \$38.4 billion at March 31, 2010, and December 31, 2009, respectively.*
- (d) At March 31, 2010, and December 31, 2009, JPMorgan Chase held collateral relating to \$32.9 billion and \$31.5 billion, respectively, of standby letters of credit; and \$1.5 billion and \$1.3 billion, respectively, of other letters of credit.*
- (e) Collateral held by the Firm in support of securities lending indemnification agreements totaled \$175.2 billion and \$173.2 billion at*

*March 31, 2010,
and December 31,
2009, respectively.
Securities lending
collateral
comprises
primarily cash and
securities issued by
governments that
are members of the
Organisation for
Economic
Co-operation and
Development
(OECD) and
U.S. government
agencies.*

- (f) *Represents
notional amounts
of derivatives
qualifying as
guarantees.*
- (g) *Includes unfunded
commitments to
third-party private
equity funds of
\$1.4 billion and
\$1.5 billion at
March 31, 2010,
and December 31,
2009, respectively.
Also includes
unfunded
commitments for
other equity
investments of
\$980 million and
\$897 million at
March 31, 2010,
and December 31,
2009, respectively.
These commitments
include \$1.4 billion
and \$1.5 billion at
March 31, 2010,
and December 31,
2009, respectively,
related to
investments that*

are generally fair valued at net asset value as discussed in Note 3 on pages 96-107 of this Form 10-Q.

(h) For further information refer to Building purchase commitment in Note 22 on page 152 of this Form 10-Q.

Repurchase liability

The Firm primarily conducts its loan sale and securitization activities with Fannie Mae and Freddie Mac (the GSEs). In connection with these and other securitization transactions, the Firm makes certain representations and warranties that the loans sold meet certain requirements (e.g., type of collateral, underwriting standards, lack of material false representation in connection with the loan, primary mortgage insurance is in force for any mortgage loan with a loan-to-value ratio (LTV) greater than 80%, use of the GSEs' standard legal documentation). The Firm may be required to repurchase the loans and/or indemnify the GSEs or other purchasers against losses due to material breaches of these representations and warranties. For additional information about the Firm's loan sale and securitization-related indemnifications, including a description of how the Firm estimates its repurchase liability, see Note 22 on pages 149-152 of this Form 10-Q, and Note 31 on pages 230-234 of JPMorgan Chase's 2009 Annual Report.

The Firm also sells loans in securitization transactions with Ginnie Mae; these loans are typically insured by the Federal Housing Administration (FHA), Rural Housing Administration (RHA) and/or guaranteed by the U.S. Department of Veterans Affairs (VA). To date, the Firm's repurchase liability in respect of Ginnie Mae loans has been de minimus.

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Although the GSEs or other purchasers may demand repurchase at any time, the majority of repurchase demands occur in the first 24 to 36 months following origination of the mortgage loan. Currently, repurchase demands predominantly relate to the 2006 to 2008 vintages. To date, demands against the 2009 vintage have not been significant. The Firm attributes the comparatively favorable performance of the 2009 vintage to the tightened underwriting and loan qualification standards that were implemented in 2007 and 2008.

The repurchase liability is based on a number of variables, such as the Firm's ability to accurately estimate probable future demands from purchasers, cure identified defects, accurately estimate loss severities and recover amounts from third parties. Estimating the repurchase liability is further complicated by limited and rapidly changing historical data and uncertainty surrounding numerous external factors, including: i) economic factors (e.g., further declines in home prices and changes in borrower behavior may lead to increases in the number of defaults, the severity of losses, or both), and ii) the level of future demands will be determined, in part, by actions taken by third parties, such as the GSEs and mortgage insurers. While the Firm uses the best information available to it in estimating its repurchase liability, the estimation process is inherently uncertain and requires the application of judgment. An assumed simultaneous 10% adverse change in each of the variables noted above would increase the repurchase liability as of March 31, 2010, by approximately \$1.7 billion. This estimate is based upon a hypothetical scenario and is intended to provide an indication of the impact on the estimated repurchase liability of significant and simultaneous adverse changes in each of the key underlying assumptions. Actual changes in these assumptions may not occur at the same time or to the same degree, or improvement in one factor may offset deterioration in another.

The following table summarizes the total unpaid principal balance of repurchases for the periods indicated. In addition, the Firm recognized \$105 million and \$56 million of "make-whole" settlements in the first quarter of 2010 and the first quarter of 2009, respectively, in lieu of repurchasing loans.

Three months ended March 31, (in millions)	2010	2009
Ginnie Mae repurchases ^(a)	\$2,010	\$2,059
GSE/other repurchases	322	148
Total	\$2,332	\$2,207

(a) In substantially all cases, these repurchases represent the Firm's voluntary repurchase of certain delinquent loans from loan pools or packages as permitted by Ginnie Mae guidelines (i.e., they do not result from repurchase demands due to breaches of representations and warranties). In certain cases, it is economically

advantageous for the Firm to repurchase these delinquent loans as it continues to service them and/or manage the foreclosure process in accordance with applicable requirements of Ginnie Mae, the FHA and/or the VA. Substantially all of the loans continue to be insured/guaranteed and reimbursement is proceeding normally. Accordingly, none of the Firm's recorded repurchase liability relates to these Ginnie Mae repurchases.

The following table summarizes the change in the repurchase liability for each of the periods presented.

Three months ended March 31, (in millions)	2010	2009
Repurchase liability at beginning of period	\$ 1,705	\$ 1,093
Losses realized upon settlement	(246)	(714) ^(a)
Provision for repurchase losses	523	283
Repurchase liability at end of period	\$ 1,982	\$ 662

(a) Primarily related to the Firm's settlement of claims for certain loans originated and sold by Washington Mutual. The unpaid principal balance of loans related to this settlement are

*not included in
the table above.*

Nonperforming loans held-for-investment included \$270 million of repurchased loans at March 31, 2010, and \$218 million at December 31, 2009.

Table of Contents**CAPITAL MANAGEMENT**

The following discussion of JPMorgan Chase's capital management highlights developments since December 31, 2009, and should be read in conjunction with Capital Management on pages 82-85 of JPMorgan Chase's 2009 Annual Report.

The Firm's capital management objectives are to hold capital sufficient to:

Cover all material risks underlying the Firm's business activities;

Maintain well-capitalized status under regulatory requirements;

Achieve debt rating targets;

Remain flexible to take advantage of future opportunities; and

Build and invest in businesses, even in a highly stressed environment.

Regulatory capital

The Federal Reserve establishes capital requirements, including well-capitalized standards for the consolidated financial holding company. The Office of the Comptroller of the Currency (OCC) establishes similar capital requirements and standards for the Firm's national banks, including JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A. As of March 31, 2010, and December 31, 2009, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and met all capital requirements to which each was subject.

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at March 31, 2010, and December 31, 2009.

(in millions, except ratios)	JPMorgan Chase & Co. ^(c)		JPMorgan Chase Bank, N.A. ^(c)		Chase Bank USA, N.A. ^(c)		Well-Minimum capitalized capital ratios ^(e) ratios ^(e)	
	March 31, 2010	Dec. 31, 2009	March 31, 2010	Dec. 31, 2009	March 31, 2010	Dec. 31, 2009		
Regulatory capital:								
Tier 1	\$ 131,350	\$ 132,971	\$ 96,039	\$ 96,372	\$ 10,979	\$ 15,534		
Total	173,332	177,073	135,428	136,646	14,936	19,198		
Tier 1 common	103,908	105,284	95,281	95,353	10,979	15,534		
Assets:								
Risk-weighted ^(a)	1,147,008 ^(d)	1,198,006	959,013	1,011,995	132,013	114,693		
Adjusted average ^(b)	1,981,060 ^(d)	1,933,767	1,608,086	1,609,081	144,154	74,087		
Capital ratios:								
Tier 1 capital	11.5% ^(d)	11.1%	10.0%	9.5%	8.3%	13.5%	6.0%	4.0%
Total capital	15.1	14.8	14.1	13.5	11.3	16.7	10.0	8.0
Tier 1 leverage	6.6	6.9	6.0	6.0	7.6	21.0	5.0 ^(f)	3.0 ^(g)
Tier 1 common	9.1	8.8	9.9	9.4	8.3	13.5	NA	NA

(a) Includes off-balance sheet risk-weighted

*assets at
March 31, 2010,
of
\$269.0 billion,
\$263.3 billion
and \$34 million,
and at
December 31,
2009, of
\$367.4 billion,
\$312.3 billion
and \$49.9
billion, for
JPMorgan
Chase,
JPMorgan
Chase Bank,
N.A. and Chase
Bank USA, N.A.,
respectively.
Risk-weighted
assets are
calculated in
accordance with
U.S. federal
regulatory
capital
standards.*

*(b) Adjusted
average 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.

(c) *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.*

(d) *Effective January 1, 2010, the Firm adopted new guidance that amended the accounting for the consolidation of VIEs, which resulted in a decrease in the Tier 1 capital ratio of 34 basis points. See Note 15 on pages 131-142 of this Form 10-Q for further information.*

(e) *As defined by the regulations issued by the Federal Reserve, OCC*

and FDIC.

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

(g) *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 and OCC.*

Note: Rating agencies allow measures of capital to be adjusted upward for deferred tax liabilities, which have resulted from both nontaxable business combinations and from tax-deductible goodwill. The Firm had deferred tax liabilities

*resulting from
nontaxable
business
combinations
totaling
\$770 million at
March 31, 2010,
and
\$812 million at
December 31,
2009.
Additionally, the
Firm had
deferred tax
liabilities
resulting from
tax-deductible
goodwill of
\$1.8 billion and
\$1.7 billion at
March 31, 2010,
and
December 31,
2009,
respectively.*

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A reconciliation of the Firm's Total stockholders' equity to Tier 1 common capital, Tier 1 capital and Total qualifying capital is presented in the table below:

Risk-based capital components and assets (in millions)	March 31, 2010	December 31, 2009
Tier 1 capital		
Tier 1 common capital:		
Total stockholders' equity	\$ 164,721	\$ 165,365
Less: Preferred stock	8,152	8,152
Common stockholders' equity	156,569	157,213
Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 common equity	(745)	75
Less: Goodwill ^(a)	46,585	46,630
Fair value DVA on derivative and structured note liabilities related to the Firm's credit quality	947	912
Investments in certain subsidiaries	823	802
Other intangible assets	3,561	3,660
Tier 1 common capital	103,908	105,284
Preferred stock	8,152	8,152
Qualifying hybrid securities and noncontrolling interests ^(b)	19,290	19,535
Total Tier 1 capital	131,350	132,971
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	27,445	28,977
Qualifying allowance for credit losses	14,727	15,296
Adjustment for investments in certain subsidiaries and other	(190)	(171)
Total Tier 2 capital	41,982	44,102
Total qualifying capital	\$ 173,332	\$ 177,073
Risk-weighted assets	\$1,147,008	\$1,198,006
Total adjusted average assets	\$1,981,060	\$1,933,767

(a) Goodwill is net of any associated deferred tax liabilities.

(b) Primarily includes trust

*preferred
capital debt
securities of
certain business
trusts.*

The Firm's Tier 1 common capital was \$103.9 billion at March 31, 2010, compared with \$105.3 billion at December 31, 2009, a decrease of \$1.4 billion. The decrease was due to the \$4.4 billion retained earnings adjustment that resulted from the Firm's adoption of new consolidation guidance related to VIEs; a \$1.1 billion reduction in common stockholders' equity related to the purchase of the remaining interest in a consolidated subsidiary from noncontrolling shareholders; and dividends on preferred and common stock outstanding. The decrease was partially offset by net income (adjusted for DVA) of \$3.3 billion and net issuances of common stock under the Firm's employee stock-based compensation plans of \$1.0 billion. The Firm's Tier 1 capital was \$131.4 billion at March 31, 2010, compared with \$133.0 billion at December 31, 2009, a decrease of \$1.6 billion. The decrease in Tier 1 capital predominantly reflects the decline in Tier 1 common capital. Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject is presented in Note 29 on pages 228-229 of JPMorgan Chase's 2009 Annual Report.

Basel II

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

Prior to full implementation of the new Basel II Framework, JPMorgan Chase will be required to complete a qualification period of four consecutive quarters during which it will need to demonstrate that it meets the requirements of the new rule to the satisfaction of its primary U.S. banking regulators. The U.S. implementation timetable consists of the qualification period, starting no later than 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 is currently in the qualification period and expects to be in compliance with all relevant Basel II rules within the established timelines. In addition, the Firm has adopted, and will continue to adopt, based on various established timelines, Basel II rules in certain non-U.S. jurisdictions, as required.

Table of Contents*Broker-dealer regulatory capital*

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

JPMorgan Securities and J.P. Morgan Clearing Corp. have elected to compute their minimum net capital requirements in accordance with the Alternative Net Capital Requirements of the Net Capital Rule. At March 31, 2010, JPMorgan Securities' net capital, as defined by the Net Capital Rule, was \$9.6 billion, exceeding the minimum requirement by \$9.0 billion. J.P. Morgan Clearing Corp.'s net capital was \$5.5 billion, exceeding the minimum requirement by \$4.0 billion.

In addition to its net capital requirements, JPMorgan Securities is required to hold tentative net capital in excess of \$1.0 billion and is also required to notify the Securities and Exchange Commission (SEC) in the event that tentative net capital is less than \$5.0 billion, in accordance with the market and credit risk standards of Appendix E of the Net Capital Rule. As of March 31, 2010, JPMorgan Securities had tentative net capital in excess of the minimum and notification requirements.

Economic risk capital

JPMorgan Chase assesses its capital adequacy relative to the risks underlying its business activities, using internal risk-assessment methodologies. The Firm measures economic capital based primarily on four risk factors: credit, market, operational and private equity risk.

Economic risk capital (in billions)	1Q10	Quarterly Averages	
		4Q09	1Q09
Credit risk	\$ 49.3	\$ 48.5	\$ 55.0
Market risk	13.8	15.8	15.0
Operational risk	7.4	7.9	9.1
Private equity risk	5.2	4.9	4.6
Economic risk capital	75.7	77.1	83.7
Goodwill	48.6	48.3	48.1
Other ^(a)	31.8	31.1	4.7
Total common stockholders' equity	\$156.1	\$156.5	\$136.5

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

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. Capital is also allocated to each line of business for, among other things,

goodwill and other intangibles associated with acquisitions effected by the line of business. Return on common equity is measured and internal targets for expected returns are established as a key measure of a business segment's performance.

Effective January 1, 2010, the Firm enhanced its line of business equity framework to better align equity assigned to each line of business with the changes anticipated to occur in the business, and in the competitive and regulatory landscape. The lines of business are now capitalized based on the Tier 1 common standard, rather than the Tier 1 Capital standard.

Line of business equity

(in billions)	March 31, 2010	December 31, 2009
Investment Bank	\$ 40.0	\$ 33.0
Retail Financial Services	28.0	25.0
Card Services	15.0	15.0
Commercial Banking	8.0	8.0
Treasury & Securities Services	6.5	5.0
Asset Management	6.5	7.0
Corporate/Private Equity	52.6	64.2
Total common stockholders equity	\$ 156.6	\$ 157.2

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Line of business equity (in billions)	Quarterly Averages		
	1Q10	4Q09	1Q09
Investment Bank	\$ 40.0	\$ 33.0	\$ 33.0
Retail Financial Services	28.0	25.0	25.0
Card Services	15.0	15.0	15.0
Commercial Banking	8.0	8.0	8.0
Treasury & Securities Services	6.5	5.0	5.0
Asset Management	6.5	7.0	7.0
Corporate/Private Equity	52.1	63.5	43.5
Total common stockholders equity	\$156.1	\$156.5	\$136.5

Capital actions*Stock repurchases*

The Board of Directors has approved a stock repurchase program that authorizes the repurchase of up to \$10.0 billion of the Firm's common shares plus warrants issued in 2008 as part of the U.S. Treasury's Capital Purchase Program. During the first quarter of 2010, the Firm did not repurchase any shares of its common stock or the warrants. As of March 31, 2010, under the program \$6.2 billion of authorized repurchase capacity remained with respect to the Firm's common stock, and all of the authorized repurchase capacity remained with respect to the warrants.

