J P MORGAN CHASE & CO
Form 10-Q
August 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 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.

þ Yes o 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).

þ Yes o No

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(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).

o Yes þ No

Number of shares of common stock outstanding as of July 31, 2010: 3,965,167,399

FORM 10-Q
TABLE OF CONTENTS

Table of Contents

JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

ed)

ons, except per share, headcount and ratios) for the period ended,	2Q10	1Q10	4Q09	3Q09	2Q09	Six months en 30, 2010	
income statement data							
revenue	**$ 25,101**	$ 27,671	$ 23,164	$ 26,622	$ 25,623	**$ 52,772**	$
ninterest expense	**14,631**	16,124	12,004	13,455	13,520	**30,755**	
ision profit[a]	**10,470**	11,547	11,160	13,167	12,103	**22,017**	
n for credit losses	**3,363**	7,010	7,284	8,104	8,031	**10,373**	
efore income tax expense and extraordinary	**7,107**	4,537	3,876	5,063	4,072	**11,644**	
ax expense	**2,312**	1,211	598	1,551	1,351	**3,523**	
efore extraordinary gain	**4,795**	3,326	3,278	3,512	2,721	**8,121**	
inary gain[b]				76			
me	**$ 4,795**	$ 3,326	$ 3,278	$ 3,588	$ 2,721	**$ 8,121**	$
mon share data							
rnings							
efore extraordinary gain	**$ 1.10**	$ 0.75	$ 0.75	$ 0.80	$ 0.28	**$ 1.84**	$
me	**1.10**	0.75	0.75	0.82	0.28	**1.84**	
earnings[c]							
efore extraordinary gain	**$ 1.09**	$ 0.74	$ 0.74	$ 0.80	$ 0.28	**$ 1.83**	$
me	**1.09**	0.74	0.74	0.82	0.28	**1.83**	
idends declared	**0.05**	0.05	0.05	0.05	0.05	**0.10**	
ue	**40.99**	39.38	39.88	39.12	37.36		
n shares outstanding							
d-average: Basic	**3,983.5**	3,970.5	3,946.1	3,937.9	3,811.5	**3,977.0**	3
	4,005.6	3,994.7	3,974.1	3,962.0	3,824.1	**4,000.2**	3
shares at period-end[d]	**3,975.8**	3,975.4	3,942.0	3,938.7	3,924.1		
rice[e]							
	$ 48.20	$ 46.05	$ 47.47	$ 46.50	$ 38.94	**$ 48.20**	$
	36.51	37.03	40.04	31.59	25.29	**36.51**	
	36.61	44.75	41.67	43.82	34.11		
apitalization	**145,554**	177,897	164,261	172,596	133,852		
ratios							
n common equity (ROE[c])							
efore extraordinary gain	**12%**	8%	8%	9%	3%	**10%**	
me	**12**	8	8	9	3	**10**	
n tangible common equity (ROTCE[c])							
efore extraordinary gain	**17**	12	12	13	5	**15**	

me	**17**	12	12	14	5	**15**
n assets (ROA)						
efore extraordinary gain	**0.94**	0.66	0.65	0.70	0.54	**0.80**
me	**0.94**	0.66	0.65	0.71	0.54	**0.80**
l ratio	**58**	58	52	51	53	**58**
pital ratio(f)	**12.1**	11.5	11.1	10.2	9.7	
ital ratio	**15.8**	15.1	14.8	13.9	13.3	
verage ratio	**6.9**	6.6	6.9	6.5	6.2	
mmon capital ratio(g)	**9.6**	9.1	8.8	8.2	7.7	
balance sheet data (period-end)(f)						
assets	**$ 397,508**	$ 426,128	$ 411,128	$ 424,435	$ 395,626	
s	**312,013**	344,376	360,390	372,867	345,563	
	699,483	713,799	633,458	653,144	680,601	
ets	**2,014,019**	2,135,796	2,031,989	2,041,009	2,026,642	
	887,805	925,303	938,367	867,977	866,477	
m debt	**248,618**	262,857	266,318	272,124	271,939	
stockholders equity	**162,968**	156,569	157,213	154,101	146,614	
ckholders equity	**171,120**	164,721	165,365	162,253	154,766	
nt	**232,939**	226,623	222,316	220,861	220,255	

3

Table of Contents

(unaudited) (in millions, except ratios) As of or for the period ended,	**2Q10**	1Q10	4Q09	3Q09	2Q09	Six months ended June 30, **2010**	2009
Credit quality metrics							
Allowance for credit losses(f)	**$36,748**	$39,126	$32,541	$31,454	$29,818		
Allowance for loan losses to total retained loans(f)	**5.15%**	5.40%	5.04%	4.74%	4.33%		
Allowance for loan losses to retained loans excluding purchased credit-impaired loans(f)(h)	**5.34**	5.64	5.51	5.28	5.01		
Nonperforming assets	**$18,156**	$19,019	$19,741	$20,362	$17,517		
Net charge-offs	**5,714**	7,910	6,177	6,373	6,019	**$13,624**	$10,415
Net charge-off rate	**3.28%**	4.46%	3.85%	3.84%	3.52%	**3.88%**	3.01%
Wholesale net charge-off rate	**0.44**	1.84	2.31	1.93	1.19	**1.14**	0.75
Consumer net charge-off rate	**4.49**	5.56	4.60	4.79	4.69	**5.03**	4.15

(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 Bank (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 (EPS) 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 15-19 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) Share prices shown for JPMorgan Chase s common stock are from 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 I 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 at the adoption date.

(g) *The Firm uses Tier 1 common capital (Tier 1 common) along with the other capital measures to assess and monitor its capital position. The Tier 1 common capital ratio (Tier*

1 common ratio) is Tier 1 common divided by risk-weighed assets. 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 (WMMT), which were consolidated onto the balance sheet at fair value during the second quarter of 2009; such loans have been fully repaid or charged off as of June 30, 2010. See Note 15 on pages 198-205 of JPMorgan Chase s 2009 Annual Report.

Table of Contents

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

This section of the Form 10-Q provides management s discussion and analysis (MD&A) of the financial condition and results of operations of JPMorgan Chase. See the Glossary of terms on pages 181-184 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 187-188 and Part II, Item 1A: Risk Factors on pages 196-197 of this Form 10-Q), and see Part I, Item 1A, Risk Factors on pages 4-10 of 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 $2.0 trillion in assets, $171.1 billion in stockholders equity and operations in more than 60 countries as of June 30, 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.

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 15,600 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 26,900 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 15,900 auto dealerships and 1,800 schools and universities nationwide.

Card Services

Card Services (CS) is one of the nation s largest credit card issuers, with nearly $143 billion in loans and nearly 90 million open accounts. In the six months ended June 30, 2010, customers used Chase cards to meet nearly $148 billion of their spending needs. Through its merchant acquiring business, Chase Paymentech Solutions, CS is a global leader in payment processing and merchant acquiring.

Commercial Banking

Commercial Banking (CB) delivers extensive industry knowledge, local expertise and dedicated service to more than 24,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion, and over 30,000 real estate investors/owners. 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 CB, RFS 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 $1.6 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.

Table of Contents

EXECUTIVE OVERVIEW

This executive overview of MD&A 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.

The U.S. and global economic recovery proceeded in the second quarter of 2010, though the pace of growth slowed, particularly in the U.S. and Asia. Concerns about the outlook for fiscal policy in the developed economies, and the impact that might have on the global economic recovery, led to a decline in equity markets and a rally in the bond markets. However, conditions within the U.S. labor market continued to improve gradually and household spending increased, but at a slow pace. Business spending on equipment and technology rose significantly, supported by the strong financial condition of U.S. businesses; however, investment in nonresidential building projects remained weak. Furthermore, inflation continued to trend lower during the quarter and the Federal Reserve indicated that these economic conditions were likely to warrant an exceptionally low federal funds rate for an extended period.

In response to the recent financial crisis, the U.S. Congress and regulators, as well as legislative and regulatory bodies in other countries, continue to focus on the regulation of financial institutions. On July 21, 2010, the U.S. enacted the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), financial reform legislation that expands the range of financial companies and activities that are subject to federal oversight. This new law also provides more comprehensive regulation of the over-the-counter derivatives market; provides limitations on proprietary trading and the investment activities of banks; imposes limitations on debit card interchange transaction fees; and includes several other provisions that affect the Firm s business activities. As discussed in the Business outlook section, the full impact of this legislation is unclear, and many challenges and uncertainties remain.

Financial performance of JPMorgan Chase

	Three months ended June 30,			Six months ended June 30,		
(in millions, except per share data and ratios)	**2010**	2009	Change	**2010**	2009	Change
Selected income statement data						
Total net revenue	**$25,101**	$25,623	(2)%	**$52,772**	$50,648	4%
Total noninterest expense	**14,631**	13,520	8	**30,755**	26,893	14
Pre-provision profit	**10,470**	12,103	(13)	**22,017**	23,755	(7)
Provision for credit losses	**3,363**	8,031	(58)	**10,373**	16,627	(38)
Net income	**4,795**	2,721	76	**8,121**	4,862	67
Diluted earnings per share*(a)*	**$ 1.09**	$ 0.28	289	**$ 1.83**	$ 0.68	169
Return on common equity*(b)*	**12%**	3%		**10%**	4%	
Capital ratios						
Tier 1 capital	**12.1**	9.7				
Tier 1 common	**9.6**	7.7				

(a) The calculation of second quarter 2009 EPS includes a one-time, noncash reduction of $1.1 billion, or $0.27 per share

($0.28 per share for the six months ended June 30, 2009), resulting from repayment of TARP preferred capital. For further discussion, see Impact on diluted EPS of redemption of TARP preferred stock issued to the U.S. Treasury on page 19 of this Form 10-Q.

(b) *The calculation of second quarter 2009 net income applicable to common equity includes a one-time, noncash reduction of $1.1 billion resulting from repayment of TARP preferred capital. Excluding this reduction, the adjusted ROE was 6% for the second quarter and first six months of 2009. For further discussion of adjusted ROE, see Explanation and reconciliation of the Firm s use of non-GAAP* *financial measures on pages 15-19 of this Form 10-Q.*

Business overview

JPMorgan Chase reported second-quarter 2010 net income of $4.8 billion, or $1.09 per share, compared with net income of $2.7 billion, or $0.28 per share, in the second quarter of 2009. Current-quarter EPS included a benefit from a $1.5 billion, or $0.36 per share, reduction of loan loss reserves, partially offset by a charge of $550 million, or $0.14 per share, for the United Kingdom (U.K.) Bank Payroll Tax. Prior-year EPS reflected a one-time, noncash reduction in net income applicable to common stockholders of $1.1 billion, or $0.27 per share, resulting from repayment of TARP preferred capital. ROE for the quarter was 12%, compared with 3% in the prior year.

The increase in earnings from the second quarter of 2009 was driven by a significantly lower provision for credit losses, partially offset by lower net revenue and higher noninterest expense. The decline in net revenue was driven by lower principal transactions revenue, reflecting lower trading results, and lower investment banking fees, partially offset by higher securities gains. The lower provision for credit losses reflected improvements in both the consumer and wholesale provisions. The consumer provision reflected a reduction in the allowance for credit losses as a result of improved delinquency trends and reduced net charge-offs. The wholesale provision was a benefit in the second quarter of 2010, compared with an expense in the second quarter of 2009. Noninterest expense in the second quarter of 2010 included the impact of the U.K. Bank Payroll Tax on certain compensation awarded from December 9, 2009, to April 5, 2010, to relevant banking employees, and included higher litigation expense. JPMorgan Chase maintained very high liquidity, with a deposit-to-loan ratio of 127%, and generated additional capital, ending the quarter with a strong Tier 1 common ratio of 9.6%.

Credit trends continued to improve during the second quarter; however, the levels of charge-offs and delinquencies in the consumer-lending businesses remained extremely high. The wholesale businesses experienced reduced credit costs, reflecting a reduction in the allowance for credit losses mainly due to net repayments, loan sales, refinements to credit loss estimates, and improvement in the credit quality of the commercial and industrial portfolio. Total firmwide credit reserves fell to $36.7 billion, as loan balances remained flat and credit costs declined, resulting in a ratio of firmwide reserves to total loans (excluding purchased credit-impaired loans) of 5.3%.

Net income for the first six months of 2010 was $8.1 billion, or $1.83 per share, compared with $4.9 billion, or $0.68 per share, in the first half of 2009. The increase in earnings from the comparable 2009 six-month period was driven by a lower provision for credit losses and higher net revenue, partially offset by higher noninterest expense. The lower provision for credit losses and the higher noninterest expense reflected the same factors as those that drove the second quarter 2010 results. The higher net revenue reflected solid markets revenue in IB and elevated levels of securities gains from the investment portfolio in Corporate. Prior-year EPS reflected a one-time, noncash reduction in net income applicable to common stockholders of $1.1 billion, or $0.28 per share, resulting from repayment of TARP preferred capital.

JPMorgan Chase continued to support the economic recovery by assisting customers, providing sound lending and continuing its efforts to prevent foreclosure. The Firm loaned or raised capital for its clients of nearly $700 billion during the first half of 2010, and its small-business originations were up 37%. The Firm has offered 880,000 mortgage modifications and has approved 245,000 since the beginning of 2009. Of these, nearly 193,000 have achieved permanent modification as of June 30, 2010.

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 and, for each line of business and the Firm as a whole, includes certain reclassifications to present total net revenue on a tax-equivalent basis. Effective January 1, 2010, the Firm adopted new accounting guidance that required it 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. Prior to the adoption of the new accounting guidance, in 2009 and all other prior periods, the U.S. GAAP results for CS and the Firm were also adjusted for certain reclassifications that assumed credit card loans that had been securitized and sold by CS remained on the Consolidated Balance Sheets. These adjustments had no impact on net income as reported by the Firm as a whole or by the lines of business. 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 15-19 of this Form 10-Q.

Investment Bank net income decreased, reflecting lower net revenue and higher noninterest expense, predominantly offset by a benefit from the provision for credit losses. The decrease in net revenue was driven by a decline in Fixed Income Markets revenue, largely reflecting lower results in credit markets, rates and commodities. Investment banking fees also decreased, driven by lower levels of equity underwriting, debt underwriting and advisory fees. Partially offsetting the revenue decline was an increase in Equity Markets revenue, reflecting solid client revenue. The provision for credit losses was a benefit in the second quarter of 2010, compared with an expense in the second quarter of 2009, and reflected a reduction in the allowance for loan losses, largely related to net repayments and loan sales. Noninterest expense in the second quarter of 2010 included the impact of the U.K. Bank Payroll Tax.

Retail Financial Services net income increased significantly from the prior year driven by a lower provision for credit losses. Net revenue decreased, driven by lower loan and deposit balances and declining deposit-related fees. These decreases were predominantly offset by a shift to wider-spread deposit products, and growth in mortgage fees and related income, debit card income and auto operating lease income. The provision for credit losses decreased from the prior year and reflected improved delinquency trends and reduced net charge-offs. Noninterest expense increased from the prior year, driven by higher default-related expense and sales force increases, partially offset by a decrease in foreclosed asset expense.

Card Services reported net income compared with a net loss in the prior year, as a lower provision for credit losses was partially offset by lower net revenue. The decrease in net revenue was driven by a decline in net interest income, reflecting lower average loan balances, the impact of legislative changes and a decreased level of fees. These decreases were partially offset by lower revenue reversals associated with lower charge-offs and a prior-year write-down of securitization interests. The provision for credit losses decreased from the prior year, reflecting reduced net charge-offs and lower estimated losses, primarily related to improved delinquency trends and lower loan balances. Noninterest expense increased due to higher marketing expense.

Commercial Banking net income increased from the prior year, driven by a reduction in the provision for credit losses. Net revenue was relatively flat from the prior year, as growth in liability balances, wider loan spreads, gains on sales of loans and other real estate owned, and higher lending-related fees were predominantly offset by spread compression on liability products and lower loan balances. The provision for credit losses was a benefit in the second quarter of 2010 compared with an expense in the second quarter of 2009 and included a reduction to the allowance for credit losses, mainly due to refinements to credit loss estimates and improvement in the credit quality of the commercial and industrial portfolio. Noninterest expense was relatively flat compared with the prior year.

Treasury and Securities Services net income decreased from the prior year, driven by lower net revenue and higher noninterest expense. Worldwide Securities Services net revenue was relatively flat, as lower spreads in securities lending and the impact of lower volatility on foreign exchange were offset by higher market levels and net inflows of assets under custody. Similarly, TS net revenue was relatively flat, as lower deposit spreads were offset by higher trade loan and card product volumes. Noninterest expense for TSS increased, driven by higher performance-based compensation and continued investment in new product platforms, primarily related to international expansion.

Asset Management net income increased from the prior year, as higher net revenue and a lower provision for credit losses were partially offset by higher noninterest expense. Net revenue increased, due to the effects of higher market levels, net inflows to products with higher margins and higher performance fees; partially offset by lower quarterly valuations of seed capital investments and lower net interest income due to narrower deposit spreads, largely offset by higher deposit balances. The increase in noninterest expense was driven by higher headcount.

Corporate/Private Equity net income decreased from the prior year, driven by lower net revenue and higher noninterest expense. Although lower than in the prior year, net revenue included elevated levels of securities gains from the repositioning of the investment portfolio and elevated levels of net interest income from the size of the investment portfolio. Net revenue also included modest private equity gains. Noninterest expense rose, largely due to higher litigation expense.

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

As mentioned above, the Dodd-Frank Act was signed into law on July 21, 2010. There are a number of positive aspects of this new legislation, including systemic risk oversight and resolution authority. However, with hundreds of implementing rules to be written, there remain many challenges and uncertainties. The Firm continues to be committed to helping ensure that the reforms are implemented in a way that protects consumers and the competitiveness of the U.S. financial system, while ensuring the flow of safe and sound credit.

In addition to this legislation, any further legislation or regulations that are adopted in the U.S. or in other countries 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 revenue of certain lines of business.

In the Retail Banking business within RFS, management expects continued strong revenue over the next several quarters, despite continued economic pressure on consumers and consumer spending levels. The Firm has already made changes consistent with and, in certain respects, beyond the requirements of the newly-enacted legislation in its policies relating to non-sufficient funds and overdraft fees. Management has refined its estimate of the cost of these changes to the business based on its most recent assessment of customer behavior and now estimates that Retail Banking net income may be reduced, on an annualized basis, by approximately $700 million by the fourth quarter of

2010, an increase from management s prior estimate of approximately $500 million. Results in the second quarter of 2010 reflect approximately 50% of the estimated quarterly impact of this reduction in net income.

In the Mortgage Banking & Other Consumer Lending business within RFS, management expects revenue to continue to be negatively affected by continued elevated levels of repurchases of mortgages previously sold to, for example, U.S. government-sponsored entities. In the Real Estate Portfolios business within RFS, management believes that, at the current rate of delinquencies and loss severity, quarterly net charge-offs could be approximately $1.0 billion for the home equity portfolio, $400 million for the prime mortgage portfolio and $400 million for the subprime mortgage portfolio over the next several quarters. Given current origination and production levels, combined with management s current estimate of portfolio runoff levels, the residential real estate portfolio is expected to decline by approximately 10% to 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 the portfolio s 2010 net interest income up to $1.0 billion from the 2009 level, excluding any impact from further changes in the interest rate environment.

Also, in RFS, management expects noninterest expense 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.

In CS, management expects full-year average outstandings in 2010 to decline by approximately 15% from 2009 levels, possibly to approximately $140 billion of average outstandings by the end of the fourth quarter of 2010, due to runoff of both the Washington Mutual portfolio and lower-yielding promotional balances. In addition, management estimates that CS net income may be reduced, on an annualized basis, by approximately $750 million as a result of the impact of the Credit Card Act of 2009, including the recent regulatory guidance defining reasonable and proportional fees. Results in the second quarter of 2010 reflect approximately 25% of the estimated quarterly impact of this reduction in net income. The net charge-off rate for CS (excluding the Washington Mutual credit card portfolio) is anticipated to continue to improve if current delinquency trends continue and could be approximately 8.5% in the third quarter of 2010; however, results will depend on the economic environment and any resulting reserve actions.

While some normalization of the financial markets occurred during the second quarter of 2010 and consumer-lending net charge-offs and delinquencies have declined as noted above, the consumer credit portfolio remains under stress. Further declines in U.S. housing prices and increases in the unemployment rate remain possible; if this were to occur, it would adversely affect the Firm s results.

In IB, TSS and AM, revenue will be affected by market levels, volumes and volatility, which will influence client flows and assets under management, supervision and custody. In addition, IB and CB results will continue to be affected by the credit environment, which will influence levels of charge-offs, repayments and provision for credit losses.

In Private Equity (within the Corporate/Private Equity segment), earnings 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. Corporate net income (excluding Private Equity, merger-related items and any significant nonrecurring items) is anticipated to trend toward a level of approximately $300 million per quarter.

The Firm s second-quarter results reflected lower net interest margin, compared with the prior quarter. Management expects modest continued downward pressure on net interest margin in the third quarter of 2010, primarily resulting from continued repositioning of the investment securities portfolio in Corporate, runoff of loans with higher contractual interest rates in the Real Estate Portfolios and CS businesses, and the impact of the Card Act legislation on CS.

Management and the Firm s Board of Directors continuously evaluate alternatives to deploy the Firm s strong capital base in ways that will enhance shareholder value. Such alternatives could include the repurchase of common stock, increasing the common stock dividend and pursuing alternative investment opportunities. The Firm resumed its repurchases of common stock beginning in the second quarter under its pre-existing Board authorization. The Firm s current share repurchase activity is intended to offset share count increases resulting from employee equity awards and is consistent with the Firm s goal of maintaining an appropriate share count. The aggregate amount and timing of future repurchases will depend, among other factors, on market conditions and management s judgment regarding economic conditions, the Firm s earnings outlook, the need to maintain adequate capital levels (in light of business needs and regulatory requirements) and alternative investment opportunities. 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, among other factors, the Firm s earnings outlook, the 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 100-102 of this Form 10-Q and pages 127-131 of JPMorgan Chase s 2009 Annual Report.

Revenue

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2010**	2009	Change	**2010**	2009	Change
Investment banking fees	**$ 1,421**	$ 2,106	(33)%	**$ 2,882**	$ 3,492	(17)%
Principal transactions	**2,090**	3,097	(33)	**6,638**	5,098	30
Lending- and deposit-related fees	**1,586**	1,766	(10)	**3,232**	3,454	(6)
Asset management, administration and commissions	**3,349**	3,124	7	**6,614**	6,021	10
Securities gains	**1,000**	347	188	**1,610**	545	195
Mortgage fees and related income	**888**	784	13	**1,546**	2,385	(35)
Credit card income	**1,495**	1,719	(13)	**2,856**	3,556	(20)
Other income	**585**	10	NM	**997**	60	NM
Noninterest revenue	**12,414**	12,953	(4)	**26,375**	24,611	7
Net interest income	**12,687**	12,670		**26,397**	26,037	1
Total net revenue	**$25,101**	$25,623	(2)%	**$52,772**	$50,648	4%

Total net revenue for the second quarter of 2010 was $25.1 billion, down by $522 million, or 2%, from the second quarter of 2009. Total net revenue for the first six months of 2010 was $52.8 billion, up by $2.1 billion, or 4%, from the prior year. The decrease from the prior-year quarter was driven by lower principal transactions revenue, reflecting lower trading results, and lower investment banking fees, partially offset by higher securities gains and other income. The increase from the first six months of 2009 was driven by higher principal transactions revenue, reflecting higher trading revenue and private equity gains (compared with private equity losses in the prior year) in Corporate/Private Equity; the absence of mark-to-market losses on hedges of retained loans in IB; higher securities gains in Corporate; and higher other income. These increases were partially offset by lower mortgage fees and related income in RFS and lower investment banking fees.

Investment banking fees for the second quarter and first six months of 2010 decreased from the comparable periods of 2009, predominantly reflecting a decline from the record level of equity underwriting fees last year and lower advisory fees. Debt underwriting fees also contributed to the decline in the second quarter of 2010; however, for the first six months of 2010, debt underwriting fees increased compared with the prior year. Overall industry-wide volumes across bonds and equity were lower in the second quarter and first six months of 2010 compared with the respective periods in 2009. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results on pages 21-24 of this Form 10-Q.

Principal transactions revenue, which consists of revenue from the Firm s trading and private equity investing activities, decreased from the second quarter of 2009, reflecting lower results in Corporate and lower fixed income revenue in IB, largely reflecting weaker results in credit markets, rates and commodities. The decrease was offset partially by gains from the widening of the Firm s credit spreads on certain structured liabilities in the IB compared with losses in the prior year. Trading revenue increased for the first six months of 2010, primarily due to the absence of mark-to-market losses on hedges of retained loans in IB compared with the prior year. This increase was offset partially by lower fixed income revenue in IB, largely reflecting weaker results in rates, credit markets and commodities. Private equity gains in both the second quarter and first six months of 2010 improved from the losses incurred in the comparable 2009 periods. For additional information on principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 21-24 and 51-53, respectively, and Note 3 on pages 110-124 of this Form 10-Q.

Lending- and deposit-related fees for the second quarter and first six months of 2010 decreased from the prior-year periods, reflecting declining deposit-related fees and lower deposit balances in RFS, offset partially by higher lending-related service fees in IB and CB. For additional information on lending- and deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 25-35, the TSS segment results on pages 44-46 and the CB segment results on pages 41-43 of this Form 10-Q.

