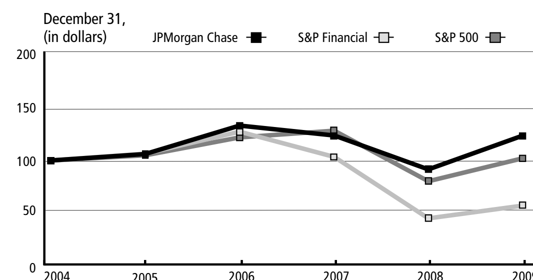
FIVE-YEAR STOCK PERFORMANCE

The following table and graph compare the five-year cumulative total return for JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm") common stock with the cumulative return of the S&P 500 Stock Index and the S&P Financial Index. The S&P 500 Index is a commonly referenced U.S. equity benchmark consisting of leading companies from different economic sectors. The S&P Financial Index is an index of 78 financial companies, all of which are within the S&P 500. The Firm is a component of both industry indices.

The following table and graph assume simultaneous investments of $100 on December 31, 2004, in JPMorgan Chase common stock and in each of the above S&P indices. The comparison assumes that all dividends are reinvested.

December 31, (in dollars)	2004	2005	2006	2007	2008	**2009**
JPMorgan Chase	$100.00	$ 105.68	$ 132.54	$ 123.12	$ 91.84	**$ 123.15**
S&P Financial Index	100.00	106.48	126.91	103.27	46.14	**54.09**
S&P 500 Index	100.00	104.91	121.48	128.16	80.74	**102.11**



This section of the JPMorgan Chase's Annual Report for the year ended December 31, 2009 ("Annual Report") 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 251–253 for definitions of terms used throughout this Annual Report. The MD&A included in this Annual Report 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 results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking statements on page 143 of this Annual Report) and in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2009 ("2009 Form 10-K"), in Part I, Item 1A: Risk factors, 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, $165.4 billion in stockholders' equity and operations in more than 60 countries as of December 31, 2009. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world's most prominent corporate, institutional and government clients.

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

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

Investment Bank

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

Retail Financial Services

Retail Financial Services ("RFS"), which includes the Retail Banking and Consumer Lending businesses, 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 15,400 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 23,900 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 15,700 auto dealerships and nearly 2,100 schools and universities nationwide.

Card Services
Card Services ("CS") is one of the nation's largest credit card issuers, with more than 145 million credit cards in circulation and over $163 billion in managed loans. Customers used Chase cards to meet more than $328 billion of their spending needs in 2009.

Chase continues to innovate, despite a very difficult business environment, launching new products and services such as Blueprint, Ultimate Rewards, Chase Sapphire and Ink from Chase, and earning a market leadership position in building loyalty and rewards programs. Through its merchant acquiring business, Chase Paymentech Solutions, Chase is one of the leading processors of credit-card payments.

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

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

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

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

Financial performance of JPMorgan Chase

Year ended December 31, (in millions, except per share data and ratios)	2009	2008	Change
Selected income statement data			
Total net revenue	**$100,434**	$ 67,252	49%
Total noninterest expense	**52,352**	43,500	20
Pre-provision profit	**48,082**	23,752	102
Provision for credit losses	**32,015**	20,979	53
Income before extraordinary gain	**11,652**	3,699	215
Extraordinary gain	**76**	1,906	(96)
Net income	**11,728**	5,605	109
Diluted earnings per share			
Income before extraordinary gain	**$ 2.24**	$ 0.81	177
Net income	**2.26**	1.35	67
Return on common equity			
Income before extraordinary gain	**6%**	2%	
Net income	**6**	4	
Capital ratios			
Tier 1 capital	**11.1**	10.9	
Tier 1 common capital	**8.8**	7.0	

Business overview

JPMorgan Chase reported 2009 net income of $11.7 billion, or $2.26 per share, compared with net income of $5.6 billion, or $1.35 per share, in 2008. Total net revenue in 2009 was $100.4 billion, compared with $67.3 billion in 2008. Return on common equity was 6% in 2009 and 4% in 2008. Results benefited from the impact of the acquisition of the banking operations of Washington Mutual Bank ("Washington Mutual") on September 25, 2008, and the impact of the merger with The Bear Stearns Companies Inc. ("Bear Stearns") on May 30, 2008.

The increase in net income for the year was driven by record net revenue, including record revenue in the Investment Bank reflecting modest net gains on legacy leveraged-lending and mortgage-related positions compared with net markdowns in the prior year. Partially offsetting the growth in the Firm's revenue was an increase in the provision for credit losses, driven by an increase in the consumer provision, and higher noninterest expense reflecting the impact of the Washington Mutual transaction.

The business environment in 2009 gradually improved throughout the year. The year began with a continuation of the weak conditions experienced in 2008 – the global economy contracted sharply in the first quarter, labor markets deteriorated rapidly and unemployment rose, credit was tight, liquidity was diminished, and businesses continued to downsize and cut inventory levels rapidly. Throughout the year, the Board of Governors of the Federal Reserve System ("Federal Reserve") took actions to stabilize the financial markets and promote an economic revival. It held its policy rate close to zero and indicated that this policy was likely to remain in place for some time, given economic conditions. In addition, it greatly expanded a program it launched at the end of 2008, with a plan to buy up to $1.7 trillion of securities, including Treasury securities, mortgage-backed securities and obligations of government-sponsored agencies. The U.S. government and various regulators continued their efforts to stabilize the U.S. economy, putting in place a financial rescue plan that supplemented the interest rate and other actions that had been taken by the Federal Reserve and the U.S. Department of the Treasury (the "U.S. Treasury") in the second half of 2008. These efforts began to take effect during 2009. Developing economies rebounded significantly and contraction in developed economies slowed. Credit conditions improved in the summer, with most credit spreads narrowing dramatically. By the third quarter of the year, many spreads had returned to pre-crisis levels. By the fourth quarter, economic activity was expanding and signs emerged that the deterioration in the labor market was abating, although by the end of the year unemployment reached 10%, its highest level since 1983. The housing sector showed some signs of improvement and household spending appeared to be expanding at a moderate rate, though it remained constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Businesses were continuing to reduce capital investment, though at a slower pace, and remained reluctant to add to payrolls. Financial market conditions in the fourth quarter became more supportive of economic growth.

Amidst this difficult operating environment, JPMorgan Chase benefited from the diversity of its leading franchises, as demonstrated by the continued earnings strength of its Investment Bank, Commercial Banking, Asset Management, and Retail Banking franchises. Significant market share and efficiency gains helped all of the Firm's businesses maintain leadership positions: the Investment Bank ranked #1 for Global Investment Banking fees for 2009; in Commercial Banking, at year-end 2009, the total revenue related to investment banking products sold to CB clients doubled from its level at the time of the JPMorgan Chase–Bank One merger. In addition, the Firm completed the integration of Washington Mutual and continued to invest in its businesses, demonstrated by growth in checking and credit card accounts.

Throughout 2009, the Firm remained focused on maintaining a strong balance sheet. In addition to the capital generated from earnings, the Firm issued $5.8 billion of common stock and reduced its quarterly dividend. The Firm also increased its consumer allowance for credit losses by $7.8 billion, bringing the total allowance for credit losses to $32.5 billion, or 5.5% of total loans. The Firm recorded a $1.1 billion one-time noncash adjustment to common stockholders' equity related to the redemption of the $25.0 billion of Series K Preferred Stock issued to the U.S. Treasury under the Capital Purchase Program. Even with this adjustment, the

Firm ended 2009 with a very strong Tier 1 Capital ratio of 11.1% and a Tier 1 Common ratio of 8.8%.