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 and warrants in accordance with the repurchase program. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity 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 established when the Firm is not aware of material nonpublic information. 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 171 of this Form 10-Q.

RISK MANAGEMENT

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

For further discussion of these risks, see Risk Management on pages 86-126 of JPMorgan Chase's 2009 Annual Report and the information below.

LIQUIDITY RISK MANAGEMENT

The following discussion of JPMorgan Chase's liquidity risk management framework highlights developments since December 31, 2009, and should be read in conjunction with pages 88-92 of JPMorgan Chase's 2009 Annual Report. The ability to maintain a sufficient level of liquidity is crucial to financial services companies, particularly their ability to maintain appropriate levels of liquidity during periods of adverse conditions. JPMorgan Chase's primary sources of liquidity include a diversified deposit base and access to the long-term debt (including trust preferred capital debt securities) and equity capital markets. The Firm's funding strategy is intended to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities during both normal and stress periods. Consistent with this strategy, JPMorgan Chase maintains large pools of highly liquid unencumbered assets and significant sources of secured funding, and monitors its capacity in the wholesale funding markets across various geographic regions and in various currencies. The Firm also maintains access to secured funding capacity through overnight borrowings from

various central banks. Throughout the recent financial crisis, the Firm successfully raised both secured and unsecured funding.

Management considers the Firm's liquidity position to be strong, based on its liquidity metrics as of March 31, 2010. Management believes that its unsecured and secured funding capacity is sufficient to meet its on- and off-balance sheet obligations. As of March 31, 2010, JPMorgan Chase's long-dated funding, including core liabilities, exceeded illiquid assets.

Table of Contents**Funding****Sources of funds**

The deposits held by the RFS, CB, TSS and AM lines of business are generally stable sources of funding for JPMorgan Chase Bank, N.A. As of March 31, 2010, total deposits for the Firm were \$925.3 billion, compared with \$938.4 billion at December 31, 2009. A significant portion of the Firm's deposits are retail deposits (39% at March 31, 2010), which are less sensitive to interest rate changes or market volatility and therefore are considered more stable than market-based (i.e., wholesale) liability balances. At March 31, 2010, the Firm's deposits exceeded its loans (loans were approximately 77% of deposits at the end of the period, and averaged 83% during the quarter). In addition, through the normal course of business, the Firm benefits from substantial liability balances originated by RFS, CB, TSS and AM. These franchise-generated liability balances include deposits, as well as deposits that are swept to on-balance sheet liabilities (e.g., commercial paper, federal funds purchased, time deposits and securities loaned or sold under repurchase agreements), as part of customer cash management programs. A significant portion of the Firm's wholesale liability balances are considered also to be stable and consistent sources of funding due to the nature of the businesses from which they are generated. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance sheet analysis on pages 18-41 and 43-45, respectively, of this Form 10-Q.

Additional sources of funding include a variety of unsecured short- and long-term instruments, including federal funds purchased, certificates of deposit, time deposits, bank notes, commercial paper, long-term debt, trust preferred capital debt securities, preferred stock and common stock. The Firm's reliance on short-term unsecured commercial paper funding is limited, and averaged \$37.5 billion (including \$26.5 billion of deposits that customers chose to sweep into commercial paper liabilities) and \$33.7 billion (including \$22.6 billion of deposits that customers chose to sweep into commercial paper liabilities) during the three months ended March 31, 2010, and 2009, respectively. Average institutional wholesale commercial paper liabilities were \$11.0 billion and \$11.1 billion for the three months ended March 31, 2010 and 2009, respectively. Secured sources of funding include securities loaned or sold under repurchase agreements, asset securitizations, and borrowings from Federal Home Loan Banks. The Firm also maintains the ability to borrow from the Federal Reserve (including discount-window borrowings) as well as other central banks; however, the Firm does not view such borrowings from the Federal Reserve and other central banks as a primary means of funding. At the parent holding company level, long-term funding is managed to ensure that the parent holding company has, at a minimum, sufficient liquidity to cover its obligations and those of its nonbank subsidiaries within the next 12 months.

Issuance

During the first three months of 2010, the Firm issued \$10.9 billion of long-term debt, including \$5.6 billion of senior notes issued in U.S. markets, \$904 million of senior notes issued in non-U.S. markets and \$4.4 billion of IB structured notes. In addition, in April 2010, the Firm issued \$1.5 billion of trust preferred capital debt securities in the U.S. market. During the first three months of 2010, \$14.1 billion of long-term debt matured or were redeemed, including \$7.4 billion of IB structured notes. The maturities or redemptions in the first three months of 2010 were partially offset by the issuances during the period.

Replacement capital covenants

In connection with the issuance of certain of its trust preferred capital debt securities and its noncumulative perpetual preferred stock, the Firm has entered into Replacement Capital Covenants (RCCs). These RCCs grant certain rights to the holders of covered debt, as defined in the RCCs, that prohibit the repayment, redemption or purchase of such trust preferred capital debt securities and noncumulative perpetual preferred stock except, with limited exceptions, to the extent that JPMorgan Chase has received, in each such case, specified amounts of proceeds from the sale of certain qualifying securities. Currently, the Firm's covered debt is its 5.875% Junior Subordinated Deferrable Interest Debentures, Series O, due in 2035. For more information regarding these covenants, reference is made to the respective RCCs (including any supplements thereto) entered into by the Firm in relation to such trust preferred capital debt securities and noncumulative perpetual preferred stock, which are available in filings made by the Firm with the SEC.

Cash flows

Cash and due from banks was \$31.4 billion and \$26.7 billion at March 31, 2010 and 2009, respectively; these balances increased by \$5.2 billion from December 31, 2009, and decreased by \$214 million from December 31, 2008. The following discussion highlights the major activities and transactions that affected JPMorgan Chase's cash flows during the first three months of 2010 and 2009.

Table of Contents*Cash flows from operating activities*

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

For the three months ended March 31, 2010, net cash provided by operating activities was \$19.1 billion, primarily driven by a net increase in trading liabilities reflecting favorable developments in financial markets, as well as an increase in business activity in markets outside of the United States, partially offset by sales of debt securities. Also, net cash generated from operating activities was higher than net income, largely as a result of adjustments for non-cash items such as the provision for credit losses, stock-based compensation, and depreciation and amortization. Proceeds from sales and paydowns of loans originated or purchased with an initial intent to sell were higher than cash used to acquire such loans.

For the three months ended March 31, 2009, net cash provided by operating activities was \$50.8 billion, largely due to a decline in trading activity reflecting the effect of the challenging capital markets environment. In addition, net cash generated from operating activities was higher than net income, largely as a result of noncash adjustments for operating items such as the provision for credit losses, stock-based compensation, and depreciation and amortization. Proceeds from sales and paydowns of loans originated or purchased with an initial intent to sell were slightly higher than cash used to acquire such loans, but the cash flows from these loan activities remained at a significantly reduced level as a result of the continued volatility and stress in the markets.

Cash flows from investing activities

The Firm's investing activities predominantly include originating loans to be held for investment, the AFS securities portfolio and other short-term interest-earning assets. For the three months ended March 31, 2010, net cash of \$13.9 billion was used in investing activities. This was primarily due to an increase in securities purchased under resale agreements largely due to higher financing volume in IB resulting from increased client flows, partially offset by a net decrease in the loan portfolio, driven by seasonally lower charge volume on credit cards, continued run-off in the residential real estate portfolios, and repayments and loan sales, predominantly in IB. Proceeds from sales and maturities of AFS securities used in the Firm's interest rate risk management activities were slightly higher than cash used to acquire such securities.

For the three months ended March 31, 2009, net cash of \$3.6 billion was provided by investing activities, primarily from a decrease in deposits with banks; a decrease in securities purchased under resale agreements, reflecting a lower volume of excess cash available for short-term investments; a net decrease in the loan portfolio, reflecting declines across all wholesale businesses, the seasonal decline in credit card receivables, and credit card securitization activities; and net maturities of asset-backed commercial paper purchased from money market mutual funds in connection with the AML Facility of the Federal Reserve Bank of Boston. Largely offsetting these cash proceeds were net purchases of AFS securities to manage the Firm's exposure to a declining interest rate environment.

Cash flows from financing activities

The Firm's financing activities primarily reflect cash flows related to raising customer deposits, and issuing long-term debt (including trust preferred capital debt securities) as well as preferred and common stock. In the first three months of 2010 net cash provided by financing activities was \$285 million, which reflected increased cash proceeds from securities loaned or sold under repurchase agreements primarily to facilitate the increase in IB's securities purchased under resale agreements. Cash was used as TSS deposits declined reflecting the normalization of deposit levels, offset partially by net inflows from existing customers and new business in CB, RFS and AM; for the net repayment of long-term debt and trust preferred capital debt securities as new issuances were more than offset by repayments; and for the payment of cash dividends.

In the first three months of 2009, net cash used in financing activities was \$54.3 billion reflecting a decline in wholesale deposits in TSS, compared with the elevated level during the latter part of 2008 due to the heightened volatility and credit concerns in the markets at that time. In addition, there was a decline in other borrowings due to

net repayments of advances from Federal Home Loan Banks and nonrecourse advances under the Federal Reserve Bank of Boston AML Facility; net repayments of long-term debt (including trust preferred capital debt securities) as proceeds from new issuances (including \$13.8 billion of FDIC-guaranteed debt issued under the TLG Program and \$4.0 billion of IB structured notes) were more than offset by repayments; and the payment of cash dividends. Cash proceeds resulted from an increase in securities loaned or sold under repurchase agreements, partly attributable to favorable pricing and to finance the Firm's increased AFS securities portfolio.

Table of Contents**Credit ratings**

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

Additionally, the Firm's funding requirements for VIEs and other third-party commitments may be adversely affected by a decline in credit ratings. For additional information on the impact of a credit-rating downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on pages 45-46 and Ratings profile of derivative receivables marked to market (MTM) on page 64 and Note 5 on pages 110-116 of this Form 10-Q.

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

The credit ratings of the parent holding company and each of the Firm's significant banking subsidiaries as of March 31, 2010, were as follows.

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

Ratings actions affecting the Firm

Ratings from Moody's, S&P and Fitch on JPMorgan Chase and its principal bank subsidiaries remained unchanged at March 31, 2010, from December 31, 2009. At March 31, 2010, Moody's and S&P's outlook remained negative, while Fitch's outlook remained stable.

On January 29, 2010, Fitch downgraded 592 hybrid capital instruments issued by banks and other non-bank financial institutions, including those issued by the Firm. This action was in line with Fitch's revised hybrid ratings methodology. The Firm's trust preferred capital debt and hybrid preferred securities were downgraded by one notch to A.

Moody's and S&P have recently announced that they will be evaluating the effects of any financial regulatory reform legislation that is enacted in order to determine the extent to which financial institutions, including the Firm, may be negatively impacted. While it is unlikely that any ratings action will take place until the legislation is finally enacted and the agencies complete their assessments, there is no assurance the Firm's credit ratings will not be downgraded as a result of any such review.

Table of Contents**CREDIT PORTFOLIO**

The following table presents JPMorgan Chase's credit portfolio as of March 31, 2010, and December 31, 2009. Total managed credit exposure of \$1.8 trillion at March 31, 2010, decreased by \$40.6 billion from December 31, 2009, reflecting decreases of \$29.9 billion in the consumer portfolio and \$10.7 billion in the wholesale portfolio. During the first three months of 2010, lending-related commitments decreased by \$35.7 billion and managed loans decreased by \$4.3 billion. The decrease in lending-related commitments was partially related to the adoption of the new consolidation guidance related to VIEs which resulted in the elimination of \$24.2 billion of lending-related wholesale commitments between the Firm and its administrated multi-seller conduits upon consolidation. This decrease in lending-related commitments was partially offset by the addition of \$6.5 billion of unfunded commitments between the consolidated multi-seller conduits and their clients. The decrease in managed loans was partially related to, lower customer demand, repayments, and loan sales partially offset by the adoption of the new consolidation guidance related to VIEs.

While overall portfolio exposure declined, the Firm provided more than \$145 billion in new loans and lines of credit to consumer and wholesale clients in the first quarter of 2010, including individuals, small businesses, large corporations, not-for-profit organizations, U.S. states and municipalities, and other financial institutions.

In the table below, reported loans include loans retained; loans held-for-sale (which are carried at the lower of cost or fair value, with changes in value recorded in noninterest revenue); and loans accounted for at fair value. Loans retained are presented net of unearned income, unamortized discounts and premiums, and net deferred loan costs. Nonperforming assets include nonaccrual loans and assets acquired in satisfaction of debt (primarily real estate owned). Nonaccrual loans are those for which the accrual of interest has been suspended in accordance with the Firm's accounting policies. For additional information on these loans, including the Firm's accounting policies, see Note 13 on pages 125-129 of this Form 10-Q, and Note 13 on pages 192-196 of JPMorgan Chase's 2009 Annual Report.

(in millions)	Credit exposure		Nonperforming assets ^{(e)(f)}		90 days or more past due and still accruing ^(f)	
	March 31, 2010	Dec. 31, 2009	March 31, 2010	Dec. 31, 2009	March 31, 2010	Dec. 31, 2009
Total credit portfolio						
Loans retained ^(d)	\$ 706,841	\$ 627,218	\$16,719	\$17,219	\$5,511	\$4,355
Loans held-for-sale	4,933	4,876	166	234		
Loans at fair value	2,025	1,364	165	111		
Loans reported^(d)	713,799	633,458	17,050	17,564	5,511	4,355
Loans securitized ^{(d)(b)}	NA	84,626	NA		NA	2,385
Total managed loans^(a)	713,799	718,084	17,050	17,564	5,511	6,740
Derivative receivables	79,416	80,210	363	529		
Receivables from customers ^(c)	16,314	15,745				
Interests in purchased receivables ^(a)	2,579	2,927				
Total managed credit-related assets^(a)	812,108	816,966	17,413	18,093	5,511	6,740
Lending-related commitments ^(a)	955,371	991,095	NA	NA	NA	NA

Assets acquired in loan satisfactions

Real estate owned	NA	NA	1,510	1,548	NA	NA
Other	NA	NA	96	100	NA	NA

Total assets acquired in loan satisfactions

NA	NA	1,606	1,648	NA	NA
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Total credit portfolio

\$1,767,479	\$1,808,061	\$19,019	\$19,741	\$5,511	\$6,740
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Net credit derivative hedges notional^(d)

\$ (46,583)	\$ (48,376)	\$ (152)	\$ (139)	NA	NA
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Liquid securities collateral held against derivatives

(14,408)	(15,519)	NA	NA	NA	NA
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(in millions, except ratios)	Three months ended March 31,		Average annual net charge-off rate ^{(g)(h)}	
	Net charge-offs 2010	2009	2010	2009
Total credit portfolio				
Loans reported	\$7,910	\$4,396	4.46%	2.51%
Loans securitized ^{(a)(b)}	NA	1,464	NA	6.93
Total managed loans^(a)	\$7,910	\$5,860	4.46%	2.98%

(a) *Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Upon the adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, its Firm-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. As a result, related assets are now primarily recorded in loans or other assets on the Consolidated Balance Sheet. As a result of the consolidation of the credit card securitization trusts, reported and managed basis are comparable for periods beginning after January 1,*

2010. For further discussion, see Note 15 on pages 131-142 of this Form 10-Q.

- (b) Loans securitized is defined as loans that were sold to nonconsolidated securitization trusts and were not included in reported loans. For further discussion of credit card securitizations, see Note 15 on pages 131-142 of this Form 10-Q.*
- (c) Represents margin loans to prime and retail brokerage customers, which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.*
- (d) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and non-performing credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 64-65*

and Note 5 on pages 110-116 of this Form 10-Q.