Asset management, administration and commissions revenue for the second quarter and first six months of 2010 rose from the comparable periods of 2009. The increase was driven by higher asset management fees in AM, which reflected 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 of assets under custody. For additional information on these fees and commissions, see the segment discussions for AM on pages 47-51 and TSS on pages 44-46 of this Form 10-Q.
Securities gains increased from the second quarter and first six months of 2009, due to continued repositioning of the Corporate investment portfolio in connection with managing the Firm s structural interest rate risk. The second quarter of 2009 included a $241 million gain on the sale of MasterCard shares. For additional 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 51-53 of this Form 10-Q.
Mortgage fees and related income increased from the second quarter of 2009, due to higher net mortgage servicing revenue, predominantly reflecting higher mortgage servicing rights (MSR) risk management results. Partially offsetting this increase was lower production revenue, predominantly reflecting higher repurchase losses. Mortgage fees and related income decreased from the first six months of 2009 due to lower production revenue, reflecting higher repurchase losses and, to a lesser extent, lower net mortgage servicing revenue, as lower MSR risk management results were offset partially by higher operating revenue. For additional information on mortgage fees and related income, which is recorded primarily in RFS, see RFS s Mortgage Banking & Other Consumer Lending discussion on pages 29-32 of this Form 10-Q.
Credit card income decreased from the second quarter and first six months of 2009, due predominantly to the impact of the new consolidation guidance related to VIEs, effective January 1, 2010, that required the Firm to consolidate the assets and liabilities of its 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 the provision for loan losses, and elimination of securitization income/losses in other income). For a more detailed discussion of the impact of the adoption of the new consolidation guidance on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm s Use of Non-GAAP Financial Measures on pages 15-19 of this Form 10-Q. For additional information on credit card income, see the CS segment results on pages 36-40 of this Form 10-Q.
Other income increased in the second quarter and first six months of 2010 compared with the prior-year periods, due largely to the absence of the write-down of securitization interests in 2010, compared with losses of $268 million and $448 million during the second quarter and first half of 2009, respectively. Higher auto operating lease income in RFS also contributed to the increase in other income.
Net interest income for the second quarter of 2010 was relatively flat compared with the prior-year quarter, as the impact of the adoption of the new consolidation guidance related to VIEs (which increased net interest income by approximately $1.4 billion) offset the decline in loan and deposit balances. The Firm s interest-earning assets for the second quarter of 2010 were $1.7 trillion, and the net yield on those assets, on a fully taxable-equivalent (FTE) basis, was 3.06%, a decrease of one basis point from 2009. Compared with the first quarter of 2010, the net yield on interest-earning assets declined by 26 basis points, driven by lower yields on loans, primarily in CS and RFS, lower credit card outstandings, and lower yields on securities resulting from investment portfolio repositioning. Net interest income for the first six months of 2010 increased slightly from the prior-year period, driven by the impact of the new consolidation guidance related to VIEs which increased net interest income by approximately $3.2 billion, mainly as a result of the consolidation of Firm-sponsored credit card securitization trusts. Excluding the impact of the adoption of the new accounting guidance, net interest income decreased driven by lower average loan balances, primarily in CS, RFS and IB and lower yields on credit card receivables, reflecting the impact of legislative changes. The Firm s interest-earning assets for the first six months of 2010 were $1.7 trillion, and the net yield on those assets, on a FTE basis, was 3.19%, an increase of one basis point from 2009. For a more detailed discussion of the impact of the adoption of the new consolidation guidance related to VIEs on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm s Use of Non-GAAP Financial Measures on pages 15-19 of this Form 10-Q.

Provision for credit losses	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2010**	2009	Change	**2010**	2009	Change

Wholesale	**$ (572)**	$1,244	NM	**$ (808)**	$ 2,774	NM
Consumer	**3,935**	6,787	(42)%	**11,181**	13,853	(19)%
Total provision for credit losses	**$3,363**	$8,031	(58)%	**$10,373**	$16,627	(38)%

Table of Contents

The provision for credit losses decreased from the second quarter and first six months of 2009. The decrease in the wholesale provision in both 2010 periods reflected a reduction in the allowance for credit losses, mainly due to net repayments and loan sales in IB; and refinements to credit loss estimates and improvement in the credit quality of the commercial and industrial portfolio in CB. The decrease in the consumer provision for both 2010 periods reflected improved delinquency trends and reduced net charge-offs across most consumer portfolios; it included reductions in the allowance for loan losses in CS of $1.5 billion and $2.5 billion in the second quarter and first six months of 2010, respectively (compared with additions of $250 million and $1.4 billion in the comparable 2009 periods). The first six months of 2010 also included a $1.2 billion addition to the allowance for loan losses in RFS, related to further estimated deterioration in the Washington Mutual prime and option adjustable-rate mortgage (ARM) purchased credit-impaired portfolios. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 25-35, CS on pages 36-40, IB on pages 21-24 and CB on pages 41-43, and the Allowance for Credit Losses section on pages 91-94 of this Form 10-Q.

Noninterest expense

The following table presents the components of noninterest expense.

	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2010**	2009	Change	**2010**	2009	Change
Compensation expense[(a)]	**$ 7,616**	$ 6,917	10%	**$14,892**	$14,505	3%
Noncompensation expense:						
Occupancy	**883**	914	(3)	**1,752**	1,799	(3)
Technology, communications and equipment	**1,165**	1,156	1	**2,302**	2,302	
Professional and outside services	**1,685**	1,518	11	**3,260**	3,033	7
Marketing	**628**	417	51	**1,211**	801	51
Other[(b)(c)(d)]	**2,419**	2,190	10	**6,860**	3,565	92
Amortization of intangibles	**235**	265	(11)	**478**	540	(11)
Total noncompensation expense	**7,015**	6,460	9	**15,863**	12,040	32
Merger costs		143	NM		348	NM
Total noninterest expense	**$14,631**	$13,520	8%	**$30,755**	$26,893	14%

(a) *The second quarter and first six months of 2010 included a tax expense related to the U.K. Bank Payroll Tax on certain compensation awarded from*

December 9, 2009, to April 5, 2010, to relevant banking employees.

(b) *Includes litigation expense of $792 million and $3.7 billion for the three and six months ended June 30, 2010, compared with $14 million and a net benefit of $256 million for the three and six months ended June 30, 2009, respectively.*

(c) *Includes foreclosed property expense of $244 million and $547 million for the three and six months ended June 30, 2010, respectively, compared with $294 million and $619 million for the three and six months ended June 30, 2009, respectively. For additional information regarding foreclosed property, see Note 13 on page 196 of*

JPMorgan Chase s 2009 Annual Report.

(d) *The second quarter of 2009 included a $675 million Federal Deposit Insurance Corporation (FDIC) special assessment.*

Total noninterest expense for the second quarter of 2010 was $14.6 billion, up by $1.1 billion, or 8%, from the second quarter of 2009. For the first six months of 2010, total noninterest expense was $30.8 billion, up by $3.9 billion, or 14%, from the comparable 2009 period. The increase for both periods was driven by higher noncompensation expense, predominantly due to significant additions to litigation reserves; and higher compensation expense, reflecting a payroll tax expense predominantly in IB, related to the U.K. Bank Payroll Tax on certain compensation awarded from December 9, 2009, to April 5, 2010, to relevant banking employees. These increases were partially offset by lower performance-based incentives, and by the absence of a $675 million FDIC special assessment recognized in the second quarter of 2009.

Compensation expense in the second quarter and first six months of 2010 increased compared with the prior-year periods, due to the impact of the U.K. Bank Payroll Tax described above; ongoing investments in the businesses, including sales force increases in RFS; and higher performance-based compensation expense in several businesses. This was offset partially by lower performance-based compensation expense in IB.

Noncompensation expense increased for the second quarter and first six months of 2010 compared with the prior-year periods, due predominantly to significant additions to litigation reserves; higher marketing expense in CS; and higher brokerage, clearing and exchange transaction processing expense in IB. The increase for both periods was partially offset by the absence of a $675 million FDIC special assessment recognized in the second quarter of 2009.

For a discussion of amortization of intangibles, refer to Note 16 on pages 166-167 of this Form 10-Q.

Table of Contents

There were no merger costs recorded in the second quarter or first six months of 2010. Merger costs of $143 million and $348 million were recorded in the second quarter and first six months of 2009, respectively. For additional information on merger costs, refer to Note 10 on page 139 of this Form 10-Q.

Income tax expense

	Three months ended June 30,		Six months ended June 30,	
(in millions, except rate)	**2010**	2009	**2010**	2009
Income before income tax expense	**$7,107**	$4,072	**$11,644**	$7,128
Income tax expense	**2,312**	1,351	**3,523**	2,266
Effective tax rate	**32.5%**	33.2%	**30.3%**	31.8%

The decrease in the effective tax rate for the second quarter and first six months of 2010 compared with the prior-year periods was primarily the result of lower state and local income taxes, as well as tax benefits recognized upon the resolution of tax audits in 2010. The decrease was partially offset by the impact of higher reported pretax income for 2010. For additional information on income taxes, see Critical Accounting Estimates Used by the Firm on pages 100-102 of this Form 10-Q.

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 104-107 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 securitizations 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 151-163 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 36-40 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 15 on pages 151-163 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.

Table of Contents

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

	Three months ended June 30, 2010			
(in millions, except per share and ratios)	Reported results	Credit card[b]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 1,421**	**NA**	**$**	**$ 1,421**
Principal transactions	**2,090**	**NA**		**2,090**
Lending- and deposit-related fees	**1,586**	**NA**		**1,586**
Asset management, administration and commissions	**3,349**	**NA**		**3,349**
Securities gains	**1,000**	**NA**		**1,000**
Mortgage fees and related income	**888**	**NA**		**888**
Credit card income	**1,495**	**NA**		**1,495**
Other income	**585**	**NA**	**416**	**1,001**
Noninterest revenue	**12,414**	**NA**	**416**	**12,830**
Net interest income	**12,687**	**NA**	**96**	**12,783**
Total net revenue	**25,101**	**NA**	**512**	**25,613**
Noninterest expense	**14,631**	**NA**		**14,631**
Pre-provision profit	**10,470**	**NA**	**512**	**10,982**
Provision for credit losses	**3,363**	**NA**		**3,363**
Income before income tax expense	**7,107**	**NA**	**512**	**7,619**
Income tax expense	**2,312**	**NA**	**512**	**2,824**
Net income	**$ 4,795**	**NA**	**$**	**$ 4,795**
Diluted earnings per share	**$ 1.09**	**NA**	**$**	**$ 1.09**
Return on assets	**0.94%**	**NA**	**NM**	**0.94%**
Overhead ratio	**58**	**NA**	**NM**	**57**

	Three months ended June 30, 2009			
(in millions, except per share and ratios)	Reported results	Credit card[b]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 2,106	$	$	$ 2,106
Principal transactions	3,097			3,097
Lending- and deposit-related fees	1,766			1,766
Asset management, administration and commissions	3,124			3,124
Securities gains	347			347
Mortgage fees and related income	784			784
Credit card income	1,719	(294)		1,425

Other income	10		335	345
Noninterest revenue	12,953	(294)	335	12,994
Net interest income	12,670	1,958	87	14,715
Total net revenue	25,623	1,664	422	27,709
Noninterest expense	13,520			13,520
Pre-provision profit	12,103	1,664	422	14,189
Provision for credit losses	8,031	1,664		9,695
Income before income tax expense	4,072		422	4,494
Income tax expense	1,351		422	1,773
Net income	$ 2,721	$	$	$ 2,721
Diluted earnings per share[(a)]	$ 0.28	$	$	$ 0.28
Return on assets	0.54%	NM	NM	0.51%
Overhead ratio	53	NM	NM	49

NA: Not applicable

16

(in millions, except per share and ratios)	Six months ended June 30, 2010 Reported results	Credit card(b)	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 2,882**	**NA**	**$**	**$ 2,882**
Principal transactions	**6,638**	**NA**		**6,638**
Lending- and deposit-related fees	**3,232**	**NA**		**3,232**
Asset management, administration and commissions	**6,614**	**NA**		**6,614**
Securities gains	**1,610**	**NA**		**1,610**
Mortgage fees and related income	**1,546**	**NA**		**1,546**
Credit card income	**2,856**	**NA**		**2,856**
Other income	**997**	**NA**	**827**	**1,824**
Noninterest revenue	**26,375**	**NA**	**827**	**27,202**
Net interest income	**26,397**	**NA**	**186**	**26,583**
Total net revenue	**52,772**	**NA**	**1,013**	**53,785**
Noninterest expense	**30,755**	**NA**		**30,755**
Pre-provision profit	**22,017**	**NA**	**1,013**	**23,030**
Provision for credit losses	**10,373**	**NA**		**10,373**
Income before income tax expense	**11,644**	**NA**	**1,013**	**12,657**
Income tax expense	**3,523**	**NA**	**1,013**	**4,536**
Net income	**$ 8,121**	**NA**	**$**	**$ 8,121**
Diluted earnings per share	**$ 1.83**	**NA**	**$**	**$ 1.83**
Return on assets	**0.80%**	**NA**	**NM**	**0.80%**
Overhead ratio	**58**	**NA**	**NM**	**57**

(in millions, except per share and ratios)	Six months ended June 30, 2009 Reported results	Credit card(b)	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 3,492	$	$	$ 3,492
Principal transactions	5,098			5,098
Lending- and deposit-related fees	3,454			3,454
Asset management, administration and commissions	6,021			6,021
Securities gains	545			545
Mortgage fees and related income	2,385			2,385
Credit card income	3,556	(834)		2,722
Other income	60		672	732

Noninterest revenue	24,611	(834)	672	24,449
Net interest income	26,037	3,962	183	30,182
Total net revenue	50,648	3,128	855	54,631
Noninterest expense	26,893			26,893
Pre-provision profit	23,755	3,128	855	27,738
Provision for credit losses	16,627	3,128		19,755
Income before income tax expense	7,128		855	7,983
Income tax expense	2,266		855	3,121
Net income	$ 4,862	$	$	$ 4,862
Diluted earnings per share[(a)]	$ 0.68	$	$	$ 0.68
Return on assets	0.48%	NM	NM	0.46%
Overhead ratio	53	NM	NM	49

(a) The calculation of second quarter 2009 EPS includes a one-time, noncash reduction of $1.1 billion, or $0.27 per share ($0.28 per share for the six months ended June 30, 2009), resulting from the repayment of TARP preferred capital.

(b) See pages 36-40 of this Form 10-Q for a discussion of the effect of credit card securitizations on CS results.

NA: Not applicable

17

Table of Contents

Three months ended June 30, (in millions)	2010 Reported	2010 Securitized[(a)]	2010 Managed	2009 Reported	2009 Securitized[(a)]	2009 Managed
Loans Period-end	**$ 699,483**	**NA**	**$ 699,483**	$ 680,601	$85,790	$ 766,391
Total assets average	**2,043,647**	**NA**	**2,043,647**	2,038,372	81,588	2,119,960

Six months ended June 30, (in millions)	2010 Reported	2010 Securitized[(a)]	2010 Managed	2009 Reported	2009 Securitized[(a)]	2009 Managed
Loans Period-end	**$ 699,483**	**NA**	**$ 699,483**	$ 680,601	$85,790	$ 766,391
Total assets average	**2,041,177**	**NA**	**2,041,177**	2,052,666	82,182	2,134,848

(a) Loans securitized are defined as loans that were sold to nonconsolidated securitization trusts and were not included in reported loans as of or for the three and six months ended June 30, 2009. For further discussion of credit card securitizations, see Note 15 on pages 151-163 of this Form 10-Q.

Average tangible common equity

	Three months ended					Six months ended	
(in millions)	**June 30, 2010**	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009	June 30, 2009	**June 30, 2010**	June 30, 2009
Common stockholders equity	**$159,069**	$156,094	$156,525	$149,468	$140,865	**$157,590**	$138,691
Less: Goodwill	**48,348**	48,542	48,341	48,328	48,273	**48,445**	48,173
Less: Certain identifiable intangible assets	**4,265**	4,307	4,741	4,984	5,218	**4,285**	5,329
Add: Deferred tax liabilities[(a)]	**2,564**	2,541	2,533	2,531	2,518	**2,553**	2,562

Tangible common equity (TCE)	**$109,020**	$105,786	$105,976	$ 98,687	$ 89,892	**$107,413**	$ 87,751

(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.

Impact on ROE of redemption of TARP preferred stock issued to the U.S. Treasury

The calculation of second quarter and year-to-date of 2009 net income applicable to common equity includes a one-time, noncash reduction of $1.1 billion resulting from the repayment of TARP preferred capital. Excluding this reduction ROE would have been 6% for both the second quarter and year-to-date 2009 as disclosed in the table below. The Firm views the adjusted ROE, a non-GAAP financial measure, as meaningful because it increases the comparability to prior periods.

	Three months ended June 30, 2009		Six months ended June 30, 2009	
(in millions, except ratios)	As reported	Excluding the TARP redemption	As reported	Excluding the TARP redemption
Return on equity				
Net income	$ 2,721	$ 2,721	$ 4,862	$ 4,862
Less: Preferred stock dividends	473	473	1,002	1,002
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112		1,112	
Net income applicable to common equity	$ 1,136	$ 2,248	$ 2,748	$ 3,860
Average common stockholders equity	$140,865	$ 140,865	$138,691	$ 138,691
Return on common equity	3%	6%	4%	6%

18

Table of Contents

Impact on diluted earnings per share of redemption of TARP preferred stock issued to the U.S. Treasury
Net income applicable to common equity for the second quarter and year-to-date 2009 includes a one-time, noncash reduction of approximately $1.1 billion resulting from the repayment of TARP preferred capital. The following table presents the calculations of the effect on net income applicable to common stockholders for the second quarter and year-to-date 2009 and the $0.27 and $0.28 reduction, respectively, to diluted EPS which resulted from the repayment.

	Three months ended June 30, 2009		Six months ended June 30, 2009	
(in millions, except per share)	As reported	Effect of TARP redemption	As reported	Effect of TARP redemption
Diluted earnings per share				
Net income	$ 2,721	$	$ 4,862	$
Less: Preferred stock dividends	473		1,002	
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112	1,112	1,112	1,112
Net income applicable to common equity	$ 1,136	$ (1,112)	$ 2,748	$ (1,112)
Less: Dividends and undistributed earnings allocated to participating securities	64	(64)	157	(65)
Net income applicable to common stockholders	$ 1,072	$ (1,048)	$ 2,591	$ (1,047)
Total weighted average diluted shares outstanding	3,824.1	3,824.1	3,791.4	3,791.4
Net income per share	$ 0.28	$ (0.27)	$ 0.68	$ (0.28)

Other financial measures
The Firm also discloses the allowance for loan losses to total retained loans, excluding home lending purchased credit-impaired loans and loans held by the WMMT. For a further discussion of this credit metric, see Allowance for Credit Losses on pages 91-94 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 63-64 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 June 30, (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)	**$ 6,332**	$ 7,301	(13)%	**$ 4,522**	$ 4,067	11%	**$1,381**	$1,471	(6)%	**14%**	18%
Retail Financial Services	**7,809**	7,970	(2)	**4,281**	4,079	5	**1,042**	15	NM	**15**	
Card Services	**4,217**	4,868	(13)	**1,436**	1,333	8	**343**	(672)	NM	**9**	(18)
Commercial Banking	**1,486**	1,453	2	**542**	535	1	**693**	368	88	**35**	18
Treasury & Securities Services	**1,881**	1,900	(1)	**1,399**	1,288	9	**292**	379	(23)	**18**	30
Asset Management	**2,068**	1,982	4	**1,405**	1,354	4	**391**	352	11	**24**	20
Corporate/Private Equity(b)	**1,820**	2,235	(19)	**1,046**	864	21	**653**	808	(19)	**NM**	NM
Total	**$25,613**	$27,709	(8)%	**$14,631**	$13,520	8%	**$4,795**	$2,721	76%	**12%**	3%

Six months ended June 30, (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)	**$14,651**	$15,672	(7)%	**$ 9,360**	$ 8,841	6%	**$3,852**	$ 3,077	25%	**19%**	19%
Retail Financial Services	**15,585**	16,805	(7)	**8,523**	8,250	3	**911**	489	86	**7**	4
Card Services	**8,664**	9,997	(13)	**2,838**	2,679	6	**40**	(1,219)	NM	**1**	(16)
Commercial Banking	**2,902**	2,855	2	**1,081**	1,088	(1)	**1,083**	706	53	**27**	18

Treasury & Securities Services	**3,637**	3,721	(2)	**2,724**	2,607	4	**571**	687	(17)	**18**	28
Asset Management	**4,199**	3,685	14	**2,847**	2,652	7	**783**	576	36	**24**	17
Corporate/Private Equity(b)	**4,147**	1,896	119	**3,382**	776	336	**881**	546	61	**NM**	NM
Total	**$53,785**	$54,631	(2)%	**$30,755**	$26,893	14%	**$8,121**	$ 4,862	67%	**10%**	4%

(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) *Corporate/Private Equity includes an adjustment to offset IB s inclusion of the credit reimbursement from TSS in total net revenue; TSS reports the reimbursement to IB as a separate line on its income statement (not part of total 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 Introduction on page 5 of this Form 10-Q.

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue						
Investment banking fees	**$1,405**	$2,239	(37)%	**$ 2,851**	$ 3,619	(21)%
Principal transactions	**2,105**	1,841	14	**6,036**	5,356	13
Lending- and deposit-related fees	**203**	167	22	**405**	305	33
Asset management, administration and commissions	**633**	717	(12)	**1,196**	1,409	(15)
All other income[(a)]	**86**	(108)	NM	**135**	(164)	NM
Noninterest revenue	**4,432**	4,856	(9)	**10,623**	10,525	1
Net interest income[(b)]	**1,900**	2,445	(22)	**4,028**	5,147	(22)
Total net revenue[(c)]	**6,332**	7,301	(13)	**14,651**	15,672	(7)
Provision for credit losses	**(325)**	871	NM	**(787)**	2,081	NM
Noninterest expense						
Compensation expense	**2,923**	2,677	9	**5,851**	6,007	(3)
Noncompensation expense	**1,599**	1,390	15	**3,509**	2,834	24
Total noninterest expense	**4,522**	4,067	11	**9,360**	8,841	6
Income before income tax expense	**2,135**	2,363	(10)	**6,078**	4,750	28
Income tax expense	**754**	892	(15)	**2,226**	1,673	33
Net income	**$1,381**	$1,471	(6)	**$ 3,852**	$ 3,077	25
Financial ratios						
Return on common equity	**14%**	18%		**19%**	19%	
Return on assets	**0.78**	0.83		**1.12**	0.86	
Overhead ratio	**71**	56		**64**	56	
Compensation expense as a percentage of total net revenue[(d)]	**37**	37		**36**	38	
Revenue by business						
Investment banking fees:						
Advisory	**$ 355**	$ 393	(10)	**$ 660**	$ 872	(24)
Equity underwriting	**354**	1,103	(68)	**767**	1,411	(46)
Debt underwriting	**696**	743	(6)	**1,424**	1,336	7
Total investment banking fees	**1,405**	2,239	(37)	**2,851**	3,619	(21)
Fixed income markets	**3,563**	4,929	(28)	**9,027**	9,818	(8)

Equity markets	**1,038**	708	47	**2,500**	2,481	1
Credit portfolio[a]	**326**	(575)	NM	**273**	(246)	NM
Total net revenue	**$6,332**	$7,301	(13)	**$14,651**	$15,672	(7)
Revenue by region[a]						
Americas	**$3,935**	$4,118	(4)	**$ 8,497**	$ 8,434	1
Europe/Middle East/Africa	**1,537**	2,303	(33)	**4,351**	5,376	(19)
Asia/Pacific	**860**	880	(2)	**1,803**	1,862	(3)
Total net revenue	**$6,332**	$7,301	(13)	**$14,651**	$15,672	(7)

(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 second quarter was primarily due to lower loan balance, lower Prime Services spreads and spread tightening and increased liquidity in rates markets.

(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 $401 million and $334 million for the quarters ended June 30, 2010 and 2009, respectively, and $804 million and $699 million for year-to-date 2010 and 2009, respectively.

(d) The compensation expense as a percentage of total net revenue ratio for the second quarter and year-to-date of 2010 excludes payroll tax expense related to the U.K. Bank Payroll Tax on certain compensation awarded from December 31, 2009, to April 5, 2010, to relevant

banking employees, which is a non-GAAP financial measure. IB excludes this tax from the ratio because it enables comparability with prior periods. If this tax were included in the ratio for the second quarter and year-to-date of 2010, the ratio would have been 46% and 40%, respectively.

21

Table of Contents

Quarterly results

Net income was $1.4 billion, down 6% compared with the prior year. These results reflected lower revenue and higher noninterest expense, predominantly offset by a benefit from the provision for credit losses.

Net revenue was $6.3 billion, compared with $7.3 billion in the prior year. Investment banking fees decreased by 37% to $1.4 billion, consisting of equity underwriting fees of $354 million (down 68%), debt underwriting fees of $696 million (down 6%) and advisory fees of $355 million (down 10%). Fixed Income Markets revenue was $3.6 billion, compared with $4.9 billion in the prior year, largely reflecting lower results in credit markets, rates and commodities. These declines were offset partially by gains of $397 million from the widening of the Firm s credit spreads on certain structured liabilities compared to losses of $773 million in the prior year. Equity Markets revenue was $1.0 billion, compared with $708 million in the prior year, reflecting solid client revenue as well as gains of $191 million from the widening of the Firm s credit spreads on certain structured liabilities compared with losses of $326 million in the prior year. Credit Portfolio revenue was $326 million, primarily reflecting net interest income and fees on retained loans.

The provision for credit losses was a benefit of $325 million, compared with an expense of $871 million in the prior year. The current-quarter provision reflected a reduction in the allowance for loan losses, largely related to net repayments and loan sales. The allowance for loan losses to end-of-period loans retained was 3.98%, compared with 7.91% in the prior year. The decline in the allowance ratio was due largely to the consolidation of asset-backed commercial paper conduits in accordance with new accounting guidance, effective January 1, 2010. Excluding these balances, the current-quarter allowance coverage ratio was 6.49%. Net charge-offs were $28 million, compared with $433 million in the prior year. Nonperforming loans were $2.3 billion, down by $1.3 billion from the prior year.

Noninterest expense was $4.5 billion, compared with $4.1 billion in the prior year. Current-quarter results included the impact of the U.K. Bank Payroll Tax.

ROE was 14% on $40.0 billion of average allocated capital.

Year-to-date results

Net income was $3.9 billion, up 25% compared with the prior year. These results reflect lower net revenue and higher noninterest expense, which was more than offset by a benefit from the provision for credit losses.

Net revenue was $14.7 billion, compared with $15.7 billion in prior year. Investment banking fees decreased 21% to $2.9 billion, consisting of equity underwriting fees of $767 million (down 46%), advisory fees of $660 million (down 24%) and debt underwriting fees of $1.4 billion (up 7%). Fixed Income Markets revenue was $9.0 billion, compared with $9.8 billion in the prior year. The decrease reflected lower results in rates, credit markets, and commodities. Equity Markets revenue of $2.5 billion was flat compared with the prior year, reflecting solid client revenue. Credit Portfolio revenue was $273 million, primarily reflecting net interest income and fees on retained loans.