Throughout this turbulent financial period, JPMorgan Chase supported and served its 90 million customers and the communities in which it operates; delivered consumer-friendly products and policies; and continued to lend. The Firm extended nearly $250 billion in new credit to consumers during the year and for its corporate and municipal clients, either lent or assisted them in raising approximately $1 trillion in loans, stocks or bonds. The Firm also remained committed to helping homeowners meet the challenges of declining home prices and rising unemployment. Since 2007, the Firm has initiated over 900,000 actions to prevent foreclosures through its own programs and through government mortgage-modification programs. During 2009 alone, JPMorgan Chase offered approximately 600,000 loan modifications to struggling homeowners. Of these, 89,000 loans have achieved permanent modification. By March 31, 2010, the Firm will have opened 51 Chase Homeownership Centers across the country and already has over 14,000 employees dedicated to mortgage loss mitigation.

Management remains confident that JPMorgan Chase's capital and reserve strength, combined with its significant earnings power, will allow the Firm to meet the uncertainties that lie ahead and still continue investing in its businesses and serving its clients and shareholders over the long term.

The discussion that follows highlights the performance of each business segment compared with the prior year and presents results on a managed basis unless otherwise noted. For more information about managed basis, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 58–60 of this Annual Report.

Investment Bank reported record net income in 2009 compared with a net loss in 2008. The significant rebound in earnings was driven by record net revenue, partially offset by increases in both noninterest expense and the provision for credit losses. The increase in net revenue was driven by record Fixed Income Markets revenue, reflecting strong results across most products, as well as modest net gains on legacy leveraged lending and mortgage-related positions, compared with over $10 billion of net markdowns in the prior year. Investment banking fees rose to record levels, as higher equity and debt underwriting fees were partially offset by lower advisory fees. Record Equity Markets revenue was driven by solid client revenue, particularly in prime services, and strong trading results. The net revenue results for IB in 2009 included losses from the tightening of the Firm's credit spread on certain structured liabilities and derivatives, compared with gains in 2008 from the widening of the spread on those liabilities. The provision for credit losses increased, driven by continued weakness in the credit environment. IB ended the year with a ratio of allowance for loan losses to end-of-period loans retained of 8.25%. Noninterest expense increased, reflecting higher performance-based compensation offset partially by lower headcount-related expense.

Retail Financial Services net income decreased from the prior year, as an increase in the provision for credit losses and higher noninterest expense were predominantly offset by double-digit growth in net revenue. Higher net revenue reflected the impact of the Washington Mutual transaction, wider loan and deposit spreads, and higher net mortgage servicing revenue. The provision for credit losses increased from the prior year as weak economic conditions and housing price declines continued to drive higher estimated losses for the home equity and mortgage loan portfolios. RFS ended the year with a ratio of allowance for loan losses to ending loans, excluding purchased credit-impaired loans of 5.09%. Noninterest expense was higher, reflecting the impact of the Washington Mutual transaction and higher servicing and default-related expense.

Card Services reported a net loss for the year, compared with net income in 2008. The decline was driven by a significantly higher provision for credit losses, partially offset by higher net revenue. The double-digit growth in managed net revenue was driven by the impact of the Washington Mutual transaction, wider loan spreads and higher merchant servicing revenue related to the dissolution of the Chase Paymentech Solutions joint venture; these were partially offset by higher revenue reversals associated with higher charge-offs, a decreased level of fees and lower average loan balances. The provision for credit losses increased, reflecting continued weakness in the credit environment. CS ended the year with a ratio of allowance for loan losses to end-of-period loans of 12.28%. Noninterest expense increased due to the dissolution of the Chase Paymentech Solutions joint venture and the impact of the Washington Mutual transaction, partially offset by lower marketing expense.

Commercial Banking net income decreased from 2008, as an increase in provision for credit losses and higher noninterest expense were predominantly offset by higher net revenue. Double-digit growth in net revenue reflected the impact of the Washington Mutual transaction and record levels of lending- and deposit-related and investment banking fees. Revenue rose in all business segments: Middle Market Banking, Commercial Term Lending, Mid-Corporate Banking and Real Estate Banking. The provision for credit losses increased, reflecting continued weakness throughout the year in the credit environment across all business segments, predominantly in real estate–related segments. CB ended the year with a ratio of allowance for loan losses to end-of-period loans retained of 3.12%. Noninterest expense increased due to the impact of the Washington Mutual transaction and higher Federal Deposit Insurance Corporation ("FDIC") insurance premiums.

Treasury & Securities Services net income declined from the prior year, driven by lower net revenue. The decrease in net revenue reflected lower Worldwide Securities Services net revenue, driven by lower balances and spreads on liability products; lower securities lending balances, primarily as a result of declines in asset valuations and demand; and the effect of market depreciation on certain custody assets. Treasury Services net revenue also declined, reflecting lower deposit balances and spreads, offset by higher trade revenue driven by wider spreads and growth across cash management and card product volumes. Noninterest expense rose slightly compared with the prior year, reflecting higher FDIC insurance premiums offset by lower headcount-related expense.

Asset Management net income increased from the prior year, due to higher net revenue, offset largely by higher noninterest expense and a higher provision for credit losses. The increase in net revenue reflected higher valuations of the Firm's seed capital investments, net inflows, wider loan spreads and higher deposit balances, offset partially by the effect of lower market levels and narrower deposit spreads. Asset Management's businesses reported mixed revenue results: Institutional and Private Bank revenue were up while Retail and Private Wealth Management revenue were down. Assets under supervision increased for the year, due to the effect of higher market valuations and inflows in fixed income and equity products offset partially by outflows in cash products. The provision for credit losses increased compared with the prior year, reflecting continued weakness in the credit environment. Noninterest expense was higher, reflecting the effect of the Bear Stearns merger, higher performance-based compensation and higher FDIC insurance premiums, offset largely by lower headcount-related expense.

Corporate/Private Equity net income increased in 2009, reflecting elevated levels of trading gains and net interest income, securities gains, an after-tax gain from the sale of MasterCard shares and reduced losses from Private Equity compared with 2008. Trading gains and net interest income increased due to the Firm's significant purchases of mortgage-backed securities guaranteed by U.S. government agencies, corporate debt securities, U.S. Treasury and government agency securities and other asset-backed securities. These investments were generally associated with the Chief Investment Office's management of interest rate risk and investment of cash resulting from the excess funding the Firm continued to experience during 2009. The increase in securities was partially offset by sales of higher-coupon instruments (part of repositioning the investment portfolio) as well as prepayments and maturities.