- (e) *At March 31, 2010, and December 31, 2009, nonperforming loans and assets exclude: (1) mortgage loans insured by U.S. government agencies of \$10.5 billion and \$9.0 billion, respectively; (2) real estate owned insured by U.S. government agencies of \$707 million and \$579 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$581 million and \$542 million, respectively. These amounts are excluded as reimbursement is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under*

guidance issued by the Federal Financial Institutions Examination Council, 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 about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

- (f) *Excludes purchased credit-impaired loans that were acquired as part of the Washington Mutual transaction, which are accounted for on a pool basis. Since each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past due status of the pools, or that of individual loans within the pools, is not meaningful. Because the Firm is recognizing interest income on each pool of loans, they are all considered to be performing.*

- (g) *Net charge-off ratios were calculated using:*
- (1) average retained loans of \$718.5 billion and \$710.6 billion for the quarters ended March 31, 2010 and 2009, respectively;*
 - (2) average securitized loans of zero and \$85.6 billion for the quarters ended March 31, 2010 and 2009, respectively; and*
 - (3) average managed loans of \$718.5 billion and \$796.2 billion for the quarters ended March 31, 2010 and 2009, respectively.*
- (h) *Firmwide net charge-off ratios were calculated including average purchased credit-impaired loans of \$80.3 billion and \$88.3 billion at March 31, 2010 and 2009, respectively. Excluding the impact of purchased credit-impaired loans, the total Firm's managed net charge-off rate would have been 5.03% and 3.36% respectively.*

Table of Contents**WHOLESALE CREDIT PORTFOLIO**

As of March 31, 2010, wholesale exposure (IB, CB, TSS and AM) decreased by \$10.7 billion from December 31, 2009. The overall decrease was primarily driven by decreases of \$20.2 billion in lending-related commitments, partially offset by an increase of \$10.1 billion in loans. The decrease in lending-related commitments and the increase in loans were primarily related to the adoption of the new consolidation guidance related to VIEs which resulted in the elimination of \$24.2 billion of lending related commitments between the Firm and its administrated multi-seller conduits upon consolidation. This decrease in lending-related commitments was partially offset by the addition of \$6.5 billion of unfunded commitments between the consolidated multi-seller conduits and their clients. Assets of the consolidated conduits included \$15.1 billion of wholesale loans. Excluding the effect of the new consolidation guidance, loans and lending-related commitments would have decreased by \$5.0 billion and \$2.5 billion, respectively.

(in millions)	Credit exposure		Nonperforming assets ^(c)		90 days past due and still accruing	
	March 31, 2010	Dec. 31, 2009	March 31, 2010	Dec. 31, 2009	March 31, 2010	Dec. 31, 2009
Loans retained	\$210,211	\$200,077	\$5,895	\$6,559	\$221	\$332
Loans held-for-sale	2,054	2,734	166	234		
Loans at fair value	2,025	1,364	165	111		
Loans reported	214,290	204,175	6,226	6,904	221	332
Derivative receivables	79,416	80,210	363	529		
Receivables from customers ^(a)	16,314	15,745				
Interests in purchased receivables	2,579	2,927				
Total wholesale credit-related assets	312,599	303,057	6,589	7,433	221	332
Lending-related commitments	326,921	347,155	NA	NA	NA	NA
Total wholesale credit exposure	\$639,520	\$650,212	\$6,589	\$7,433	\$221	\$332
Net credit derivative hedges notional ^(b)	\$ (46,583)	\$ (48,376)	\$ (152)	\$ (139)	NA	NA
Liquid securities collateral held against derivatives	(14,408)	(15,519)	NA	NA	NA	NA

(a) Represents margin loans to prime and retail brokerage customers, which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.

- (b) *Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage both performing and nonperforming credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP. For additional information, see Credit derivatives on pages 64-65 and Note 5 on pages 110-116 of this Form 10-Q.*
- (c) *Excludes assets acquired in loan satisfactions. For additional information, see the wholesale nonperforming assets by business segment table on page 61 of this Form 10-Q.*

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The following table summarizes the maturity and ratings profiles of the wholesale portfolio as of March 31, 2010, and December 31, 2009. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to ratings as defined by S&P and Moody's.

Wholesale credit exposure maturity and ratings profile

	Maturity profile ^(c)				Ratings profile			Total % of IG
	Due in 1 year or less	Due after 1 through year 5 years	Due after 5 years	Total	Investment grade (IG) AAA/Aaa to BBB-/Baa3	Noninvestment- grade BB+/Ba1 & below	Total	
At March 31, 2010								
(in billions, except ratios)								
Loans	31%	40%	29%	100%	\$134	\$ 76	\$210	64%
Derivative receivables	12	42	46	100	62	18	80	78
Lending-related commitments	39	59	2	100	262	65	327	80
Total excluding loans held-for-sale and loans at fair value	33%	51%	16%	100%	\$458	\$ 159	\$617	74%
Loans held-for-sale and loans at fair value ^(a)							4	
Receivables from customers							16	
Interests in purchased receivables							3	
Total exposure							\$640	
Net credit derivative hedges notional ^(b)	46%	37%	17%	100%	\$ (47)	\$	\$ (47)	100%

	Maturity profile ^(c)				Ratings profile			Total % of IG
	Due in 1 year or less	Due after 1 through year 5 years	Due after 5 years	Total	Investment grade (IG) AAA/Aaa to BBB-/Baa3	Noninvestment- grade BB+/Ba1 & below	Total	
At December 31, 2009								
(in billions, except ratios)								
Loans	29%	40%	31%	100%	\$118	\$ 82	\$200	59%
Derivative receivables	12	42	46	100	61	19	80	76
Lending-related commitments	41	57	2	100	281	66	347	81

Total excluding loans held-for-sale and loans at fair value	34%	50%	16%	100%	\$460	\$ 167	\$627	73%
Loans held-for-sale and loans at fair value ^(a)							4	
Receivables from customers							16	
Interests in purchased receivables							3	
Total exposure							\$650	
Net credit derivative hedges notional ^(b)	49%	42%	9%	100%	\$ (48)	\$	\$ (48)	100%

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

(b) *Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP.*

(c) *The maturity profile of loans and lending-related commitments is based on the*

remaining contractual maturity. The maturity profile of derivative receivables is based on the maturity profile of average exposure. See Derivative Receivables Marked to Market on pages 102-103 of JPMorgan Chase's 2009 Annual Report for further discussion of average exposure.

Table of Contents**Wholesale credit exposure – selected industry concentrations**

The Firm focuses on the management and diversification of its industry concentrations, with particular attention paid to industries with actual or potential credit concerns.

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, respectively. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, decreased to \$29.7 billion at March 31, 2010, from \$33.2 billion at year-end 2009. The decrease was primarily related to repayments and loan sales.

(in millions, except ratios)	March 31, 2010				December 31, 2009			
	Total credit exposure		Criticized exposure		Total credit exposure		Criticized exposure	
	Credit exposure ^(c)	% of portfolio	Criticized	% of criticized portfolio	Credit exposure ^(c)	% of portfolio	Criticized	% of criticized portfolio
Top 25 industries^(a)								
Real estate	\$ 65,547	11%	\$11,483	39%	\$ 68,509	11%	\$11,975	36%
Banks and finance companies	56,414	9	1,542	5	54,053	9	2,053	6
Healthcare	35,215	6	324	1	35,605	6	329	1
State and municipal governments	33,726	5	177	1	34,726	5	466	1
Utilities	27,118	4	1,067	3	27,178	4	1,238	4
Consumer products	26,244	4	655	2	27,004	4	515	2
Asset managers	26,102	4	583	2	24,920	4	680	2
Oil and gas	22,814	4	512	2	23,322	4	386	1
Retail and consumer services	20,384	3	776	3	20,673	3	782	2
Insurance	13,960	2	576	2	13,421	2	599	2
Technology	13,058	2	761	2	14,169	2	1,288	4
Machinery and equipment manufacturing	12,489	2	263	1	12,759	2	350	1
Telecom services	12,325	2	195	1	11,265	2	251	1
Business services	11,919	2	277	1	10,667	2	344	1
Securities firms and exchanges	11,389	2	121		10,832	2	145	
Chemicals/plastics	11,296	2	559	2	9,870	2	611	2
Metals/mining	11,265	2	637	2	12,547	2	639	2
Media	10,607	2	1,756	6	12,379	2	1,692	5
Central government	10,346	2			9,557	1		
Building materials/construction	10,327	2	1,252	4	10,448	2	1,399	4
Holding companies	10,235	2	111		16,018	3	110	
Transportation	8,931	1	545	2	9,749	1	588	2
Automotive	8,864	1	1,083	4	9,357	1	1,240	4
Agriculture/paper manufacturing	7,306	1	501	2	5,801	1	500	2
Leisure	5,776	1	1,255	4	6,822	1	1,798	5
All other ^(b)	132,891	22	2,698	9	135,791	22	3,205	10

Subtotal	\$616,548	100%	\$29,709	100%	\$627,442	100%	\$33,183	100%
Loans held-for-sale and loans at fair value	4,079		1,099		4,098		1,545	
Receivables from customers	16,314				15,745			
Interest in purchased receivables	2,579				2,927			
Total	\$639,520		\$30,808		\$650,212		\$34,728	

(a) *Rankings are based on exposure at March 31, 2010. The industries presented in the table as of December 31, 2009, are based on the same rankings of the exposure at March 31, 2010, not the actual rankings at December 31, 2009.*

(b) *For more information on exposures to SPEs included in all other, see Note 15 on pages 131-142 of this Form 10-Q.*

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

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The following table presents additional information on the wholesale real estate industry at March 31, 2010, and December 31, 2009.

					% of nonperforming	Net	% of net charge-offs
March 31, 2010	Credit	% of credit	Criticized	Nonperforming	loans to total	charge-offs/ charge-offs/	to total
(in millions, except ratios)	exposure	portfolio	exposure	loans	loans ^(b)	(recoveries)	loans ^(b)
Commercial real estate subcategories							
Multi-family	\$31,876	49%	\$ 4,037	\$ 1,272	4.12%	\$ 57	0.18%
Commercial lessors	18,574	28	4,121	494	3.36	298	2.03
Commercial construction and development	6,024	9	1,354	309	7.06	31	0.71
Other ^(a)	9,073	14	1,971	783	15.47	11	0.22
Total commercial real estate	\$65,547	100%	\$11,483	\$ 2,858	5.19%	\$ 397	0.72%
					% of nonperforming	Net	% of net charge-offs
December 31, 2009	Credit	% of credit	Criticized	Nonperforming	loans to total	charge-offs/ charge-offs/	to total
(in millions, except ratios)	exposure	portfolio	exposure	loans	loans ^(b)	(recoveries)	loans ^(b)
Commercial real estate subcategories							
Multi-family	\$32,073	47%	\$ 3,986	\$ 1,109	3.57%	\$ 199	0.64%
Commercial lessors ^(c)	18,689	27	4,194	687	4.53	232	1.53
Commercial construction and development	6,593	10	1,518	313	6.81	105	2.28
Other ^{(a)(c)}	11,154	16	2,277	779	12.27	152	2.39
Total commercial real estate	\$68,509	100%	\$11,975	\$ 2,888	5.05%	\$ 688	1.20%

(a) Other includes lodging, Real estate investment trusts (REITs), single family, homebuilders and other real

estate.

(b) Ratios were calculated using end-of-period retained loans of \$55.0 billion and \$57.2 billion for the quarters ended March 31, 2010, and December 31, 2009, respectively.

(c) Prior periods have been reclassified to conform to current presentation.

Loans

The following table presents wholesale loans and nonperforming assets by business segment as of March 31, 2010, and December 31, 2009.

(in millions)	March 31, 2010							
	Retained	Loans		Nonperforming		Assets acquired in loan satisfactions		Nonperforming assets
		Held-for-sale and fair value	Total	Loans	Derivatives	Real estate owned	Other	
Investment Bank	\$ 53,010	\$ 3,594	\$ 56,604	\$ 2,741	\$ 363 ^(b)	\$ 185	\$	\$ 3,289
Commercial Banking	95,435	294	95,729	2,996		189	1	3,186
Treasury & Securities Services	24,066		24,066	14				14
Asset Management	37,088		37,088	475		1	22	498
Corporate/Private Equity	612	191	803					
Total	\$ 210,211	\$ 4,079	\$ 214,290	\$ 6,226^(a)	\$ 363	\$ 375	\$ 23	\$ 6,987

December 31, 2009

Assets acquired in loan

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(in millions)	Loans			Nonperforming		satisfactions		Nonperforming
	Retained	Held-for-sale and fair value	Total	Loans	Derivatives	Real estate owned	Other	
Investment Bank	\$ 45,544	\$ 3,567	\$ 49,111	\$3,504	\$ 529 ^(b)	\$ 203	\$	\$ 4,236
Commercial Banking	97,108	324	97,432	2,801		187	1	2,989
Treasury & Securities Services	18,972		18,972	14				14
Asset Management	37,755		37,755	580		2		582
Corporate/Private Equity	698	207	905	5				5
Total	\$ 200,077	\$ 4,098	\$ 204,175	\$ 6,904 ^(a)	\$ 529	\$ 392	\$ 1	\$ 7,826

(a) *The Firm held allowance for loan losses of \$1.6 billion and \$2.0 billion related to nonperforming retained loans resulting in allowance coverage ratios of 26% and 31%, at March 31, 2010, and December 31, 2009, respectively. Wholesale nonperforming loans represent 2.91% and 3.38% of total wholesale loans at March 31, 2010, and December 31, 2009, respectively.*

(b) *Nonperforming derivatives represent less than 1.0% of the total derivative*

*receivables net
of cash
collateral at
both March 31,
2010, and
December 31,
2009.*

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In the normal course of business, the Firm provides loans to a variety of customers, from large corporate and institutional clients to high-net-worth individuals.

Retained wholesale loans were \$210.2 billion at March 31, 2010, compared with \$200.1 billion at December 31, 2009. The \$10.1 billion increase was primarily related to the January 1, 2010, adoption of new consolidation guidance related to VIEs. Upon adoption of the new guidance, \$15.1 billion of wholesale loans associated with Firm-administered multi-seller conduits were added to the Consolidated Balance Sheets. Excluding the effect of the new guidance adoption, loans decreased by \$5.0 billion. Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio. Held-for-sale loans and loans carried at fair value were \$4.1 billion at both March 31, 2010, and December 31, 2009.

The Firm actively manages wholesale credit exposure through sales of loans and lending-related commitments. During the first three months of 2010 the Firm sold \$2.6 billion of loans and commitments, recognizing gains of \$19 million. In the first three months of 2009, the Firm sold \$414 million of loans and commitments, recognizing net losses of \$4 million. These results include gains or losses on sales of nonperforming loans, if any, as discussed on pages 62-63 of this Form 10-Q. These activities are not related to the Firm's securitization activities. For further discussion of securitization activity, see Liquidity Risk Management and Note 15 on pages 52-55 and 131-142 respectively, of this Form 10-Q.

Nonperforming wholesale loans were \$6.2 billion at March 31, 2010, a decrease of \$678 million from December 31, 2009, reflecting loan sales.

The following table presents the geographic distribution of wholesale loans and nonperforming loans as of March 31, 2010, and December 31, 2009. The geographic distribution of the wholesale portfolio is determined based predominantly on the domicile of the borrower.

Loans and nonperforming loans, U.S. and Non-U.S.

Wholesale (in millions)	March 31, 2010		December 31, 2009	
	Loans	Nonperforming loans	Loans	Nonperforming loans
U.S.	\$151,856	\$ 5,073	\$149,085	\$ 5,844
Non-U.S.	62,434	1,153	55,090	1,060
Ending balance	\$214,290	\$ 6,226	\$204,175	\$ 6,904

The following table presents the change in the nonperforming loan portfolio for the three months ended March 31, 2010 and 2009.

Nonperforming loan activity

Wholesale (in millions)	Three months ended March 31,	
	2010	2009
Beginning balance	\$6,904	\$2,382
Additions	2,717	1,652
Reductions:		
Paydowns and other	1,595	165
Gross charge-offs	909	206
Returned to performing	59	1
Sales	832	

Total reductions	3,395	372
Net additions (reductions)	(678)	1,280
Ending balance	\$ 6,226	\$ 3,662

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The following table presents net charge-offs, which are defined as gross charge-offs less recoveries, for the three months ended March 31, 2010 and 2009. A nonaccrual loan is charged off to the allowance for loan losses when it is highly certain that a loss has been realized; this determination considers many factors, including the prioritization of the Firm's claim in bankruptcy, expectations of the workout/restructuring of the loan, and valuation of the borrower's equity. The amounts in the table below do not include gains from sales of nonperforming loans.