The provision for credit losses was a benefit of $787 million, compared with an expense of $2.1 billion in the prior year. The current year provision reflected a reduction in the allowance for loan losses, largely related to net repayments and loan sales. Net charge-offs were $725 million, compared with $469 million in prior year.

Noninterest expense was $9.4 billion, compared with $8.8 billion in prior year, driven by increased litigation reserves, including those for mortgage-related matters, partially offset by lower performance-based compensation. Current year results also included the impact of the U.K. Bank Payroll Tax.

ROE was 19% on $40.0 billion of average allocated capital.

Table of Contents

Selected metrics (in millions, except headcount and ratios)	Three months ended June 30, 2010	2009	Change	Six months ended June 30, 2010	2009	Change
Selected balance sheet data (period-end)						
Loans[(a)]:						
Loans retained[(b)]	**$ 54,049**	$ 64,500	(16)%	**$ 54,049**	$ 64,500	(16)%
Loans held-for-sale and loans at fair value	**3,221**	6,814	(53)	**3,221**	6,814	(53)
Total loans	**57,270**	71,314	(20)	**57,270**	71,314	(20)
Equity	**40,000**	33,000	21	**40,000**	33,000	21
Selected balance sheet data (average)						
Total assets	**$710,005**	$710,825		**$693,157**	$721,934	(4)
Trading assets debt and equity instruments	**296,031**	265,336	12	**290,091**	269,146	8
Trading assets derivative receivables	**65,847**	100,536	(35)	**65,998**	112,711	(41)
Loans:[(a)]						
Loans retained[(b)]	**53,351**	68,224	(22)	**55,912**	69,128	(19)
Loans held-for-sale and loans at fair value	**3,530**	8,934	(60)	**3,341**	10,658	(69)
Total loans	**56,881**	77,158	(26)	**59,253**	79,786	(26)
Adjusted assets[(c)]	**527,520**	531,632	(1)	**517,135**	560,239	(8)
Equity	**40,000**	33,000	21	**40,000**	33,000	21
Headcount	**26,279**	25,783	2	**26,279**	25,783	2
Credit data and quality statistics						
Net charge-offs	**$ 28**	$ 433	(94)	**$ 725**	$ 469	55
Nonperforming assets:						
Nonperforming loans:						
Nonperforming loans retained[(b)(d)]	**1,926**	3,407	(43)	**1,926**	3,407	(43)
Nonperforming loans held-for-sale and loans at fair value	**334**	112	198	**334**	112	198
Total nonperforming loans	**2,260**	3,519	(36)	**2,260**	3,519	(36)
Derivative receivables	**315**	704	(55)	**315**	704	(55)
Assets acquired in loan satisfactions	**151**	311	(51)	**151**	311	(51)
Total nonperforming assets	**2,726**	4,534	(40)	**2,726**	4,534	(40)
Allowance for credit losses:						
Allowance for loan losses	**2,149**	5,101	(58)	**2,149**	5,101	(58)
Allowance for lending-related commitments	**564**	351	61	**564**	351	61
Total allowance for credit losses	**2,713**	5,452	(50)	**2,713**	5,452	(50)
Net charge-off rate[(b)(e)]	**0.21%**	2.55%		**2.61%**	1.37%	
Allowance for loan losses to period-end loans retained[(b)(e)]	**3.98**	7.91		**3.98**	7.91	

Allowance for loan losses to average loans retained(b)(e)		**4.03**		7.48			**3.84**		7.38	
Allowance for loan losses to nonperforming loans retained(b)(d)(e)		**112**		150			**112**		150	
Nonperforming loans to period-end loans		**3.95**		4.93			**3.95**		4.93	
Nonperforming loans to average loans		**3.97**		4.56			**3.81**		4.41	
Market risk average trading and credit portfolio VaR 95% confidence level										
Trading activities:										
Fixed income	**$**	**64**	$	179	(64)	**$**	**66**	$	168	(61)
Foreign exchange		**10**		16	(38)		**12**		19	(37)
Equities		**20**		50	(60)		**22**		73	(70)
Commodities and other		**20**		22	(9)		**18**		21	(14)
Diversification(f)		**(42)**		(97)	57		**(46)**		(101)	54
Total trading VaR(g)		**72**		170	(58)		**72**		180	(60)
Credit portfolio VaR(h)		**27**		68	(60)		**23**		77	(70)
Diversification(f)		**(9)**		(60)	85		**(9)**		(62)	85
Total trading and credit portfolio VaR	**$**	**90**	$	178	(49)	**$**	**86**	$	195	(56)

(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*

Table of Contents

in comparing IB s asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company s capital adequacy. IB believes an adjusted asset amount that excludes the assets discussed above, which were considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

(d) Allowance for loan losses of $617 million and $1.6 billion were held against these nonperforming loans at June 30, 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 value-at-risk (VaR) was less than the sum of the VaR 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 95-97 of this Form 10-Q.*

(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 95-97 and the DVA Sensitivity table on page 97 of this Form 10-Q for further details. Trading VaR includes the estimated credit spread sensitivity of certain mortgage products.

(h) Credit portfolio VaR includes the 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 six months of 2010, the Firm was ranked #1 in Global Debt, Equity and Equity-Related; #1 in Global Equity and Equity-Related; #2 in Global Long-Term Debt; #1 in Global Syndicated Loans and #4 in Global Announced M&A based on volume.

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

	Six months ended June 30, 2010		Full-year 2009	
Market shares and rankings[(a)]	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	**10**	**#1**	8	#1
Global long-term debt[(c)]	**7**	**#2**	8	#1
Global equity and equity-related[(d)]	**8**	**#1**	12	#1
Global announced M&A[(e)]	**14**	**#4**	24	#3
U.S. debt, equity and equity-related	**12**	**#1**	15	#1
U.S. syndicated loans	**21**	**#2**	22	#1
U.S. long-term debt[(c)]	**11**	**#2**	14	#1
U.S. equity and equity-related	**16**	**#1**	16	#2
U.S. announced M&A[(e)]	**22**	**#3**	36	#2

(a) *Source: Dealogic. Global Investment Banking fees reflects ranking of fees and market share. Remainder of rankings reflects transaction volume rank and market 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 transaction value at announcement; all other rankings are based on transaction 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 year-to-date 2010 and full-year 2009 reflects the removal of any withdrawn transactions. U.S. announced M&A represents any U.S. involvement ranking.*

Table of Contents

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 15,600 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 26,900 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 15,900 auto dealerships and 1,800 schools and universities nationwide. Prior to January 1, 2010, RFS was reported as: Retail Banking and Consumer Lending. Commencing January 1, 2010, Consumer Lending for reporting purposes is presented 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	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue						
Lending- and deposit-related fees	**$ 780**	$1,003	(22)%	**$ 1,621**	$ 1,951	(17)%
Asset management, administration and commissions	**433**	425	2	**885**	860	3
Mortgage fees and related income	**886**	807	10	**1,541**	2,440	(37)
Credit card income	**480**	411	17	**930**	778	20
Other income	**413**	294	40	**767**	508	51
Noninterest revenue	**2,992**	2,940	2	**5,744**	6,537	(12)
Net interest income	**4,817**	5,030	(4)	**9,841**	10,268	(4)
Total net revenue	**7,809**	7,970	(2)	**15,585**	16,805	(7)
Provision for credit losses	**1,715**	3,846	(55)	**5,448**	7,723	(29)
Noninterest expense						
Compensation expense	**1,842**	1,631	13	**3,612**	3,262	11
Noncompensation expense	**2,369**	2,365		**4,771**	4,822	(1)
Amortization of intangibles	**70**	83	(16)	**140**	166	(16)
Total noninterest expense	**4,281**	4,079	5	**8,523**	8,250	3
Income before income tax expense	**1,813**	45	NM	**1,614**	832	94
Income tax expense	**771**	30	NM	**703**	343	105
Net income	**$1,042**	$ 15	NM	**$ 911**	$ 489	86

Financial ratios

Return on common equity	**15%**	%	**7%**	4%
Overhead ratio	**55**	51	**55**	49
Overhead ratio excluding core deposit intangibles[(a)]	**54**	50	**54**	48

(a) *RFS 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 $69 million and $82 million for* *the quarters ended June 30, 2010 and 2009, respectively, and $139 million and $165 million for the six months ended June 30, 2010 and 2009, respectively.*

Table of Contents

Quarterly results

Net income was $1.0 billion, compared with $15 million in the prior year.

Net revenue was $7.8 billion, a decrease of $161 million, or 2%, compared with the prior year. Net interest income was $4.8 billion, down by $213 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 $3.0 billion, relatively flat compared with the prior year, as increased mortgage fees and related income, debit card income and auto operating lease income were offset by declining deposit-related fees.

The provision for credit losses was $1.7 billion, a decrease of $2.1 billion from the prior year. Although losses for the mortgage and home equity portfolios continued to be extremely high, the current-quarter provision reflected improved delinquency trends and reduced net charge-offs as compared with the prior period. Additionally, the prior-year provision included an addition to the allowance for loan losses of $1.2 billion. Home equity net charge-offs were $796 million (3.32% net charge-off rate), compared with $1.3 billion (4.61% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $282 million (8.63% net charge-off rate), compared with $410 million (11.50% net charge-off rate). Prime mortgage net charge-offs were $264 million (1.79% net charge-off rate), compared with $481 million (3.07% net charge-off rate). The allowance for loan losses to ending loans retained, excluding purchased credit-impaired loans, was 5.26%, compared with 4.41% in the prior year.

Noninterest expense was $4.3 billion, an increase of $202 million, or 5%, from the prior year.

Year-to-date results

Net income was $911 million, compared with $489 million in the prior year.

Net revenue was $15.6 billion, a decrease of $1.2 billion, or 7%, compared with the prior year. Net interest income was $9.8 billion, down by $427 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 $5.7 billion, a decrease of $793 million, or 12%, as a decline in mortgage fees and related income and deposit-related fees were partially offset by an increase in debit card income and auto operating lease income.

The provision for credit losses was $5.4 billion, a decrease of $2.3 billion from the prior year. Although losses for the mortgage and home equity portfolios continued to be extremely high, the provision reflected improved delinquency trends and reduced net charge-offs as compared with the prior period. Additionally, the current period included an addition to the allowance for loan losses of $1.2 billion compared with an addition of $2.9 billion in the prior year. Home equity net charge-offs were $1.9 billion (3.96% net charge-off rate), compared with $2.4 billion (4.27% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $739 million (11.12% net charge-off rate), compared with $774 million (10.69% net charge-off rate). Prime mortgage net charge-offs were $723 million (2.45% net charge-off rate), compared with $793 million (1.88% net charge-off rate).

Noninterest expense was $8.5 billion, an increase of $273 million, or 3%, from the prior year.

Table of Contents

Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in millions, except headcount and ratios)	**2010**	2009	Change	**2010**	2009	Change
Selected balance sheet data (period-end)						
Assets	**$375,329**	$399,916	(6)%	**$375,329**	$399,916	(6)%
Loans:						
Loans retained	**330,329**	353,934	(7)	**330,329**	353,934	(7)
Loans held-for-sale and loans at fair value[(a)]	**12,599**	13,192	(4)	**12,599**	13,192	(4)
Total loans	**342,928**	367,126	(7)	**342,928**	367,126	(7)
Deposits	**359,974**	371,241	(3)	**359,974**	371,241	(3)
Equity	**28,000**	25,000	12	**28,000**	25,000	12
Selected balance sheet data (average)						
Assets	**$381,906**	$410,228	(7)	**$387,854**	$416,813	(7)
Loans:						
Loans retained	**335,308**	359,372	(7)	**339,131**	363,127	(7)
Loans held-for-sale and loans at fair value[(a)]	**14,426**	19,043	(24)	**15,734**	17,792	(12)
Total loans	**349,734**	378,415	(8)	**354,865**	380,919	(7)
Deposits	**362,010**	377,259	(4)	**359,486**	373,788	(4)
Equity	**28,000**	25,000	12	**28,000**	25,000	12
Headcount	**116,879**	103,733	13	**116,879**	103,733	13
Credit data and quality statistics						
Net charge-offs	**$ 1,761**	$ 2,649	(34)	**$ 4,199**	$ 4,825	(13)
Nonperforming loans:						
Nonperforming loans retained	**10,457**	8,792	19	**10,457**	8,792	19
Nonperforming loans held-for-sale and loans at fair value	**176**	203	(13)	**176**	203	(13)
Total nonperforming loans[(b)(c)(d)]	**10,633**	8,995	18	**10,633**	8,995	18
Nonperforming assets[(b)(c)(d)]	**11,907**	10,554	13	**11,907**	10,554	13
Allowance for loan losses	**16,152**	11,832	37	**16,152**	11,832	37
Net charge-off rate[(e)]	**2.11%**	2.96%		**2.50%**	2.68%	
Net charge-off rate excluding purchased credit-impaired loans[(e)(f)]	**2.75**	3.89		**3.26**	3.53	
Allowance for loan losses to ending loans[(e)]	**4.89**	3.34		**4.89**	3.34	
Allowance for loan losses to ending loans excluding purchased credit-impaired loans[(e)(f)]	**5.26**	4.41		**5.26**	4.41	
Allowance for loan losses to nonperforming loans retained[(b)(e)(f)]	**128**	135		**128**	135	

Nonperforming loans to total loans	**3.10**	2.45	**3.10**	2.45
Nonperforming loans to total loans excluding purchased credit-impaired loans[(b)]	**4.00**	3.19	**4.00**	3.19

(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 $12.2 billion and $11.3 billion at June 30, 2010 and 2009, respectively. Average balances of these loans totaled $12.5 billion and $16.2 billion for the quarters ended June 30, 2010 and 2009, respectively, and $13.3 billion and $14.9 billion for the six months ended June 30, 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 June 30, 2010 and 2009, nonperforming loans and assets exclude: (1) mortgage loans insured by U.S. government agencies of $10.1 billion and $4.2 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.4 billion and $508 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 (FFELP), of $447 million and $473 million, respectively. These amounts are excluded as reimbursement of insured amounts 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 June 30, 2010, which has also been excluded from applicable ratios. No allowance for loan losses was recorded for these loans at June 30, 2009. To date, no charge-offs have been recorded for these loans.

Table of Contents

RETAIL BANKING

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Noninterest revenue	**$1,684**	$1,803	(7)%	**$3,386**	$3,521	(4)%
Net interest income	**2,712**	2,719		**5,347**	5,333	
Total net revenue	**4,396**	4,522	(3)	**8,733**	8,854	(1)
Provision for credit losses	**168**	361	(53)	**359**	686	(48)
Noninterest expense	**2,633**	2,557	3	**5,210**	5,137	1
Income before income tax expense	**1,595**	1,604	(1)	**3,164**	3,031	4
Net income	**$ 914**	$ 970	(6)	**$1,812**	$1,833	(1)
Overhead ratio	**60%**	57%		**60%**	58%	
Overhead ratio excluding core deposit intangibles[(a)]	**58**	55		**58**	56	

(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 $69 million and $82 million for the quarters ended June 30, 2010 and 2009, respectively, and $139 million and $165 million for the six months ended June 30, 2010 and 2009, respectively.

Quarterly results

Retail Banking reported net income of $914 million, a decrease of $56 million, or 6%, compared with the prior year. Net revenue was $4.4 billion, down 3% compared with the prior year. The decrease was driven by declining deposit-related fees and lower deposit balances, largely offset by a shift to wider-spread deposit products and higher debit card income.

The provision for credit losses was $168 million, compared with $361 million in the prior year. The prior-year provision reflected an increase in the Business Banking allowance for loan losses. Retail Banking net charge-offs were $168 million (4.04% net charge-off rate), compared with $211 million (4.70% net charge-off rate) in the prior year.

Noninterest expense was $2.6 billion, up 3% compared with the prior year, resulting from sales force increases.

Year-to-date results

Retail Banking reported net income of $1.8 billion, relatively flat compared with the prior year.

Net revenue was $8.7 billion, relatively flat compared with the prior year, with declining deposit-related fees and lower deposit balances, offset by a shift to wider-spread deposit products and higher debit card income.

The provision for credit losses was $359 million, compared with $686 million in the prior year. The prior-year provision reflected an increase in the Business Banking allowance for loan losses. Retail Banking net charge-offs were $359 million (4.31% net charge-off rate), compared with $386 million (4.28% net charge-off rate) in the prior year.

Noninterest expense was $5.2 billion, relatively flat compared with the prior year.

Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change
Business metrics						
Business banking origination volume	**$ 1.2**	$ 0.6	100%	**$ 2.1**	$ 1.1	91%
End-of-period loans owned	**16.6**	17.8	(7)	**16.6**	17.8	(7)
End-of-period deposits:						
Checking	**$ 123.5**	$ 114.1	8	**$ 123.5**	$ 114.1	8
Savings	**161.8**	150.4	8	**161.8**	150.4	8
Time and other	**50.5**	78.9	(36)	**50.5**	78.9	(36)
Total end-of-period deposits	**335.8**	343.4	(2)	**335.8**	343.4	(2)
Average loans owned	**$ 16.7**	$ 18.0	(7)	**$ 16.8**	$ 18.2	(8)
Average deposits:						
Checking	**$ 123.6**	$ 114.2	8	**$ 121.7**	$ 111.8	9
Savings	**162.8**	151.2	8	**160.7**	149.6	7
Time and other	**51.4**	82.7	(38)	**53.5**	85.6	(38)
Total average deposits	**337.8**	348.1	(3)	**335.9**	347.0	(3)
Deposit margin	**3.05%**	2.92%		**3.03%**	2.89%	
Average assets	**$ 28.4**	$ 29.1	(2)	**$ 28.7**	$ 29.6	(3)
Credit data and quality statistics (in millions, except ratio)						
Net charge-offs	**$ 168**	$ 211	(20)	**$ 359**	$ 386	(7)
Net charge-off rate	**4.04%**	4.70%		**4.31%**	4.28%	
Nonperforming assets	**$ 920**	$ 686	34	**$ 920**	$ 686	34
Retail branch business metrics						
Investment sales volume (in millions)	**$ 5,756**	$ 5,292	9	**$11,712**	$ 9,690	21
Number of:						
Branches	**5,159**	5,203	(1)	**5,159**	5,203	(1)
ATMs	**15,654**	14,144	11	**15,654**	14,144	11
Personal bankers	**20,170**	15,959	26	**20,170**	15,959	26
Sales specialists	**6,785**	5,485	24	**6,785**	5,485	24
Active online customers (in thousands)	**16,584**	13,930	19	**16,584**	13,930	19
Checking accounts (in thousands)	**26,351**	25,252	4	**26,351**	25,252	4

MORTGAGE BANKING & OTHER CONSUMER LENDING

Selected income statement data (in millions, except ratio)	Three months ended June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change

Noninterest revenue[(a)]	**$1,256**	$1,134	11%	**$2,274**	$3,055	(26)%
Net interest income	**792**	721	10	**1,685**	1,529	10
Total net revenue	**2,048**	1,855	10	**3,959**	4,584	(14)
Provision for credit losses	**175**	366	(52)	**392**	771	(49)
Noninterest expense	**1,243**	1,105	12	**2,489**	2,242	11
Income before income tax expense	**630**	384	64	**1,078**	1,571	(31)
Net income[(a)]	**$ 364**	$ 235	55	**$ 621**	$ 965	(36)
Overhead ratio	**61%**	60%		**63%**	49%	

(a) *Losses related to the repurchase of previously-sold loans are recorded as a reduction of production revenue. These losses totaled $667 million and $255 million for the quarters ended June 30, 2010 and 2009, respectively, and $1.1 billion and $475 million for the six months ended June 30, 2010 and 2009, respectively. The losses resulted in a negative impact on net income of $388 million and $157 million for the quarters ended June 30, 2010 and 2009, respectively, and*

$640 million and $292 million for the six months ended June 30, 2010 and 2009, respectively. For further discussion, see Repurchase liability on pages 58-60 and Note 22 on pages 170-174 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 $364 million, an increase of $129 million, or 55%, from the prior year. The increase was driven by higher noninterest revenue and a lower provision for credit losses, partially offset by higher noninterest expense.

Net revenue of $2.0 billion was up by $193 million, or 10%, from the prior year, and includes Mortgage Banking revenue of $1.2 billion, up by $62 million, and Other Consumer Lending revenue (comprised of Auto and Student Lending) of $850 million, up by $131 million predominantly as a result of higher auto loan and lease balances. Mortgage Banking revenue includes $212 million of net interest income, $886 million of mortgage fees and related income and $100 million of other noninterest revenue. Included in mortgage fees and related income is $9 million of production revenue, compared with $284 million in the prior year, reflecting higher repurchase losses in the current year and the impact of write-downs on the mortgage warehouse in the prior year. Repurchase losses were $667 million, compared with $255 million in the prior year. Also included is net mortgage servicing revenue of $877 million, up by $354 million from the prior year, which is comprised of operating revenue and MSR risk management revenue. Operating revenue of $566 million was up by $124 million as the improvement in other changes in MSR asset fair value was partially offset by lower loan servicing revenue as a result of lower third-party loans serviced. MSR risk management results were $311 million, compared with $81 million in the prior year.

The provision for credit losses, predominantly related to the student and auto loan portfolios, was $175 million, compared with $366 million in the prior year. The prior-year provision reflected an increase in the allowance for loan losses for student and auto loans. Student loan and other net charge-offs were $150 million (4.04% net charge-off rate), compared with $101 million (2.79% net charge-off rate) in the prior year. Auto loan net charge-offs were $58 million (0.49% net charge-off rate), compared with $146 million (1.36% net charge-off rate) in the prior year.

Noninterest expense was $1.2 billion, up by $138 million, or 12%, from the prior year, driven by an increase in default-related expense.

Year-to-date results

Mortgage Banking & Other Consumer Lending reported net income of $621 million, compared with $965 million in the prior year. The decrease was driven by lower noninterest revenue and higher noninterest expense, partially offset by a lower provision for credit losses and higher net interest income.

Net revenue of $4.0 billion was down by $625 million, or 14%, from the prior year, and includes Mortgage Banking revenue of $2.2 billion, down by $955 million, and Other Consumer Lending revenue (comprised of Auto and Student Lending) of $1.8 billion, up by $330 million predominantly as a result of higher auto loan and lease balances. Mortgage Banking revenue includes $428 million of net interest income, $1.5 billion of mortgage fees and related income and $191 million of other noninterest revenue. Included in mortgage fees and related income is $10 million of production revenue, compared with $765 million in the prior year, reflecting higher repurchase losses in the current year and the impact of write-downs on the mortgage warehouse in the prior year. Repurchase losses were $1.1 billion, compared with $475 million in the prior year. Also included is net mortgage servicing revenue of $1.5 billion, down by $144 million from the prior year, which is comprised of operating revenue and MSR risk management revenue. Operating revenue of $1.1 billion was up $477 million as the improvement in other changes in MSR asset fair value was partially offset by lower loan servicing revenue as a result of lower third-party loans serviced. MSR risk management results were $463 million, compared with $1.1 billion in the prior year.

The provision for credit losses, predominantly related to the student and auto loan portfolios, was $392 million, compared with $771 million in the prior year. The prior-year provision reflected an increase in the allowance for loan losses for student and auto loans. Student loan and other net charge-offs were $214 million (2.80% net charge-off rate), compared with $135 million (1.84% net charge-off rate) in the prior year. Auto loan net charge-offs were $160 million (0.68% net charge-off rate), compared with $320 million (1.51% net charge-off rate) in the prior year.

Noninterest expense was $2.5 billion, up by $247 million, or 11%, from the prior year, driven by an increase in default-related expense.