Firmwide, the managed provision for credit losses was $38.5 billion, up by $13.9 billion, or 56%, from the prior year. The prior year included a $1.5 billion charge to conform Washington Mutual's allowance for loan losses, which affected both the consumer and wholesale portfolios. For the purposes of the following analysis, this charge is excluded. The consumer-managed provision for credit losses was $34.5 billion, compared with $20.4 billion in the prior year, reflecting an increase in the allowance for credit losses in the home lending and credit card loan portfolios. Consumer-managed net charge-offs were $26.3 billion, compared with $13.0 billion in the prior year, resulting in managed net charge-off rates of 5.85% and 3.22%, respectively. The wholesale provision for credit losses was $4.0 billion, compared with $2.7 billion in the prior year, reflecting continued weakness in the credit environment throughout 2009. Wholesale net charge-offs were $3.1 billion, compared with $402 million in the prior year, resulting in net charge-off rates of 1.40% and 0.18%, respectively. The Firm's nonperforming assets totaled $19.7 billion at December 31, 2009, up from $12.7 billion. The total allowance for credit losses increased by $8.7 billion from the prior year-end, resulting in a loan loss coverage ratio at December 31, 2009, of 5.51%, compared with 3.62% at December 31, 2008.

Total stockholders' equity at December 31, 2009, was $165.4 billion.

2010 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 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. The Firm continues to monitor the U.S. and international economies and political environments. The outlook for capital markets remains uncertain, and further declines in U.S. housing prices in certain markets and increases in the unemployment rate, either of which could adversely affect the Firm's financial results, are possible. In addition, as a result of recent market conditions, the U.S. Congress and regulators have increased their focus on the regulation of financial institutions; any legislation or regulations that may be adopted as a result could limit or restrict the Firm's operations, and could impose additional costs on the Firm in order to comply with such new laws or rules.

Given the potential stress on consumers from rising unemployment and continued downward pressure on housing prices, management remains cautious with respect to the credit outlook for the consumer loan portfolios. Possible continued weakness in credit trends could result in higher credit costs and require additions to the consumer allowance for credit losses. Based on management's current economic outlook, quarterly net charge-offs could reach $1.4 billion for the home equity portfolio, $600 million for the prime mortgage portfolio and $500 million for the subprime mortgage portfolio over the next several quarters. The managed net charge-off rate for Card Services (excluding the Washington Mutual credit card portfolio) could approach 11% by the first quarter of 2010, including the adverse timing effect of a payment holiday program of approximately 60 basis points. The managed net charge-off rate for the Washington Mutual credit card portfolio could approach 24% over the next several quarters. These charge-off rates are likely to move even higher if the economic environment deteriorates beyond management's current expectations. Similarly, wholesale credit costs and net charge-offs could increase in the next several quarters if the credit environment deteriorates.

The Investment Bank continues to operate in an uncertain environment, and as noted above, results could be adversely affected if the credit environment were to deteriorate further. Trading results can be volatile and 2009 included elevated client volumes and spread levels. As such, management expects Fixed Income and Equity Markets revenue to normalize over time as conditions stabilize.

In the Retail Banking segment within Retail Financial Services, although management expects underlying growth, results will be under pressure from the credit environment and ongoing lower consumer spending levels. In addition, the Firm has made changes, consistent with (and in certain respects, beyond) the requirements of newly-enacted legislation, in its policies relating to non-sufficient

funds and overdraft fees. Although management estimates are, at this point in time, preliminary and subject to change, such changes are expected to result in an annualized reduction in net income of approximately $500 million, beginning in the first quarter of 2010.

In the Consumer Lending segment within Retail Financial Services, at current production and estimated run-off levels, the Home Lending portfolio of $263 billion at December 31, 2009, is expected to decline by approximately 10–15% and could possibly average approximately $240 billion in 2010 and approximately $200 billion in 2011. Based on management's preliminary estimate, which is subject to change, the effect of such a reduction in the Home Lending portfolio is expected to reduce 2010 net interest income in the portfolio by approximately $1 billion from the 2009 level. Additionally, revenue could be negatively affected by elevated levels of repurchases of mortgages previously sold to, for example, government-sponsored enterprises.

Management expects noninterest expense in Retail Financial Services to remain at or 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.

Card Services faces rising credit costs in 2010, as well as continued pressure on both charge volumes and credit card receivables growth, reflecting continued lower levels of consumer spending. In addition, as a result of the recently-enacted credit card legislation, management estimates, which are preliminary and subject to change, are that CS's annual net income may be adversely affected by approximately $500 million to $750 million. Further, management expects average Card outstandings to decline by approximately 10–15% in 2010 due to the run-off of the Washington Mutual portfolio and lower balance transfer levels. As a result of all these factors, management currently expects CS to report net losses in each of the first two quarters of 2010 (of approximately $1 billion in the first quarter and somewhat less than that in the second quarter) before the effect of any potential reserve actions. Results in the second half of 2010 will likely be dependent on the economic environment and potential reserve actions.

Commercial Banking results could be negatively affected by rising credit costs, a decline in loan demand and reduced liability balances.

Earnings in Treasury & Securities Services and Asset Management will be affected by the impact of market levels on assets under management, supervision and custody. Additionally, earnings in Treasury & Securities Services could be affected by liability balance flows.

Earnings in Private Equity (within the Corporate/Private Equity segment) will likely be volatile and continue to 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 of the investment portfolio in Corporate; however, the high level of trading gains in Corporate in the second half of 2009 is not likely to continue. In the near-term, Corporate quarterly net income (excluding Private Equity, merger-related items and any significant nonrecurring items) is expected to decline to approximately $300 million, subject to the size and duration of the investment securities portfolio.

Lastly, with regard to any decision by the Firm's Board of Directors concerning any increase in the level of the common stock dividend, their determination will be subject to their judgment that the likelihood of another severe economic downturn has sufficiently diminished, that overall business performance has stabilized, and that such action is warranted taking into consideration the Firm's earnings outlook, need to maintain adequate capital levels, alternative investment opportunities, and appropriate dividend payout ratios. When in the Board's judgment, based on the foregoing, the Board believes it appropriate to increase the dividend to an annual payout level in the range of $0.75 to $1.00 per share, the Board would likely move forward with such an increase, and follow at some later time with an additional increase or additional increases sufficient to return to the Firm's historical dividend ratio of approximately 30% to 40% of normalized earnings over time.

This following section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis for the three-year period ended December 31, 2009. Factors that related primarily to a single business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates Used by the Firm that affect the Consolidated Results of Operations, see pages 135–139 of this Annual Report.

Revenue

Year ended December 31, (in millions)	2009	2008	2007
Investment banking fees	**$ 7,087**	$ 5,526	$ 6,635
Principal transactions	**9,796**	(10,699)	9,015
Lending- and deposit-related fees	**7,045**	5,088	3,938
Asset management, administration and commissions	**12,540**	13,943	14,356
Securities gains	**1,110**	1,560	164
Mortgage fees and related income	**3,678**	3,467	2,118
Credit card income	**7,110**	7,419	6,911
Other income	**916**	2,169	1,829
Noninterest revenue	**49,282**	28,473	44,966
Net interest income	**51,152**	38,779	26,406
Total net revenue	**$100,434**	$ 67,252	$ 71,372

2009 compared with 2008

Total net revenue was $100.4 billion, up by $33.2 billion, or 49%, from the prior year. The increase was driven by higher principal transactions revenue, primarily related to improved performance across most fixed income and equity products, and the absence of net markdowns on legacy leveraged lending and mortgage positions in IB, as well as higher levels of trading gains and investment securities income in Corporate/Private Equity. Results also benefited from the impact of the Washington Mutual transaction, which contributed to increases in net interest income, lending- and deposit-related fees, and mortgage fees and related income. Lastly, higher investment banking fees also contributed to revenue growth. These increases in revenue were offset partially by reduced fees and commissions from the effect of lower market levels on assets under management and custody, and the absence of proceeds from the sale of Visa shares in its initial public offering in the first quarter of 2008.