Net charge-offs

Wholesale (in millions, except ratios)	Three months ended March 31,	
	2010	2009
Loans reported		
Average loans retained	\$211,599	\$238,689
Net charge-offs	959	191
Average annual net charge-off rate	1.84%	0.32%

Derivatives**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 5 on pages 110-116 of this Form 10-Q and Notes 5 and 32 on pages 167-175 and 224-235 of JPMorgan Chase's 2009 Annual Report.

The following table summarizes the net derivative receivables MTM for the periods presented.

Derivative receivables marked to market (in millions)	Derivative receivables MTM	
	March 31, 2010	December 31, 2009
Interest rate ^(a)	\$ 38,744	\$ 33,733
Credit derivatives ^(a)	10,088	11,859
Foreign exchange	18,537	21,984
Equity	5,538	6,635
Commodity	6,509	5,999
Total, net of cash collateral	79,416	80,210
Liquid securities collateral held against derivative receivables	(14,408)	(15,519)
Total, net of all collateral	\$ 65,008	\$ 64,691

(a) In 2010, cash collateral netting reporting was enhanced. Prior periods have been revised to conform to the current presentation. The effect

resulted in an increase to interest rate derivative receivables and a corresponding decrease to credit derivative receivables of \$7.0 billion as of December 31, 2009.

The amounts of derivative receivables reported on the Consolidated Balance Sheets were \$79.4 billion and \$80.2 billion at March 31, 2010, and December 31, 2009, respectively. These are the amounts of the MTM or fair value of the derivative contracts after giving effect to legally enforceable master netting agreements, cash collateral held by the Firm and CVA. These amounts reported on the Consolidated Balance Sheets represent the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in management's view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of \$14.4 billion and \$15.5 billion at March 31, 2010, and December 31, 2009, respectively, resulting in total exposure, net of all collateral, of \$65.0 billion and \$64.7 billion, respectively. The increase from year-end 2009 in derivative receivables MTM of \$317 million, net of the above mentioned collateral, was primarily related to decreasing rates on interest rate swaps, partially offset by reduced level of foreign exchange rate volatility and tightening credit spreads. The Firm also holds additional collateral delivered by clients at the initiation of transactions, as well as collateral related to contracts that have a non-daily call frequency and collateral that the Firm has agreed to return but has not yet settled as of the reporting date. Though this collateral does not reduce the balances noted in the table above, it is available as security against potential exposure that could arise should the MTM of the client's derivative transactions move in the Firm's favor. As of March 31, 2010, and December 31, 2009, the Firm held \$21.1 billion and \$16.9 billion, respectively, of this additional collateral. The derivative receivables MTM, net of all collateral, also does not include other credit enhancements in the form of letters of credit. The following table summarizes the ratings profile of the Firm's derivative receivables MTM, net of all collateral, for the dates indicated.

Table of Contents**Ratings profile of derivative receivables MTM**

Rating equivalent (in millions, except ratios)	March 31, 2010		December 31, 2009	
	Exposure net of all collateral	% of exposure net of all collateral	Exposure net of all collateral	% of exposure net of all collateral
AAA/Aaa to AA-/Aa3	\$26,468	41%	\$25,530	40%
A+/A1 to A-/A3	14,232	22	12,432	19
BBB+/Baa1 to BBB-/Baa3	7,909	12	9,343	14
BB+/Ba1 to B-/B3	13,890	21	14,571	23
CCC+/Caa1 and below	2,509	4	2,815	4
Total	\$65,008	100%	\$64,691	100%

The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm's derivatives transactions subject to collateral agreements—excluding foreign exchange spot trades, which are not typically covered by collateral agreements due to their short maturity—was 88% as of March 31, 2010, largely unchanged from 89% at December 31, 2009. The Firm posted \$58.5 billion and \$56.7 billion of collateral at March 31, 2010, and December 31, 2009, respectively.

Certain derivative and collateral agreements include provisions that require the counterparty and/or the Firm, upon specified downgrades in the respective credit ratings of their legal entities, to post collateral for the benefit of the other party. At March 31, 2010, the impact of a single-notch and six-notch ratings downgrade to JPMorgan Chase & Co., and its subsidiaries, primarily JPMorgan Chase Bank, N.A., would have required \$1.4 billion and \$4.0 billion, respectively, of additional collateral to be posted by the Firm. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade to a specified rating of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

For a more detailed discussion of credit derivatives, including types of derivatives, see Note 5, Credit derivatives, on pages 115-116 of this Form 10-Q, and Credit derivatives on pages 103-104 and Note 5, Credit derivatives, on pages 173-175 of JPMorgan Chase's 2009 Annual Report. The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold as of March 31, 2010, and December 31, 2009.

Credit derivative positions

(in billions)	Notional amount				Total
	Dealer/client		Credit portfolio		
	Protection purchased ^(a)	Protection sold	Protection purchased ^{(a)(b)}	Protection sold	
March 31, 2010	\$2,806	\$2,784	\$47	\$	\$5,637
December 31, 2009	2,997	2,947	49	1	5,994

(a) Included \$2.8 trillion and \$3.0 trillion at March 31, 2010, and December 31,

2009,
 respectively, of
 notional
 exposure within
 protection
 purchased
 where the Firm
 had protection
 sold with
 identical
 underlying
 reference
 instruments.

(b) Included
 \$19.7 billion at
 both March 31,
 2010, and
 December 31,
 2009, that
 represented the
 notional amount
 for structured
 portfolio
 protection; the
 Firm retains the
 first risk of loss
 on this portfolio.

Dealer/client

For a further discussion on dealer/client business related to credit protection, see Dealer/client business on page 104 of JPMorgan Chase's 2009 Annual Report. At March 31, 2010, the total notional amount of protection purchased and sold in the dealer/client business decreased by \$354 billion from year-end 2009, primarily as a result of industry efforts to reduce offsetting trade activity.

Credit portfolio activities

Use of single-name and portfolio credit derivatives (in millions)	Notional amount of protection purchased and sold	
	March 31, 2010	December 31, 2009
Credit derivatives used to manage:		
Loans and lending-related commitments	\$ 32,599	\$ 36,873
Derivative receivables	14,475	11,958
Total protection purchased ^(a)	\$ 47,074	\$ 48,831
Total protection sold	491	455
Credit derivatives hedges notional	\$ 46,583	\$ 48,376

(a) Included
 \$19.7 billion at

*both March 31,
2010, and
December 31,
2009, that
represented the
notional amount
for structured
portfolio
protection; the
Firm retains the
first risk of loss
on this portfolio.*

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The credit derivatives used by JPMorgan Chase for credit portfolio management activities do not qualify for hedge accounting under U.S. GAAP; these derivatives are reported at fair value, with gains and losses recognized in principal transactions revenue. In contrast, the loans and lending-related commitments being risk-managed are accounted for on an accrual basis. This asymmetry in accounting treatment, between loans and lending-related commitments and the credit derivatives used 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 value related to the Firm's credit derivatives used for managing credit exposure, as well as the MTM value related to the CVA (which reflects the credit quality of derivatives counterparty exposure), are included in the gains and losses realized on credit derivatives disclosed in the table below. These results can vary from period to period due to market conditions that affect specific positions in the portfolio. For a discussion of CVA related to derivative contracts, see Derivative receivables MTM on pages 102-103 of JPMorgan Chase's 2009 Annual Report.

(in millions)	Three months ended March	
	2010	2009
Hedges of lending-related commitments ^(a)	\$ (120)	\$ (552)
CVA and hedges of CVA ^(a)	(1)	123
Net gains/(losses)	\$ (121)	\$ (429)

(a) *These hedges do not qualify for hedge accounting under U.S. GAAP.*

Lending-related commitments

JPMorgan Chase uses lending-related financial instruments, such as 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 counterparties draw down on these commitments or the Firm fulfills its obligation under these guarantees, and the counterparties subsequently fail to perform according to the terms of these contracts. Wholesale lending-related commitments were \$326.9 billion at March 31, 2010, compared with \$347.2 billion at December 31, 2009. The decrease in lending-related commitments reflected the adoption of new consolidation guidance related to VIEs. Upon adoption of the new consolidation guidance, \$24.2 billion of lending-related commitments between the Firm and its administered, multi-seller conduits were eliminated in consolidation. This decrease in lending-related commitments was partially offset by the addition of \$6.5 billion of unfunded commitments between the consolidated multi-seller conduits and their clients.

In the Firm's view, the total contractual amount of these wholesale lending-related commitments 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 commitments, 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 on average portfolio historical experience, to become drawn upon in an event of a default by an obligor. The loan-equivalent amounts of the Firm's lending-related commitments were \$178.1 billion and \$179.8 billion as of March 31, 2010, and December 31, 2009, respectively.

Country Exposure

The Firm's wholesale portfolio includes country risk exposures to both developed and emerging markets. The Firm has a comprehensive internal process for measuring and managing its country exposure. The Firm seeks to diversify its

country exposures, including its 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.

Several European countries, including Greece, Portugal, Spain, Italy and Ireland, have recently been subject to significantly weakening credit and the Firm is closely monitoring its exposures to these countries. The Firm's aggregate exposures to these five countries is modest relative to the Firm's overall risk exposures and a substantial portion of its exposure to these countries is secured by cash and securities collateral or is hedged. As a result, the Firm currently believes its exposures to these five countries is manageable.

The table below presents the Firm's exposure to its top ten emerging markets countries. There is no common definition of emerging markets, but the Firm generally includes in its definition those countries whose sovereign debt ratings are equivalent to A+ or lower. As noted above, exposures to these emerging markets countries include all credit-related lending, trading and investment activities, whether cross-border or locally funded.

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

Table of Contents**Top 10 emerging markets country exposure****At March 31, 2010**

(in billions)	Lending ^(a)	Cross-border		Total	Local ^(d)	Total Exposure
		Trading ^(b)	Other ^(c)			
South Korea	\$3.1	\$1.8	\$1.4	\$6.3	\$4.5	\$10.8
India	1.9	3.5	1.2	6.6	1.3	7.9
Brazil	2.3	0.1	1.0	3.4	3.6	7.0
China	3.0	0.7	1.0	4.7		4.7
Mexico	1.5	1.4	0.4	3.3		3.3
Hong Kong	1.3	0.6	1.3	3.2		3.2
Taiwan	0.3	0.7	0.4	1.4	1.6	3.0
Malaysia	0.5	2.0	0.3	2.8		2.8
Chile	0.9	0.8	0.5	2.2		2.2
Turkey	0.7	1.3	0.1	2.1		2.1

At December 31, 2009

(in billions)	Lending ^(a)	Cross-border		Total	Local ^(d)	Total exposure
		Trading ^(b)	Other ^(c)			
South Korea	\$2.7	\$ 1.7	\$1.3	\$5.7	\$3.3	\$9.0
India	1.5	2.7	1.1	5.3	0.3	5.6
Brazil	1.8	(0.5)	1.0	2.3	2.2	4.5
China	1.8	0.4	0.8	3.0		3.0
Taiwan	0.1	0.8	0.3	1.2	1.8	3.0
Hong Kong	1.1	0.2	1.3	2.6		2.6
Mexico	1.2	0.8	0.4	2.4		2.4
Chile	0.8	0.6	0.5	1.9		1.9
Malaysia	0.1	1.3	0.3	1.7	0.2	1.9
South Africa	0.4	0.8	0.5	1.7		1.7

(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 and 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, including capital investments in local entities.

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

Table of Contents**CONSUMER CREDIT PORTFOLIO**

JPMorgan Chase's consumer portfolio consists primarily of residential mortgages, home equity loans, credit cards, auto loans, student loans and business banking loans. Included within the portfolio are home equity loans and lines of credit secured by junior liens, mortgage loans with interest-only payment options to predominantly prime borrowers, as well as certain payment-option loans acquired from Washington Mutual that may result in negative amortization. The Firm's primary focus is on serving the prime consumer credit market.

A substantial portion of the consumer loans acquired in the Washington Mutual transaction were identified as credit-impaired based on an analysis of high-risk characteristics, including product type, LTV ratios, FICO scores and delinquency status. These purchased credit-impaired loans are accounted for on a pool basis, and the pools are considered to be performing. At the time of the acquisition, these loans were recorded at fair value, including an estimate of losses that were expected to be incurred over the estimated remaining lives of the loan pools. Therefore, no allowance for loan losses was recorded for these loans as of the transaction date. In the first quarter of 2010, management concluded that it was probable that higher expected future credit losses for certain pools of the purchased credit-impaired portfolio would result in a decrease in expected future principal cash flows for these pools. An additional allowance for loan losses of \$1.2 billion was recorded in the first quarter of 2010, bringing the total allowance for loan losses on the purchased credit-impaired portfolio to \$2.8 billion.

The credit performance of the consumer portfolio across the entire product spectrum has stabilized, but remains under stress, as high unemployment and weak overall economic conditions continue to put pressure on the number of loans charged off, and weak housing prices continue to negatively impact the severity of loss recognized on real estate loans that default. Delinquencies and nonperforming loans remain elevated, but the delinquency trend is showing continued stability or improvement, with initial signs of improvement in early stage delinquencies (30-89 days delinquent) across most products. The elevated level of these credit quality metrics are due, in part, to loss mitigation activities currently being undertaken and previous foreclosure moratorium programs, which ended in early 2009. These moratoriums halted stages of the foreclosure process while the U.S. Treasury developed its homeowner assistance program (i.e., MHA) and the Firm enhanced its foreclosure-prevention programs. Due to a high volume of loss mitigation activities and foreclosures after the moratoriums, processing timelines were elongated driving elevated levels of late-stage delinquencies (150+ days delinquent). Losses related to these loans continued to be recognized in accordance with the Firm's normal charge-off practices, but some delinquent loans that would have otherwise been foreclosed upon remain in the mortgage and home equity loan portfolios.

Since mid-2007, the Firm has taken actions to reduce risk exposure to consumer loans by tightening both underwriting and loan qualification standards for both real estate and non-real estate lending products. For residential real estate lending, tighter income verification, more conservative collateral valuation, reduced LTV maximums, and higher FICO and custom risk score requirements are just some of the actions taken to date to mitigate risk related to new originations. The Firm believes that these actions have better aligned loan pricing with the underlying credit risk of the loans. In addition, originations of subprime mortgage loans, stated income and broker-originated mortgage and home equity loans have been eliminated entirely. The Firm has never originated option ARMs. The tightening of underwriting criteria for auto loans has resulted in the reduction of both extended-term and high LTV financing. As a further action to reduce risk associated with lending-related commitments, the Firm has reduced or canceled certain lines of credit as permitted by law. For example, the Firm may reduce or close home equity lines of credit when there are significant decreases in the value of the underlying property or when there has been a demonstrable decline in the creditworthiness of the borrower. Similarly, certain inactive credit card lines have been closed and a number of active credit card lines have been reduced.

The following tables present managed consumer credit-related information (including RFS, CS and residential real estate loans reported in the Corporate/Private Equity segment) for the dates indicated. For further information about the Firm's nonaccrual and charge-off accounting policies, see Note 13 on pages 125-129 of this Form 10-Q.