Table of Contents

Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change
Business metrics						
End-of-period loans owned:						
Auto loans	**$47.5**	$42.9	11%	**$47.5**	$42.9	11%
Mortgage[a]	**13.2**	8.9	48	**13.2**	8.9	48
Student loans and other	**15.1**	15.7	(4)	**15.1**	15.7	(4)
Total end-of-period loans owned	**75.8**	67.5	12	**75.8**	67.5	12
Average loans owned:						
Auto loans	**$47.5**	$43.1	10	**$47.2**	$42.8	10
Mortgage[a]	**13.6**	8.4	62	**13.0**	8.0	63
Student loans and other	**16.7**	16.8	(1)	**17.6**	17.2	2
Total average loans owned[b]	**77.8**	68.3	14	**77.8**	68.0	14
Credit data and quality statistics						
(in millions, except ratios)						
Net charge-offs:						
Auto loans	**$ 58**	$ 146	(60)	**$ 160**	$ 320	(50)
Mortgage	**13**	2	NM	**19**	7	171
Student loans and other	**150**	101	49	**214**	135	59
Total net charge-offs	**221**	249	(11)	**393**	462	(15)
Net charge-off rate:						
Auto loans	**0.49%**	1.36%		**0.68%**	1.51%	
Mortgage	**0.39**	0.10		**0.30**	0.19	
Student loans and other	**4.04**	2.79		**2.80**	1.84	
Total net charge-off rate[b]	**1.17**	1.52		**1.05**	1.43	
30+ day delinquency rate[c][d]	**1.42%**	1.80%		**1.42%**	1.80%	
Nonperforming assets (in millions)[e]	**$ 866**	$ 783	11	**$ 866**	$ 783	11
Origination volume:						
Mortgage origination volume by channel						
Retail	**$15.3**	$14.7	4	**$26.7**	$28.3	(6)
Wholesale[f]	**0.4**	0.7	(43)	**0.8**	2.3	(65)
Correspondent[f]	**14.7**	21.9	(33)	**30.7**	39.9	(23)
CNT (negotiated transactions)	**1.8**	3.8	(53)	**5.7**	8.3	(31)
Total mortgage origination volume	**32.2**	41.1	(22)	**63.9**	78.8	(19)

Student loans	**$ 0.1**	$ 0.4	(75)	**$ 1.7**	$ 2.1	(19)
Auto	**5.8**	5.3	9	**12.1**	10.9	11

Table of Contents

Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change
Application volume:						
Mortgage application volume by channel						
Retail	**$ 27.8**	$ 23.0	21%	**$ 48.1**	$ 55.7	(14)%
Wholesale[f]	**0.6**	1.3	(54)	**1.4**	3.1	(55)
Correspondent[f]	**23.5**	29.7	(21)	**41.7**	58.9	(29)
Total mortgage application volume	**$ 51.9**	$ 54.0	(4)	**$ 91.2**	$ 117.7	(23)
Average mortgage loans held-for-sale and loans at fair value[g]	**$ 12.6**	$ 16.7	(25)	**$ 13.5**	$ 15.3	(12)
Average assets	**123.2**	111.6	10	**124.0**	112.5	10
Third-party mortgage loans serviced (ending)	**1,055.2**	1,117.5	(6)	**1,055.2**	1,117.5	(6)
Third-party mortgage loans serviced (average)	**1,063.7**	1,128.1	(6)	**1,070.1**	1,141.6	(6)
MSR net carrying value (ending)	**11.8**	14.6	(19)	**11.8**	14.6	(19)
Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending)	**1.12%**	1.31%		**1.12%**	1.31%	
Supplemental mortgage fees and related income details (in millions)						
Production revenue[h]	**$ 9**	$ 284	(97)	**$ 10**	$ 765	(99)
Net mortgage servicing revenue:						
Operating revenue:						
Loan servicing revenue	**1,186**	1,279	(7)	**2,293**	2,501	(8)
Other changes in MSR asset fair value	**(620)**	(837)	26	**(1,225)**	(1,910)	36
Total operating revenue	**566**	442	28	**1,068**	591	81
Risk management:						
Changes in MSR asset fair value due to inputs or assumptions in model	**(3,584)**	3,831	NM	**(3,680)**	5,141	NM
Derivative valuation adjustments and other	**3,895**	(3,750)	NM	**4,143**	(4,057)	NM
Total risk management	**311**	81	284	**463**	1,084	(57)
Total net mortgage servicing revenue	**877**	523	68	**1,531**	1,675	(9)
Mortgage fees and related income	**$ 886**	$ 807	10	**$ 1,541**	$ 2,440	(37)
Ratio of annualized loan servicing revenue to third-party mortgage loans serviced (average)	**0.45%**	0.45%		**0.43%**	0.44%	
MSR revenue multiple[i]	**2.49**x	2.91x		**2.60**x	2.98x	

(a)

Predominantly represents prime loans repurchased from Government National Mortgage Association (Ginnie Mae) pools, which are insured by U.S. government agencies. See further discussion of loans repurchased from Ginnie Mae pools in Repurchase liability on pages 58-60 of this Form 10-Q.

(b) *Total average loans owned includes loans held-for-sale of $1.9 billion and $2.8 billion for the quarters ended June 30, 2010 and 2009, respectively, and $2.4 billion and $2.9 billion for the six months ended June 30, 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 $10.9 billion and $5.1 billion at June 30, 2010 and 2009, respectively. These amounts are excluded as reimbursement of insured amounts 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 FFELP, of $988 million and $854 million at June 30, 2010 and 2009, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.*

(e) *At June 30, 2010 and 2009, nonperforming loans and assets exclude: (1) mortgage loans insured by U.S. government agencies of $10.1 billion and $4.2 billion, respectively, that are 90 days past due and accruing at the* *guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.4 billion and $508 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 FFELP, of $447 million and $473 million, respectively. These amounts are excluded as reimbursement of insured amounts 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 $12.5 billion and $16.2 billion for the quarters ended June 30, 2010 and 2009, respectively, and $13.3 billion and $14.9 billion for the six months ended June 30, 2010 and 2009, respectively.*

(h) *Losses related to the repurchase of previously-sold loans are recorded as a reduction of production revenue. These losses totaled $667 million and $255 million for the quarters ended June 30, 2010 and 2009, respectively, and $1.1 billion and $475 million for the six months ended June 30, 2010 and 2009, respectively. For further discussion, see Repurchase liability on pages 58-60 and*

Note 22 on pages 170-174 of this Form 10-Q, and Note 31 on pages 230-234 of JPMorgan Chase s 2009 Annual Report.

(i) *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).*

Table of Contents

REAL ESTATE PORTFOLIOS

Selected income statement data	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Noninterest revenue	**$ 52**	$ 3	NM	**$ 84**	$ (39)	NM
Net interest income	**1,313**	1,590	(17)%	**2,809**	3,406	(18)%
Total net revenue	**1,365**	1,593	(14)	**2,893**	3,367	(14)
Provision for credit losses	**1,372**	3,119	(56)	**4,697**	6,266	(25)
Noninterest expense	**405**	417	(3)	**824**	871	(5)
Income/(loss) before income tax expense/(benefit)	**(412)**	(1,943)	79	**(2,628)**	(3,770)	30
Net income/(loss)	**$ (236)**	$(1,190)	80	**$(1,522)**	$(2,309)	34
Overhead ratio	**30%**	26%		**28%**	26%	

Quarterly results

Real Estate Portfolios reported a net loss of $236 million, compared with a net loss of $1.2 billion in the prior year. The improvement was driven by a lower provision for credit losses, partially offset by lower net interest income.

Net revenue was $1.4 billion, down by $228 million, or 14%, from the prior year. The decrease was driven by a decline in net interest income as a result of lower loan balances, reflecting portfolio runoff.

The provision for credit losses was $1.4 billion, compared with $3.1 billion in the prior year. The current-quarter provision reflected improved delinquency trends and reduced net charge-offs, while the prior-year provision included an addition to the allowance for loan losses of $930 million in the home equity and mortgage loan portfolios. (For further detail, see RFS discussion of the provision for credit losses.)

Noninterest expense was $405 million, down by $12 million, or 3%, from the prior year, reflecting a decrease in foreclosed asset expense.

Year-to-date results

Real Estate Portfolios reported a net loss of $1.5 billion, compared with a net loss of $2.3 billion in the prior year. The improvement was driven by a lower provision for credit losses, partially offset by lower net interest income.

Net revenue was $2.9 billion, down by $474 million, or 14%, from the prior year. The decrease was driven by a decline in net interest income as a result of lower loan balances, reflecting portfolio runoff.

The provision for credit losses was $4.7 billion, compared with $6.3 billion in the prior year. The provision reflected an addition to the allowance for loan losses for the purchased credit-impaired portfolio of $1.2 billion as well as impacts of improved delinquency trends and reduced net charge-offs, while the prior-year provision included an addition to the allowance for loan losses of $2.3 billion in the home equity and mortgage loan portfolios. (For further detail, see RFS discussion of the provision for credit losses.)

Noninterest expense was $824 million, down by $47 million, or 5%, from the prior year, reflecting a decrease in foreclosed asset expense.

Table of Contents

Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in billions)	**2010**	2009	Change	**2010**	2009	Change
Loans excluding purchased credit-impaired loans[(a)]						
End-of-period loans owned:						
Home equity	**$ 94.8**	$108.2	(12)%	**$ 94.8**	$108.2	(12)%
Prime mortgage	**44.6**	53.2	(16)	**44.6**	53.2	(16)
Subprime mortgage	**12.6**	13.8	(9)	**12.6**	13.8	(9)
Option ARMs	**8.5**	9.0	(6)	**8.5**	9.0	(6)
Other	**1.0**	0.9	11	**1.0**	0.9	11
Total end-of-period loans owned	**$161.5**	$185.1	(13)	**$161.5**	$185.1	(13)
Average loans owned:						
Home equity	**$ 96.3**	$110.1	(13)	**$ 97.9**	$111.7	(12)
Prime mortgage	**45.7**	54.9	(17)	**46.8**	56.4	(17)
Subprime mortgage	**13.1**	14.3	(8)	**13.4**	14.6	(8)
Option ARMs	**8.6**	9.1	(5)	**8.7**	9.0	(3)
Other	**1.0**	0.9	11	**1.0**	0.9	11
Total average loans owned	**$164.7**	$189.3	(13)	**$167.8**	$192.6	(13)
Purchased credit-impaired loans[(a)]						
End-of-period loans owned:						
Home equity	**$ 25.5**	$ 27.7	(8)	**$ 25.5**	$ 27.7	(8)
Prime mortgage	**18.5**	20.8	(11)	**18.5**	20.8	(11)
Subprime mortgage	**5.6**	6.4	(13)	**5.6**	6.4	(13)
Option ARMs	**27.3**	30.5	(10)	**27.3**	30.5	(10)
Total end-of-period loans owned	**$ 76.9**	$ 85.4	(10)	**$ 76.9**	$ 85.4	(10)
Average loans owned:						
Home equity	**$ 25.7**	$ 28.0	(8)	**$ 26.0**	$ 28.2	(8)
Prime mortgage	**18.8**	21.0	(10)	**19.1**	21.3	(10)
Subprime mortgage	**5.8**	6.5	(11)	**5.8**	6.6	(12)
Option ARMs	**27.7**	31.0	(11)	**28.2**	31.2	(10)
Total average loans owned	**$ 78.0**	$ 86.5	(10)	**$ 79.1**	$ 87.3	(9)

Total Real Estate Portfolios						
End-of-period loans owned:						
Home equity	**$120.3**	$135.9	(11)	**$120.3**	$135.9	(11)
Prime mortgage	**63.1**	74.0	(15)	**63.1**	74.0	(15)
Subprime mortgage	**18.2**	20.2	(10)	**18.2**	20.2	(10)
Option ARMs	**35.8**	39.5	(9)	**35.8**	39.5	(9)
Other	**1.0**	0.9	11	**1.0**	0.9	11
Total end-of-period loans owned	**$238.4**	$270.5	(12)	**$238.4**	$270.5	(12)
Average loans owned:						
Home equity	**$122.0**	$138.1	(12)	**$123.9**	$139.9	(11)
Prime mortgage	**64.5**	75.9	(15)	**65.9**	77.7	(15)
Subprime mortgage	**18.9**	20.8	(9)	**19.2**	21.2	(9)
Option ARMs	**36.3**	40.1	(9)	**36.9**	40.2	(8)
Other	**1.0**	0.9	11	**1.0**	0.9	11
Total average loans owned	**$242.7**	$275.8	(12)	**$246.9**	$279.9	(12)
Average assets	**$230.3**	$269.5	(15)	**$235.2**	$274.7	(14)
Home equity origination volume	**0.3**	0.6	(50)	**0.6**	1.5	(60)

(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.

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.

Table of Contents

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 June 30, 2010, the remaining weighted-average life of the purchased credit-impaired loan portfolio is expected to be 6.6 years. For further information, see Note 13, Purchased credit-impaired loans, on pages 149-150 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 expense 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 expense associated with the portfolio. Over time, the Firm expects that this portfolio will contribute positively to net income.

Credit data and quality statistics	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Net charge-offs excluding purchased credit-impaired loans[a]:						
Home equity	**$ 796**	$1,265	(37)%	**$ 1,922**	$2,363	(19)%
Prime mortgage	**251**	479	(48)	**704**	786	(10)
Subprime mortgage	**282**	410	(31)	**739**	774	(5)
Option ARMs	**22**	15	47	**45**	19	137
Other	**21**	20	5	**37**	35	6
Total net charge-offs	**$ 1,372**	$2,189	(37)	**$ 3,447**	$3,977	(13)
Net charge-off rate excluding purchased credit-impaired loans[a]:						
Home equity	**3.32%**	4.61%		**3.96%**	4.27%	
Prime mortgage	**2.20**	3.50		**3.03**	2.81	
Subprime mortgage	**8.63**	11.50		**11.12**	10.69	
Option ARMs	**1.03**	0.66		**1.04**	0.43	
Other	**8.42**	8.91		**7.46**	7.84	
Total net charge-off rate excluding purchased credit-impaired loans	**3.34**	4.64		**4.14**	4.16	
Net charge-off rate reported:						
Home equity	**2.62%**	3.67%		**3.13%**	3.41%	
Prime mortgage	**1.56**	2.53		**2.15**	2.04	
Subprime mortgage	**5.98**	7.91		**7.76**	7.36	
Option ARMs	**0.24**	0.15		**0.25**	0.10	
Other	**8.42**	8.91		**7.46**	7.84	
Total net charge-off rate reported	**2.27**	3.18		**2.82**	2.87	
30+ day delinquency rate excluding purchased credit-impaired loans[b]	**6.88%**	6.46%		**6.88%**	6.46%	
Allowance for loan losses	**$14,127**	$9,821	44	**$14,127**	$9,821	44

Nonperforming assets[c]	**10,121**	9,085	11	**10,121**	9,085	11
Allowance for loan losses to ending loans retained	**5.93%**	3.63%		**5.93%**	3.63%	
Allowance for loan losses to ending loans retained excluding purchased credit-impaired loans[a]	**7.01**	5.31		**7.01**	5.31	

(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 June 30, 2010, which has also been excluded from the applicable ratios. No allowance for loan losses was recorded for these loans at June 30, 2009. To date, no charge-offs have been recorded for these loans.

(b) *The delinquency rate for purchased credit-impaired loans was 27.91% and 23.37% at June 30, 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. 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 Sheet. As a result of the consolidation of the securitization trusts, reported and managed basis are equivalent for periods beginning after January 1, 2010. For further information, see Explanation and Reconciliation of the Firm s Use of Non-GAAP Financial Measures on pages 15-19 of this Form 10-Q.

Selected income statement data-managed basis[a] (in millions, except ratios)	Three months ended June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change
Revenue						
Credit card income	**$ 908**	$ 921	(1)%	**$1,721**	$ 1,765	(2)%
All other income	**(47)**	(364)	87	**(102)**	(561)	82
Noninterest revenue	**861**	557	55	**1,619**	1,204	34
Net interest income	**3,356**	4,311	(22)	**7,045**	8,793	(20)
Total net revenue	**4,217**	4,868	(13)	**8,664**	9,997	(13)
Provision for credit losses	**2,221**	4,603	(52)	**5,733**	9,256	(38)
Noninterest expense						
Compensation expense	**327**	329	(1)	**657**	686	(4)
Noncompensation expense	**986**	873	13	**1,935**	1,723	12
Amortization of intangibles	**123**	131	(6)	**246**	270	(9)
Total noninterest expense	**1,436**	1,333	8	**2,838**	2,679	6
Income/(loss) before income tax expense/(benefit)	**560**	(1,068)	NM	**93**	(1,938)	NM
Income tax expense/(benefit)	**217**	(396)	NM	**53**	(719)	NM
Net income/(loss)	**$ 343**	$ (672)	NM	**$ 40**	$(1,219)	NM
Memo: Net securitization income/(loss)	**NA**	$ (268)	NM	**NA**	$ (448)	NM
Financial ratios						
Return on common equity	**9%**	(18)%		**1%**	(16)%	
Overhead ratio	**34**	27		**33**	27	

(a)

Effective January 1, 2010, the Firm adopted new accounting guidance related to the transfer of financial assets and the consolidation of VIEs. For further details regarding the Firm s application and impact of the new guidance, see Note 15 on pages 151-163 of this Form 10-Q.

NA: Not applicable

Quarterly results

Net income was $343 million, compared with a net loss of $672 million in the prior year. The improved results were driven by a lower provision for credit losses, partially offset by lower net revenue.

End-of-period loans were $143.0 billion, a decrease of $28.5 billion, or 17%, from the prior year. Average loans were $146.3 billion, a decrease of $27.8 billion, or 16%, from the prior year. The declines in both end-of-period and average loans were due to the decline in lower yielding promotional balances and the Washington Mutual portfolio runoff.

Net revenue was $4.2 billion, a decrease of $651 million, or 13%, from the prior year. Net interest income was $3.4 billion, down by $955 million, or 22%. The decrease was driven by lower average loan balances, the impact of legislative changes and a decreased level of fees. These decreases were offset partially by lower revenue reversals associated with lower charge-offs. Noninterest revenue was $861 million, an increase of $304 million, or 55%. The prior year included a write-down of securitization interests.

The provision for credit losses was $2.2 billion, compared with $4.6 billion in the prior year. The current-quarter provision included a reduction of $1.5 billion to the allowance for loan losses, reflecting reduced net charge-offs and lower estimated losses primarily related to improved delinquency trends as well as lower loan balances. The prior-year provision included an addition of $250 million to the allowance for loan losses. The net charge-off rate was 10.20%, up from 10.03% in the prior year. The 30-day delinquency rate was 4.96%, down from 5.86% in the prior year. Excluding the Washington Mutual portfolio, the net charge-off rate was 9.02%, up from 8.97% in the prior year; and the 30-day delinquency rate was 4.48%, down from 5.27% in the prior year.

Noninterest expense was $1.4 billion, an increase of $103 million, or 8%, due to higher marketing expense.

Year-to-date results

Net income was $40 million, compared with a net loss of $1.2 billion in the prior year. The improved results were driven by a lower provision for credit losses, partially offset by lower net revenue.

Average loans were $151.0 billion, a decrease of $27.7 billion, or 16%, from the prior year due to the decline in lower yielding promotional balances and the Washington Mutual portfolio runoff.

Net revenue was $8.7 billion, a decrease of $1.3 billion, or 13%, from the prior year. Net interest income was $7.0 billion, down by $1.7 billion, or 20%. The decrease was driven by lower average loan balances, a decreased level of fees, and the impact of legislative changes. Noninterest revenue was $1.6 billion, an increase of $415 million, or 34%, driven by a prior-year write-down of securitization interests.

The provision for credit losses was $5.7 billion, compared with $9.3 billion in the prior year. The current-year provision included a reduction of $2.5 billion to the allowance for loan losses, reflecting lower estimated losses primarily related to improved delinquency trends as well as lower loan balances. The prior-year provision included an addition of $1.4 billion to the allowance for loan losses. The net charge-off rate was 10.99%, up from 8.85% in the prior year. Excluding the Washington Mutual portfolio, the net charge-off rate was 9.80%, up from 7.90% in the prior year.

Noninterest expense was $2.8 billion, an increase of $159 million, or 6%, 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 the total annualized reduction in net income from the CARD Act, including recent regulatory guidance that defines reasonable and proportional fees, could be approximately $750 million. Results in the second quarter of 2010 reflect approximately 25% of the estimated quarterly impact of this reduction in net income.

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 annual percentage rate (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 were finalized in June, including those limiting the amount of penalty fees that can be assessed and those that would require CS to review customer accounts for potential interest rate reductions in certain circumstances.

As a result of the CARD Act, CS 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.

Table of Contents

Selected metrics

(in millions, except headcount, ratios and where otherwise noted)	Three months ended June 30, 2010	2009	Change	Six months ended June 30, 2010	2009	Change
Financial ratios[(a)]						
Percentage of average outstandings:						
Net interest income	**9.20%**	9.93%		**9.41%**	9.92%	
Provision for credit losses	**6.09**	10.60		**7.66**	10.44	
Noninterest revenue	**2.36**	1.28		**2.16**	1.36	
Risk adjusted margin[(b)]	**5.47**	0.61		**3.91**	0.84	
Noninterest expense	**3.94**	3.07		**3.79**	3.02	
Pretax income/(loss) (ROO)[(c)]	**1.54**	(2.46)		**0.12**	(2.19)	
Net income/(loss)	**0.94**	(1.55)		**0.05**	(1.38)	
Business metrics						
Sales volume (in billions)	**$ 78.1**	$ 74.0	6%	**$ 147.5**	$ 140.6	5%
New accounts opened (in millions)	**2.7**	2.4	13	**5.2**	4.6	13
Open accounts (in millions)	**88.9**	100.3	(11)	**88.9**	100.3	(11)
Merchant acquiring business						
Bank card volume (in billions)	**$ 117.1**	$ 101.4	15	**$ 225.1**	$ 195.8	15
Total transactions (in billions)	**5.0**	4.5	11	**9.7**	8.6	13
Selected balance sheet data (period-end)						
Loans:						
Loans on balance sheets	**$142,994**	$ 85,736	67	**$142,994**	$ 85,736	67
Securitized loans[(a)]	**NA**	85,790	NM	**NA**	85,790	NM
Total loans	**$142,994**	$171,526	(17)	**$142,994**	$171,526	(17)
Equity	**$ 15,000**	$ 15,000		**$ 15,000**	$ 15,000	
Selected balance sheet data (average)						
Managed assets	**$146,816**	$193,310	(24)	**$151,864**	$197,234	(23)
Loans:						
Loans on balance sheets	**$146,302**	$ 89,692	63	**$151,020**	$ 93,715	61
Securitized loans[(a)]	**NA**	84,417	NM	**NA**	85,015	NM
Total average loans	**$146,302**	$174,109	(16)	**$151,020**	$178,730	(16)
Equity	**$ 15,000**	$ 15,000		**$ 15,000**	$ 15,000	
Headcount	**21,529**	22,897	(6)	**21,529**	22,897	(6)

Table of Contents

Selected metrics	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Credit quality statistics[(a)]						
Net charge-offs	**$ 3,721**	$ 4,353	(15)%	**$ 8,233**	$ 7,846	5%
Net charge-off rate[(d)]	**10.20%**	10.03%		**10.99%**	8.85%	
Delinquency rates[(a)(d)]						
30+ day	**4.96%**	5.86%		**4.96%**	5.86%	
90+ day	**2.76**	3.25		**2.76**	3.25	
Allowance for loan losses[(a)(e)]	**$ 14,524**	$ 8,839	64	**$ 14,524**	$ 8,839	64
Allowance for loan losses to period-end loans[(a)(e)(f)]	**10.16%**	10.31%		**10.16%**	10.31%	
Key stats Washington Mutual only						
Loans	**$ 15,615**	$ 23,093	(32)	**$ 15,615**	$ 23,093	(32)
Average loans	**16,455**	24,418	(33)	**17,525**	25,990	(33)
Net interest income[(g)]	**14.97%**	17.90%		**15.02%**	17.14%	
Risk adjusted margin[(b)(g)]	**15.43**	(3.89)		**8.59**	0.49	
Net charge-off rate[(h)]	**19.53**	19.17		**21.97**	16.75	
30+ day delinquency rate[(h)]	**8.86**	11.98		**8.86**	11.98	
90+ day delinquency rate[(h)]	**5.17**	6.85		**5.17**	6.85	
Key stats excluding Washington Mutual						
Loans	**$127,379**	$148,433	(14)	**$127,379**	$148,433	(14)
Average loans	**129,847**	149,691	(13)	**133,495**	152,740	(13)
Net interest income[(g)]	**8.47%**	8.63%		**8.67%**	8.69%	
Risk adjusted margin[(b)(g)]	**4.21**	1.34		**3.30**	0.89	
Net charge-off rate	**9.02**	8.97		**9.80**	7.90	
30+ day delinquency rate	**4.48**	5.27		**4.48**	5.27	
90+ day delinquency rate	**2.47**	2.90		**2.47**	2.90	

(a) Effective January 1, 2010, the Firm adopted new accounting guidance related to the transfer of financial assets and the consolidation of VIEs. 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 further details regarding the Firm s application and impact of the new guidance, see Note 15 on pages 151-163 of this Form 10-Q.

(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 WMMT in the second quarter of 2009. Net charge-off rate for the three months

ended June 30, 2010, and delinquency rates for the three and six months ended June 30, 2010 were not affected.

(e) *Based on loans on the Consolidated Balance Sheets.*

(f) *Includes $5.0 billion of loans at June 30, 2009, held by the WMMT, which were consolidated onto the CS balance sheet at fair value during the second quarter of 2009. No allowance for loan losses was recorded for these loans as of June 30, 2009. Excluding these loans, the allowance for loan losses to period-end loans would have been 10.95%.*

(g) *As a percentage of average managed outstandings.*

(h) *Excludes the impact of purchase*

accounting adjustments related to the Washington Mutual transaction and the consolidation of the WMMT 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 reported in 2009. Effective January 1, 2010, the Firm adopted new accounting guidance that amended the accounting for the transfer of financial assets and the consolidation of VIEs. 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 further details regarding the Firm s application and impact of the new guidance, see Note 15 on pages 151-163 of this Form 10-Q.

	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Income statement data						
Credit card income						
Reported	**$ 908**	$ 1,215	(25)%	**$ 1,721**	$ 2,599	(34)%
Securitization adjustments	**NA**	(294)	NM	**NA**	(834)	NM
Managed credit card income	**$ 908**	$ 921	(1)	**$ 1,721**	$ 1,765	(2)
Net interest income						
Reported	**$ 3,356**	$ 2,353	43	**$ 7,045**	$ 4,831	46
Securitization adjustments	**NA**	1,958	NM	**NA**	3,962	NM
Managed net interest income	**$ 3,356**	$ 4,311	(22)	**$ 7,045**	$ 8,793	(20)
Total net revenue						
Reported	**$ 4,217**	$ 3,204	32	**$ 8,664**	$ 6,869	26
Securitization adjustments	**NA**	1,664	NM	**NA**	3,128	NM
Managed total net revenue	**$ 4,217**	$ 4,868	(13)	**$ 8,664**	$ 9,997	(13)
Provision for credit losses						
Reported	**$ 2,221**	$ 2,939	(24)	**$ 5,733**	$ 6,128	(6)
Securitization adjustments	**NA**	1,664	NM	**NA**	3,128	NM
Managed provision for credit losses	**$ 2,221**	$ 4,603	(52)	**$ 5,733**	$ 9,256	(38)
Balance sheets average balances						
Total average assets						
Reported	**$146,816**	$111,722	31	**$151,864**	$115,052	32
Securitization adjustments	**NA**	81,588	NM	**NA**	82,182	NM

Managed average assets	**$146,816**	$193,310	(24)	**$151,864**	$197,234	(23)
Credit quality statistics						
Net charge-offs						
Reported	**$ 3,721**	$ 2,689	38	**$ 8,233**	$ 4,718	75
Securitization adjustments	**NA**	1,664	NM	**NA**	3,128	NM
Managed net charge-offs	**$ 3,721**	$ 4,353	(15)	**$ 8,233**	$ 7,846	5
Net charge-off rates						
Reported	**10.20%**	12.03%		**10.99%**	10.15%	
Securitized	**NA**	7.91		**NA**	7.42	
Managed net charge-off rate	**10.20**	10.03		**10.99**	8.85	

NA: Not applicable

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	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue						
Lending- and deposit-related fees	**$ 280**	$ 270	4%	**$ 557**	$ 533	5%
Asset management, administration and commissions	**36**	36		**73**	70	4
All other income[(a)]	**230**	152	51	**416**	277	50
Noninterest revenue	**546**	458	19	**1,046**	880	19
Net interest income	**940**	995	(6)	**1,856**	1,975	(6)
Total net revenue[(b)]	**1,486**	1,453	2	**2,902**	2,855	2
Provision for credit losses	**(235)**	312	NM	**(21)**	605	NM
Noninterest expense						
Compensation expense	**196**	197	(1)	**402**	397	1
Noncompensation expense	**337**	327	3	**661**	669	(1)
Amortization of intangibles	**9**	11	(18)	**18**	22	(18)
Total noninterest expense	**542**	535	1	**1,081**	1,088	(1)
Income before income tax expense	**1,179**	606	95	**1,842**	1,162	59
Income tax expense	**486**	238	104	**759**	456	66
Net income	**$ 693**	$ 368	88	**$ 1,083**	$ 706	53
Revenue by product						
Lending	**$ 649**	$ 684	(5)	**$ 1,307**	$ 1,349	(3)
Treasury services	**665**	679	(2)	**1,303**	1,325	(2)
Investment banking	**115**	114	1	**220**	187	18
Other	**57**	(24)	NM	**72**	(6)	NM
Total Commercial Banking revenue	**$ 1,486**	$ 1,453	2	**$ 2,902**	$ 2,855	2
IB revenue, gross[(c)]	**$ 333**	$ 328	2	**$ 644**	$ 534	21
Revenue by client segment						
Middle Market Banking	**$ 767**	$ 772	(1)	**$ 1,513**	$ 1,524	(1)
Commercial Term Lending	**237**	224	6	**466**	452	3
Mid-Corporate Banking	**285**	305	(7)	**548**	547	

Real Estate Banking	**125**	120	4	**225**	240	(6)
Other	**72**	32	125	**150**	92	63
Total Commercial Banking revenue	**$1,486**	$1,453	2	**$2,902**	$2,855	2
Financial ratios						
Return on common equity	**35%**	18%		**27%**	18%	
Overhead ratio	**36**	37		**37**	38	

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

(b) Total net revenue included tax-equivalent adjustments from income tax credits related to equity investments in designated community development entities that provide loans to qualified businesses in low-income communities as well as tax-exempt income from municipal bond activity of $49 million and $39 million for the quarters ended June 30, 2010 and 2009, respectively, and $94 million

and $74 million for year-to-date 2010 and 2009, respectively.