Investment banking fees increased from the prior year, due to higher equity and debt underwriting fees. For a further discussion of investment banking fees, which are primarily recorded in IB, see IB segment results on pages 63–65 of this Annual Report.

Principal transactions revenue, which consists of revenue from trading and private equity investing activities, was significantly higher compared with the prior year. Trading revenue increased, driven by improved performance across most fixed income and equity products; modest net gains on legacy leveraged lending and mortgage-related positions, compared with net markdowns of $10.6 billion in the prior year; and gains on trading positions in Corporate/Private Equity, compared with losses in the prior year of $1.1 billion on markdowns of Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") preferred securities. These increases in revenue were offset partially by an aggregate loss of $2.3 billion from the tightening of the Firm's credit spread on certain structured liabilities and derivatives, compared with gains of $2.0 billion in the prior year from widening spreads on these liabilities and derivatives. The Firm's private equity investments produced a slight net loss in 2009, a significant improvement from a larger net loss in 2008. For a further discussion of principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 63–65 and 82–83, respectively, and Note 3 on pages 156–173 of this Annual Report.

Lending- and deposit-related fees rose from the prior year, predominantly reflecting the impact of the Washington Mutual transaction and organic growth in both lending- and deposit-related fees in RFS, CB, IB and TSS. For a further discussion of lending- and deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 66–71, the TSS segment results on pages 77–78, and the CB segment results on pages 75–76 of this Annual Report.

The decline in asset management, administration and commissions revenue compared with the prior year was largely due to lower asset management fees in AM from the effect of lower market levels. Also contributing to the decrease were lower administration fees in TSS, driven by the effect of market depreciation on certain custody assets and lower securities lending balances; and lower brokerage commissions revenue in IB, predominantly related to lower transaction volume. For additional information on these fees and commissions, see the segment discussions for TSS on pages 77–78, and AM on pages 79–81 of this Annual Report.

Securities gains were lower in 2009 and included credit losses related to other-than-temporary impairment and lower gains on the sale of MasterCard shares of $241 million in 2009, compared with $668 million in 2008. These decreases were offset partially by higher gains from repositioning the Corporate investment securities portfolio in connection with managing the Firm's structural interest rate risk. For a further discussion of securities gains, which are mostly recorded in Corporate/Private Equity, see the Corporate/Private Equity segment discussion on pages 82–83 of this Annual Report.

Mortgage fees and related income increased slightly from the prior year, as higher net mortgage servicing revenue was largely offset by lower production revenue. The increase in net mortgage servicing revenue was driven by growth in average third-party loans serviced as a result of the Washington Mutual transaction. Mortgage production revenue declined from the prior year, reflecting an increase in estimated losses from the repurchase of previously-sold loans, offset partially by wider margins on new originations. For a discussion of mortgage fees and related income, which is recorded primarily in RFS's Consumer Lending business, see the Consumer Lending discussion on pages 68–71 of this Annual Report.

Credit card income, which includes the impact of the Washington Mutual transaction, decreased slightly compared with the prior year,

due to lower servicing fees earned in connection with CS securitization activities, largely as a result of higher credit losses. The decrease was partially offset by wider loan margins on securitized credit card loans; higher merchant servicing revenue related to the dissolution of the Chase Paymentech Solutions joint venture; and higher interchange income. For a further discussion of credit card income, see the CS segment results on pages 72–74 of this Annual Report.

Other income decreased from the prior year, due predominantly to the absence of $1.5 billion in proceeds from the sale of Visa shares during its initial public offering in the first quarter of 2008, and a $1.0 billion gain on the dissolution of the Chase Paymentech Solutions joint venture in the fourth quarter of 2008; and lower net securitization income in CS. These items were partially offset by a $464 million charge recognized in 2008 related to the repurchase of auction-rate securities at par; the absence of a $423 million loss incurred in the second quarter of 2008, reflecting the Firm's 49.4% share of Bear Stearns' losses from April 8 to May 30, 2008; and higher valuations on certain investments, including seed capital in AM.

Net interest income increased from the prior year, driven by the Washington Mutual transaction, which contributed to higher average loans and deposits. The Firm's interest-earning assets were $1.7 trillion, and the net yield on those assets, on a fully taxable-equivalent ("FTE") basis, was 3.12%, an increase of 25 basis points from 2008. Excluding the impact of the Washington Mutual transaction, the increase in net interest income in 2009 was driven by a higher level of investment securities, as well as a wider net interest margin, which reflected the overall decline in market interest rates during the year. Declining interest rates had a positive effect on the net interest margin, as rates paid on the Firm's interest-bearing liabilities decreased faster relative to the decline in rates earned on interest-earning assets. These increases in net interest income were offset partially by lower loan balances, which included the effect of lower customer demand, repayments and charge-offs.

2008 compared with 2007

Total net revenue of $67.3 billion was down $4.1 billion, or 6%, from the prior year. The decline resulted from the extremely challenging business environment for financial services firms in 2008. Principal transactions revenue decreased significantly and included net markdowns on mortgage-related positions and leveraged lending funded and unfunded commitments, losses on preferred securities of Fannie Mae and Freddie Mac, and losses on private equity investments. Also contributing to the decline in total net revenue were losses and markdowns recorded in other income, including the Firm's share of Bear Stearns' losses from April 8 to May 30, 2008. These declines were largely offset by higher net interest income, proceeds from the sale of Visa shares in its initial public offering, and the gain on the dissolution of the Chase Paymentech joint venture.

Investment banking fees were down from the record level of the prior year due to lower debt underwriting fees, as well as lower advisory and equity underwriting fees, both of which were at record levels in 2007. These declines were attributable to reduced market activity. For a further discussion of investment banking fees, which are primarily recorded in IB, see IB segment results on pages 63–65 of this Annual Report.

In 2008, principal transactions revenue declined by $19.7 billion from the prior year. Trading revenue decreased by $14.5 billion to a negative $9.8 billion, compared with positive $4.7 billion in 2007. The decline in trading revenue was largely driven by net markdowns of $5.9 billion on mortgage-related exposures, compared with $1.4 billion in net markdowns in the prior year; net markdowns of $4.7 billion on leveraged lending funded and unfunded commitments, compared with $1.3 billion in net markdowns in the prior year; losses of $1.1 billion on preferred securities of Fannie Mae and Freddie Mac; and weaker equity trading results, compared with a record level in 2007. In addition, trading revenue was adversely affected by additional losses and costs to reduce risk related to Bear Stearns positions. Partially offsetting the decline in trading revenue were record results in rates and currencies, credit trading, commodities and emerging markets, as well as strong Equity Markets client revenue; and total gains of $2.0 billion from the widening of the Firm's credit spread on certain structured liabilities and derivatives, compared with $1.3 billion in 2007. Private equity results also declined substantially from the prior year, recording losses of $908 million in 2008, compared with gains of $4.3 billion in 2007. In addition, the first quarter of 2007 included a fair value adjustment related to the adoption of new FASB guidance on fair value measurement. For a further discussion of principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 63–65 and 82–83, respectively, and Note 3 on pages 156–173 of this Annual Report.