Table of Contents**Consumer credit-related information**

(in millions, except ratios)	Credit exposure		Nonperforming loans ^{(j)(k)}		90 days or more past due and still accruing ^(k)	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Consumer loans excluding purchased credit-impaired loans and loans held-for-sale						
Home equity senior lien ^(a)	\$ 26,477	\$ 27,376	\$ 489	\$ 477	\$	\$
Home equity junior lien ^(a)	71,165	74,049	938	1,188		
Prime mortgage ^(c)	68,210	66,892	4,579	4,355		
Subprime mortgage ^(c)	13,219	12,526	3,331	3,248		
Option ARMs ^(c)	8,644	8,536	348	312		
Auto loans ^{(c)(d)}	47,381	46,031	174	177		
Credit card reported ^{(a)(e)(f)}	149,260	78,786	3	3	4,709	3,481
All other loans ^(c)	32,951	31,700	962	900	581	542
Total consumer loans	417,307	345,896	10,824	10,660	5,290	4,023
Consumer loans purchased credit-impaired						
Home equity	26,012	26,520	NA	NA	NA	NA
Prime mortgage	19,203	19,693	NA	NA	NA	NA
Subprime mortgage	5,848	5,993	NA	NA	NA	NA
Option ARMs	28,260	29,039	NA	NA	NA	NA
Total consumer loans purchased credit-impaired	79,323	81,245	NA	NA	NA	NA
Total consumer loans retained	496,630	427,141	10,824	10,660	5,290	4,023
Loans held-for-sale	2,879	2,142				
Total consumer loans reported	499,509	429,283	10,824	10,660	5,290	4,023
Credit card securitized ^{(c)(g)}	NA	84,626	NA		NA	2,385
Total consumer loans managed^(c)	499,509	513,909	10,824	10,660	5,290	6,408
Total consumer loans managed excluding	420,186	432,664	10,824	10,660	5,290	6,408

**purchased credit-impaired
loans^(c)****Consumer lending-related
commitments:**

Home equity senior lien ^{(a)(h)}	18,870	19,246
Home equity junior lien ^(h)	35,653	37,231
Prime mortgage	1,136	1,654
Subprime mortgage		
Option ARMs		
Auto loans	6,250	5,467
Credit card ^(h)	556,207	569,113
All other loans	10,334	11,229

Total lending-related commitments	628,450	643,940
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Total consumer credit portfolio	\$1,127,959	\$1,157,849
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Memo: Credit card managed ^(c)	\$ 149,260	\$ 163,412	\$ 3	\$ 3	\$4,709	\$5,866
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Three months ended March 31,

(in millions, except ratios)	Net charge-offs		Average annual net charge-off rate ^(l)	
	2010	2009	2010	2009
Consumer loans excluding purchased credit-impaired loans				
Home equity senior lien ^(a)	\$ 69	\$ 34	1.04%	0.47%
Home equity junior lien ^(h)	1,057	1,064	5.90	5.14
Prime mortgage ^(c)	462	312	2.74	1.76
Subprime mortgage ^(c)	457	364	13.43	9.91
Option ARMs ^(c)	23	4	1.07	0.18
Auto loans ^(c)	102	174	0.88	1.66
Credit card reported ^(d)	4,512	2,029	11.75	8.42
All other loans ^(c)	269	224	3.23	2.64
Total consumer loans excluding purchased credit-impaired loans⁽ⁱ⁾	6,951	4,205	6.61	4.44
Total consumer loans reported	6,951	4,205	5.56	3.61
Credit card securitized ^{(d)(g)}	NA	1,464	NA	6.93
Total consumer loans managed^(d)	6,951	5,669	5.56	4.12
Total consumer loans managed excluding purchased credit-impaired loans^{(c)(i)}	6,951	5,669	6.61	4.90

Memo: Credit card managed ^(d)	\$ 4,512	\$ 3,493	11.75%	7.72%
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(a) Represents loans where JPMorgan Chase holds the first security interest on the property.

(b) Represents loans where JPMorgan Chase holds a security interest that is subordinate in rank to other liens.

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- (c) *Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Upon the adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts and certain other consumer loan securitization entities, primarily mortgage-related. As a result, related receivables are now recorded as loans on the Consolidated Balance Sheet. As a result of the consolidation of the securitization trusts, reported and managed basis are comparable for periods beginning after January 1, 2010. For further discussion, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 14-16 of this Form 10-Q.*
- (d) *Excluded operating lease-related assets of*

*\$3.1 billion and
\$2.9 billion at
March 31, 2010,
and December 31,
2009, respectively.*

- (e) Includes
\$1.0 billion of
loans at
December 31,
2009, held by the
Washington
Mutual Master
Trust, which were
consolidated onto
the Firm's
Consolidated
Balance Sheets at
fair value during
the second quarter
of 2009. Such
loans had been
fully repaid or
charged off as of
March 31, 2010.
See Note 15 on
pages 131-142 of
this Form 10-Q.*

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

- (g) Loans securitized
is defined as loans
that were sold to
nonconsolidated
securitization
trusts and were
not included in
reported loans.
For a further
discussion of
credit card
securitizations,
see CS on pages
30-33 of this Form
10-Q.*

- (h) *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 would be utilized at the same time. For credit card commitments and home equity commitments (if certain conditions are met), the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.*
- (i) *Charge-offs are not recorded on purchased credit-impaired loans until actual losses exceed estimated losses that were recorded as purchase accounting adjustments at the time of acquisition. To date, no charge-offs have been recorded for these loans.*

(j) *At March 31, 2010, and December 31, 2009, nonperforming loans exclude: (1) mortgage loans insured by U.S. government agencies of \$10.5 billion and \$9.0 billion, respectively; and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$581 million and \$542 million, respectively. These amounts are excluded as reimbursement is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the Federal Financial Institutions Examination Council, 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 about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

- (k) *Excludes purchased credit-impaired loans that were acquired as part of the Washington Mutual transaction, which are accounted for on a pool basis. Since each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past due status of the pools, or that of individual loans within the pools, is not meaningful. Because the Firm is recognizing interest income on each pool of loans, they are all considered to be performing.*
- (l) *Average consumer loans held-for-sale and loans at fair value were \$2.9 billion and \$3.1 billion for the quarters ended March 31, 2010*

and 2009, respectively. These amounts were excluded when calculating the net charge-off rates.

The following table presents consumer nonperforming assets by business segment as of March 31, 2010, and December 31, 2009.

Consumer nonperforming assets

(in millions)	March 31, 2010 Assets acquired in loan satisfactions			December 31, 2009 Assets acquired in loan satisfactions			Nonperforming assets
	Nonperforming loans	Real estate owned	Other	Nonperforming assets	Nonperforming loans	Real estate owned	
Retail Financial Services ^{(a)(b)}	\$10,769	\$1,132	\$73	\$11,974	\$10,611	\$1,154	\$11,864
Card Services ^(a)	3			3	3		3
Corporate/Private Equity	52	3		55	46	2	48
Total	\$10,824	\$1,135	\$73	\$12,032	\$10,660	\$1,156	\$11,915

(a) At March 31, 2010, and December 31, 2009, nonperforming loans and assets excluded: (1) mortgage loans insured by U.S. government agencies of \$10.5 billion and \$9.0 billion, respectively; (2) real estate owned insured by U.S. government agencies of \$707 million and \$579 million, respectively; and (3) student loans that are

90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of \$581 million and \$542 million, respectively. These amounts are excluded as reimbursement is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the Federal Financial Institutions Examination Council, 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 about a specified event (e.g.,

bankruptcy of the borrower), whichever is earlier.

- (b) *Excludes purchased credit-impaired loans that were acquired as part of the Washington Mutual transaction, which are accounted for on a pool basis. Since each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past due status of the pools, or that of individual loans within the pools, is not meaningful. Because the Firm is recognizing interest income on each pool of loans, they are all considered to be performing.*

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Effective January 1, 2010, the Firm adopted new guidance that amended the accounting for consolidation of VIEs. Upon adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts and certain other consumer loan securitization entities. The following table summarizes the impact on consumer loans at adoption.

Reported loans

(in millions)	January 1, 2010
Prime mortgage	\$ 1,477
Subprime mortgage	1,758
Option ARMs	381
Auto loans	218
Student loans	1,008
Credit card ^(a)	84,663
Total increase in consumer loans	\$ 89,505

(a) Represents the impact of adoption of the new consolidation standard related to VIEs on reported loans for Firm-sponsored credit cards securitization trusts. As a result of the consolidation of the securitization trusts, reported and managed basis are comparable for periods beginning after January 1, 2010. For further discussion, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial

*Measures on
pages 14-16 of
this Form 10-Q.*

Portfolio analysis

The following discussion relates to the specific loan and lending-related categories within the consumer portfolio. Purchased credit-impaired loans are excluded from individual loan product discussions and are addressed separately below.

Home equity: Home equity loans at March 31, 2010, were \$97.7 billion, a decrease of \$3.7 billion from year-end 2009. The decrease primarily reflected lower loan originations, coupled with loan paydowns and charge-offs. Senior lien nonperforming loans increased from year-end due to the elongated processing timelines for foreclosures, while the level of junior lien nonperforming loans decreased. Junior lien net charge-offs have leveled from the prior year, but frequency and severity of losses remains elevated.

Mortgage: Mortgage loans at March 31, 2010, which include prime mortgages, subprime mortgages, option adjustable-rate mortgages acquired in the Washington Mutual transaction (option ARMs) and mortgage loans held-for-sale, were \$90.6 billion, representing a \$2.3 billion increase from year-end 2009. The increase is due to the addition of loans to the balance sheet as a result of the adoption of new consolidation guidance related to VIEs. Net charge-offs have increased from the prior year across all segments of the mortgage portfolio due to both higher frequency and an increase in the severity of losses.

Prime mortgages of \$68.8 billion increased \$1.5 billion from December 31, 2009, due to the addition of loans as a result of the adoption of the new consolidation guidance related to VIEs. Early-stage delinquencies continued to show improvement; however, late-stage delinquencies remain elevated as a result of ongoing trial modification activity and foreclosure processing delays, driving an increase in nonperforming loans.

Subprime mortgages of \$13.2 billion increased \$693 million from December 31, 2009, due to the addition of loans as a result of the adoption of the new consolidation guidance related to VIEs, partially offset by paydowns and charge-offs on delinquent loans.

Option ARMs of \$8.6 billion were \$108 million higher than December 31, 2009, due to the addition of loans as a result of the adoption of the new consolidation guidance related to VIEs, partially offset by paydowns in the portfolio. The option ARM portfolio represents less than 5% of the non-purchased credit-impaired real estate loans and is primarily comprised of loans with low LTV ratios and high borrower FICOs. Accordingly, the Firm currently expects substantially lower losses on this portfolio when compared with the purchased credit-impaired option ARM portfolio. As of March 31, 2010, approximately 69% of option ARM borrowers elected to make an interest-only or minimum payment. The cumulative amount of unpaid interest added to the unpaid principal balance due to negative amortization of option ARMs was \$70 million and \$78 million at March 31, 2010, and December 31, 2009, respectively. Assuming market interest rates, the Firm would expect the following balance of current loans to experience a payment recast: \$1.1 billion in 2010, \$364 million in 2011 and \$671 million in 2012. New originations of option ARMs were discontinued by Washington Mutual prior to the date of JPMorgan Chase's acquisition of the banking operations of Washington Mutual. The Firm has not originated, and does not originate, option ARMs.

Auto loans: As of March 31, 2010, auto loans were \$47.4 billion, an increase of \$1.4 billion from year-end 2009. Delinquent loans were lower than the prior year, while provision expense decreased due to favorable loss severities as a result of higher used-car prices nationwide. The auto loan portfolio reflects a high concentration of prime quality credits.

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Credit card: Credit card receivables (which includes receivables in its Firm-sponsored credit card securitization trust not reported on the balance sheet prior to January 1, 2010) were \$149.3 billion at March 31, 2010, a decrease of \$14.2 billion from year-end 2009, reflecting seasonally lower charge volume and a higher level of charge-offs.

The 30-day delinquency rate decreased to 5.62% at March 31, 2010, from 6.28% at December 31, 2009, while the net charge-off rate increased to 11.75% for the first quarter of 2010, from 7.72% for the first quarter of 2009. The current-quarter net charge-off rate was negatively affected by approximately 60 basis points from a payment-holiday program offered in the second quarter of 2009. Charge-offs were also negatively impacted by the current weak economic environment, especially in metropolitan statistical areas (MSAs) experiencing the greatest housing price depreciation and highest unemployment, and the credit performance of loans acquired in the Washington Mutual transaction. The delinquency trend is showing improvement, especially within early stage delinquencies. Provision expense reflected a \$1.0 billion decrease in the allowance for loan losses in the first quarter of 2010, reflecting lower estimated losses primarily related to the improvement in the delinquent loan trend. The credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification.

Credit card receivables, excluding the Washington Mutual portfolio, were \$132.1 billion at March 31, 2010, compared with \$143.8 billion at December 31, 2009. The 30-day delinquency rate was 4.99% at March 31, 2010, down from 5.52% at December 31, 2009; the net charge-off rate, excluding the Washington Mutual portfolio, increased to 10.54% for the first quarter of 2010 from 6.86% in the first quarter of 2009.

Credit card receivables of the Washington Mutual portfolio were \$17.2 billion at March 31, 2010, compared with \$19.7 billion at December 31, 2009. The Washington Mutual portfolio's 30-day delinquency rate was 10.49% at March 31, 2010, compared with 12.72% at December 31, 2009, excluding the impact at December 31, 2009, of the consolidation of the Washington Mutual Master Trust in the second quarter of 2009 as a result of certain actions taken at that time. The first quarter of 2010 net charge-off rate was 24.14% compared with 14.57% in the first quarter of 2009, excluding the impact of the purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the Washington Mutual Master Trust in the second quarter of 2009.

All other: All other loans primarily include business banking loans (which are highly collateralized loans, often with personal loan guarantees), student loans, and other secured and unsecured consumer loans. As of March 31, 2010, other loans, including loans held-for-sale, were \$35.2 billion, an increase of \$1.6 billion from year-end 2009, primarily due to the addition of student loans as a result of the adoption of the new consolidation guidance related to the VIEs.

Purchased credit-impaired: Purchased credit-impaired loans were \$79.3 billion at March 31, 2010, compared with \$81.2 billion at December 31, 2009. This portfolio represents loans acquired in the Washington Mutual transaction that were recorded at fair value at the time of acquisition. The fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, and therefore no allowance for loan losses was recorded for these loans as of the acquisition date.

The Firm regularly updates the amount of expected loan principal and interest cash flows to be collected for these loans. Probable decreases in expected loan principal cash flows trigger the recognition of impairment through the provision for loan losses. Probable and significant increases in expected loan principal cash flows would first result in the reversal of any allowance for loan losses. Any remaining increase in the expected principal cash flows would be recognized prospectively in interest income over the remaining lives of the underlying loans.

Management concluded during the first quarter of 2010 that it was probable that higher expected principal credit losses for the prime mortgage and option ARM purchased credit-impaired pools would result in a decrease in expected cash flows. As a result, \$676 million and \$554 million was added during the quarter to the allowance for loan losses for the prime mortgage and option ARM pools, respectively. As of March 31, 2010, the total allowance for loan losses for the prime mortgage and option ARM purchased credit-impaired pools was \$1.8 billion and \$1.0 billion, respectively. The credit performance of the other pools has generally been consistent with the estimate of losses at the acquisition date. Accordingly, no impairment for these other pools has been recognized.

Concentrations of credit risk – consumer loans other than purchased credit-impaired loans

Following is tabular information and, where appropriate, supplemental discussions about certain concentrations of credit risk for the Firm's consumer loans, other than purchased credit-impaired loans, including:

Geographic distribution of loans, including certain residential real estate loans with high LTV ratios; and

Loans that are 30+ days past due.

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The following tables present the geographic distribution of managed consumer credit outstandings by product as of March 31, 2010, and December 31, 2009, excluding purchased credit-impaired loans.