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

Table of Contents

Quarterly results

Net income was $693 million, an increase of $325 million, or 88%, from the prior year. The increase was driven by a reduction in the provision for credit losses.

Net revenue was $1.5 billion, relatively flat compared with the prior year. Net interest income was $940 million, down by $55 million, or 6%, driven by spread compression on liability products and lower loan balances, predominantly offset by growth in liability balances and wider loan spreads. Noninterest revenue was $546 million, an increase of $88 million, or 19%. The current quarter reflected gains on sales of loans and other real estate owned, and higher lending-related fees, while the prior year reflected markdowns on certain assets held at fair value.

Revenue from Middle Market Banking was $767 million, a decrease of $5 million, or 1%, from the prior year. Revenue from Commercial Term Lending was $237 million, an increase of $13 million, or 6%. Revenue from Mid-Corporate Banking was $285 million, a decrease of $20 million, or 7%. Revenue from Real Estate Banking was $125 million, an increase of $5 million, or 4%.

The provision for credit losses was a benefit of $235 million, compared with an expense of $312 million in the prior year. The current-quarter provision included a reduction of $413 million to the allowance for credit losses, mainly due to refinements to credit loss estimates and improvement in the credit quality of the commercial and industrial portfolio. Net charge-offs were $176 million (0.74% net charge-off rate), compared with $181 million (0.67% net charge-off rate) in the prior year. Current-quarter net charge-offs were largely related to commercial real estate. The allowance for loan losses to end-of-period loans retained was 2.82%, down from 2.87% in the prior year. Nonperforming loans were $3.1 billion, up by $1.0 billion from the prior year, reflecting increases in nonperforming commercial real estate loans.

Noninterest expense was $542 million, an increase of $7 million, relatively flat compared with the prior year.

Year-to-date results

Net income was $1.1 billion, an increase of $377 million, or 53%, from the prior year. The increase was driven by a reduction in the provision for credit losses.

Net revenue was $2.9 billion, relatively flat compared with the prior year. Net interest income was $1.9 billion down by $119 million, or 6%, driven by spread compression on liability products and lower loan balances, but largely offset by growth in liability balances and wider loan spreads. Noninterest revenue was $1.0 billion, an increase of $166 million, or 19%, from the prior year. The current year reflected gains on sales of loans and other real estate owned, higher lending-related fees and higher investment banking fees, while the prior year reflected markdowns on certain assets held at fair value.

Revenue from Middle Market Banking was $1.5 billion, relatively flat with the prior year. Revenue from Commercial Term Lending was $466 million, an increase of $14 million, or 3%. Mid-Corporate Banking revenue was $548 million, flat compared with the prior year. Real Estate Banking revenue was $225 million, a decrease of $15 million, or 6%.

The provision for credit losses was a benefit of $21 million, compared with an expense of $605 million in the prior year. The reduction was mainly due to refinements to credit loss estimates and improvement in the credit quality of the commercial and industrial portfolio. Net charge-offs were $405 million (0.85% net charge-off rate), compared with $315 million (0.57% net charge-off rate) in the prior year.

Noninterest expense was $1.1 billion, relatively flat with the prior year.

Table of Contents

Selected metrics (in millions, except headcount and ratios)	Three months ended June 30, 2010	2009	Change	Six months ended June 30, 2010	2009	Change
Selected balance sheet data (period-end):						
Loans:						
Loans retained	**$ 95,090**	$105,556	(10)%	**$ 95,090**	$105,556	(10)%
Loans held-for-sale and loans at fair value	**446**	296	51	**446**	296	51
Total loans	**95,536**	105,852	(10)	**95,536**	105,852	(10)
Equity	**8,000**	8,000		**8,000**	8,000	
Selected balance sheet data (average):						
Total assets	**$133,309**	$137,283	(3)	**$133,162**	$140,771	(5)
Loans:						
Loans retained	**95,521**	108,750	(12)	**95,917**	111,146	(14)
Loans held-for-sale and loans at fair value	**391**	288	36	**344**	292	18
Total loans	**95,912**	109,038	(12)	**96,261**	111,438	(14)
Liability balances[(a)]	**136,770**	105,829	29	**134,966**	110,377	22
Equity	**8,000**	8,000		**8,000**	8,000	
Average loans by client segment:						
Middle Market Banking	**$ 34,424**	$ 38,193	(10)	**$ 34,173**	$ 39,453	(13)
Commercial Term Lending	**35,956**	36,963	(3)	**36,006**	36,889	(2)
Mid-Corporate Banking	**11,875**	17,012	(30)	**12,065**	17,710	(32)
Real Estate Banking	**9,814**	12,347	(21)	**10,124**	12,803	(21)
Other	**3,843**	4,523	(15)	**3,893**	4,583	(15)
Total Commercial Banking loans	**$ 95,912**	$109,038	(12)	**$ 96,261**	$111,438	(14)
Headcount	**4,808**	4,228	14	**4,808**	4,228	14
Credit data and quality statistics:						
Net charge-offs	**$ 176**	$ 181	(3)	**$ 405**	$ 315	29
Nonperforming loans:						
Nonperforming loans retained[(b)]	**3,036**	2,090	45	**3,036**	2,090	45
Nonperforming loans held-for-sale and loans at fair value	**41**	21	95	**41**	21	95
Total nonperforming loans	**3,077**	2,111	46	**3,077**	2,111	46
Nonperforming assets	**3,285**	2,255	46	**3,285**	2,255	46
Allowance for credit losses:						
Allowance for loan losses	**2,686**	3,034	(11)	**2,686**	3,034	(11)
Allowance for lending-related commitments	**267**	272	(2)	**267**	272	(2)
Total allowance for credit losses	**2,953**	3,306	(11)	**2,953**	3,306	(11)

Net charge-off rate	**0.74%**	0.67%	**0.85%**	0.57%
Allowance for loan losses to period-end loans retained	**2.82**	2.87	**2.82**	2.87
Allowance for loan losses to average loans retained	**2.81**	2.79	**2.80**	2.73
Allowance for loan losses to nonperforming loans retained	**88**	145	**88**	145
Nonperforming loans to period-end loans	**3.22**	1.99	**3.22**	1.99
Nonperforming loans to average loans	**3.21**	1.94	**3.20**	1.89

(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 $586 million and $460 million were held against nonperforming loans retained at June 30, 2010 and 2009, respectively.*

Table of Contents

TREASURY & SECURITIES SERVICES

For a discussion of the business profile of TSS, see pages 56-57 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 June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change
Revenue						
Lending- and deposit-related fees	$ **313**	$ 314	%	$ **624**	$ 639	(2)%
Asset management, administration and commissions	**705**	710	(1)	**1,364**	1,336	2
All other income	**209**	221	(5)	**385**	418	(8)
Noninterest revenue	**1,227**	1,245	(1)	**2,373**	2,393	(1)
Net interest income	**654**	655		**1,264**	1,328	(5)
Total net revenue	**1,881**	1,900	(1)	**3,637**	3,721	(2)
Provision for credit losses	**(16)**	(5)	(220)	**(55)**	(11)	(400)
Credit reimbursement to IB[(a)]	**(30)**	(30)		**(60)**	(60)	
Noninterest expense						
Compensation expense	**697**	618	13	**1,354**	1,247	9
Noncompensation expense	**684**	650	5	**1,334**	1,321	1
Amortization of intangibles	**18**	20	(10)	**36**	39	(8)
Total noninterest expense	**1,399**	1,288	9	**2,724**	2,607	4
Income before income tax expense	**468**	587	(20)	**908**	1,065	(15)
Income tax expense	**176**	208	(15)	**337**	378	(11)
Net income	$ **292**	$ 379	(23)	$ **571**	$ 687	(17)
Revenue by business						
Treasury Services	$ **926**	$ 934	(1)	$ **1,808**	$ 1,865	(3)
Worldwide Securities Services	**955**	966	(1)	**1,829**	1,856	(1)
Total net revenue	$ **1,881**	$ 1,900	(1)	$ **3,637**	$ 3,721	(2)
Financial ratios						
Return on common equity	**18**%	30%		**18**%	28%	
Overhead ratio	**74**	68		**75**	70	
Pretax margin ratio	**25**	31		**25**	29	
Selected balance sheet data (period-end)						
Loans[(b)]	$ **24,513**	$ 17,929	37	$ **24,513**	$ 17,929	37
Equity	**6,500**	5,000	30	**6,500**	5,000	30

Selected balance sheet data (average)						
Total assets	**$ 42,868**	$ 35,520	21	**$ 40,583**	$ 37,092	9
Loans[(b)]	**22,137**	17,524	26	**20,865**	18,825	11
Liability balances[(c)]	**246,690**	234,163	5	**247,294**	255,208	(3)
Equity	**6,500**	5,000	30	**6,500**	5,000	30
Headcount	**27,943**	27,252	3	**27,943**	27,252	3

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

(c) 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 $292 million, a decrease of $87 million, or 23%, from the prior year. These results reflected lower net revenue and higher noninterest expense.

Net revenue was $1.9 billion, a decrease of $19 million, or 1%, from the prior year. Worldwide Securities Services net revenue was $955 million, relatively flat compared with the prior year, as lower spreads in securities lending and the impact of lower volatility on foreign exchange were offset by higher market levels and net inflows of assets under custody. Similarly, TS net revenue was $926 million, relatively flat as lower deposit spreads were offset by higher trade loan and card product volumes.

TSS generated firmwide net revenue of $2.6 billion, including $1.7 billion by TS; of that amount, $926 million was recorded in TS, $665 million in CB and $62 million in other lines of business. The remaining $955 million of firmwide net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was a benefit of $16 million, compared with a benefit of $5 million in the prior year.

Noninterest expense was $1.4 billion, up $111 million, or 9% from the prior year. The increase was driven by higher performance-based compensation and continued investment in new product platforms, primarily related to international expansion.

Year-to-date results

Net income was $571 million, a decrease of $116 million, or 17%, from the prior year. These results reflected lower net revenue and higher noninterest expense.

Net revenue was $3.6 billion, a decrease of $84 million, or 2% from the prior year. Worldwide Securities Services net revenue of $1.8 billion was relatively flat as lower spreads in securities lending, the impact of lower volatility on foreign exchange and lower balances on liability products, were offset by the effects of higher market levels and net inflows of assets under custody. TS net revenue was $1.8 billion, a decrease of $57 million, or 3%. The decrease primarily reflected lower deposit spreads, partially offset by higher trade loan and card product volumes.

TSS generated firmwide net revenue of $5.1 billion, including $3.2 billion by TS; of that amount, $1.8 billion was recorded in TS, $1.3 billion in CB and $118 million in other lines of business. The remaining $1.8 billion of net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was a benefit of $55 million compared with a benefit of $11 million in the prior year.

Noninterest expense was $2.7 billion, up $117 million, or 4%. The increase was driven by higher performance-based compensation as well as continued investment in new product platforms, primarily related to international expansion.

Selected metrics (in millions, except ratios and where otherwise noted)	Three months ended June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change
TSS firmwide disclosures						
Treasury Services revenue reported	$ **926**	$ 934	(1)%	$ **1,808**	$ 1,865	(3)%
Treasury Services revenue reported in CB	**665**	679	(2)	**1,303**	1,325	(2)
Treasury Services revenue reported in other lines of business	**62**	63	(2)	**118**	125	(6)
Treasury Services firmwide revenue[(a)]	**1,653**	1,676	(1)	**3,229**	3,315	(3)
Worldwide Securities Services revenue	**955**	966	(1)	**1,829**	1,856	(1)
Treasury & Securities Services firmwide revenue[(a)]	$ **2,608**	$ 2,642	(1)	$ **5,058**	$ 5,171	(2)
Treasury Services firmwide liability balances (average)[(b)]	$ **303,224**	$ 258,312	17	$ **304,159**	$ 273,892	11
Treasury & Securities Services firmwide liability balances (average)[(b)]	**383,460**	339,992	13	**382,260**	365,584	5
TSS firmwide financial ratios						
Treasury Services firmwide overhead ratio[(c)]	**54%**	51%		**55%**	52%	
Treasury & Securities Services firmwide overhead ratio[(c)]	**64**	59		**65**	61	
Firmwide business metrics						
Assets under custody (in billions)	$ **14,857**	$ 13,748	8	$ **14,857**	$ 13,748	8
Number of:						
U.S.$ ACH transactions originated (in millions)	**970**	978	(1)	**1,919**	1,956	(2)
Total U.S.$ clearing volume (in thousands)	**30,531**	28,193	8	**59,200**	55,379	7
International electronic funds transfer volume (in thousands)[(d)]	**58,484**	47,096	24	**114,238**	91,461	25
Wholesale check volume (in millions)	**526**	572	(8)	**1,004**	1,140	(12)
Wholesale cards issued (in thousands)[(e)]	**28,066**	25,501	10	**28,066**	25,501	10
Credit data and quality statistics						
Net charge-offs	$	$ 17	NM	$	$ 19	NM
Nonperforming loans	**14**	14		**14**	14	
Allowance for credit losses:						
Allowance for loan losses	**48**	15	220	**48**	15	220
Allowance for lending-related commitments	**68**	92	(26)	**68**	92	(26)
Total allowance for credit losses	**116**	107	8	**116**	107	8
Net charge-off rate	**%**	0.39%		**%**	0.20%	
Allowance for loan losses to period-end loans	**0.20**	0.08		**0.20**	0.08	
Allowance for loan losses to average loans	**0.22**	0.09		**0.23**	0.08	

Allowance for loan losses to nonperforming loans	**343**	107	**343**	107
Nonperforming loans to period-end loans	**0.06**	0.08	**0.06**	0.08
Nonperforming loans to average loans	**0.06**	0.08	**0.07**	0.07

(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. The total FX revenue generated was $175 million and $191 million for the three months ended June 30, 2010 and 2009, respectively, and $312 million and $345 million for the six months ended June 30, 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	Three months ended June 30,			Six months ended June 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue:						
Asset management, administration and commissions	**$1,522**	$1,315	16%	**$3,030**	$2,546	19%
All other income	**177**	253	(30)	**443**	322	38
Noninterest revenue	**1,699**	1,568	8	**3,473**	2,868	21
Net interest income	**369**	414	(11)	**726**	817	(11)
Total net revenue	**2,068**	1,982	4	**4,199**	3,685	14
Provision for credit losses	**5**	59	(92)	**40**	92	(57)
Noninterest expense:						
Compensation expense	**861**	810	6	**1,771**	1,610	10
Noncompensation expense	**527**	525		**1,041**	1,004	4
Amortization of intangibles	**17**	19	(11)	**35**	38	(8)
Total noninterest expense	**1,405**	1,354	4	**2,847**	2,652	7
Income before income tax expense	**658**	569	16	**1,312**	941	39
Income tax expense	**267**	217	23	**529**	365	45
Net income	**$ 391**	$ 352	11	**$ 783**	$ 576	36
Revenue by client segment						
Private Bank	**$ 695**	$ 640	9	**$1,393**	$1,223	14
Retail	**482**	411	17	**897**	664	35
Institutional	**433**	487	(11)	**999**	947	5
Private Wealth Management	**348**	334	4	**691**	646	7
JPMorgan Securities[(a)]	**110**	110		**219**	205	7
Total net revenue	**$2,068**	$1,982	4	**$4,199**	$3,685	14
Financial ratios						
Return on common equity	**24%**	20%		**24%**	17%	
Overhead ratio	**68**	68		**68**	72	
Pretax margin ratio	**32**	29		**31**	26	

(a) JPMorgan Securities was

formerly known as Bear Stearns Private Client Services prior to January 1, 2010.

47

Table of Contents

Quarterly results

Net income was $391 million, an increase of $39 million, or 11%, from the prior year. These results reflected higher net revenue and a lower provision for credit losses, partially offset by higher noninterest expense.

Net revenue was $2.1 billion, an increase of $86 million, or 4%, from the prior year. Noninterest revenue was $1.7 billion, up by $131 million, or 8%, due to the effects of higher market levels, net inflows to products with higher margins and higher performance fees, partially offset by lower quarterly valuations of seed capital investments. Net interest income was $369 million, down by $45 million, or 11%, due to narrower deposit spreads, largely offset by higher deposit balances.

Revenue from the Private Bank was $695 million, up 9% from the prior year. Revenue from Retail was $482 million, up 17%. Revenue from Institutional was $433 million, down 11%. Revenue from Private Wealth Management was $348 million, up 4%. Revenue from JPMorgan Securities was $110 million, flat compared with the prior year.

The provision for credit losses was $5 million, compared with $59 million in the prior year.

Noninterest expense was $1.4 billion, an increase of $51 million, or 4%, from the prior year, reflecting higher headcount.

Year-to-date results

Net income was $783 million, an increase of $207 million, or 36%, from the prior year, due to higher net revenue and a lower provision for credit losses, partially offset by higher noninterest expense.

Net revenue was $4.2 billion, an increase of $514 million, or 14%, from the prior year. Noninterest revenue was $3.5 billion, an increase of $605 million, or 21%, due to the effects of higher market levels, higher placement fees, net inflows to products with higher margins and higher performance fees. Net interest income was $726 million, down by $91 million, or 11%, from the prior year, due to narrower deposit spreads, partially offset by higher deposit balances.

Revenue from the Private Bank was $1.4 billion, up 14% from the prior year. Revenue from Institutional was $999 million, up 5%. Revenue from Retail was $897 million, up 35%. Revenue from Private Wealth Management was $691 million, up 7%. Revenue from JPMorgan Securities was $219 million, up 7%.

The provision for credit losses was $40 million, compared with $92 million in the prior year.

Noninterest expense was $2.8 billion, an increase of $195 million, or 7%, from the prior year due to higher performance-based compensation and higher headcount.

Table of Contents

Business metrics (in millions, except headcount, ratios, ranking data, and where otherwise noted)	Three months ended June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change
Number of:						
Client advisors	**2,055**	1,838	12%	**2,055**	1,838	12%
Retirement planning services participants (in thousands)	**1,653**	1,595	4	**1,653**	1,595	4
JPMorgan Securities brokers[(a)]	**402**	362	11	**402**	362	11
% of customer assets in 4 & 5 Star Funds[(b)]	**43%**	45%	(4)	**43%**	45%	(4)
% of AUM in 1st and 2nd quartiles:[(c)]						
1 year	**58%**	62%	(6)	**58%**	62%	(6)
3 years	**67%**	69%	(3)	**67%**	69%	(3)
5 years	**78%**	80%	(3)	**78%**	80%	(3)
Selected balance sheet data (period-end)						
Loans	**$38,744**	$35,474	9	**$38,744**	$35,474	9
Equity	**6,500**	7,000	(7)	**6,500**	7,000	(7)
Selected balance sheet data (average)						
Total assets	**$63,426**	$59,334	7	**$62,978**	$58,783	7
Loans	**37,407**	34,292	9	**37,007**	34,438	7
Deposits	**86,453**	75,355	15	**83,573**	78,534	6
Equity	**6,500**	7,000	(7)	**6,500**	7,000	(7)
Headcount	**16,019**	14,840	8	**16,019**	14,840	8
Credit data and quality statistics						
Net charge-offs	**$ 27**	$ 46	(41)	**$ 55**	$ 65	(15)
Nonperforming loans	**309**	313	(1)	**309**	313	(1)
Allowance for credit losses:						
Allowance for loan losses	**250**	226	11	**250**	226	11
Allowance for lending-related commitments	**3**	4	(25)	**3**	4	(25)
Total allowance for credit losses	**253**	230	10	**253**	230	10
Net charge-off rate	**0.29%**	0.54%		**0.30%**	0.38%	
Allowance for loan losses to period-end loans	**0.65**	0.64		**0.65**	0.64	
Allowance for loan losses to average loans	**0.67**	0.66		**0.68**	0.66	
Allowance for loan losses to nonperforming loans	**81**	72		**81**	72	
Nonperforming loans to period-end loans	**0.80**	0.88		**0.80**	0.88	

Nonperforming loans to average loans	**0.83**	0.91	**0.83**	0.91

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

(b) *Derived from Morningstar for the U.S., the U.K., Luxembourg, France, Hong Kong and Taiwan; and Nomura for Japan.*

(c) *Quartile rankings sourced from Lipper for the U.S. and Taiwan; Morningstar for the U.K., Luxembourg, France and Hong Kong; and Nomura for Japan.*

Table of Contents

Assets under supervision

Assets under supervision were $1.6 trillion, an increase of $97 billion, or 6%, from the prior year. Assets under management were $1.2 trillion, a decrease of $10 billion, or 1%, due to outflows in liquidity products, predominantly offset by inflows in fixed income and equity products and the effect of higher market levels. Custody, brokerage, administration and deposit balances were $479 billion, up by $107 billion, or 29%, due to custody and brokerage inflows and the effect of higher market levels.

ASSETS UNDER SUPERVISION[(a)] (in billions)

As of June 30,	**2010**	2009
Assets by asset class		
Liquidity	**$ 489**	$ 617
Fixed income	**259**	194
Equities and multi-asset	**322**	264
Alternatives	**91**	96
Total assets under management	**1,161**	1,171
Custody/brokerage/administration/deposits	**479**	372
Total assets under supervision	**$ 1,640**	$ 1,543
Assets by client segment		
Institutional	**$ 634**	$ 697
Private Bank	**177**	179
Retail	**269**	216
Private Wealth Management	**66**	67
JPMorgan Securities[(b)]	**15**	12
Total assets under management	**$ 1,161**	$ 1,171
Institutional	**$ 636**	$ 697
Private Bank	**469**	390
Retail	**351**	289
Private Wealth Management	**130**	123
JPMorgan Securities[(b)]	**54**	44
Total assets under supervision	**$ 1,640**	$ 1,543
Assets by geographic region		
U.S./Canada	**$ 791**	$ 814
International	**370**	357
Total assets under management	**$ 1,161**	$ 1,171
U.S./Canada	**$ 1,151**	$ 1,103

International	**489**	440
Total assets under supervision	**$ 1,640**	$ 1,543
Mutual fund assets by asset class		
Liquidity	**$ 440**	$ 569
Fixed income	**79**	48
Equities and multi-asset	**133**	111
Alternatives	**8**	9
Total mutual fund assets	**$ 660**	$ 737

(a) Excludes assets under management of American Century Companies, Inc., in which the Firm had a 42% ownership at both June 30, 2010 and 2009.