Lending- and deposit-related fees rose from 2007, predominantly resulting from higher deposit-related fees and the impact of the Washington Mutual transaction. For a further discussion of Lending- and deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 66–71, the TSS segment results on pages 77–78 and the CB segment results on pages 75–76 of this Annual Report.

The decline in asset management, administration and commissions revenue compared with 2007 was driven by lower asset management fees in AM, due to lower performance fees and the effect of lower market levels. This decline was partially offset by an increase in commissions revenue, related predominantly to higher brokerage transaction volume within IB's Equity Markets revenue, which included additions from Bear Stearns' Prime Services business; and higher administration fees in TSS, driven by wider spreads in securities lending and increased product usage by new and existing clients. For additional information on these fees and commissions, see the segment discussions for IB on pages 63–65, RFS on pages 66–71, TSS on pages 77–78 and AM on pages 79–81 of this Annual Report.

The increase in securities gains compared with the prior year was due to the repositioning of the Corporate investment securities portfolio, as part of managing the structural interest rate risk of the

Firm; and higher gains from the sale of MasterCard shares. For a further discussion of securities gains, which are mostly recorded in the Firm's Corporate/Private Equity business, see the Corporate/Private Equity segment discussion on pages 82–83 of this Annual Report.

Mortgage fees and related income increased from the prior year, driven by higher net mortgage servicing revenue, which benefited from an improvement in mortgage servicing rights ("MSR") risk management results and increased loan servicing revenue. Mortgage production revenue increased slightly, as growth in originations was predominantly offset by markdowns on the mortgage warehouse and increased losses related to the repurchase of previously sold loans. For a discussion of mortgage fees and related income, which is recorded primarily in RFS's Consumer Lending business, see the Consumer Lending discussion on pages 68–71 of this Annual Report.

Credit card income rose compared with the prior year, driven by increased interchange income, due to higher customer charge volume in CS and higher debit card transaction volume in RFS; the impact of the Washington Mutual transaction; and increased servicing fees resulting from a higher level of securitized receivables. These results were partially offset by increases in volume-driven payments to partners and expense related to rewards programs. For a further discussion of credit card income, see CS's segment results on pages 72–74 of this Annual Report.

Other income increased compared with the prior year, due predominantly to the proceeds from the sale of Visa shares in its initial public offering of $1.5 billion, the gain on the dissolution of the Chase Paymentech joint venture of $1.0 billion, and gains on sales of certain other assets. These proceeds and gains were partially offset by lower valuations on certain investments, including seed capital in AM; a $464 million charge related to the offer to repurchase auction-rate securities at par; losses of $423 million reflecting the Firm's 49.4% ownership in Bear Stearns' losses from April 8 to May 30, 2008; and lower net securitization income in CS.

Net interest income increased from the prior year driven, in part, by the Washington Mutual transaction, which contributed to higher average loans and deposits, and, to a lesser extent, by the Bear Stearns merger. The Bear Stearns Prime Services business contributed to higher net interest income, as this business increased average balances in other interest-earning assets (primarily customer receivables) and other interest-bearing liabilities (primarily customer payables). The Firm's interest-earning assets were $1.4 trillion, and the net yield on those assets, on an FTE basis, was 2.87%, an increase of 48 basis points from 2007. Excluding the impact of the Washington Mutual transaction and the Bear Stearns merger, the increase in net interest income in 2008 was driven by a wider net interest margin, which reflected the overall decline in market interest rates during the year. The decline in rates had a positive effect on the net interest margin, as rates paid on the Firm's interest-bearing liabilities decreased faster relative to the decrease in rates earned on interest-earning assets. Growth in consumer and wholesale loan balances also contributed to the increase in net interest income.

Provision for credit losses

Year ended December 31, (in millions)	**2009**	2008	2007
Wholesale	**$ 3,974**	$ 3,327	$ 934
Consumer	**28,041**	17,652	5,930
Total provision for credit losses	**$ 32,015**	$ 20,979	$ 6,864

2009 compared with 2008

The provision for credit losses in 2009 rose by $11.0 billion compared with the prior year, predominantly due to a significant increase in the consumer provision. The prior year included a $1.5 billion charge to conform Washington Mutual's allowance for loan losses, which affected both the consumer and wholesale portfolios. For the purpose of the following analysis, this charge is excluded. The consumer provision reflected additions to the allowance for loan losses for the home equity, mortgage and credit card portfolios, as weak economic conditions, housing price declines and higher unemployment rates continued to drive higher estimated losses for these portfolios. Included in the 2009 addition to the allowance for loan losses was a $1.6 billion provision related to estimated deterioration in the Washington Mutual purchased credit-impaired portfolio. The wholesale provision increased from the prior year, reflecting continued weakness in the credit environment in 2009 compared with the prior year. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 66–71, CS on pages 72–74, IB on pages 63–65 and CB on pages 75–76, and the Allowance for Credit Losses section on pages 123–125 of this Annual Report.

2008 compared with 2007

The provision for credit losses in 2008 rose by $14.1 billion compared with the prior year, due to increases in both the consumer and wholesale provisions. The increase in the consumer provision reflected higher estimated losses for home equity and mortgages resulting from declining housing prices; an increase in estimated losses for the auto, student and business banking loan portfolios; and an increase in the allowance for loan losses and higher charge-offs of credit card loans. The increase in the wholesale provision was driven by a higher allowance resulting from a weakening credit environment and growth in retained loans. The wholesale provision in the first quarter of 2008 also included the effect of the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from the held-for-sale portfolio. In addition, in 2008 both the consumer and wholesale provisions were affected by a $1.5 billion charge to conform assets acquired from Washington Mutual to the Firm's loan loss methodologies. For a more detailed discussion of the loan portfolio and the allowance for loan losses, see the segment discussions for RFS on pages 66–71, CS on pages 72–74, IB on pages 63–65 and CB on pages 75–76, and the Credit Risk Management section on pages 101–125 of this Annual Report.

Noninterest expense

The following table presents the components of noninterest expense.

Year ended December 31, (in millions)	2009	2008	2007
Compensation expense	**$ 26,928**	$ 22,746	$ 22,689
Noncompensation expense:			
Occupancy expense	**3,666**	3,038	2,608
Technology, communications and equipment expense	**4,624**	4,315	3,779
Professional & outside services	**6,232**	6,053	5,140
Marketing	**1,777**	1,913	2,070
Other expense(a)(b)	**7,594**	3,740	3,814
Amortization of intangibles	**1,050**	1,263	1,394
Total noncompensation expense	**24,943**	20,322	18,805
Merger costs	**481**	432	209
Total noninterest expense	**$ 52,352**	$ 43,500	$ 41,703

(a) Includes a $675 million FDIC special assessment in 2009.
(b) Includes foreclosed property expense of $1.4 billion, $213 million and $56 million for 2009, 2008 and 2007, respectively. For additional information regarding foreclosed property, see Note 13 on pages 200–204 of this Annual Report.

2009 compared with 2008

Total noninterest expense was $52.4 billion, up $8.9 billion, or 20%, from the prior year. The increase was driven by the impact of the Washington Mutual transaction, higher performance-based compensation expense, higher FDIC-related costs and increased mortgage servicing and default-related expense. These items were offset partially by lower headcount-related expense, including salary and benefits but excluding performance-based incentives, and other noncompensation costs related to employees.