Consumer loans by geographic region

March 31, 2010 (in billions)	Home equity senior lien	Home equity junior lien	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans	Total consumer loans	
										reported	securitized	managed
California	\$ 3.6	\$ 16.2	\$ 18.4	\$ 2.0	\$ 3.9	\$ 44.1	\$ 4.4	\$ 20.3	\$ 2.1	\$ 70.9	NA	\$ 70.9
New York	3.3	12.0	8.7	1.6	0.8	26.4	3.8	11.6	4.6	46.4	NA	46.4
Texas	4.0	2.6	1.4	0.4	0.2	8.6	4.5	11.1	4.0	28.2	NA	28.2
Florida	1.2	3.9	4.9	1.9	0.9	12.8	1.8	9.0	1.1	24.7	NA	24.7
Illinois	1.8	4.6	3.0	0.6	0.3	10.3	2.5	8.1	2.6	23.5	NA	23.5
Ohio	2.2	1.8	0.4	0.3		4.7	3.1	5.9	2.9	16.6	NA	16.6
New Jersey	0.7	3.7	1.8	0.7	0.3	7.2	1.8	6.0	1.1	16.1	NA	16.1
Michigan	1.3	1.8	0.9	0.4		4.4	2.2	4.8	2.4	13.8	NA	13.8
Arizona	1.6	3.4	1.3	0.3	0.1	6.7	1.5	3.4	1.7	13.3	NA	13.3
Pennsylvania	0.2	1.1	0.4	0.4	0.1	2.2	2.1	5.5	0.9	10.7	NA	10.7
Washington	0.8	2.4	1.8	0.3	0.4	5.7	0.7	2.8	0.2	9.4	NA	9.4
Colorado	0.4	1.6	1.6	0.3	0.2	4.1	1.0	3.4	0.9	9.4	NA	9.4
All other ^(a)	5.4	16.1	24.2	4.0	1.4	51.1	18.0	57.4	10.7	137.2	NA	137.2
Total	\$ 26.5	\$ 71.2	\$ 68.8	\$ 13.2	\$ 8.6	\$ 188.3	\$ 47.4	\$ 149.3	\$ 35.2	\$ 420.2	NA	\$ 420.2

December 31, 2009 (in billions)	Home equity senior lien	Home equity junior lien	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans	Total consumer loans	
										reported	securitized	managed
California	\$ 3.6	\$ 16.9	\$ 18.7	\$ 1.7	\$ 3.8	\$ 44.7	\$ 4.4	\$ 11.0	\$ 1.8	\$ 61.9	\$ 11.4	\$ 73.3
New York	3.4	12.4	8.7	1.5	0.9	26.9	3.8	6.0	4.2	40.9	6.7	47.6
Texas	4.2	2.7	1.4	0.4	0.2	8.9	4.3	5.6	3.8	22.6	6.5	29.1
Florida	1.2	4.1	4.9	1.9	0.7	12.8	1.8	5.2	0.9	20.7	4.8	25.5
Illinois	1.8	4.8	2.9	0.6	0.4	10.5	2.4	3.9	2.4	19.2	4.9	24.1
Ohio	2.3	1.9	0.4	0.3		4.9	3.2	3.1	2.9	14.1	3.4	17.5
New Jersey	0.8	3.8	1.9	0.6	0.3	7.4	1.8	3.0	0.9	13.1	3.6	16.7
Michigan	1.3	1.9	0.9	0.3		4.4	2.1	2.4	2.5	11.4	2.9	14.3
Arizona	1.6	3.6	1.3	0.3	0.1	6.9	1.5	1.7	1.6	11.7	2.1	13.8
Pennsylvania	0.2	1.2	0.5	0.4	0.1	2.4	2.0	2.8	0.8	8.0	3.2	11.2
Washington	0.9	2.4	1.7	0.3	0.4	5.7	0.6	1.5	0.4	8.2	1.5	9.7
Colorado	0.4	1.7	1.6	0.2	0.2	4.1	1.0	1.6	0.8	7.5	2.1	9.6
All other ^(a)	5.7	16.6	22.4	4.0	1.4	50.1	17.1	31.0	10.6	108.8	31.5	140.3

Total	\$27.4	\$74.0	\$67.3	\$12.5	\$8.5	\$189.7	\$46.0	\$78.8	\$33.6	\$348.1	\$84.6	\$432.7
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(a) *Includes prime mortgage loans repurchased from Ginnie Mae pools, which are insured by U.S. government agencies, of \$12.2 billion and \$10.4 billion at March 31, 2010, and December 31, 2009, respectively. Prior period amounts have been revised to conform to the current period presentation.*

(b) *Loans securitized is defined as loans that were sold to nonconsolidated securitization trusts and were not included in reported loans at December 31, 2009. For further discussion of credit card securitizations see Note 15 on pages 131-142 of this Form 10-Q.*

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The following table presents the geographic distribution of certain residential real estate loans with current estimated LTV ratios in excess of 100% as of March 31, 2010, and December 31, 2009, excluding purchased credit-impaired loans acquired in the Washington Mutual transaction. The estimated collateral values used to calculate the current estimated LTV ratios in the following table were derived from a nationally recognized home price index measured at the MSA level. Because home price indices can have wide variability and such derived real estate values do not represent actual appraised loan-level collateral values, the resulting ratios are necessarily imprecise and should therefore be viewed as estimates.

Geographic distribution of residential real estate loans with current estimated LTVs > 100%^(a)

March 31, 2010 (in billions, except ratios)	Home equity	Prime mortgage ^(d)	Subprime	Total	% of total
	junior lien ^(c)		mortgage		loans ^(e)
California	\$ 7.0	\$ 6.7	\$1.0	\$14.7	40%
New York	1.6	0.3	0.2	2.1	9
Arizona	2.4	0.8	0.2	3.4	68
Florida	2.6	2.7	1.1	6.4	60
Michigan	1.2	0.5	0.2	1.9	61
All other	6.8	1.6	1.2	9.6	15
Total LTV >100%	\$ 21.6	\$ 12.6	\$3.9	\$38.1	27%
As a percentage of total loans	30%	22%	30%	27%	
Total portfolio average LTV at origination	74	70	78		
Total portfolio average current estimated LTV ^(b)	92	84	93		
December 31, 2009 (in billions, except ratios)	Home equity	Prime mortgage ^(d)	Subprime	Total	% of total
	junior lien ^(c)		mortgage		loans ^(e)
California	\$ 6.7	\$ 5.7	\$1.0	\$13.4	36%
New York	1.7	0.3	0.2	2.2	10
Arizona	2.4	0.7	0.2	3.3	63
Florida	2.5	2.5	1.2	6.2	57
Michigan	1.3	0.4	0.2	1.9	61
All other	6.9	1.6	1.3	9.8	15
Total LTV >100%	\$ 21.5	\$ 11.2	\$4.1	\$36.8	26%
As a percentage of total loans	29%	20%	33%	26%	
Total portfolio average LTV at origination	74	71	79		
Total portfolio average current estimated LTV ^(b)	90	81	95		

- (a) *Home equity-junior lien, prime mortgage and subprime mortgage loans with current estimated LTVs greater than 80% up to and including 100% were \$17.1 billion, \$14.2 billion and \$3.5 billion, and \$17.9 billion, \$15.0 billion and \$3.7 billion, respectively, at March 31, 2010, and December 31, 2009.*
- (b) *The average current estimated LTV ratio reflects the outstanding balance at the balance sheet date, divided by the estimated current property value. Current property values are estimated based on home valuation models utilizing nationally recognized home price index valuation estimates.*
- (c) *Represents combined LTV, which considers*

*all available
lien positions
related to the
property. All
other products
are presented
without
consideration of
subordinate
liens on the
property. Prior
period amounts
have been
revised to
conform to the
current period
presentation.*

*(d) Excludes
mortgage loans
insured by the
U.S. government
agencies of
\$6.1 billion and
\$5.0 billion at
March 31, 2010,
and
December 31,
2009,
respectively.
Prior period
amounts have
been revised to
conform to the
current period
presentation.*

*(e) Represents total
loans of the
product types
noted in this
table by
geographic
location,
excluding
mortgage loans
insured by U.S.
government
agencies.*

The consumer credit portfolio is geographically diverse. The greatest concentration of loans is in California. Excluding mortgage loans insured by U.S. government agencies, California represents 17% of total managed

consumer loans and 25% of total residential real estate loans at both March 31, 2010, and December 31, 2009. Of the total managed consumer loan portfolio, excluding mortgage loans insured by U.S. government agencies, \$169.1 billion, or 41%, is concentrated in California, New York, Arizona, Florida and Michigan at March 31, 2010, compared with \$174.5 billion, or 41%, at December 31, 2009.

Declining home prices have had a significant impact on the collateral value underlying the Firm's residential real estate loan portfolio. In general, the delinquency rate for loans with high LTV ratios is greater than the delinquency rate for loans in which the borrower has equity in the collateral. While a large portion of the loans with estimated LTV ratios greater than 100% continue to pay and are current, the continued willingness and ability of these borrowers to pay is currently uncertain. Nonperforming loans in the residential real estate portfolio totaled \$9.7 billion, of which 73% was greater than 150 days past due at March 31, 2010. In the aggregate, the unpaid principal balance of these loans has been charged down by approximately 35% to estimated collateral value.

Table of Contents**Consumer 30+ day delinquency information**

(in millions, except ratios)	30+ day delinquent loans		30+ day delinquency rate	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Consumer loans excluding purchased credit-impaired loans^(a)				
Home equity senior lien	\$ 729	\$ 833	2.75%	3.04%
Home equity junior lien	1,991	2,515	2.80	3.40
Prime mortgage	5,528 ^(d)	5,532 ^(d)	8.04 ^(f)	8.21 ^(f)
Subprime mortgage	3,893	4,232	29.45	33.79
Option ARMs	477	438	5.52	5.13
Auto loans	511	750	1.08	1.63
Credit card reported ^(b)	8,392	6,093	5.62	7.73
All other loans	1,374 ^(e)	1,306 ^(e)	3.90	3.91
Total consumer loans excluding purchased credit-impaired loans reported	\$22,895	\$21,699	5.45%	6.23%
Credit card securitized ^{(b)(c)}	NA	4,174	NA	4.93
Total consumer loans excluding purchased credit-impaired loans managed^(b)	\$22,895	\$25,873	5.45%	5.98%
Memo: Credit card managed ^(b)	\$ 8,392	\$10,267	5.62%	6.28%

(a) The delinquency rate for purchased credit-impaired loans, which is based on the unpaid principal balance, was 28.49% and 27.79% at March 31, 2010, and December 31, 2009, respectively.

(b) Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Upon the

adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts and certain other consumer loan securitization entities, primarily mortgage-related. As a result, related assets are now recorded as loans on the Consolidated Balance Sheet. As a result of the consolidation of the credit card securitization trusts, reported and managed basis are comparable for periods beginning after January 1, 2010. For further discussion, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 14-16 of this Form 10-Q.

- (c) *Loans securitized is defined as loans that were sold to nonconsolidated securitization trusts and were not included in reported loans at December 31, 2009. For a further discussion of credit card securitizations, see*

*CS on pages 30-33
of this Form 10-Q.*

(d) Excludes 30+ day delinquent mortgage loans that are insured by U.S. government agencies of \$11.2 billion and \$9.7 billion at March 31, 2010, and December 31, 2009, respectively. These amounts are excluded as reimbursement is proceeding normally.

(e) Excludes 30+ day delinquent loans that are 30 days or more past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of \$1.0 billion and \$942 million at March 31, 2010, and December 31, 2009, respectively. These amounts are excluded as reimbursement is proceeding normally.

*(f) The denominator for the calculation of the 30+ day delinquency rate includes:
(1) residential real estate loans reported in the*

Corporate/Private Equity segment; and (2) mortgage loans insured by U.S. government agencies. The 30+ day delinquency rate excluding these loan balances was 11.28% and 11.24% at March 31, 2010, and December 31, 2009, respectively.

Consumer 30+ day delinquencies have decreased to 5.45% of the consumer loan portfolio at March 31, 2010, compared with 5.98% at December 31, 2009, driven predominantly by a decrease in Card Services delinquencies of \$1.9 billion as well as a decrease in residential real estate delinquencies of \$932 million. While early stage delinquencies (30-89 days delinquent) in the residential real estate portfolios has shown improvement since December 31, 2009, late stage delinquencies (150+ days delinquent) remained elevated primarily due to the impacts of trial loan modifications and foreclosure processing delays. Losses related to these loans continue to be recognized in accordance with the Firm's normal charge-off practices; as such, these loans are reflected at their estimated collateral value.

Concentrations of credit risk – purchased credit-impaired loans

The following table presents the current estimated LTV ratio, as well as the ratio of the carrying value of the underlying loans to the current estimated collateral value, for purchased credit-impaired loans. Because such loans were initially measured at fair value, the ratio of the carrying value to the current estimated collateral value will be lower than the current estimated LTV ratio, which is based on the unpaid principal balance. The estimated collateral values used to calculate these ratios were derived from a nationally recognized home price index measured at the MSA level. Because home price indices can have wide variability and such derived real estate values do not represent actual appraised loan-level collateral values, the resulting ratios are necessarily imprecise and should therefore be viewed as estimates.

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LTV ratios and ratios of carrying values to current estimated collateral values				purchased credit-impaired
	Unpaid principal balance ^(a)	Current estimated LTV ratio ^(b)	Carrying value ^(d)	Ratio of carrying value to current estimated collateral value
March 31, 2010 (in billions, except ratios)				
Option ARMs	\$ 36.2	119%	\$28.3	90% ^(e)
Home equity	31.6	120 ^(c)	26.0	99
Prime mortgage	21.3	111	19.2	91 ^(e)
Subprime mortgage	8.8	113	5.8	75
				Ratio of carrying value to current estimated collateral value
December 31, 2009 (in billions, except ratios)	Unpaid principal balance ^(a)	Current estimated LTV ratio ^(b)	Carrying value ^(d)	
Option ARMs	\$ 37.4	113%	\$29.0	86% ^(e)
Home equity	32.9	115 ^(c)	26.5	93
Prime mortgage	22.0	106	19.7	90 ^(e)
Subprime mortgage	9.0	110	6.0	73
<i>(a) Represents the contractual amount of principal owed at March 31, 2010, and December 31, 2009.</i>				
<i>(b) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated based on home valuation models utilizing nationally recognized</i>				

*home price
index valuation
estimates.*

*(c) Represents
current
estimated
combined LTV,
which considers
all available
lien positions
related to the
property. All
other products
are presented
without
consideration of
subordinate
liens on the
property. Prior
period amounts
have been
revised to
conform to the
current period
presentation.*

*(d) Carrying values
include the
effect of fair
value
adjustments that
were applied to
the consumer
purchased
credit-impaired
portfolio at the
date of
acquisition.*

*(e) As of March 31,
2010, and
December 31,
2009, the ratios
of the carrying
value to current
estimated
collateral value
are net of the
allowance for
loan losses of*

\$1.8 billion and \$1.1 billion for the prime mortgage pool, respectively, and \$1.0 billion and \$491 million for the option ARM pool, respectively.

Purchased credit-impaired loans in the states of California and Florida represented 54% and 11%, respectively, of total purchased credit-impaired loans at both March 31, 2010, and December 31, 2009. The current estimated LTV ratios were 125% and 145% for California and Florida loans, respectively, at March 31, 2010, compared with 118% and 136%, respectively, at December 31, 2009. Loan concentrations in California and Florida, as well as the continued pressure on housing prices in those states, have contributed negatively to both the current estimated LTV ratio and the ratio of carrying value to current collateral value for loans in the purchased credit-impaired portfolio. While the carrying value of the purchased credit-impaired loans is marginally below the current estimated collateral value of the loans, the ultimate performance of this portfolio is highly dependent on the borrowers' behavior and ongoing ability and willingness to continue to make payments on homes with negative equity as well as the cost of alternative housing.

Option ARM and prime purchased credit-impaired pools: Approximately 49% of option ARM borrowers elected to make an interest-only or minimum payment at March 31, 2010. The cumulative amount of unpaid interest that has been added to the unpaid principal balance of option ARMs was \$1.8 billion and \$1.9 billion at March 31, 2010, and December 31, 2009, respectively. Assuming market interest rates, the Firm would expect the following balance of current option ARM loans to experience a payment recast: \$3.1 billion in 2010, \$3.5 billion in 2011 and \$4.9 billion in 2012.