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

Table of Contents

Assets under management rollforward (in billions)	Three months ended June 30, **2010**	2009	Six months ended June 30, **2010**	2009
Beginning balance	**$ 1,219**	$ 1,115	**$ 1,249**	$ 1,133
Net asset flows:				
Liquidity	**(29)**	(7)	**(91)**	12
Fixed income	**12**	8	**28**	9
Equities, multi-asset and alternatives	**1**	2	**7**	(3)
Market/performance/other impacts	**(42)**	53	**(32)**	20
Total assets under management	**$ 1,161**	$ 1,171	**$ 1,161**	$ 1,171
Assets under supervision rollforward				
Beginning balance	**$ 1,707**	$ 1,464	**$ 1,701**	$ 1,496
Net asset flows	**(4)**	(9)	**(14)**	16
Market/performance/other impacts	**(63)**	88	**(47)**	31
Total assets under supervision	**$ 1,640**	$ 1,543	**$ 1,640**	$ 1,543

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 June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change
Revenue						
Principal transactions	**$ (69)**	$ 1,243	NM	**$ 478**	$ (250)	NM
Securities gains	**990**	366	170%	**1,600**	580	176%
All other income	**182**	(209)	NM	**306**	(228)	NM
Noninterest revenue	**1,103**	1,400	(21)	**2,384**	102	NM
Net interest income	**747**	865	(14)	**1,823**	1,854	(2)
Total net revenue[(a)]	**1,850**	2,265	(18)	**4,207**	1,956	115
Provision for credit losses	**(2)**	9	NM	**15**	9	67
Noninterest expense						
Compensation expense	**770**	655	18	**1,245**	1,296	(4)
Noncompensation expense[(b)]	**1,468**	1,319	11	**4,509**	1,664	171
Merger costs		143	NM		348	NM
Subtotal	**2,238**	2,117	6	**5,754**	3,308	74
	(1,192)	(1,253)	5	**(2,372)**	(2,532)	6

Net expense allocated to other businesses						
Total noninterest expense	**1,046**	864	21	**3,382**	776	336
Income before income tax expense	**806**	1,392	(42)	**810**	1,171	(31)
Income tax expense/(benefit)[(c)]	**153**	584	(74)	**(71)**	625	NM
Net income	**$ 653**	$ 808	(19)	**$ 881**	$ 546	61
Total net revenue						
Private equity	**$ 48**	$ (1)	NM	**$ 163**	$ (450)	NM
Corporate	**1,802**	2,266	(20)	**4,044**	2,406	68
Total net revenue	**$ 1,850**	$ 2,265	(18)	**$ 4,207**	$ 1,956	115
Net income/(loss)						
Private equity	**$ 11**	$ (27)	NM	**$ 66**	$ (307)	NM
Corporate[(d)]	**642**	835	(23)	**815**	853	(4)
Total net income	**$ 653**	$ 808	(19)	**$ 881**	$ 546	61
Headcount	**19,482**	21,522	(9)	**19,482**	21,522	(9)

(a) *Total net revenue included tax-equivalent adjustments, predominantly due to tax-exempt income from municipal bond investments of $57 million and $44 million for the quarters ended June 30, 2010 and 2009, respectively, and $105 million and $70 million for the six months ended June 30, 2010 and 2009,* *respectively.*

(b) *The three and six months ended June 30, 2010, included litigation expense of $694 million and $3.0 billion, respectively. The second quarter of 2009 included a $675 million FDIC special assessment.*

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

(d) *The 2009 periods included merger costs and the 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 2010) broker retention expense.

51

Table of Contents

Quarterly results

Net income was $653 million, compared with net income of $808 million in the prior year.

Private Equity net income was $11 million, compared with a net loss of $27 million in the prior year. Net revenue was $48 million, an increase of $49 million, driven by higher private equity gains from more favorable market conditions and underlying performance on certain portfolio investments. Noninterest expense was $32 million, a decrease of $10 million.

Corporate net income was $642 million, compared with $835 million in the prior year. Net revenue was $1.8 billion, a decrease of $464 million, reflecting lower trading revenue primarily from the absence of spread tightening and increases in asset prices experienced in the second quarter of 2009; the decrease was offset partially by higher securities gains, from the repositioning of the investment portfolio. Noninterest expense was $1.0 billion, up from $822 million in the prior year, largely due to higher litigation expense.

Year-to-date results

Net income was $881 million, compared with $546 million in the prior year.

Private Equity net income was $66 million, compared with a net loss of $307 million in the prior year. Net revenue was $163 million, an increase of $613 million, driven by higher private equity gains from more favorable market conditions and underlying performance on certain portfolio investments. Noninterest expense was $62 million, an increase of $31 million.

Net income for Corporate was $815 million compared with $853 million. Net revenue was $4.0 billion compared with $2.4 billion reflecting elevated levels of securities gains from the investment portfolio. Noninterest expense was $3.3 billion compared with $744 million, reflecting an increase of litigation reserves. Prior year included a $675 million FDIC special assessment.

Treasury and Chief Investment Office (CIO)

Selected income statement and balance sheet data	Three months ended June 30,			Six months ended June 30,		
(in millions)	**2010**	2009	Change	**2010**	2009	Change
Securities gains[(a)]	**$ 989**	$ 374	164%	**$ 1,599**	$ 588	172%
Investment securities portfolio (average)	**320,578**	336,263	(5)	**325,553**	301,219	8
Investment securities portfolio (ending)	**305,288**	326,414	(6)	**305,288**	326,414	(6)
Mortgage loans (average)	**8,539**	7,228	18	**8,352**	7,219	16
Mortgage loans (ending)	**8,900**	7,368	21	**8,900**	7,368	21

(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 110-124 and 139-144, 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 95-98 of this Form 10-Q.

Selected income statement and balance sheet data (in millions)	Three months ended June 30, **2010**	2009	Change	Six months ended June 30, **2010**	2009	Change
Private equity gains/(losses)						
Realized gains	**$ 78**	$ 25	212%	**$ 191**	$ 40	378%
Unrealized gains/(losses)[(a)]	**(7)**	16	NM	**(82)**	(393)	79
Total direct investments	**71**	41	73	**109**	(353)	NM
Third-party fund investments	**4**	(61)	NM	**102**	(129)	NM
Total private equity gains/(losses)[(b)]	**$ 75**	$ (20)	NM	**$ 211**	$ (482)	NM

52

Table of Contents

Private equity portfolio information(c)
Direct investments

(in millions)		June 30, 2010	December 31, 2009	Change
Publicly held securities				
Carrying value		**$ 873**	$ 762	15%
Cost		**901**	743	21
Quoted public value		**974**	791	23
Privately held direct securities				
Carrying value		**5,464**	5,104	7
Cost		**6,507**	5,959	9
Third-party fund investments(d)				
Carrying value		**1,782**	1,459	22
Cost		**2,315**	2,079	11
Total private equity portfolio	**Carrying value**	**$ 8,119**	$ 7,325	11
Total private equity portfolio	**Cost**	**$ 9,723**	$ 8,781	11

(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 110-124 of this Form 10-Q.

(d) *Unfunded commitments to third-party private equity funds were $1.2 billion and $1.5 billion at June 30, 2010, and December 31, 2009, respectively.*

The carrying value of the private equity portfolio at June 30, 2010, and December 31, 2009, was $8.1 billion and $7.3 billion, respectively. The increase in the portfolio during the first half of the year is primarily due to approximately $1.0 billion in new and follow-on investments, partially offset by unrealized losses on markdowns. The portfolio represented 6.6% and 6.3% of the Firm s stockholders equity less goodwill at June 30, 2010, and December 31, 2009, respectively.

BALANCE SHEET ANALYSIS

Selected Consolidated Balance Sheets data(in millions)	**June 30, 2010**	December 31, 2009
Assets		
Cash and due from banks	**$ 32,806**	$ 26,206
Deposits with banks	**39,430**	63,230
Federal funds sold and securities purchased under resale agreements	**199,024**	195,404
Securities borrowed	**122,289**	119,630
Trading assets:		
Debt and equity instruments	**317,293**	330,918
Derivative receivables	**80,215**	80,210
Securities	**312,013**	360,390
Loans	**699,483**	633,458
Allowance for loan losses	**(35,836)**	(31,602)
Loans, net of allowance for loan losses	**663,647**	601,856
Accrued interest and accounts receivable	**61,295**	67,427
Premises and equipment	**11,267**	11,118
Goodwill	**48,320**	48,357
Mortgage servicing rights	**11,853**	15,531
Other intangible assets	**4,178**	4,621
Other assets	**110,389**	107,091
Total assets	**$ 2,014,019**	$ 2,031,989

Liabilities		
Deposits	**$ 887,805**	$ 938,367
Federal funds purchased and securities loaned or sold under repurchase agreements	**237,455**	261,413
Commercial paper	**41,082**	41,794
Other borrowed funds	**44,431**	55,740
Trading liabilities:		
Debt and equity instruments	**74,745**	64,946
Derivative payables	**60,137**	60,125
Accounts payable and other liabilities	**160,478**	162,696
Beneficial interests issued by consolidated VIEs	**88,148**	15,225
Long-term debt	**248,618**	266,318
Total liabilities	**1,842,899**	1,866,624
Stockholders equity	**171,120**	165,365
Total liabilities and stockholders equity	**$ 2,014,019**	$ 2,031,989

Consolidated Balance Sheets overview

Total assets were $2.0 trillion, down modestly from December 31, 2009. Total assets decreased, primarily as a result of repositioning the Firm s securities portfolio in response to changes in the interest rate environment, and reducing deposits with banks as market stress gradually eased since the end of 2009. The decrease was partially offset by an increase in loans, primarily due to the January 1, 2010, adoption of new consolidation guidance related to VIEs.

Total liabilities were $1.8 trillion, down modestly. The decrease in liabilities was a result of customer deposits declining primarily due to lower short-term funding needs. Partially offsetting these liability decreases was an increase in beneficial interests issued by consolidated VIEs, which was also a result of the adoption of the new consolidation guidance related to VIEs.

Stockholders equity was $171.1 billion, an increase of $5.8 billion, or 3%, from the prior year-end. Stockholders equity increased driven predominantly by growth in net income and a net increase in accumulated other comprehensive income (AOCI); these were partially offset by the cumulative effect of a change in accounting principles as a result of the adoption of the new consolidation guidance related to VIEs.

The following is a discussion of the significant changes in the specific line captions of 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; securities borrowed

Deposits with banks decreased, largely due to lower deposits with the Federal Reserve Bank and lower interbank lending, as market stress gradually eased since the end of 2009. Securities purchased under resale agreements increased, predominantly due to higher financing volume in IB, offset partially by a decline in Corporate due to a reduced level of funds to be invested on a short-term basis. For additional information on the Firm s Liquidity Risk Management, see pages 65-67 of this Form 10-Q.

Trading assets and liabilities debt and equity instruments

Trading assets debt and equity instruments decreased, primarily reflecting lower client flows as a result of unfavorable financial markets in the second quarter of 2010. Trading liabilities debt and equity instruments increased, reflecting an increase in business activity in markets outside of the U.S. (mainly Asia Pacific) in the first quarter of 2010; this was partially offset by unfavorable financial markets in the second quarter of 2010. For additional information, refer to Note 3 on pages 110-124 of this Form 10-Q.

Trading assets and liabilities derivative receivables and payables

Derivative receivables and payables were flat and reflected the effect of declining interest rates and increased levels of foreign exchange-rate volatility, offset by declining equity valuations and lower energy and base metal commodity prices. For additional information, refer to Derivative contracts on pages 75-77, and Note 3 and Note 5 on pages 110-124 and 128-136, respectively, of this Form 10-Q.

Securities

Securities decreased, largely due to repositioning of the Firm s securities portfolio in response to changes in the interest rate environment and to rebalance issuer exposures. The repositioning reduced U.S. government agency securities and increased non-U.S. mortgage-backed securities. The adoption of the new consolidation guidance related to VIEs, which resulted in the elimination of retained available-for-sale (AFS) securities issued by Firm-sponsored credit card securitization trusts, also contributed to the decrease. For a more detailed discussion of the adoption of the new consolidation guidance, see Note 1 on pages 108-109 of this Form 10-Q. For additional information related to securities, refer to the Corporate/Private Equity segment on pages 51-53, and Note 3 and Note 11 on pages 110-124 and 139-144, respectively, of this Form 10-Q.

Loans and allowance for loan losses

Loans increased as a result of the new consolidation guidance related to VIEs that required the Firm to consolidate the assets and liabilities of its Firm-sponsored credit card securitization trusts, Firm-administered multi-seller conduits and certain other consumer securitization entities, primarily mortgage-related. Excluding the impact of the adoption of the new accounting guidance, loans decreased due to the Washington Mutual credit card portfolio runoff; the decline in lower-yielding promotional credit card balances; continued runoff of the residential real estate portfolios; net repayments and loan sales in IB; and net charge-offs. Client demand, in general, remains low.

The allowance for loan losses increased, largely due to the impact of new consolidation guidance related to VIEs that required the Firm to consolidate the assets and liabilities of its Firm-sponsored credit card securitization trusts. Excluding the effect of the new consolidation guidance, the allowance decreased, as a result of reductions of $2.0 billion and $1.2 billion in the wholesale and consumer allowances, respectively. The wholesale allowance decreased, due primarily to net repayments, loan sales, refinements to credit loss estimates, and improvement in the credit quality of the commercial and industrial portfolio. The consumer allowance decreased, as a result of a $2.5 billion reduction for CS, reflecting lower estimated losses, primarily related to improved delinquency trends, as well as lower levels of outstandings; these were partially offset by a $1.2 billion increase in the first quarter in RFS related to further estimated deterioration in the Washington Mutual prime and option ARM purchased credit-impaired pools. For a more detailed discussion of the adoption of the new consolidated guidance, see Notes 1, 14 and 15 on pages 108-109, 150-151 and 151-163, respectively, 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 68-94 and Notes 3, 4, 13 and 14 on pages 110-124, 125-127, 145-150 and 150-151, respectively, of this Form 10-Q.

Accrued interest and accounts receivable

Accrued interest and accounts receivable decreased, due to the elimination of retained securitization interests upon the adoption of the new consolidation guidance that resulted in the consolidation of Firm-sponsored credit card securitization trusts. This decrease was offset partially by higher customer receivables in IB s Prime Services business due to increased client activity. For a more detailed discussion of the adoption of the new consolidated guidance, see Notes 1 and 15 on pages 108-109 and 151-163, respectively, of this Form 10-Q.

Mortgage servicing rights

MSRs decreased, primarily due to a significant decline in market interest rates during the first six months of 2010, as well as servicing portfolio runoff. The decrease was partially offset by an increase related to sales in RFS of originated loans for which servicing rights were retained. For additional information on MSRs, see Note 16 on pages 165-166 of this Form 10-Q.

Other intangible assets

Other intangible assets decreased, primarily as a result of amortization expense. For additional information on other intangible assets, see Note 16 on pages 164-167 of this Form 10-Q.

Deposits

Deposits decreased, reflecting a decline associated with wholesale funding activities due to the Firm s lower funding needs, and the continued normalization of TSS deposit levels from year-end inflows. These factors were offset partially by net inflows from existing customers and new business in AM, CB and RFS. For more information on deposits, refer to the RFS and AM segment discussions on pages 25-35 and 47-51, respectively; the Liquidity Risk Management discussion on pages 65-67; and Note 17 on page 167 of this Form 10-Q. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 41-43 and 44-46, respectively, of this Form 10-Q.

Federal funds purchased and securities loaned or sold under repurchase agreements

Securities sold under repurchase agreements decreased, largely as a result of a decline in funding requirements associated with lower AFS securities in Corporate and reduced short-term funding requirements in IB. For additional information on the Firm s Liquidity Risk Management, see pages 65-67 of this Form 10-Q.

Commercial paper and other borrowed funds

Commercial paper and other borrowed funds, which includes advances from Federal Home Loan Banks (FHLBs), decreased due to lower funding requirements. For additional information on the Firm s Liquidity Risk Management and other borrowed funds, see pages 65-67, and Note 18 on page 167 of this Form 10-Q.

Beneficial interests issued by consolidated VIEs

Beneficial interests issued by consolidated VIEs increased, predominantly due to the adoption of the new consolidation guidance related to VIEs, offset modestly by maturities of $13.2 billion related to Firm-sponsored credit card securitization trusts. For additional information on Firm-administered VIEs and loan securitization trusts, see Note 15 on pages 151-163 of this Form 10-Q.

Long-term debt

Long-term debt decreased, 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 65-67 of this Form 10-Q.

Stockholders equity

Total stockholders equity increased, as a result of growth in net income for the first six months of 2010; a net increase in AOCI, due primarily to the narrowing of spreads on mortgage-backed securities and collateralized loan obligations, offset partially by declines in non-U.S. government debt securities and realization of gains due to portfolio repositioning; and net issuances under the Firm s employee stock-based compensation plans. The increase in stockholders equity was partially offset by the impact of the adoption of the new consolidation guidance related to VIEs that resulted in a reduction of $4.5 billion, driven by the establishment of an allowance for loan losses of $7.5 billion (pretax) related to receivables held in credit card securitization trusts that were consolidated at the adoption date. Also partially offsetting the increase were the purchase of the remaining interest in a consolidated subsidiary from noncontrolling shareholders; the declaration of cash dividends on preferred and common stock; and stock repurchases. For a more detailed discussion of the adoption of new consolidated guidance, see Notes 1 and 15 on pages 108-109 and 151-163, respectively, 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 VIE, 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 108-109 and Note 15 on pages 151-163 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.

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 Standard & Poor s and Fitch, respectively. The aggregate amount of these liquidity commitments, to both consolidated and nonconsolidated SPEs, were $36.1 billion and $34.2 billion at June 30, 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 MTM 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	Six months ended June 30,

(in millions)	Three months ended June 30, 2010	2009	2010	2009
Multi-seller conduits	**$ 60**	$ 136	**$ 127**	$ 256
Investor intermediation	**12**	8	**25**	14
Other securitization entities[(a)]	**544**	617	**1,088**	1,254
Total	**$ 616**	$ 761	**$ 1,240**	$ 1,524

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

56

Loan modifications

The Firm modifies loans that it services, including loans 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 121,000 and 281,000 mortgage modifications had been offered to borrowers during the three and six months ended June 30, 2010, respectively; and more than 59,000 and 123,000 permanent mortgage modifications were approved during the three and six months ended June 30, 2010, respectively. See Consumer Credit Portfolio on pages 79-91 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 Lending-related commitments on page 77 and Note 22 on pages 170-174 of this Form 10-Q; and Lending-related commitments on page 105 and Note 31 on pages 230-234 of JPMorgan Chase s 2009 Annual Report.

The following table presents, as of June 30, 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 170-174 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

	June 30, 2010					Dec. 31, 2009
By remaining maturity (in millions)	Due in 1 year or less	Due after 1 year through 3 years	Due after 3 years through 5 years	Due after 5 years	Total	Total
Lending-related						
Consumer:						
Home equity senior lien	**$ 436**	**$ 2,214**	**$ 6,076**	**$ 9,594**	**$ 18,320**	$ 19,246
Home equity junior lien	**788**	**5,453**	**11,944**	**15,800**	**33,985**	37,231
Prime mortgage	**958**				**958**	1,654
Subprime mortgage						
Option ARMs						
Auto loans	**5,852**	**172**	**3**	**2**	**6,029**	5,467
Credit card	**550,442**				**550,442**	569,113
All other loans	**8,828**	**257**	**102**	**1,020**	**10,207**	11,229
Total consumer	**$567,304**	**$ 8,096**	**$18,125**	**$26,416**	**$619,941**	$643,940
Wholesale:						
Other unfunded commitments to extend credit(a)(b)	**60,894**	**102,796**	**20,677**	**3,726**	**188,093**	192,145
Asset purchase agreements(b)						22,685
Standby letters of credit and other financial guarantees(a)(c)(d)	**26,882**	**47,226**	**13,058**	**4,001**	**91,167**	91,485
Unused advised lines of credit	**34,192**	**4,441**	**82**	**201**	**38,916**	35,673
Other letters of credit(a)(d)	**3,700**	**2,158**	**518**		**6,376**	5,167
Total wholesale	**125,668**	**156,621**	**34,335**	**7,928**	**324,552**	347,155
Total lending-related	**$692,972**	**$164,717**	**$52,460**	**$34,344**	**$944,493**	$991,095
Other guarantees and commitments						
Securities lending guarantees(e)	**$161,514**	**$**	**$**	**$**	**$161,514**	$170,777
Derivatives qualifying as guarantees(f)	**8,642**	**871**	**41,875**	**27,871**	**79,259**	87,191
Equity investment commitments(g)	**1,231**	**15**	**30**	**931**	**2,207**	2,374
	670				**670**	670

Building purchase commitment[h]

(a) At June 30, 2010, and December 31, 2009, represents the contractual amount net of risk participations totaling $609 million and $643 million, respectively, for other unfunded commitments to extend credit; $23.4 billion and $24.6 billion, respectively, for standby letters of credit and other financial guarantees; and $828 million and $690 million, respectively, for other letters of credit. In regulatory filings with the Federal Reserve 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 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) *At June 30, 2010, and December 31, 2009, includes unissued standby letters of credit commitments of $39.4 billion and $38.4 billion, respectively.*

(d) *At June 30, 2010, and December 31, 2009, JPMorgan Chase held collateral relating to $34.7 billion and $31.5 billion, respectively, of standby letters of credit; and $2.7 billion and $1.3 billion, respectively, of other letters of credit.*

(e) *At June 30, 2010, and December 31, 2009, collateral held by the Firm in support of* *securities lending indemnification agreements totaled $164.5 billion and $173.2 billion, 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) *At June 30, 2010, and December 31, 2009, includes unfunded commitments to third-party private equity funds of $1.2 billion and $1.5 billion, respectively. Also includes unfunded commitments for other equity investments of $981 million and $897 million, respectively. These commitments include $1.2 billion and $1.5 billion, respectively, related to investments that are generally fair*

valued at net asset value as discussed in Note 3 on pages 110-124 of this Form 10-Q.

(h) For further information refer to Building purchase commitment in Note 22 on page 174 of this Form 10-Q.

Repurchase liability

The Firm conducts a significant portion of 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, validity of borrower representations 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 170 174 of this Form 10-Q, and Note 31 on pages 230 234 of JPMorgan Chase s 2009 Annual Report. The repurchase liability recorded by the Firm is estimated based on several factors, including the level of current and estimated probable future repurchase demands made by purchasers, the ability of the Firm to cure the defects identified in the repurchase demands (considering the types of those defects), and the severity of loss upon repurchase or foreclosure.

The Firm estimates probable future repurchase demands in part by considering the time period over which the GSEs or other purchasers typically demand repurchase. Although the GSEs or other purchasers may demand repurchase at any time, the majority of repurchase demands have historically related to loans that became delinquent in the first 24 to 36 months following origination of the mortgage loan. Currently, repurchase demands predominantly relate to the 2006 to 2008 vintages. During the second quarter of 2010, the Firm experienced a slight increase in repurchase demands across most vintages, including its older vintages. The Firm has considered this development in estimating its repurchase liability. 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 primary reasons for repurchase demands relate to documents missing from the mortgage file. Other factors that give rise to repurchase demands include alleged misrepresentations relating to: (i) credit quality and/or undisclosed debt of the borrower; (ii) income level and/or employment status of the borrower; and (iii) appraised value of collateral. Ineligibility of the borrower for the particular product and mortgage insurance rescissions are other reasons for repurchase demands. While the Firm has demonstrated an ability to more frequently cure certain defects (for example, missing documents) than others, the Firm has not observed a direct relationship between the type of defect that causes the breach of representations and warranties and the severity of the realized loss.

Beginning in 2009, the mortgage insurers have more frequently rescinded mortgage insurance coverage. Accordingly, rescission of mortgage insurance has become a more significant cause of repurchase demands from the GSEs. While the Firm actively reviews all rescission notices from mortgage insurers and appeals them when appropriate, there can be no assurance regarding the success of the Firm s appeals. The Firm had unresolved mortgage insurance rescission notices on loans with an unpaid principal balance of $1.7 billion and $1.5 billion at June 30, 2010, and December 31, 2009, respectively.

As soon as practicable after receiving a repurchase demand from one of the GSEs (whether due to mortgage insurance rescission or alleged breach of another representation and warranty), the Firm evaluates the request and takes appropriate actions based on the nature of the repurchase demand. Loan-level negotiations with the GSEs are typical and the Firm seeks to provide a final response to a repurchase demand within three to four months of the date of receipt. The unpaid principal balance of loans subject to unresolved repurchase demands received from the GSEs was $1.4 billion and $1.3 billion at June 30, 2010, and December 31, 2009, respectively. Because the GSEs may make repurchase demands based on mortgage insurance rescission notices that remain unresolved, certain loans are the subject of both unresolved mortgage insurance rescission notices and unresolved repurchase demands. This overlapping population included approximately $220 million and $175 million of unpaid principal balances at June 30, 2010, and December 31, 2009, respectively.

The estimated loss resulting from the unresolved mortgage insurance rescission notices and repurchase demands from GSEs, after consideration of the Firm s ability to cure the identified defects, is considered in the Firm s recorded repurchase liability. In addition the Firm s recorded repurchase liability considers projected future demands that have not been presented. However, the repurchase liability recorded by the Firm incorporates a number of estimates requiring management judgment, such as the amount of probable future demands from purchasers (which is in part dependent on the amount of rescissions by mortgage insurers), the ability of the Firm to cure identified defects, the severity of loss upon repurchase or foreclosure and recoveries 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, which is dependent, in part, on 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 the assumptions noted above would increase the repurchase liability as of June 30, 2010, by approximately $1.2 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 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.

Table of Contents

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

(in millions)	Three months ended June 30, 2010	2009	Six months ended June 30, 2010	2009
Repurchase liability at beginning of period	**$ 1,982**	$ 662	**$ 1,705**	$ 1,093
Realized losses[(a)]	**(317)**	(173)	**(563)**	(887)[(b)]
Provision for repurchase losses	**667**	267	**1,190**	550
Repurchase liability at end of period	**$ 2,332**	$ 756	**$ 2,332**	$ 756

(a) *Includes principal losses and accrued interest on repurchased loans, make-whole settlements, settlements with claimants, and certain related expenses.*

(b) *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 is not included in the first table below, which summarizes the unpaid principal balance of repurchased loans.*

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). The Firm, in its role as servicer, may elect to repurchase delinquent loans securitized by Ginnie Mae in accordance with guidelines prescribed by Ginnie Mae, FHA, RHA and VA. Substantially all amounts due under the terms of these loans continue to be insured and the reimbursement of insured amounts is proceeding normally. Accordingly, the Firm has not recorded any repurchase liability related to these loans.

The following table summarizes the total unpaid principal balance of repurchases for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
(in millions)[(a)]	**2010**	2009	**2010**	2009
Ginnie Mae[(b)]	**$ 3,230**	$ 55	**$ 5,240**	$ 2,114
GSEs and other[(c)]	**515**	350	**837**	498
Total	**$ 3,745**	$ 405	**$ 6,077**	$ 2,612

(a) Excludes mortgage insurers. While the rescission of mortgage insurance may result in a breach of representations and warranties, which may trigger a repurchase demand, the mortgage insurers themselves do not present repurchase demands to the Firm.

(b) 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, the Firm repurchases 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, RHA and/or the VA.

(c) *Predominantly all of the repurchases related to GSEs.*

In lieu of repurchasing loans, the Firm may reimburse the purchaser for a realized loss on a liquidated property. The Firm has recognized these make-whole settlements for the periods indicated.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2010**	2009	**2010**	2009
GSEs and other[(a)]	**$ 150**	$ 69	**$ 255**	$ 125

(a) *Predominantly all of the settlements related to GSEs.*

Nonperforming loans held-for-investment included $293 million and $218 million at June 30, 2010, and December 31, 2009, respectively, of loans repurchased due to breaches of representations and warranties.