Compensation expense increased in 2009 compared with the prior year, reflecting higher performance-based incentives, as well as the impact of the Washington Mutual transaction. Excluding these two items, compensation expense decreased as a result of a reduction in headcount, particularly in the wholesale businesses and in Corporate.

Noncompensation expense increased from the prior year, due predominantly to the following: the impact of the Washington Mutual transaction; higher ongoing FDIC insurance premiums and an FDIC special assessment of $675 million recognized in the second quarter of 2009; higher mortgage servicing and default-related expense, which included an increase in foreclosed property expense of $1.2 billion; higher litigation costs; and the effect of the dissolution of the Chase Paymentech Solutions joint venture. The increase was partially offset by lower headcount-related expense, particularly in IB, TSS and AM; a decrease in amortization of intangibles, predominantly related to purchased credit card relationships; lower mortgage reinsurance losses; and a decrease in credit card marketing expense. For a discussion of amortization of intangibles, refer to Note 17 on pages 222–225 of this Annual Report.

For information on merger costs, refer to Note 10 on page 194 of this Annual Report.

2008 compared with 2007

Total noninterest expense for 2008 was $43.5 billion, up $1.8 billion, or 4%, from the prior year. The increase was driven by the additional operating costs related to the Washington Mutual transaction and Bear Stearns merger and investments in the businesses, partially offset by lower performance-based incentives.

Compensation expense increased slightly from the prior year, predominantly driven by investments in the businesses, including headcount additions associated with the Bear Stearns merger and Washington Mutual transaction, largely offset by lower performance-based incentives.

Noncompensation expense increased from the prior year as a result of the Bear Stearns merger and Washington Mutual transaction. Excluding the effect of these transactions, noncompensation expense decreased due to a net reduction in other expense related to litigation; lower credit card and consumer lending marketing expense; and a decrease in the amortization of intangibles, as certain purchased credit card relationships were fully amortized in 2007, and the amortization rate for core deposit intangibles declined in accordance with the amortization schedule. These decreases were offset partially by increases in professional & outside services, driven by investments in new product platforms in TSS, and business and volume growth in CS credit card processing and IB brokerage, clearing and exchange transaction processing. Also contributing to the increases were the following: an increase in other expense due to higher mortgage reinsurance losses and mortgage servicing expense due to increased delinquencies and defaults in RFS; an increase in technology, communications and equipment expense, reflecting higher depreciation expense on owned automobiles subject to operating leases in RFS, and other technology-related investments across the businesses; and an increase in occupancy expense, partly related to the expansion of RFS's retail distribution network. For a further discussion of amortization of intangibles, refer to Note 17 on pages 222–225 of this Annual Report.

For information on merger costs, refer to Note 10 on page 194 of this Annual Report.

Income tax expense

The following table presents the Firm's income before income tax expense/(benefit) and extraordinary gain, income tax expense/(benefit) and effective tax rate.

Year ended December 31, (in millions, except rate)	**2009**	2008	2007
Income before income tax expense/ (benefit) and extraordinary gain	**$ 16,067**	$ 2,773	$ 22,805
Income tax expense/(benefit)	**4,415**	(926)	7,440
Effective tax rate	**27.5%**	(33.4)%	32.6%

2009 compared with 2008

The change in the effective tax rate compared with the prior year was primarily the result of higher reported pretax income and changes in the proportion of income subject to U.S. federal and state and local taxes. Benefits related to tax-exempt income, business tax credits and tax audit settlements increased in 2009 relative to 2008; however, the impact of these items on the effective tax rate was reduced by the significantly higher level of pretax income in 2009. In addition, 2008 reflected the realization of benefits of $1.1 billion from the release of deferred tax liabilities associated with the undistributed earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely. For a further discussion of income taxes, see Critical Accounting Estimates Used by the Firm on pages 135–139 and Note 27 on pages 234–236 of this Annual Report.

2008 compared with 2007

The decrease in the effective tax rate in 2008 compared with the prior year was the result of significantly lower reported pretax income, combined with changes in the proportion of income subject to U.S. federal taxes. Also contributing to the decrease in the effective tax rate was increased business tax credits and the realization of a $1.1 billion benefit from the release of deferred tax liabilities. These deferred tax liabilities were associated with the undistributed earnings of certain non-U.S. subsidiaries that were deemed to be reinvested indefinitely. These decreases were partially offset by changes in state and local taxes, and equity losses representing the Firm's 49.4% ownership interest in Bear Stearns' losses from April 8 to May 30, 2008, for which no income tax benefit was recorded.

Extraordinary gain

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual. This transaction was accounted for under the purchase method of accounting for business combinations. The adjusted net asset value of the banking operations after purchase accounting adjustments was higher than the consideration paid by JPMorgan Chase, resulting in an extraordinary gain. The preliminary gain recognized in 2008 was $1.9 billion. In the third quarter of 2009, the Firm recognized a $76 million increase in the extraordinary gain associated with the final purchase accounting adjustments for the acquisition. For a further discussion of the Washington Mutual transaction, see Note 2 on pages 151–156 of this Annual Report.

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

The Firm prepares its consolidated financial statements using accounting principles generally accepted in the United States of America ("U.S. GAAP"); these financial statements appear on pages 146–149 of this Annual Report. 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 that assume credit card loans securitized by CS remain on the balance sheets, and presents revenue on a FTE basis. These adjustments do not have any impact on net income as reported by the lines of business or by the Firm as a whole.

The presentation of CS results on a managed basis assumes that credit card loans that have been securitized and sold in accordance with U.S. GAAP remain on the Consolidated Balance Sheets, and that the earnings on the securitized loans are classified in the same manner as the earnings on retained loans recorded on the Consolidated Balance Sheets. JPMorgan Chase uses the concept of managed basis to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations are funded and decisions are made about allocating resources, such as employees and capital, based 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 will affect both the securitized loans and the loans retained on the Consolidated Balance Sheets. JPMorgan Chase believes managed basis information is useful to investors, enabling them to understand both the credit risks associated with the loans reported on the Consolidated Balance Sheets and the Firm's retained interests in securitized loans. For a reconciliation of reported to managed basis results for CS, see CS segment results on pages 72–74 of this Annual Report. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 15 on pages 206–213 of this Annual Report.

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

(Table continues on next page)