While the option ARM and prime purchased credit-impaired pools have begun to show some signs of stabilization, they have not shown improvement as expected in the Firm's cash flow modeling of the pools. As a result, management concluded during the first quarter of 2010 that it was probable that higher expected principal credit losses for the prime mortgage and option ARM purchased credit-impaired pools would result in a decrease in expected cash flows. As a result, \$676 million and \$554 million was added during the quarter to the allowance for loan losses for the prime mortgage and option ARM pools, respectively. As of March 31, 2010, the total allowance for loan losses for the prime mortgage and option ARM purchased credit-impaired pools was \$1.8 billion and \$1.0 billion, respectively.

Other purchased credit-impaired pools: The credit performance of the home equity and subprime purchased credit-impaired pools has generally been consistent with the estimate of losses at the acquisition date. Accordingly, no impairment for these pools has been recognized.

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The following table provides a summary of lifetime principal loss estimates included in both the nonaccretable difference and the allowance for loan losses. Principal charge-offs will not be recorded on these portfolios until the nonaccretable difference has been fully depleted.

(in millions)	Lifetime loss estimates ^(a)		LTD liquidation losses ^{(b)(c)}	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
Option ARMs	\$11,350	\$10,650	\$ 2,121	\$ 1,744
Home equity	13,138	13,138	6,935	6,060
Prime mortgage	5,020	4,240	950	794
Subprime mortgage	3,842	3,842	910	796
Total	\$33,350	\$31,870	\$10,916	\$ 9,394

(a) Includes the original nonaccretable difference established in purchase accounting of \$30.5 billion for principal losses only. The remaining nonaccretable difference for principal losses only is \$19.6 billion and \$21.1 billion at March 31, 2010, and December 31, 2009, respectively. All increases in principal losses subsequent to the purchase date are reflected in the allowance for loan losses.

(b)

Realization of loss upon loan resolution.

(c) If charge-offs were reported comparable to the non-purchased credit-impaired portfolio, life-to-date (LTD) principal charge-offs would have been \$19.0 billion and \$16.7 billion at March 31, 2010, and December 31, 2009, respectively.

Loan modification activities

For additional information about consumer loan modification activities, including consumer loan modifications accounted for as troubled debt restructurings, see Note 13 on pages 125-129 of this Form 10-Q, and Note 13 on pages 192-196 of JPMorgan Chase's 2009 Annual Report.

Residential real estate loans: For both the Firm's on-balance sheet loans and loans serviced for others, more than 750,000 mortgage modifications have been offered to borrowers since the beginning of 2009. Of these, 127,000 have achieved permanent modification as of March 31, 2010.

The Firm is participating in the U.S. Treasury's MHA programs while continuing to expand its other loss-mitigation efforts for financially distressed borrowers who do not qualify for the U.S. Treasury's programs. The MHA programs include the Home Affordable Modification Program (HAMP) and the Second Lien Modification Program (2MP); these programs mandate standard modification terms across the industry and provide incentives to borrowers, servicers and investors who participate. All of the Firm's loan modification activities are intended to minimize economic loss to the Firm, while providing the borrower with an alternative to foreclosure and an affordable loan payment.

In July 2009, following the introduction of MHA, the Firm began to offer modifications under standard programs; prior to that time, residential real estate loan modifications were evaluated and offered on a case-by-case basis rather than being based on a standardized framework comparable to HAMP. The Firm completed its first permanent modifications under HAMP in September 2009. HAMP, as well as the Firm's other loss-mitigation programs, generally provide various concessions to financially troubled borrowers, including, but not limited to, term or payment extensions, interest rate reductions, and deferral of principal payments that would have otherwise been required under the terms of the original agreement. To date, the Firm has provided minimal principal forgiveness concessions.

In addition, JPMorgan Chase announced in March 2010 that it would be joining 2MP with implementation occurring in phases beginning in May 2010. The 2MP program will offer homeowners a way to modify their second mortgages to make them more affordable when their first mortgage has been modified under HAMP. For amortizing second lien loans modified under 2MP, the interest rate will be reduced to 1%; the interest rate on interest-only second lien loans will be reduced to 2%. After five years, the interest rate on these modified second lien loans will reset to the

then-current interest rate on the HAMP-modified first lien.

When the Firm modifies home equity lines of credit in troubled debt restructurings, future lending commitments related to the modified loans are canceled as part of the terms of the modification. Except for loans modified under 2MP where the borrower is current, borrowers must make at least three payments under the revised contractual terms during a trial modification and be successfully re-underwritten with income verification before a loan can be permanently modified.

For the 16,600 on-balance sheet loans modified under HAMP and the Firm's other loss-mitigation programs since July 1, 2009, 66% of permanent loan modifications of loans have included interest rate reductions, 42% have included term or payment extensions and 10% have included principal deferment. The sum of the percentages of the types of loan modifications exceeds 100% because, in some cases, the modification of an individual loan includes more than one type of concession.

The ultimate success of these modification programs and their impact on reducing credit losses remains uncertain given the short period of time since modification. The primary indicator used by management to monitor the success of these programs is the rate at which the modified loans default. Modification redefault rates are affected by a number of factors, including the type of loan modified, the borrower's overall ability and willingness to repay the modified loan, the LTV ratio of the property and other macroeconomic factors. Performance metrics for modifications of serviced loans completed since July 1, 2009 (a number of which were completed very recently), show a redefault rate of 15-20%. It is likely that this redefault rate will rise over time as the modified loans season, but the level at which these rates will peak is unknown.

The majority of the loans contractually modified to date have been modified under the Firm's other loss mitigation programs. The following table presents information as of March 31, 2010, relating to restructured on-balance sheet residential real estate loans for which concessions have been granted to borrowers experiencing financial difficulty. Modifications of purchased credit-impaired loans continue to be accounted for and reported as purchased credit-impaired loans, and the impact of the modification is incorporated into the Firm's quarterly assessment of whether a probable and/or significant change in estimated future cash flows has occurred. Modifications of loans other than purchased credit impaired are generally accounted for and reported as troubled debt restructurings.

Table of Contents**Restructured residential real estate loans**

(in millions)	March 31, 2010		December 31, 2009	
	On-balance sheet loans	Nonperforming on-balance sheet loans ^(c)	On-balance sheet loans	Nonperforming on-balance sheet loans ^(c)
Restructured residential real estate loans excluding purchased credit-impaired loans^(a)				
Home equity senior lien	\$ 183	\$ 48	\$ 168	\$ 30
Home equity junior lien	271	44	222	43
Prime mortgage	1,011	401	634	243
Subprime mortgage	2,255	818	1,998	598
Option ARMs	30	13	8	6
Total restructured residential real estate loans excluding purchased credit-impaired loans	\$3,750	\$ 1,324	\$3,030	\$ 920
Restructured purchased credit-impaired loans^(b)				
Home equity	\$ 407	NA	\$ 453	NA
Prime mortgage	1,897	NA	1,526	NA
Subprime mortgage	2,599	NA	1,954	NA
Option ARMs	3,651	NA	2,972	NA
Total restructured purchased credit-impaired loans	\$8,554	NA	\$6,905	NA

(a) Amounts represent the carrying value of restructured residential real estate loans.

(b) Amounts represent the unpaid principal balance of restructured purchased credit-impaired loans.

(c) Nonperforming loans modified in a troubled debt restructuring

*may be returned
to accrual status
when repayment
is reasonably
assured and the
borrower has
made a
minimum of six
payments under
the new terms.*

Excluding purchased credit-impaired loans, 26% of restructured residential real estate loans are greater than 30 days delinquent, which is within the Firm's expectations.

Credit card loans: JPMorgan Chase has also modified the terms of credit card loan agreements with borrowers who have experienced financial difficulty. Such modifications typically include reducing the interest rate on the card and, in most cases, involve placing the customer on a fixed payment plan not exceeding 60 months; in substantially all cases, the Firm cancels the customer's available line of credit on the credit card. Also in substantially all cases, if the cardholder does not comply with the modified payment terms, the credit card loan agreement reverts back to its original payment and interest rate terms. The remaining outstanding balance is then reported in the appropriate delinquency category based upon the original aging, and is subject to the Firm's standard charge-off and nonaccrual policies. Based on the Firm's historical experience, the Firm expects that a significant portion of the borrowers will not ultimately comply with the modified payment terms.

Table of Contents**Real estate owned (REO)**

As part of the residential real estate foreclosure process, loans are written down to the fair value of the underlying real estate asset, less costs to sell, at acquisition. In those instances where the Firm gains title, ownership and possession of individual properties at the completion of the foreclosure process, these REO assets are managed for prompt sale and disposition at the best possible economic value. Any further gains or losses on REO assets are recorded as part of other income. Operating expense, such as real estate taxes and maintenance, are charged to other expense. REO assets remained relatively unchanged compared with December 31, 2009. It is anticipated that REO assets will increase over the next several quarters, as loans moving through the foreclosure process are expected to increase.

Portfolio transfers

The Firm regularly evaluates market conditions and overall economic returns and makes an initial determination as to 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. Since the second half of 2007, all new prime mortgage originations that cannot be sold to U.S. government agencies and U.S. government-sponsored enterprises have been designated as held-for-investment. Prime mortgage loans originated with the intent to sell are accounted for at fair value and classified as trading assets in the Consolidated Balance Sheets.

ALLOWANCE FOR CREDIT LOSSES

JPMorgan Chase's allowance for loan losses covers the wholesale (risk-rated) and consumer (primarily scored) loan portfolios and represents management's estimate of probable credit losses inherent in the Firm's loan portfolio. Management also computes an allowance for wholesale lending-related commitments using a methodology similar to that used for the wholesale loans.

Determining the appropriateness of the allowance is complex and requires judgment about the effect of matters that are inherently uncertain. Assumptions about unemployment rates, housing prices and overall economic conditions could have a significant impact on the Firm's assessment of loan quality. Subsequent evaluations of the loan portfolio, in light of then-prevailing factors, may result in significant changes in the allowances for loan losses and lending-related commitments in future periods. At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm, and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. As of March 31, 2010, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses inherent in the portfolio, including those not yet identifiable).

For a further discussion of the allowance for credit losses, see Critical Accounting Estimates Used by the Firm on pages 86-88 and Note 14 on pages 130-131 of this Form 10-Q, and Allowance for Credit Losses on pages 115, Critical Accounting Estimates Used by the Firm on pages 127-131, and Note 14 on pages 196-198 of JPMorgan Chase's 2009 Annual Report.

The allowance for credit losses was \$39.1 billion at March 31, 2010, an increase of \$6.6 billion from \$32.5 billion at year-end 2009. The increase was primarily due to the Firm's adoption of new consolidation guidance related to VIEs. As a result of the consolidation of certain securitization entities the Firm established an allowance for loan losses of \$7.5 billion, primarily related to the receivables that had been held in such securitization trusts.

The consumer allowance for loan losses increased by \$307 million from December 31, 2009. The increase reflected a \$1.2 billion allowance increase in RFS, related to further estimated deterioration in the Washington Mutual prime and option ARM purchased credit-impaired pools. The increase was partially offset by a \$1.0 billion reduction in the allowance in CS, reflecting lower estimated losses primarily related to improved delinquency trends as well as lower levels of outstandings.

The wholesale allowance for loan losses was down by \$1.2 billion from December 31, 2009. The decrease was primarily due to repayments and loan sales.

The allowance for lending-related commitments for both wholesale and consumer, which is reported in other liabilities, was \$940 million at March 31, 2010, relatively unchanged from the December 31, 2009, balance of

\$939 million.

The credit ratios in the table below are based on retained loan balances, which exclude loans held-for-sale and loans accounted for at fair value. As of March 31, 2010 and 2009, wholesale retained loans were \$210.2 billion and \$230.5 billion, respectively; and consumer retained loans were \$496.6 billion and \$462.3 billion, respectively. For the quarters ended March 31, 2010 and 2009, average wholesale retained loans were \$211.6 billion and \$238.7 billion, respectively; and average consumer retained loans were \$506.9 billion and \$471.9 billion, respectively. Excluding held-for-sale loans, loans carried at fair value, and purchased credit-impaired consumer loans, the allowance for loan losses represented 5.64% of loans at March 31, 2010, compared with 5.51% at December 31, 2009.

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

Three months ended March 31, (in millions)	2010			2009		
	Wholesale	Consumer	Total	Wholesale	Consumer	Total
Allowance for loan losses						
Beginning balance at January 1,	\$7,145	\$24,457	\$31,602	\$6,545	\$16,619	\$23,164
Cumulative effect of change in accounting principles ^(a)	14	7,480	7,494			
Gross charge-offs ^(a)	1,014	7,437	8,451	206	4,433	4,639
Gross (recoveries) ^(a)	(55)	(486)	(541)	(15)	(228)	(243)
Net charge-offs^(a)	959	6,951	7,910	191	4,205	4,396
Provision for loan losses ^(a)	(257)	7,248	6,991	1,551	7,066	8,617
Other	(1)	10	9	(1)	(3)	(4)
Ending balance at March 31	\$5,942	\$32,244	\$38,186	\$7,904	\$19,477	\$27,381
Components:						
Asset-specific ^{(b)(c)}	\$1,557	\$ 1,010	\$ 2,567	\$1,213	\$ 546	\$ 1,759
Formula-based ^{(a)(d)}	4,385	28,423	32,808	6,691	18,931	25,622
Purchased credit-impaired		2,811	2,811			
Total allowance for loan losses	\$5,942	\$32,244	\$38,186	\$7,904	\$19,477	\$27,381
Allowance for lending-related commitments						
Beginning balance at January 1,	\$ 927	\$ 12	\$ 939	\$ 634	\$ 25	\$ 659
Cumulative effect of change in accounting principles ^(a)	(18)		(18)			
Provision for lending-related commitments ^(a)	21	(2)	19	(21)		(21)
Other				3	(3)	
Ending balance at March 31	\$ 930	\$ 10	\$ 940	616	\$ 22	\$ 638
Components:						
Asset-specific	\$ 296	\$	\$ 296	65	\$	\$ 65
Formula-based	634	10	644	551	22	573
Total allowance for lending-related commitments	\$ 930	\$ 10	\$ 940	\$ 616	\$ 22	\$ 638
Total allowance for credit losses	\$6,872	\$32,254	\$39,126	\$8,520	\$19,499	\$28,019
Credit ratios						
	2.83%	6.49%	5.40%	3.43%	4.21%	3.95

Allowance for loan losses to retained loans						
Allowance for loan losses to retained nonperforming loans ^(e)	101	298	228	219	252	241
Allowance for loan losses to retained nonperforming loans excluding credit card	101	150	133	219	137	163
Net charge-off rates ^(f)	1.84	5.56	4.46	0.32	3.61	2.51
Credit ratios excluding home lending purchased credit-impaired loans						
Allowance for loan losses to retained loans ^(g)	2.83	7.05	5.64	3.43	5.20	4.53
Allowance for loan losses to retained nonperforming loans ^{(e)(g)}	101	272	212	219	252	241
Allowance for loan losses to retained nonperforming loans excluding credit card ^{(e)(g)}	101	124	116	219	137	163

(a) *Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Upon the adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, its Firm-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. As a result \$7.4 billion, \$14 million and \$127 million of allowance for loan losses were recorded on-balance sheet associated with the Firm-sponsored*

*credit card
securitization
trusts,
Firm-administered
multi-seller
conduits, and
certain other
consumer loan
securitization
entities, primarily
mortgage-related,
respectively. For
further discussion,
see Note 15 on
pages 131-142 of
this Form 10-Q.*

*(b) Relates to
risk-rated loans
that have been
placed on
nonaccrual status
and loans that have
been modified in a
troubled debt
restructuring.*

*(c) The asset-specific
consumer
allowance for loan
losses includes
\$754 million and
\$380 million
related to
residential real
estate loans
restructured in
troubled debt
restructurings at
March 31, 2010
and 2009,
respectively. Prior
period amounts
have been
reclassified from
formula-based to
conform with the
current period
presentation.*

(d)

Includes all of the Firm's allowance for loan losses on credit card loans, including those for which the Firm has modified the terms of the loans for borrowers experiencing financial difficulty.