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 June 30, 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.

Table of Contents

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at June 30, 2010, and December 31, 2009.

	JPMorgan Chase & Co.[e]		JPMorgan Chase Bank, N.A.[e]		Chase Bank USA, N.A.[e]			
(in millions, except ratios)	**June 30, 2010**	Dec. 31, 2009	**June 30, 2010**	Dec. 31, 2009	**June 30, 2010**	Dec. 31, 2009	Well-capitalized ratios[g]	Minimum capital ratios[g]
Regulatory capital								
Tier 1[a]	**$ 137,077**	$ 132,971	**$ 97,549**	$ 96,372	**$ 11,584**	$ 15,534		
Total	**178,293**	177,073	**135,654**	136,646	**15,418**	19,198		
Tier 1 common[b]	**108,175**	105,284	**96,795**	95,353	**11,584**	15,534		
Assets								
Risk-weighted[c]	**1,131,030**[f]	1,198,006	**928,740**	1,011,995	**125,282**	114,693		
Adjusted average[d]	**1,983,839**[f]	1,933,767	**1,600,868**	1,609,081	**130,911**	74,087		
Capital ratios								
Tier 1 capital[a]	**12.1%**[f]	11.1%	**10.5%**	9.5%	**9.2%**	13.5%	6.0%	4.0%
Total capital	**15.8**	14.8	**14.6**	13.5	**12.3**	16.7	10.0	8.0
Tier 1 leverage	**6.9**	6.9	**6.1**	6.0	**8.8**	21.0	5.0[h]	3.0[i]
Tier 1 common[b]	**9.6**	8.8	**10.4**	9.4	**9.2**	13.5	NA	NA

(a) At June 30, 2010, for JPMorgan Chase and JPMorgan Chase Bank, N.A., trust preferred capital debt securities were $20.7 billion and $600 million, respectively. If these securities were excluded from the calculation at June 30, 2010, Tier 1 capital would be $116.4 billion and

$96.9 billion, respectively, and the Tier 1 capital ratio would be 10.3% and 10.4%, respectively. At June 30, 2010, Chase Bank USA, N.A. had no trust preferred capital debt securities.

(b) *Tier 1 common ratio is Tier 1 common divided by risk-weighted assets. 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. Tier 1 common, 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 along with the other capital measures to assess and monitor its capital position.*

(c) Includes off-balance sheet risk-weighted assets at June 30, 2010, of $269.4 billion, $261.2 billion and $32 million, respectively, for JPMorgan Chase, JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., and at December 31, 2009, of $367.4 billion, $312.3 billion and $49.9 billion, respectively. Risk-weighted assets are calculated in accordance with U.S. federal regulatory capital standards.

(d) 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.

(e) 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.

(f) 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 151-163 of this Form 10-Q for further information.

(g) *As defined by the regulations issued by the Federal Reserve, OCC and FDIC.*

(h) *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.*

(i) *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 of $730 million and $812 million at June 30, 2010, and December 31, 2009, respectively. Additionally, the Firm had deferred tax liabilities resulting from tax-deductible goodwill of $1.9 billion and $1.7 billion at June 30, 2010, and December 31, 2009, respectively.

Table of Contents

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

Risk-based capital components and assets (in millions)	**June 30, 2010**	December 31, 2009
Tier 1 capital		
Tier 1 common:		
Total stockholders equity	**$ 171,120**	$ 165,365
Less: Preferred stock	**8,152**	8,152
Common stockholders equity	**162,968**	157,213
Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 common equity	**(2,444)**	75
Less: Goodwill[(a)]	**46,466**	46,630
Fair value DVA on derivative and structured note liabilities related to the Firm s credit quality	**1,558**	912
Investments in certain subsidiaries and other	**1,050**	802
Other intangible assets	**3,275**	3,660
Tier 1 common	**108,175**	105,284
Preferred stock	**8,152**	8,152
Qualifying hybrid securities and noncontrolling interests[(b)]	**20,750**	19,535
Total Tier 1 capital	**137,077**	132,971
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**26,984**	28,977
Qualifying allowance for credit losses	**14,474**	15,296
Adjustment for investments in certain subsidiaries and other	**(242)**	(171)
Total Tier 2 capital	**41,216**	44,102
Total qualifying capital	**$ 178,293**	$ 177,073
Risk-weighted assets	**$1,131,030**	$1,198,006
Total adjusted average assets	**$1,983,839**	$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 was $108.2 billion at June 30, 2010, compared with $105.3 billion at December 31, 2009, an increase of $2.9 billion. The increase was predominantly due to net income (adjusted for DVA) of $7.5 billion and net issuances of common stock under the Firm s employee stock-based compensation plans of $1.7 billion. The increase was partially offset by the $4.4 billion cumulative effect adjustment to retained earnings that resulted from the Firm s adoption of new consolidation guidance related to VIEs; a $1.3 billion reduction in common stockholders equity related to the purchase of the remaining interest in a consolidated subsidiary from noncontrolling shareholders; dividends on preferred and common stock outstanding; and repurchases of common stock. The Firm s Tier 1 capital was $137.1 billion at June 30, 2010, compared with $133.0 billion at December 31, 2009, an increase of $4.1 billion. The increase in Tier 1 capital reflected the increase in Tier 1 common, and an issuance of trust preferred capital debt securities. 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 and Basel III

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 l) 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.

In addition to the Basel II Framework, the Basel Committee is developing further proposed revisions to the Capital Accord (Basel III). In July 2010, the committee revised a broad range of potential changes, including narrowing the definition of capital, increasing capital requirements for specific exposures, introducing short-term liquidity coverage and term funding standards, and establishing an international leverage ratio. If these revisions were adopted as currently proposed, the Firm estimates that they would, taken together with the changes already approved by the Basel Committee for calculating capital on trading assets and securitizations, result in a reduction in the Firm s Tier 1 common ratio ranging from approximately 100 to 200 basis points. This estimate of the potential reduction in the Tier 1 common ratio reflects the Firm s current understanding of the proposed revisions and their application to its businesses as currently conducted; accordingly, this estimate will evolve over time as the Firm s businesses change and the requirements are finalized. In addition, if these revisions were adopted as currently proposed, the Firm believes it would need to modify the current liquidity profile of its assets and liabilities to become more liquid in response to the proposed short-term liquidity coverage and term funding standards. The Firm will continue to monitor the ongoing rule-making process to assess both the timing and the impact of Basel III on its businesses and financial condition.

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. J.P. Morgan Clearing Corp. is a subsidiary of JPMorgan Securities and provides clearing and settlement services. 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).

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 June 30, 2010, JPMorgan Securities net capital, as defined by the Net Capital Rule, was $7.5 billion, exceeding the minimum requirement by $7.0 billion. J.P. Morgan Clearing Corp s net capital was $5.5 billion, exceeding the minimum requirement by $3.9 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 June 30, 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	Quarterly Averages		
(in billions)	**2Q10**	4Q09	2Q09
Credit risk	**$ 48.1**	$ 48.5	$ 51.9
Market risk	**15.6**	15.8	15.7
Operational risk	**7.5**	7.9	8.4
Private equity risk	**6.0**	4.9	4.5
Economic risk capital	**77.2**	77.1	80.5
Goodwill	**48.3**	48.3	48.3
Other[(a)]	**33.6**	31.1	12.1
Total common stockholders equity	**$159.1**	$156.5	$140.9

(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. ROE is measured and internal targets for expected returns are established as a key measure of a business segment s performance.

Table of Contents

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 line of business and to reflect 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)	**June 30, 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	**59.0**	64.2
Total common stockholders equity	**$ 163.0**	$ 157.2

Line-of-business equity	Quarterly Averages		
(in billions)	**2Q10**	4Q09	2Q09
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	**55.1**	63.5	47.9
Total common stockholders equity	**$159.1**	$156.5	$140.9

Capital actions

Stock repurchases

Under the stock repurchase program authorized by the Firm s Board of Directors, the Firm is authorized to repurchase up to $10.0 billion of the Firm s common stock plus 88 million warrants issued in 2008 as part of the U.S. Treasury s Capital Purchase Program. During the second quarter of 2010, the Firm resumed common stock repurchases, repurchasing a total of 3 million shares for $135 million at an average price of $38.73 per share. The Firm s current share repurchase activity is intended to offset share count increases resulting from employee equity awards and is consistent with the Firm s goal of maintaining an appropriate share count. The Firm did not repurchase any of the warrants. As of June 30, 2010, $6.1 billion of authorized repurchase capacity remained with respect to the common stock, and all of the authorized repurchase capacity remained with respect to the warrants. For a further discussion of the Firm s stock repurchase program, see Stock repurchases on page 85 of JPMorgan Chase 2009 Annual Report.
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 pages 197-198 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 surplus levels of liquidity through economic cycles is crucial to financial services companies, particularly during periods of adverse conditions. The Firm s funding strategy is intended to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities through both normal and stress periods.
JPMorgan Chase s primary sources of liquidity include a diversified $887.8 billion deposit base and access to the equity capital markets and long-term unsecured and secured funding sources, including asset securitizations and borrowings from FHLBs. Additionally, JPMorgan Chase maintains large pools of highly-liquid unencumbered assets. The Firm actively monitors its available capacity in the wholesale funding markets across various geographic regions and in various currencies. The Firm s ability to generate funding from a broad range of sources in a variety of geographic locations is intended to enhance financial flexibility and limit funding concentration risk.
Management considers the Firm s liquidity position to be strong, based on its liquidity metrics as of June 30, 2010, and believes that the Firm s unsecured and secured funding capacity is sufficient to meet its on- and off-balance sheet obligations at that date.

Liquidity monitoring

The Firm centralizes the management of global funding and liquidity risk within Corporate Treasury to maximize liquidity access, minimize funding costs and enhance global identification and coordination of liquidity risk. The Firm utilizes a variety of metrics to monitor and manage liquidity. One set of analyses used by the Firm relates to the timing of liquidity sources versus liquidity uses (e.g., funding gap analysis and parent holding company funding, which is discussed below). The second set of analyses focuses on ratios of funding and liquid collateral (e.g., measurements of the Firm s reliance on short-term unsecured funding as a percentage of total liabilities, as well as analyses of the relationship of short-term unsecured funding to highly-liquid assets, the deposit-to-loan ratio and other balance sheet measures). The Firm conducts a variety of stress tests intended to ensure that ample liquidity is available through stressed as well as normal market conditions.

Parent holding company

In addition to monitoring liquidity on a firm-wide basis, the Firm also monitors liquidity for the parent holding company. This monitoring takes into consideration regulatory restrictions that limit the extent to which bank subsidiaries may extend credit to the parent holding company and other nonbank subsidiaries. Excess cash generated by parent holding company issuance activity is placed with both bank and nonbank subsidiaries in the form of deposits and advances. As discussed below, the Firm s liquidity management is also intended to ensure that those subsidiaries have the ability to generate replacement funding in the event the parent holding company requires repayment.
The Firm closely monitors the ability of the parent holding company to meet all of its obligations with liquid sources of cash or cash equivalents for an extended period of time without access to the unsecured funding markets. The Firm targets pre-funding of parent holding company obligations for at least 12 months; however, due to conservative liquidity management actions taken by the Firm in the current environment, the current pre-funding of such obligations is significantly greater than target.

Liquidity reserves

In addition to the parent holding company, the Firm maintains a significant amount of liquidity, primarily at its bank subsidiaries, but also at its nonbank subsidiaries. Liquidity reserves at bank subsidiaries include cash on deposit with central banks as well as high-quality unencumbered securities which can be quickly converted to cash through repurchase agreements or sales. Liquidity reserves fluctuate over time, reflecting market conditions and balance sheet composition. The Firm expects its current liquidity reserves to decrease over time as the economic environment stabilizes and loan demand increases. Although the Firm does not consider it to be a primary means of contingent funding, the Firm also maintains access to secured funding capacity through overnight borrowings from the Federal Reserve and various central banks collateralized by pledging certain loan and securities portfolios.

Table of Contents

Sources of funds

A key strength of the Firm is its diversified deposit franchise through the RFS, CB, TSS and AM lines of business, which provides a stable source of funding and decreases reliance on the wholesale markets. As of June 30, 2010, total deposits for the Firm were $887.8 billion, compared with $938.4 billion at December 31, 2009. A significant portion of the Firm s deposits are retail deposits (41% and 38% at June 30, 2010, and December 31, 2009, respectively), which are considered particularly stable as they are less sensitive to interest rate changes or market volatility. A significant portion of the Firm s wholesale deposits are also considered to be stable sources of funding due to the nature of the relationships from which they are generated, particularly customers operating service relationships with the Firm. As of June 30, 2010, the Firm s deposit-to-loan ratio was 127%, compared with 148% at December 31, 2009. The decline in the Firm s deposit-to-loan ratio was partly due to an increase in loans resulting from the January 1, 2010, implementation of new consolidation accounting guidance related to VIEs. 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 21-51 and 53-56, respectively, of this Form 10-Q. For a more detailed discussion of the adoption of the new consolidation guidance, see Note 1 on pages 108-109 of this Form 10-Q.

The Firm s reliance on short-term unsecured funding sources such as commercial paper, federal funds and Eurodollars purchased, certificates of deposit, time deposits, and bank notes is limited. Total commercial paper liabilities for the Firm were $41.1 billion as of June 30, 2010, compared with $41.8 billion as of December 31, 2009. However, of those totals, $30.9 billion and $28.7 billion as of June 30, 2010 and December 31, 2009, respectively, originated from deposits that customers chose to sweep into commercial paper liabilities as a cash management product offered by the Firm. Therefore, commercial paper liabilities sourced from wholesale funding markets were $10.2 billion as of June 30, 2010, compared with $13.1 billion as of December 31, 2009.

Issuance

During the three months ended June 30, 2010, the Firm issued $7.1 billion of long-term debt, including $1.3 billion of senior notes issued in the U.S. market, $1.5 billion of trust preferred capital debt securities, and $4.3 billion of IB structured notes. During the six months ended June 30, 2010, the Firm issued $18.0 billion of long-term debt, including $6.9 billion of senior notes issued in the U.S. market, $904 million of senior notes issued in non-U.S. markets, $1.5 billion of trust preferred capital debt securities, and $8.7 billion of IB structured notes. In addition, in July 2010, the Firm issued $2.9 billion of senior notes in the U.S. market. During the three and six months ended June 30, 2010, $16.2 billion and $30.3 billion of long-term debt matured or were redeemed, including $5.4 billion and $12.8 billion of IB structured notes. The maturities or redemptions in the first six 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 $32.8 billion and $25.1 billion at June 30, 2010 and 2009, respectively; these balances increased by $6.6 billion from December 31, 2009, and decreased by $1.8 billion from December 31, 2008. The following discussion highlights the major activities and transactions that affected JPMorgan Chase s cash flows during the first six months of 2010 and 2009.

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 six months ended June 30, 2010, net cash provided by operating activities was $47.6 billion, primarily driven by an increase in trading liabilities, reflecting an increase in business activity in markets outside of the U.S., mainly Asia Pacific, in the first quarter of 2010, partially offset by a decrease in trading assets driven by lower client flows as a result of unfavorable financial markets in the second quarter of 2010. 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 six months ended June 30, 2009, net cash provided by operating activities was $103.3 billion, largely due to a net 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; this was also partially the result of 2009 s non-cash adjustments which are the same non-cash items as those mentioned above for 2010. Proceeds from sales, securitizations and paydowns of loans originated or purchased with an initial intent to sell were higher than cash used to acquire such loans, but the cash flows from these loan activities remained at a 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 six months ended June 30, 2010, net cash of $73.7 billion was provided by investing activities. This resulted from a decrease in deposits with banks largely due to a decline in deposits placed with the Federal Reserve Bank and lower interbank lending as market stress has gradually eased since the end of 2009; a net decrease in the loan portfolio, driven by a decline in credit card loans due to the runoff of the Washington Mutual portfolio and decrease in lower-yielding promotional loans, continued runoff of the residential real estate portfolios, repayments and loan sales in IB; continued low client demand; and proceeds from sales and maturities of AFS securities used in the Firm s interest rate risk management activities being higher than cash used to acquire such securities.

For the six months ended June 30, 2009, net cash of $36.3 billion was provided by investing activities. This was primarily due to a decrease in deposits with banks, as interbank lending and deposits with the Federal Reserve Bank declined relative to the elevated level at the end of 2008; a net decrease in the loan portfolio, reflecting declines across all businesses, including lower customer demand in the wholesale businesses, the seasonal decline in credit card receivables, credit card securitization activities, and paydowns; and a decrease in securities purchased under resale agreements, reflecting a lower volume of excess cash available for short-term investments. 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 six months of 2010 net cash used in financing activities was $114.2 billion. This resulted from a decline in deposits associated with wholesale funding activities reflecting the Firm s lower funding needs; a decline in TSS deposits reflecting the normalization of deposit levels, offset partially by net inflows from existing customers and new business in AM, CB and RFS; net repayment of long-term debt and trust preferred capital debt securities as new issuances were more than offset by repayments; payments of cash dividends; and repurchases of common stock. Additionally, cash was used as a result of a decline in securities loaned or sold under repurchase agreements largely due to reduced funding requirements associated with lower AFS securities in Corporate and reduced short-term funding requirements in IB; a decline in beneficial interests issued by consolidated VIEs due to maturities related to Firm-sponsored credit card securitization trusts; and a decline in other borrowed funds due to maturities of advances from FHLBs.

In the first six months of 2009, net cash used in financing activities was $141.2 billion; this reflected a decline in wholesale deposits in TSS, compared with the elevated level during the latter part of 2008 due to heightened volatility and credit concerns in the markets at that time; a decline in other borrowings due to the absence of borrowings from the Federal Reserve under the Term Auction Facility program and net repayments of advances from FHLBs; the June 17, 2009, repayment in full of the $25.0 billion principal amount of Series K preferred stock; 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 financing the Firm s increased AFS securities portfolio; the issuance of $5.8 billion of common stock; and a slight net increase in long-term debt, as issuances of FDIC-guaranteed debt as well as non-FDIC guaranteed debt in both the European and U.S. markets were offset by redemptions. There were no open-market stock repurchases during the first half of 2009.

Table of Contents

Credit ratings

The cost and availability of financing are influenced by credit ratings. Reductions in credit 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 56-57, Ratings profile of derivative receivables marked to market (MTM) on page 76, and Note 5 on pages 128-136 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.

Ratings from Moody s, S&P and Fitch on JPMorgan Chase and its principal bank subsidiaries remained unchanged at June 30, 2010, from December 31, 2009. At June 30, 2010, Moody s and S&P s outlook remained negative, while Fitch s outlook remained stable.

Several rating agencies have recently announced that they will be evaluating the effects of the financial regulatory reform legislation in order to determine the extent, if any, to which financial institutions, including the Firm, may be negatively impacted. There is no assurance the Firm s credit ratings will not be downgraded in the future as a result of any such reviews.

CREDIT PORTFOLIO

The following table presents JPMorgan Chase s credit portfolio as of June 30, 2010, and December 31, 2009. Total managed credit exposure of $1.7 trillion at June 30, 2010, decreased by $59.1 billion from December 31, 2009, reflecting decreases of $55.3 billion in the consumer portfolio and $3.8 billion in the wholesale portfolio. During the first six months of 2010, lending-related commitments decreased by $46.6 billion, managed loans decreased by $18.6 billion and receivables from customers increased by $7.2 billion. The decrease in lending-related commitments was partially related to the January 1, 2010, adoption of the new consolidation guidance related to VIEs, which resulted in the elimination of $24.2 billion of wholesale 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. The decrease in managed loans was primarily related to lower customer demand, net 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 and raised nearly $700 billion in new and renewed credit and capital for consumers, corporations, small businesses, municipalities and not-for-profit organizations during the first half of the year.

Table of Contents

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 145-150 of this Form 10-Q, and Note 13 on pages 192-196 of JPMorgan Chase s 2009 Annual Report.

	Credit exposure		Nonperforming assets[(e)(f)]		90 days or more past due and still accruing[(f)]	
(in millions)	**June 30, 2010**	Dec. 31, 2009	**June 30, 2010**	Dec. 31, 2009	**June 30, 2010**	Dec. 31, 2009
Total credit portfolio						
Loans retained[(a)]	**$ 695,210**	$ 627,218	**$15,804**	$17,219	**$4,611**	$4,355
Loans held-for-sale	**1,911**	4,876	**255**	234		
Loans at fair value	**2,362**	1,364	**120**	111		
Loans reported[(a)]	**699,483**	633,458	**16,179**	17,564	**4,611**	4,355
Loans securitized[(a)(b)]	**NA**	84,626	**NA**		**NA**	2,385
Total managed loans[(a)]	**699,483**	718,084	**16,179**	17,564	**4,611**	6,740
Derivative receivables	**80,215**	80,210	**315**	529		
Receivables from customers[(c)]	**22,966**	15,745				
Interests in purchased receivables[(a)]	**1,836**	2,927				
Total managed credit-related assets[(a)]	**804,500**	816,966	**16,494**	18,093	**4,611**	6,740
Lending-related commitments[(a)]	**944,493**	991,095	**NA**	NA	**NA**	NA
Assets acquired in loan satisfactions						
Real estate owned	**NA**	NA	**1,569**	1,548	**NA**	NA
Other	**NA**	NA	**93**	100	**NA**	NA
Total assets acquired in loan satisfactions	**NA**	NA	**1,662**	1,648	**NA**	NA
Total credit portfolio	**$1,748,993**	$1,808,061	**$18,156**	$19,741	**$4,611**	$6,740
Net credit derivative hedges notional[(d)]	**$ (32,010)**	$ (48,376)	**$ (14)**	$ (139)	**NA**	NA
Liquid securities collateral held against derivatives	**(19,276)**	(15,519)	**NA**	NA	**NA**	NA

	Three months ended June 30,				Six months ended June 30,			
	Net charge-offs		Average annual net charge-off rate(g)(h)		Net charge-offs		Average annual net charge-off rate(g)(h)	
(in millions, except ratios)	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Total credit portfolio								
Loans reported	**$5,714**	$6,019	**3.28%**	3.52%	**$13,624**	$10,415	**3.88%**	3.01%
Loans securitized(a)(b)	**NA**	1,664	**NA**	7.91	**NA**	3,128	**NA**	7.42
Total managed loans	**$5,714**	$7,683	**3.28%**	4.00%	**$13,624**	$13,543	**3.88%**	3.49%

(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 equivalent for periods beginning after January 1, 2010. For further discussion, see*

Note 15 on pages 151-163 of this Form 10-Q.

(b) *Loans securitized are 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 151-163 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 76-77 and Note 5 on* *pages 128-136 of this Form 10-Q.*

(e) *At June 30, 2010, and December 31, 2009, nonperforming loans and assets exclude: (1) mortgage loans insured by U.S. government agencies of $10.1 billion and $9.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.4 billion 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 FFELP, of $447 million and $542 million, respectively. These amounts are excluded as reimbursement of insured amounts 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 issued by the Federal Financial Institutions Examination Council (FFIEC), 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 consumer 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

Table of Contents

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) *For the quarters ended June 30, 2010 and 2009, net charge-off ratios were calculated using: (1) average retained loans of $699.2 billion and $685.4 billion, respectively; (2) average securitized loans of zero and $84.4 billion, respectively; and (3) average managed loans of $699.2 billion and $769.8 billion, respectively. For the year-to-date periods ended June 30, 2010 and 2009, net* *charge-off ratios were calculated using: (1) average retained loans of $708.8 billion and $697.9 billion; (2) average securitized loans of zero and $85.0 billion; and (3) average managed loans of $708.8 billion and $783.0 billion.*

(h) *For the quarters ended June 30, 2010 and 2009, firmwide net charge-off ratios were calculated including average purchased credit-impaired loans of $78.1 billion and $86.7 billion. For the year-to-date periods ended June 30, 2010, and 2009, net charge-off rates were calculated using average purchased credit-impaired loans of $79.2 billion and $87.5 billion, respectively. For the quarters* *ended June 30, 2010 and 2009, excluding the impact of purchased credit-impaired loans, the total Firm s managed net charge-off rate would have been 3.69% and 4.51% respectively.*

WHOLESALE CREDIT PORTFOLIO

As of June 30, 2010, wholesale exposure (IB, CB, TSS and AM) decreased by $3.8 billion from December 31, 2009. The overall decrease was primarily driven by a decrease of $22.6 billion in lending-related commitments, partially offset by an increase of $12.7 billion in loans. The decrease in lending-related commitments and the increase in loans were primarily related to the January 1, 2010, 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 at January 1, 2010. Excluding the effect of the new consolidation guidance, lending-related commitments and loans would have decreased by $4.9 billion and $2.4 billion, respectively, mainly due to net repayments and sales. Partly offsetting these decreases was an increase of $7.2 billion in receivables from customers due to increased client activity in prime services.

	Credit exposure		Nonperforming assets[c]		90 days past due and still accruing	
(in millions)	**June 30, 2010**	Dec. 31, 2009	**June 30, 2010**	Dec. 31, 2009	**June 30, 2010**	Dec. 31, 2009
Loans retained	**$212,987**	$200,077	**$5,285**	$6,559	**$212**	$332
Loans held-for-sale	**1,477**	2,734	**255**	234		
Loans at fair value	**2,362**	1,364	**120**	111		
Loans reported	**216,826**	204,175	**5,660**	6,904	**212**	332
Derivative receivables	**80,215**	80,210	**315**	529		
Receivables from customers[a]	**22,966**	15,745				
Interests in purchased receivables	**1,836**	2,927				
Total wholesale credit-related assets	**321,843**	303,057	**5,975**	7,433	**212**	332
Lending-related commitments	**324,552**	347,155	**NA**	NA	**NA**	NA
Total wholesale credit exposure	$**646,395**	$650,212	$**5,975**	$7,433	$**212**	$332

Net credit derivative hedges notional(b)	**$ (32,010)**	$ (48,376)	**$ (14)**	$ (139)	**NA**	NA
Liquid securities collateral held against derivatives	**(19,276)**	(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 76-77 and Note 5 on pages 128-136 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 73 of this Form 10-Q.