	2009				2008			
Year ended December 31, (in millions, except per share and ratio data)	Reported results	Credit card (d)	Fully tax-equivalent adjustments	Managed basis	Reported results	Credit card (d)	Fully tax-equivalent adjustments	Managed basis
Revenue								
Investment banking fees	**$ 7,087**	**$ —**	**$ —**	**$ 7,087**	$ 5,526	$ —	$ —	$ 5,526
Principal transactions	**9,796**	**—**	**—**	**9,796**	(10,699)	—	—	(10,699)
Lending- and deposit-related fees	**7,045**	**—**	**—**	**7,045**	5,088	—	—	5,088
Asset management, administration and commissions	**12,540**	**—**	**—**	**12,540**	13,943	—	—	13,943
Securities gains	**1,110**	**—**	**—**	**1,110**	1,560	—	—	1,560
Mortgage fees and related income	**3,678**	**—**	**—**	**3,678**	3,467	—	—	3,467
Credit card income	**7,110**	**(1,494)**	**—**	**5,616**	7,419	(3,333)	—	4,086
Other income	**916**	**—**	**1,440**	**2,356**	2,169	—	1,329	3,498
Noninterest revenue	**49,282**	**(1,494)**	**1,440**	**49,228**	28,473	(3,333)	1,329	26,469
Net interest income	**51,152**	**7,937**	**330**	**59,419**	38,779	6,945	579	46,303
Total net revenue	**100,434**	**6,443**	**1,770**	**108,647**	67,252	3,612	1,908	72,772
Noninterest expense	**52,352**	**—**	**—**	**52,352**	43,500	—	—	43,500
Pre-provision profit	**48,082**	**6,443**	**1,770**	**56,295**	23,752	3,612	1,908	29,272
Provision for credit losses	**32,015**	**6,443**	**—**	**38,458**	19,445	3,612	—	23,057
Provision for credit losses – accounting conformity(a)	**—**	**—**	**—**	**—**	1,534	—	—	1,534
Income before income tax expense/(benefit) and extraordinary gain	**16,067**	**—**	**1,770**	**17,837**	2,773	—	1,908	4,681
Income tax expense/(benefit)	**4,415**	**—**	**1,770**	**6,185**	(926)	—	1,908	982
Income before extraordinary gain	**11,652**	**—**	**—**	**11,652**	3,699	—	—	3,699
Extraordinary gain	**76**	**—**	**—**	**76**	1,906	—	—	1,906
Net income	**$ 11,728**	**$ —**	**$ —**	**$ 11,728**	$ 5,605	$ —	$ —	$ 5,605
Diluted earnings per share(b)(c)	**$ 2.24**	**$ —**	**$ —**	**$ 2.24**	$ 0.81	$ —	$ —	$ 0.81
Return on assets(c)	**0.58%**	**NM**	**NM**	**0.55%**	0.21%	NM	NM	0.20%
Overhead ratio	**52**	**NM**	**NM**	**48**	65	NM	NM	60
Loans – period-end	**$ 633,458**	**$ 84,626**	**$ —**	**$ 718,084**	$ 744,898	$ 85,571	$ —	$ 830,469
Total assets – average	**2,024,201**	**82,233**	**—**	**2,106,434**	1,791,617	76,904	—	1,868,521

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

(b) Effective January 1, 2009, the Firm implemented new FASB guidance for participating securities. Accordingly, prior-period amounts have been revised. For further discussion of the guidance, see Note 25 on page 232 of this Annual Report.

(c) Based on income before extraordinary gain.

(d) See pages 72–74 of this Annual Report for a discussion of the effect of credit card securitizations on CS.

On January 1, 2010, the Firm adopted the new consolidation accounting guidance for VIE's. As the Firm will be deemed to be the primary beneficiary of its credit card securitization trusts as a result of this guidance, the Firm will consolidate the assets and liabilities of these credit card securitization trusts at their carrying values on January 1, 2010, and credit card–related income and credit costs associated with these securitization activities will be prospectively recorded on the 2010 Consolidated Statements of Income in the same classifications that are currently used to report such items on a managed basis. For additional information on the new accounting guidance, see "Accounting and reporting developments" on pages 140–142 of this Annual Report.

Total net revenue for each of the business segments and the Firm is presented on a FTE basis. Accordingly, investments that receive tax credits and revenue from tax-exempt securities are presented in the managed results on a basis comparable to taxable investments and securities. 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.

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, another 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 continued from previous page)

2007			
Reported results	Credit card(d)	Fully tax-equivalent adjustments	Managed basis
$ 6,635	$ —	$ —	$ 6,635
9,015	—	—	9,015
3,938	—	—	3,938
14,356	—	—	14,356
164	—	—	164
2,118	—	—	2,118
6,911	(3,255)	—	3,656
1,829	—	683	2,512
44,966	(3,255)	683	42,394
26,406	5,635	377	32,418
71,372	2,380	1,060	74,812
41,703	—	—	41,703
29,669	2,380	1,060	33,109
6,864	2,380	—	9,244
—	—	—	—
22,805	—	1,060	23,865
7,440	—	1,060	8,500
15,365	—	—	15,365
—	—	—	—
$ 15,365	$ —	$ —	$ 15,365
$ 4.33	$ —	$ —	$ 4.33
1.06%	NM	NM	1.01%
58	NM	NM	56
$ 519,374	$ 72,701	$ —	$ 592,075
1,455,044	66,780	—	1,521,824

Calculation of certain U.S. GAAP and non-GAAP metrics

The table below reflects the formulas used to calculate both the following U.S. GAAP and non-GAAP measures.

Return on common equity
Net income* / Average common stockholders' equity

Return on tangible common equity(e)
Net income* / Average tangible common equity

Return on assets
Reported net income / Total average assets
Managed net income / Total average managed assets(f)
(including average securitized credit card receivables)

Overhead ratio
Total noninterest expense / Total net revenue

* Represents net income applicable to common equity

(e) The Firm uses ROTCE, a non-GAAP financial measure, to evaluate the Firm's use of equity and to facilitate comparisons with competitors. Refer to the following page for the calculation of average tangible common equity.
(f) The Firm uses return on managed assets, a non-GAAP financial measure, to evaluate the overall performance of the managed credit card portfolio, including securitized credit card loans.

Average tangible common equity

Year ended December 31, (in millions)	2009	2008
Common stockholders' equity	**$ 145,903**	$129,116
Less: Goodwill	**48,254**	46,068
Less: Certain identifiable intangible assets	**5,095**	5,779
Add: Deferred tax liabilities[(a)]	**2,547**	2,369
TCE	**$ 95,101**	$ 79,638

(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 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 7% for 2009. The Firm views adjusted ROE, a non-GAAP financial measure, as meaningful because it enables the comparability to prior periods.

Year ended December 31, 2009 (in millions, except ratios)	As reported	Excluding the TARP redemption
Return on equity		
Net income	$ 11,728	$ 11,728
Less: Preferred stock dividends	1,327	1,327
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112	—
Net income applicable to common equity	$ 9,289	$ 10,401
Average common stockholders' equity	$ 145,903	$ 145,903
ROE	6%	7%

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 year ended December 31, 2009, included a one-time, noncash reduction of approximately $1.1 billion resulting from the repayment of TARP preferred capital. The following table presents the effect on net income applicable to common stockholders and the $0.27 reduction to diluted earnings per share for the year ended December 31, 2009.