- (e) *The Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the Federal Financial Institutions Examination Council, 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 about a specified event (e.g., bankruptcy of the borrower), whichever is earlier. The allowance for loan losses on credit card loans was \$16.0 billion and \$8.8 billion as of March 31, 2010 and 2009, respectively.*

(f)

Charge-offs are not recorded on purchased credit-impaired loans until actual losses exceed estimated losses recorded as purchase accounting adjustments at the time of acquisition. To date, no charge-offs have been recorded for any of these loans.

- (g) *Excludes the impact of purchased credit-impaired loans acquired as part of the Washington Mutual transaction. The allowance for loan losses on purchased credit-impaired loans was \$2.8 billion and zero as of March 31, 2010 and 2009, respectively.*

For more information on home lending purchased credit-impaired loans, see pages 71 and 74-75 and Note 13 on pages 125-129 of this Form 10-Q and pages 116-117 of JPMorgan Chase's 2009 Annual Report.

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The calculation of the allowance for loan losses to total retained loans, excluding home lending purchased credit-impaired loans, is presented below.

March 31, (in millions, except ratios)	2010	2009
Allowance for loan losses	\$ 38,186	\$ 27,381
Less: Allowance for purchased credit-impaired loans	2,811	
Adjusted allowance for loan losses	\$ 35,375	\$ 27,381
Total loans retained	\$ 706,841	\$ 692,828
Less: Firmwide purchased credit-impaired loans	79,430	87,782
Adjusted loans	\$ 627,411	\$ 605,046
Allowance for loan losses to ending loans excluding purchased credit-impaired loans	5.64%	4.53%

The following table presents the allowance for credit losses by business segment at March 31, 2010, and December 31, 2009.

(in millions)	Allowance for credit losses					
	March 31, 2010			December 31, 2009		
	Loan losses	Lending-related commitments	Total	Loan losses	Lending-related commitments	Total
Investment Bank ^(a)	\$ 2,601	\$ 482	\$ 3,083	\$ 3,756	\$ 485	\$ 4,241
Commercial Banking	3,007	359	3,366	3,025	349	3,374
Treasury & Securities Services	57	76	133	88	84	172
Asset Management	261	13	274	269	9	278
Corporate/Private Equity	16		16	7		7
Total Wholesale	5,942	930	6,872	7,145	927	8,072
Retail Financial Services ^(a)	16,200	10	16,210	14,776	12	14,788
Card Services ^(a)	16,032		16,032	9,672		9,672
Corporate/Private Equity	12		12	9		9
Total Consumer	32,244	10	32,254	24,457	12	24,469
Total	\$ 38,186	\$ 940	\$ 39,126	\$ 31,602	\$ 939	\$ 32,541

(a) *Effective January 1, 2010, the Firm adopted new consolidation*

guidance related to VIEs. Upon the adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, its Firm-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. As a result, related receivables are now recorded in loans on the Consolidated Balance Sheet. As a result, \$7.4 billion, \$14 million and \$127 million of allowance for loan losses were recorded on-balance sheet associated with the Firm-sponsored credit card securitization trusts, Firm-administered multi-seller conduits, and certain other consumer loan securitization entities, primarily mortgage-related, respectively. For further discussion, see Note 15 on pages 131-142 of this Form 10-Q.

Table of Contents**Provision for credit losses**

The provision for credit losses was \$7.0 billion for the three months ended March 31, 2010, down by \$3.1 billion or 30% from the prior-year managed provision. The total consumer-managed provision for credit losses was \$7.2 billion, compared with \$8.5 billion in the prior year, reflecting a lower addition to the allowance for credit losses, partially offset by a higher provision related to net charge-offs across most consumer portfolios. The wholesale provision for credit losses was a benefit of \$236 million, compared with an expense of \$1.5 billion, reflecting a reduction in the allowance for loan losses due to repayments and loan sales, partially offset by a higher provision related to net charge-offs.

Three months ended March 31, (in millions)	Provision for loan losses		Provision for lending-related commitments		Total provision for credit losses	
	2010	2009	2010	2009	2010	2009
Investment Bank ^(a)	\$ (477)	\$ 1,274	\$ 15	\$ (64)	\$ (462)	\$ 1,210
Commercial Banking	204	263	10	30	214	293
Treasury & Securities Services	(31)	(20)	(8)	14	(39)	(6)
Asset Management	31	34	4	(1)	35	33
Corporate/Private Equity	16				16	
Total wholesale	(257)	1,551	21	(21)	(236)	1,530
Retail Financial Services ^(a)	3,735	3,877	(2)		3,733	3,877
Card Services reported ^(d)	3,512	3,189			3,512	3,189
Corporate/Private Equity	1				1	
Total consumer	7,248	7,066	(2)		7,246	7,066
Total provision for credit losses reported	6,991	8,617	19	(21)	7,010	8,596
Credit card securitized ^{(d)(b)}	NA	1,464	NA		NA	1,464
Total provision for credit losses managed^(a)	\$ 6,991	\$ 10,081	\$ 19	\$ (21)	\$ 7,010	\$ 10,060

(a) Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Upon the adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, its Firm-administered

multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related. As a result of the consolidation of the credit card securitization trusts, reported and managed basis are comparable for periods beginning after January 1, 2010. For further discussion, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 14-16 of this Form 10-Q.

(b) Loans securitized is defined as loans that were sold to nonconsolidated securitization trusts and were not included in reported loans. For further discussion of credit card securitizations, see Note 15 on pages 131-142 of this Form 10-Q.

MARKET RISK MANAGEMENT

For discussion of the Firm's market risk management organization, major market risk drivers and classification of risks, see pages 118-124 of JPMorgan Chase's 2009 Annual Report.

Value-at-risk (VaR)

JPMorgan Chase's primary statistical risk measure, VaR, estimates the potential loss from adverse market moves in a normal market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VaR is used for comparing risks across businesses, for monitoring limits and as an input to economic-capital calculations. Each business day, as part of its risk management activities, the Firm undertakes a comprehensive VaR calculation that includes the majority of its market risks. These VaR results are reported to senior management.

To calculate VaR, the Firm uses historical simulation, based on a one-day time horizon and an expected tail-loss methodology, which measures risk across instruments and portfolios in a consistent and comparable way. The simulation is based on data for the previous 12 months. This approach assumes that historical changes in market values are representative of future changes; this assumption may not always be accurate, particularly when there is volatility in the market environment. For certain products, such as syndicated lending facilities and some mortgage-related securities for which price-based time series are not readily available, market-based data are used in conjunction with sensitivity factors to estimate the risk. It is likely that using an actual price-based time series for these products, if available, would impact the VaR results presented. In addition, certain risk parameters, such as correlation risk among certain instruments, are not fully captured in VaR.

The following section describes JPMorgan Chase's VaR measure using a 95% confidence level.

Table of Contents**95% Confidence Level VaR****Total IB trading VaR by risk type, credit portfolio VaR and other VaR**

(in millions)	Avg.	Three months ended March 31,					At March 31,	
		2010 Min	Max	Avg.	2009 Min	Max	2010	2009
IB VaR by risk type:								
Fixed income	\$ 69	\$ 43	\$ 84	\$ 158	\$ 143	\$ 179	\$ 56	\$ 153
Foreign exchange	13	7	20	23	12	39	15	14
Equities	24	10	52	97	40	156	20	94
Commodities and other	15	11	23	20	14	30	14	17
Diversification benefit to IB trading VaR	(49) ^(a)	NM ^(b)	NM ^(b)	(108) ^(a)	NM ^(b)	NM ^(b)	(43) ^(a)	(95) ^(a)
IB trading VaR	\$ 72	\$ 43	\$ 102	\$ 190	\$ 162	\$ 236	\$ 62	\$ 183
Credit portfolio VaR	19	15	25	86	74	106	20	106
Diversification benefit to IB trading and credit portfolio VaR	(9) ^(a)	NM ^(b)	NM ^(b)	(63) ^(a)	NM ^(b)	NM ^(b)	(8) ^(a)	(80) ^(a)
Total IB trading and credit portfolio VaR	\$ 82	\$ 53	\$ 116	\$ 213	\$ 180	\$ 256	\$ 74	\$ 209
Consumer Lending VaR	25	15	38	108	83	151	25	96
Chief Investment Office (CIO) VaR	70	59	80	121	111	126	77	125
Diversification benefit to total other VaR	(13) ^(a)	NM ^(b)	NM ^(b)	(61) ^(a)	NM ^(b)	NM ^(b)	(16) ^(a)	(59) ^(a)
Total other VaR	\$ 82	\$ 70	\$ 100	\$ 168	\$ 147	\$ 202	\$ 86	\$ 162
Diversification benefit to total IB and other VaR	(66) ^(a)	NM ^(b)	NM ^(b)	(93) ^(a)	NM ^(b)	NM ^(b)	(83) ^(a)	(94) ^(a)
Total IB and other VaR	\$ 98	\$ 67	\$ 137	\$ 288	\$ 249	\$ 328	\$ 77	\$ 277

(a) Average and period-end VaRs were less than the sum of the VaRs of the components described above, which is due to portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a

portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.

- (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.*

VaR Measurement

The Firm's IB trading and other VaR measure above includes substantially all trading activities in the Investment Bank, as well as syndicated lending facilities that the Firm intends to distribute. Credit portfolio VaR includes VaR on derivative credit valuation adjustments, hedges of the credit valuation adjustment and MTM hedges of the retained loan portfolio, which are all reported in principal transactions revenue. Credit portfolio VaR does not include the retained loan portfolio, which is not marked to market. In addition, IB and other VaR measure includes certain positions used as part of the Firm's risk management function within the CIO and in the Consumer Lending businesses. The CIO VaR includes positions, primarily in debt securities and credit products, used to manage the Firm's risk concentrations, including interest rate and credit risks arising from the Firm's ongoing business activities. The Consumer Lending VaR includes the Firm's mortgage pipeline and warehouse loans, MSRs and all related hedges. The VaR measure excludes the DVA taken on certain structured liabilities and derivatives to reflect the credit quality of the Firm. It also excludes certain activities such as Private Equity and principal investing (e.g., mezzanine financing, tax-oriented investments, etc.), as well as structural interest rate risk management positions, capital management positions, and longer-term investments managed by the CIO. These longer-term positions are managed through the Firm's earnings at risk and other cash flow monitoring processes rather than by using a VaR measure. Principal investing activities and Private Equity positions are managed using stress and scenario analysis.

First-quarter 2010 VaR results

Total average IB and other VaR for the first quarter of 2010 was \$98 million, compared with \$288 million in the first quarter of 2009. The decrease in average VaR was driven by a decline in the impact of the market volatility experienced in early 2009, as well as a reduction in exposures primarily driven by IB. IB's average total trading and credit portfolio VaR for the first quarter of 2010 was \$82 million, compared with \$213 million for the same period of the prior year. The

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decrease in IB trading VaR was driven by a decline in the impact of market volatility as well as a reduction in exposures primarily in the fixed income and equities risk components. CIO VaR averaged \$70 million for the first quarter of 2010, compared with \$121 million for the same period of the prior year. Consumer Lending VaR averaged \$25 million for the first quarter of 2010, compared with \$108 million for the same period of the prior year. Decreases were again driven by the decline in market volatility.

Average IB and other VaR diversification benefit was 40% of the sum for the first quarter of 2010, compared with 24% of the sum for the first quarter of 2009. The Firm experienced a gain in diversification benefit as the market crisis receded, markets started to recover and positions changed such that correlations decreased. In general, over the course of the year, VaR exposures can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR back-testing

To evaluate the soundness of its VaR model the Firm conducts daily back-testing of VaR against the Firm's market risk-related revenue, which is defined as: the change in value of principal transactions revenue for IB and CIO; trading-related net interest income for IB, CIO and Consumer Lending; IB brokerage commissions, underwriting fees or other revenue; revenue from syndicated lending facilities that the Firm intends to distribute; and mortgage fees and related income for the Firm's mortgage pipeline and warehouse loans, MSR's, and all related hedges. The daily firmwide market risk-related revenue excludes gains and losses from DVA and from longer-term corporate investments and Private Equity losses.

The following histogram illustrates the daily market risk-related gains and losses for IB, CIO and Consumer Lending positions for the first three months of 2010. The chart shows that the Firm posted market risk-related gains on all 64 days in this period, with 9 days exceeding \$180 million. There were no losses sustained during the three months ended March 31, 2010.

**Daily IB & Other Market Risk-Related Gains
(95% Confidence Level VaR)
Three Months Ended March 31, 2010**

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The following table provides information about the gross sensitivity of DVA to a one-basis-point increase in JPMorgan Chase's credit spreads. This sensitivity represents the impact from a one-basis-point parallel shift in JPMorgan Chase's entire credit curve. As credit curves do not typically move in a parallel fashion, the sensitivity multiplied by the change in spreads at a single maturity point may not be representative of the actual revenue recognized.

Debit valuation adjustment sensitivity

(in millions)	Change in revenue based upon a 1-basis-point increase in JPMorgan Chase credit spread
March 31, 2010	\$34
December 31, 2009	39

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 using multiple scenarios that assume credit spreads widen significantly, equity prices decline and significant changes in interest rates across the major currencies. Other scenarios focus on the risks predominant in individual business segments and include scenarios that focus on the potential for adverse movements in complex portfolios. Scenarios were updated more frequently in 2009 and, in some cases, redefined to reflect the significant market volatility which began in late 2008. 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 based on current market risk positions are reported to the Firm's senior management and to the lines of business to help them better measure and manage risks and to understand event risk sensitive positions.

Earnings-at-risk stress testing

The VaR and stress-test measures described above illustrate the total economic sensitivity of the Firm's Consolidated Balance Sheets to changes in market variables. The effect of interest-rate exposure on net income for the Firm's core nontrading business activities is also important. For further discussion on the effect of interest rate exposure, see page 123 of JPMorgan Chase's 2009 Annual Report.

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

Immediate changes in interest rates present a limited view of risk, and so a number of alternative scenarios are also reviewed. These scenarios include the implied forward curve, nonparallel rate shifts and severe interest rate shocks on selected key rates. These scenarios are intended to provide a comprehensive view of JPMorgan Chase's earnings at risk over a wide range of outcomes. JPMorgan Chase's 12-month pretax earnings sensitivity profiles as of March 31, 2010, and December 31, 2009, were as follows.

(in millions)	Immediate change in rates			
	+200bp	+100bp	-100bp	-200bp
March 31, 2010	\$ (968)	\$ (319)	NM^(a)	NM^(a)
December 31, 2009	\$ (1,594)	\$ (554)	NM ^(a)	NM ^(a)

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

The change in earnings at risk from December 31, 2009, resulted from potentially higher levels of deposit balances and reduced levels of fixed-rate assets. The Firm's risk to rising rates was largely the result of increased funding costs on assets, which would be partially offset by widening deposit margins, which are currently compressed due to very low short-term interest rates.

Additionally, another interest rate scenario, involving a steeper yield curve, with long-term rates rising 100 basis points and short-term rates staying at current levels, would result in a 12-month pretax earnings benefit of \$633 million. The increase in earnings under this scenario is due to reinvestment of maturing assets at the higher long-term rates, with funding costs remaining unchanged.

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PRIVATE EQUITY RISK MANAGEMENT

For a discussion of Private Equity Risk Management, see page 124 of JPMorgan Chase's 2009 Annual Report. At both March 31, 2010, and December 31, 2009, the carrying value of the Private Equity portfolio was \$7.3 billion, of which \$890 million and \$762 million, respectively, represented positions traded in the public markets.

OPERATIONAL RISK MANAGEMENT

For a discussion of JPMorgan Chase's Operational Risk Management, see page 125 of JPMorgan Chase's 2009 Annual Report.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

For a discussion of the Firm's Reputation and Fiduciary Risk Management, see page 126 of JPMorgan Chase's 2009 Annual Report.

SUPERVISION AND REGULATION

The following discussion should be read in conjunction with the Supervision and Regulation section on pages 1-4 of JPMorgan Chase's 2009 Form 10-K.

Dividends

At March 31, 2010, JPMorgan Chase's bank subsidiaries could pay, in the aggregate, \$4.2 billion in dividends to their respective bank holding companies without the prior approval of their relevant banking regulators.

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CRITICAL ACCOUNTING ESTIMATES USED BY THE FIRM

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