Table of Contents

The following table summarizes the maturity and ratings profiles of the wholesale portfolio as of June 30, 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			
At June 30, 2010 (in billions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Investment-grade ("IG") AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
Loans	**32%**	**39%**	**29%**	**100%**	**$140**	**$ 73**	**$213**	**66%**
Derivative receivables	**7**	**45**	**48**	**100**	**63**	**17**	**80**	**79**
Lending-related commitments	**39**	**59**	**2**	**100**	**260**	**64**	**324**	**80**
Total excluding loans held-for-sale and loans at fair value	**33%**	**51%**	**16%**	**100%**	**$463**	**$ 154**	**$617**	**75%**
Loans held-for-sale and loans at fair value[(a)]							**4**	
Receivables from customers							**23**	
Interests in purchased receivables							**2**	
Total exposure							**$646**	
Net credit derivative hedges notional[(b)]	**31%**	**53%**	**16%**	**100%**	**$ (32)**	**$**	**$ (32)**	**100%**

	Maturity profile[(c)]				Ratings profile			
At December 31, 2009 (in billions, except ratios)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years	Total	Investment-grade ("IG") AAA/Aaa to BBB-/Baa3	Noninvestment-grade BB+/Ba1 & below	Total	Total % of IG
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. For further discussion of average exposure, see Derivative receivables marked to market on pages 102-103 of JPMorgan Chase s 2009 Annual Report.

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 $26.5 billion at June 30, 2010, from $33.2 billion at year-end 2009. The decrease was primarily related to net repayments and loan sales.

	June 30, 2010				December 31, 2009			
	Total credit exposure		Criticized exposure		Total credit exposure		Criticized exposure	
(in millions, except ratios)	Credit exposure[c]	% of portfolio	Criticized	% of criticized portfolio	Credit exposure[c]	% of portfolio	Criticized	% of criticized portfolio
Top 25 industries[a]								
Real estate	**$ 63,730**	**10%**	**$10,821**	**41%**	$ 68,509	11%	$11,975	36%
Banks and finance companies	**57,134**	**9**	**1,036**	**4**	54,053	9	2,053	6
Healthcare	**37,529**	**6**	**398**	**2**	35,605	6	329	1
State and municipal governments	**33,940**	**5**	**181**	**1**	34,726	5	466	1
Asset managers	**29,134**	**5**	**660**	**2**	24,920	4	680	2
Consumer products	**26,882**	**4**	**608**	**2**	27,004	4	515	2
Utilities	**25,385**	**4**	**1,107**	**4**	27,178	4	1,238	4
Oil and gas	**22,928**	**4**	**405**	**2**	23,322	4	386	1
Retail and consumer services	**20,272**	**3**	**699**	**3**	20,673	3	782	2
Technology	**13,066**	**2**	**543**	**2**	14,169	2	1,288	4
Machinery and equipment manufacturing	**12,254**	**2**	**205**	**1**	12,759	2	350	**1**
Securities firms and exchanges	**11,908**	**2**	**49**		10,832	2	145	
Metals/mining	**11,650**	**2**	**634**	**2**	12,547	2	639	2
Business services	**11,546**	**2**	**239**	**1**	10,667	2	344	1
Chemicals/plastics	**11,349**	**2**	**477**	**2**	9,870	2	611	2
Insurance	**11,329**	**2**	**481**	**2**	13,421	2	599	2
Central government	**11,181**	**2**			9,557	1		
Telecom Services	**10,800**	**2**	**193**	**1**	11,265	2	251	1
Media	**10,535**	**2**	**1,579**	**6**	12,379	2	1,692	5
Building materials/construction	**10,106**	**2**	**1,154**	**4**	10,448	2	1,399	4
Holding companies	**9,784**	**2**	**104**		16,018	3	110	
Automotive	**9,028**	**1**	**368**	**1**	9,357	1	1,240	4
Transportation	**8,608**	**1**	**515**	**2**	9,749	1	588	2
Agriculture/paper manufacturing	**7,530**	**1**	**312**	**1**	5,801	1	500	2
Leisure	**5,847**	**1**	**1,065**	**4**	6,822	1	1,798	5
All other[b]	**134,299**	**22**	**2,678**	**10**	135,791	22	3,205	10

Subtotal	**$617,754**	**100%**	**$26,511**	**100%**	$627,442	100%	$33,183	100%
Loans held-for-sale and loans at fair value	**3,839**		**920**		4,098		1,545	
Receivables from customers	**22,966**				15,745			
Interest in purchased receivables	**1,836**				2,927			
Total	**$646,395**		**$27,431**		$650,212		$34,728	

(a) *Rankings are based on exposure at June 30, 2010. The ranking to industries presented in the table as of December 31, 2009, are based on the rankings of the corresponding exposures at June 30, 2010, not the actual rankings of such exposure at December 31, 2009.*

(b) *For more information on exposures to SPEs included in all other, see Note 15 on pages 151-163 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.*

Table of Contents

The following table presents additional information on the wholesale real estate industry at June 30, 2010, and December 31, 2009.

As of the six months ended June 30, 2010 (in millions, except ratios)	Credit exposure	% of credit portfolio	Criticized exposure	Nonperforming loans	% of nonperforming loans to total loans[(b)]	Net charge-offs/ (recoveries)[(c)]	Average annual net charge-off rate[(b)]
Commercial real estate subcategories							
Multi-family	**$31,246**	**49%**	**$ 4,056**	**$ 1,316**	**4.34%**	**$ 110**	**0.73%**
Commercial lessors	**18,063**	**28**	**3,982**	**652**	**4.60**	**352**	**5.00**
Commercial construction and development	**5,608**	**9**	**1,129**	**327**	**7.89**	**37**	**1.80**
Other[(a)]	**8,813**	**14**	**1,654**	**561**	**11.91**	**29**	**1.24**
Total commercial real estate	**$63,730**	**100%**	**$10,821**	**$ 2,856**	**5.35%**	**$ 528**	**1.99%**

As of the twelve months ended December 31, 2009 (in millions, except ratios)	Credit exposure	% of credit portfolio	Criticized exposure	Nonperforming loans	% of nonperforming loans to total loans[(b)]	Net charge-offs/ (recoveries)[(d)(e)]	Average annual net charge-off rate[(b)(d)]
Commercial real estate subcategories							
Multi-family	$32,073	47%	$ 3,986	$ 1,109	3.57%	$ 287	0.92%
Commercial lessors[(d)]	18,689	27	4,194	687	4.53	169	1.11
Commercial construction and development	6,593	10	1,518	313	6.81	101	2.20
Other[(a)(d)]	11,154	16	2,277	779	12.27	131	2.06
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 $53.4 billion and $57.2 billion for the periods ended June 30, 2010, and December 31, 2009, respectively.*

(c) *Net charge-offs are presented for the six months ended June 30, 2010.*

(d) *Prior periods have been reclassed to conform to current presentation.*

(e) *Net charge-offs are presented for the twelve months ended December 31, 2009.*

Loans

The following table presents wholesale loans and nonperforming assets by business segment as of June 30, 2010, and December 31, 2009.

	June 30, 2010							
	Loans			Nonperforming		Assets acquired in loan satisfactions		
(in millions)	Retained	Held-for-sale and fair value	Total	Loans	Derivatives	Real estate owned	Other	Nonperforming assets
Investment Bank	**$ 54,049**	**$ 3,221**	**$ 57,270**	**$ 2,260**	**$ 315**	**$ 151**	**$**	**$ 2,726**

Commercial Banking	**95,090**	**446**	**95,536**	**3,077**		**207**	**1**	**3,285**
Treasury & Securities Services	**24,513**		**24,513**	**14**				**14**
Asset Management	**38,744**		**38,744**	**309**		**3**	**25**	**337**
Corporate/Private Equity	**591**	**172**	**763**					
Total	**$212,987**	**$ 3,839**	**$216,826**	**$5,660**(a)	**$ 315**(b)	**$ 361**	**$ 26**	**$ 6,362**

	December 31, 2009							
	Loans			Nonperforming		Assets acquired in loan satisfactions		
(in millions)	Retained	Held-for-sale and fair value	Total	Loans	Derivatives	Real estate owned	Other	Nonperforming assets
Investment Bank	$ 45,544	$ 3,567	$ 49,111	$3,504	$ 529	$ 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(b)	$ 392	$ 1	$ 7,826

(a) *The Firm held allowance for loan losses of $1.3 billion and $2.0 billion related to nonperforming retained loans resulting in allowance coverage ratios of 25% and 31%, at June 30, 2010, and December 31, 2009, respectively. Wholesale nonperforming* *loans represent 2.61% and 3.38% of total wholesale loans at June 30, 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 June 30, 2010, and December 31, 2009.*

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 $213.0 billion at June 30, 2010, compared with $200.1 billion at December 31, 2009. The $12.9 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 adoption of the new consolidation guidance, loans decreased by $2.2 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 in aggregate $3.8 billion and $4.1 billion at June 30, 2010, and December 31, 2009, respectively.

The Firm actively manages wholesale credit exposure through sales of loans and lending-related commitments. During the first six months of 2010 the Firm sold $4.6 billion of loans and commitments, recognizing gains of $31 million. In the first six months of 2009, the Firm sold $879 million of loans and commitments, recognizing net losses of $23 million. These results include gains or losses on sales of nonperforming loans, if any, as discussed on pages 74-75 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 65-67 and 151-163 respectively, of this Form 10-Q.

Nonperforming wholesale loans were $5.7 billion at June 30, 2010, a decrease of $1.2 billion from December 31, 2009, reflecting primarily net repayments and loan sales.

The following table presents the geographic distribution of wholesale loans and nonperforming loans as of June 30, 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	**June 30, 2010**		December 31, 2009	
(in millions)	Loans	Nonperforming loans	Loans	Nonperforming loans
U.S.	**$155,737**	**$ 4,699**	$149,085	$ 5,844
Non-U.S.	**61,089**	**961**	55,090	1,060
Ending balance	**$216,826**	**$ 5,660**	$204,175	$ 6,904

The following table presents the change in the nonperforming loan portfolio during the six months ended June 30, 2010 and 2009.

Nonperforming loan activity

	Six months ended June 30,	
Wholesale (in millions)	**2010**	2009
Beginning balance	**$ 6,904**	$2,382
Additions	**4,150**	6,063
Reductions:		
Paydowns and other	**2,857**	1,510
Gross charge-offs	**1,162**	903
Returned to performing	**113**	70
Sales	**1,262**	

Total reductions	**5,394**	2,483
Net additions (reductions)	**(1,244)**	3,580
Ending balance	**$ 5,660**	$5,962

Table of Contents

The following table presents net charge-offs, which are defined as gross charge-offs less recoveries, for the three and six months ended June 30, 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 June 30, **2010**	2009	Six months ended June 30, **2010**	2009
Loans reported				
Average loans retained	**$209,016**	$229,105	**$210,300**	$233,871
Net charge-offs	**231**	679	**1,190**	870
Average annual net charge-off rate	**0.44%**	1.19%	**1.14%**	0.75%

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 Notes 5 and 22 on pages 128-136 and 170-174 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 **June 30, 2010**	December 31, 2009
Interest rate*(a)*	**$ 42,268**	$ 33,733
Credit derivatives*(a)*	**8,346**	11,859
Foreign exchange	**19,586**	21,984
Equity	**5,523**	6,635
Commodity	**4,492**	5,999
Total, net of cash collateral	**80,215**	80,210
Liquid securities collateral held against derivative receivables	**(19,276)**	(15,519)
Total, net of all collateral	**$ 60,939**	$ 64,691

(a) In the first quarter of 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 $80.2 billion at both June 30, 2010, and December 31, 2009. 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. Derivative receivables were flat and reflected the offsetting effect of declining interest rates and increased levels of foreign exchange-rate volatility, with declining equity valuations and lower energy and base metal commodity prices. However, in management s view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of $19.3 billion and $15.5 billion at June 30, 2010, and December 31, 2009, respectively, resulting in total exposure, net of all collateral, of $60.9 billion and $64.7 billion, respectively.

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 June 30, 2010, and December 31, 2009, the Firm held $16.1 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

	June 30, 2010		December 31, 2009	
Rating equivalent (in millions, except ratios)	Exposure net of all collateral	% of exposure net of all collateral	Exposure net of all collateral	% of exposure net of all collateral
AAA/Aaa to AA-/Aa3	**$25,328**	**42%**	$25,530	40%
A+/A1 to A-/A3	**12,876**	**21**	12,432	19
BBB+/Baa1 to BBB-/Baa3	**7,179**	**12**	9,343	14
BB+/Ba1 to B-/B3	**12,757**	**21**	14,571	23
CCC+/Caa1 and below	**2,799**	**4**	2,815	4
Total	**$60,939**	**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 97% as of June 30, 2010, up from 89% at December 31, 2009. The Firm posted $70.7 billion and $56.7 billion of collateral at June 30, 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 June 30, 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 $1.5 billion and $5.0 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 fair 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 135-136 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 June 30, 2010, and December 31, 2009.

Credit derivative positions

	Notional amount				
	Dealer/client		Credit portfolio		
(in billions)	Protection purchased[(a)]	Protection sold	Protection purchased[(a)(b)]	Protection sold	**Total**
June 30, 2010	**$2,666**	**$2,654**	**$32**	**$**	**$5,352**
December 31, 2009	2,997	2,947	49	1	5,994

(a) *Included $2.6 trillion and $3.0 trillion at June 30, 2010, and December 31,* *2009, respectively, of notional exposure where the Firm had protection sold with identical underlying reference instruments.*

(b) *Included $8.5 billion and $19.7 billion at June 30, 2010, and December 31, 2009, respectively, 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 of the dealer/client business related to credit protection, see Dealer/client business on page 104 of JPMorgan Chase s 2009 Annual Report. At June 30, 2010, the total notional amount of protection purchased and sold in the dealer/client business decreased by $624 billion from year-end 2009, primarily as a result of continuing industry efforts to reduce offsetting trade activity.

Credit portfolio activities

Use of single-name and portfolio credit derivatives	Notional amount of protection purchased and sold	
(in millions)	**June 30, 2010**	December 31, 2009
Credit derivatives used to manage:		
Loans and lending-related commitments	**$ 17,271**	$ 36,873
Derivative receivables	**15,165**	11,958
Total protection purchased[(a)]	**32,436**	48,831
Total protection sold	**426**	455
Credit derivatives hedges notional	**$ 32,010**	$ 48,376

(a) *Included $8.5 billion and*

$19.7 billion at June 30, 2010, and December 31, 2009, respectively, that represented the notional amount for structured portfolio protection; the Firm retains the first risk of loss on this portfolio.

The credit derivatives used by JPMorgan Chase for credit portfolio management activities do not qualify for hedge accounting under 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.

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2010**	2009	**2010**	2009
Hedges of lending-related commitments[(a)]	**$ 60**	$(1,512)	**$ (60)**	$(2,064)
CVA and hedges of CVA[(a)]	**(289)**	1,196	**(290)**	1,319
Net gains/(losses)	**$(229)**	$ (316)	**$(350)**	$ (745)

(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 $324.6 billion at June 30, 2010, compared with $347.2 billion at December 31, 2009. The decrease reflected the January 1, 2010, 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 $166.7 billion and $179.8 billion as of June 30, 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 seeks to diversify its country exposures, including its credit-related lending, trading and investment activities, whether cross-border or locally funded.

Country exposure under the Firm s internal risk management approach is reported based on the country where the assets of the obligor, counterparty or guarantor are located. Exposure amounts, including resale agreements, 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. Total exposure measures include activity with both government and private-sector entities in a country.

The Firm also reports country exposure for regulatory purposes following FFIEC guidelines, which are different from the Firm s internal risk management approach for measuring country exposure. For additional information on the FFIEC exposures, see Cross-border outstandings on page 264 of JPMorgan Chase s 2009 Annual Report.

In recent months, several European countries, including Greece, Portugal, Spain, Italy and Ireland, have been subject to credit deterioration due to weaknesses in their economic and fiscal situations. The Firm is closely monitoring its exposures to these five countries. Aggregate net exposures to these five countries as measured under the Firm s internal approach was less than $20.0 billion at June 30, 2010; no individual country represented a majority of the net exposure and sovereign exposure represented less than half the aggregate net exposure. The Firm currently believes its exposure to these five countries is modest relative to the Firm s overall risk exposures and is manageable given the size and types of exposures to each of the countries and the diversification of the aggregate exposure. The Firm continues to conduct business and support client activity in these countries and, therefore, the Firm s aggregate net exposures may vary over time.

As part of its ongoing country risk management process, the Firm monitors exposure to emerging market countries, and utilizes country stress tests to measure and manage the risk of extreme loss associated with a sovereign crisis. 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. The table below presents the Firm s exposure to its top ten emerging markets countries based on its internal measurement approach. 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.

Top 10 emerging markets country exposure

At June 30, 2010		Cross-border				**Total**
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Local[(d)]	**exposure**
South Korea	**$3.6**	**$ 1.5**	**$1.4**	**$6.5**	**$3.3**	**$9.8**
India	**2.1**	**3.8**	**1.3**	**7.2**	**0.7**	**7.9**
Brazil	**2.7**	**(0.1)**	**1.0**	**3.6**	**4.1**	**7.7**
China	**3.1**	**0.9**	**0.7**	**4.7**	**0.6**	**5.3**
Hong Kong	**1.8**	**1.5**	**1.1**	**4.4**		**4.4**
Mexico	**1.6**	**1.5**	**0.4**	**3.5**		**3.5**
Taiwan	**0.3**	**1.0**	**0.4**	**1.7**	**1.7**	**3.4**
Malaysia	**0.2**	**2.4**	**0.3**	**2.9**	**0.2**	**3.1**
Chile	**0.9**	**1.0**	**0.4**	**2.3**		**2.3**
Turkey	**0.8**	**0.8**	**0.1**	**1.7**	**0.2**	**1.9**

At December 31, 2009		Cross-border				**Total**
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Local[(d)]	**exposure**
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, and mortgage loans with interest-only payment options to predominantly prime borrowers, as well as certain payment-option loans acquired from Washington Mutual that may result in negative amortization. The Firm s primary focus is on serving the prime consumer credit market. The Firm has never originated option ARMs.

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. As part of its ongoing assessment of these loans, management evaluates whether 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. No allowance was added in the second quarter of 2010. The total allowance for loan losses on the purchased credit-impaired portfolio added since the beginning of the third quarter of 2009 is $2.8 billion.

The credit performance of the consumer portfolio across the entire product spectrum appears to have 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 affect 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 improvement continuing in early-stage delinquencies (30-89 days delinquent) across most products. Late-stage real estate delinquencies (150+ days delinquent) remain elevated. The elevated level of these credit quality metrics is due, in part, to loss-mitigation activities currently being undertaken and elongated foreclosure processing timelines. Losses related to these loans continued to be recognized in accordance with the Firm s standard 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, as well as eliminating certain products and channels for residential real estate lending. The tightening of underwriting criteria for auto loans has resulted in the reduction of both extended-term and high LTV financing. In addition, new originations of private student loans are limited to school-certified loans, the majority of which include a qualified co-borrower.

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. Also, the Firm typically closes credit card lines when the borrower is 60 days or more past due. Finally, certain inactive credit card lines have been closed, and a number of active credit card lines have been reduced for risk management purposes.

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 145-150 of this Form 10-Q.

Table of Contents

Consumer credit-related information

(in millions, except ratios)	Credit exposure June 30, 2010	Credit exposure December 31, 2009	Nonperforming loans[j][k] June 30, 2010	Nonperforming loans[j][k] December 31, 2009	90 days or more past due and still accruing[k] June 30, 2010	90 days or more past due and still accruing[k] December 31, 2009
Consumer loans excluding purchased credit-impaired loans and loans held-for-sale						
Home equity senior lien[a]	**$ 25,856**	$ 27,376	**$ 461**	$ 477	**$**	$
Home equity junior lien[b]	**68,905**	74,049	**750**	1,188		
Prime mortgage[c]	**66,429**	66,892	**4,653**	4,355		
Subprime mortgage[c]	**12,597**	12,526	**3,115**	3,248		
Option ARMs[c]	**8,594**	8,536	**409**	312		
Auto loans[c][d]	**47,548**	46,031	**155**	177		
Credit card reported[c][e][f]	**142,994**	78,786	**3**	3	**3,952**	3,481
All other loans[c]	**32,399**	31,700	**973**	900	**447**	542
Total consumer loans	**405,322**	345,896	**10,519**	10,660	**4,399**	4,023
Consumer loans purchased credit-impaired						
Home equity	**25,471**	26,520	**NA**	NA	**NA**	NA
Prime mortgage	**18,512**	19,693	**NA**	NA	**NA**	NA
Subprime mortgage	**5,662**	5,993	**NA**	NA	**NA**	NA
Option ARMs	**27,256**	29,039	**NA**	NA	**NA**	NA
Total consumer loans purchased credit-impaired	**76,901**	81,245	**NA**	NA	**NA**	NA
Total consumer loans retained	**482,223**	427,141	**10,519**	10,660	**4,399**	4,023
Loans held-for-sale	**434**	2,142				
Total consumer loans reported	**482,657**	429,283	**10,519**	10,660	**4,399**	4,023
Credit card securitized[c][g]	**NA**	84,626	**NA**		**NA**	2,385
Total consumer loans managed[c]	**482,657**	513,909	**10,519**	10,660	**4,399**	6,408
Total consumer loans managed excluding	**405,756**	432,664	**10,519**	10,660	**4,399**	6,408

purchased credit-impaired loans[c]								
Consumer lending-related commitments:								
Home equity senior lien[g][h]	**18,320**	19,246						
Home equity junior lien[h][h]	**33,985**	37,231						
Prime mortgage	**958**	1,654						
Subprime mortgage								
Option ARMs								
Auto loans	**6,029**	5,467						
Credit card[h]	**550,442**	569,113						
All other loans	**10,207**	11,229						
Total lending-related commitments	**619,941**	643,940						
Total consumer credit portfolio	**$1,102,598**	$1,157,849						
Memo: Credit card managed[c]	**$ 142,994**	$ 163,412	**$**	**3**	$	3	**$3,952**	$ 5,866

80

Table of Contents

	Three months ended June 30,				Six months ended June 30,			
	Net charge-offs		Average annual net charge-off rate[l]		Net charge-offs		Average annual net charge-off rate[l]	
(in millions, except ratios)	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Consumer loans excluding purchased credit-impaired loans								
Home equity senior lien[a]	**$ 70**	$ 65	**1.06%**	0.91%	**$ 139**	$ 99	**1.05%**	0.69%
Home equity junior lien[b]	**726**	1,200	**4.16**	5.91	**1,783**	2,264	**5.05**	5.52
Prime mortgage[c]	**268**	483	**1.59**	2.76	**730**	795	**2.16**	2.26
Subprime mortgage[c]	**282**	410	**8.63**	11.50	**739**	774	**11.12**	10.69
Option ARMs[c]	**22**	15	**1.03**	0.66	**45**	19	**1.04**	0.43
Auto loans[c]	**58**	146	**0.49**	1.36	**160**	320	**0.68**	1.51
Credit card reported[d]	**3,721**	2,689	**10.20**	12.03	**8,233**	4,718	**10.99**	10.15
All other loans[c]	**336**	332	**4.13**	3.99	**605**	556	**3.67**	3.30
Total consumer loans excluding purchased credit-impaired loans[i]	**5,483**	5,340	**5.34**	5.79	**12,434**	9,545	**5.98**	5.11
Total consumer loans reported	**5,483**	5,340	**4.49**	4.69	**12,434**	9,545	**5.03**	4.15
Credit card securitized[c][g]	**NA**	1,664	**NA**	7.91	**NA**	3,128	**NA**	7.42
Total consumer loans managed[c]	**5,483**	7,004	**4.49**	5.20	**12,434**	12,673	**5.03**	4.65
Total consumer loans managed excluding purchased credit-impaired loans[c][i]	**5,483**	7,004	**5.34**	6.18	**12,434**	12,673	**5.98**	5.53
Memo: Credit card managed[c]	**$3,721**	$4,353	**10.20%**	10.03%	**$ 8,233**	$ 7,846	**10.99%**	8.85%

(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.

(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 equivalent 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 15-19 of this Form 10-Q.

(d)

Excluded operating lease-related assets of $3.4 billion and $2.9 billion at June 30, 2010, and December 31, 2009, respectively.

(e) *Includes $1.0 billion of loans at December 31, 2009, held by the WMMT, 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 June 30, 2010. See Note 15 on pages 198-205 of JPMorgan Chase s 2009 Annual Report.*

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

(g) *Loans securitized are 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 36-40 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 used 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 June 30, 2010, and December 31, 2009, nonperforming loans exclude: (1) mortgage loans insured by U.S. government agencies of $10.1 billion and $9.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $447 million and $542 million, respectively. These amounts are excluded as reimbursement of insured amounts 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 FFIEC,* *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

$1.9 billion and $2.8 billion for the quarters ended June 30, 2010 and 2009, respectively, and $2.4 billion and $2.9 billion for year-to-date 2010 and 2009, respectively. These amounts were excluded when calculating the net charge-off rates.

Table of Contents

The following table presents consumer nonperforming assets by business segment as of June 30, 2010, and December 31, 2009.

Consumer nonperforming assets

	June 30, 2010				December 31, 2009			
		Assets acquired in loan satisfactions				Assets acquired in loan satisfactions		
(in millions)	Nonperforming loans	Real estate owned	Other	Nonperforming assets	Nonperforming loans	Real estate owned	Other	Nonperforming assets
Retail Financial Services[a][b]	**$10,457**	**$1,207**	**$67**	**$11,731**	$10,611	$1,154	$99	$11,864
Card Services[a]	**3**			**3**	3			3
Corporate/Private Equity	**59**	**1**		**60**	46	2		48
Total	**$10,519**	**$1,208**	**$67**	**$11,794**	$10,660	$1,156	$99	$11,915

(a) At June 30, 2010, and December 31, 2009, nonperforming loans and assets excluded: (1) mortgage loans insured by U.S. government agencies of $10.1 billion and $9.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.4 billion 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 FFELP, of $447 million and $542 million, respectively. These amounts are excluded as reimbursement of insured amounts 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 FFIEC, 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.

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 card securitization trusts. As a result of the consolidation of the securitization trusts, reported and managed basis are equivalent 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 15-19 of this Form 10-Q.

Portfolio analysis