Year ended December 31, 2009 (in millions, except per share)	As reported	Effect of TARP redemption
Diluted earnings per share		
Net income	$ 11,728	$ —
Less: Preferred stock dividends	1,327	—
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112	1,112
Net income applicable to common equity	$ 9,289	$ (1,112)
Less: Dividends and undistributed earnings allocated to participating securities	515	(62)
Net income applicable to common stockholders	$ 8,774	$ (1,050)
Total weighted average diluted shares outstanding	3,879.7	3,879.7
Net income per share	$ 2.26	$ (0.27)

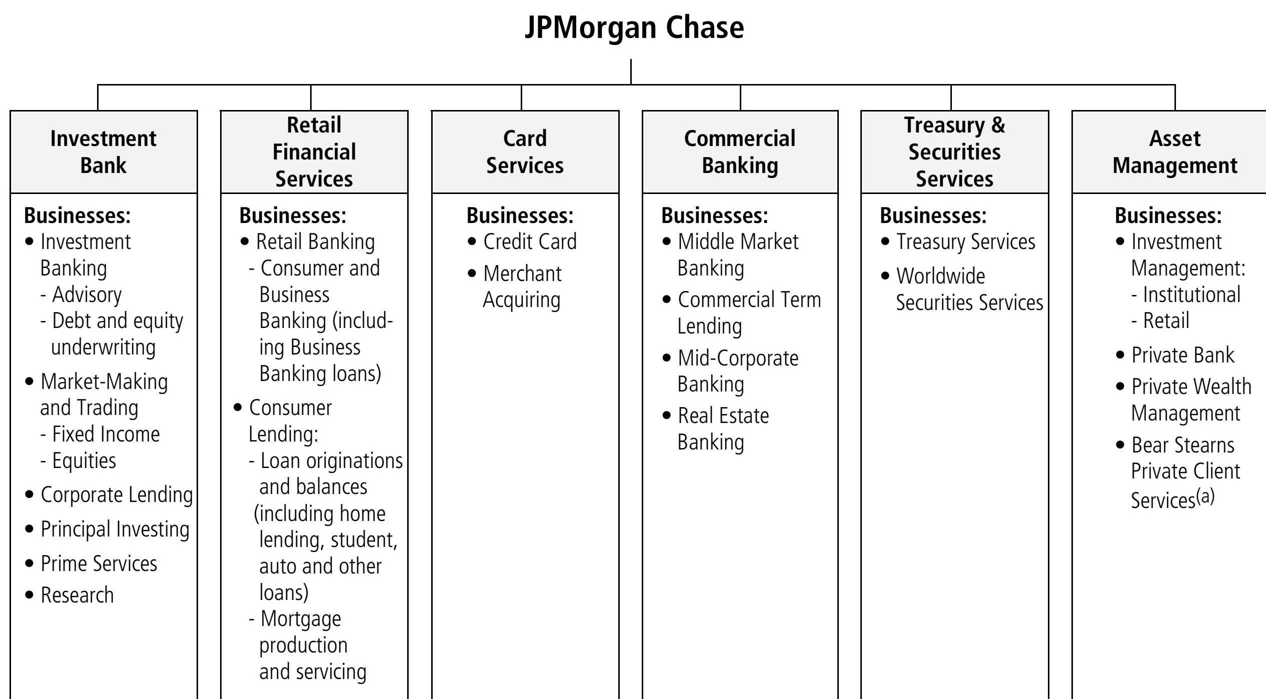
Other financial measures

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 Washington Mutual Master Trust. For a further discussion of this credit metric, see Allowance for Credit Losses on pages 123–125 of this Annual Report.

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 they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis.



(a) Bear Stearns Private Client Services was renamed to JPMorgan Securities at the beginning of 2010.

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. Business segment reporting methodologies used by the Firm are discussed below. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

Revenue sharing

When business segments join efforts to sell products and services to the Firm's clients, the participating business segments agree to share revenue from those transactions. The segment results reflect these revenue-sharing agreements.

Funds transfer pricing

Funds transfer pricing is used to allocate interest income and expense to each business and transfer the primary interest rate risk exposures to the Treasury group within the Corporate/Private Equity business segment. The allocation process is unique to each business segment and considers the interest rate risk, liquidity risk and regulatory requirements of that segment's stand-alone peers. This process is overseen by senior management and reviewed by the Firm's Asset-Liability Committee ("ALCO"). Business segments may retain certain interest rate exposures, subject to management approval, that would be expected in the normal operation of a similar peer business.

Capital allocation

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. For a further discussion, see Capital management–Line of business equity on pages 92–93 of this Annual Report.

Expense allocation

Where business segments use services provided by support units within the Firm, the costs of those support units are allocated to the business segments. The expense is allocated based on their

actual cost or the lower of actual cost or market, as well as upon usage of the services provided. In contrast, certain other expense related to certain corporate functions, or to certain technology and operations, are not allocated to the business segments and are retained in Corporate. Retained expense includes: parent company costs that would not be incurred if the segments were stand-alone businesses; adjustments to align certain corporate staff, technology and operations allocations with market prices; and other one-time items not aligned with the business segments.

Segment results – Managed basis[(a)]

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

Year ended December 31,	Total net revenue			Noninterest expense		
(in millions)	**2009**	2008	2007	**2009**	2008	2007
Investment Bank[(b)]	**$ 28,109**	$ 12,335	$18,291	**$ 15,401**	$ 13,844	$ 13,074
Retail Financial Services	**32,692**	23,520	17,305	**16,748**	12,077	9,905
Card Services	**20,304**	16,474	15,235	**5,381**	5,140	4,914
Commercial Banking	**5,720**	4,777	4,103	**2,176**	1,946	1,958
Treasury & Securities Services	**7,344**	8,134	6,945	**5,278**	5,223	4,580
Asset Management	**7,965**	7,584	8,635	**5,473**	5,298	5,515
Corporate/Private Equity[(b)]	**6,513**	(52)	4,298	**1,895**	(28)	1,757
Total	**$ 108,647**	$ 72,772	$74,812	**$ 52,352**	$ 43,500	$ 41,703

Year ended December 31,	Net income/(loss)			Return on equity		
(in millions)	**2009**	2008	2007	**2009**	2008	2007
Investment Bank[(b)]	**$ 6,899**	$ (1,175)	$ 3,139	**21%**	(5)%	15%
Retail Financial Services	**97**	880	2,925	**—**	5	18
Card Services	**(2,225)**	780	2,919	**(15)**	5	21
Commercial Banking	**1,271**	1,439	1,134	**16**	20	17
Treasury & Securities Services	**1,226**	1,767	1,397	**25**	47	47
Asset Management	**1,430**	1,357	1,966	**20**	24	51
Corporate/Private Equity[(b)(c)]	**3,030**	557	1,885	**NM**	NM	NM
Total	**$ 11,728**	$ 5,605	$15,365	**6%**	4%	13%

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

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

(c) Net income included an extraordinary gain of $76 million and $1.9 billion related to the Washington Mutual transaction for 2009 and 2008, respectively.

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

Selected income statement data

Year ended December 31, (in millions, except ratios)	2009	2008[e]	2007
Revenue			
Investment banking fees	**$ 7,169**	$ 5,907	$ 6,616
Principal transactions[a]	**8,154**	(7,042)	4,409
Lending- and deposit-related fees	**664**	463	446
Asset management, administration and commissions	**2,650**	3,064	2,701
All other income[b]	**(115)**	(341)	43
Noninterest revenue	**18,522**	2,051	14,215
Net interest income	**9,587**	10,284	4,076
Total net revenue[c]	**28,109**	12,335	18,291
Provision for credit losses	**2,279**	2,015	654
Noninterest expense			
Compensation expense	**9,334**	7,701	7,965
Noncompensation expense	**6,067**	6,143	5,109
Total noninterest expense	**15,401**	13,844	13,074
Income/(loss) before income tax expense/(benefit)	**10,429**	(3,524)	4,563
Income tax expense/(benefit)[d]	**3,530**	(2,349)	1,424
Net income/(loss)	**$ 6,899**	$ (1,175)	$ 3,139
Financial ratios			
ROE	**21%**	(5)%	15%
ROA	**0.99**	(0.14)	0.45
Overhead ratio	**55**	112	71
Compensation expense as % of total net revenue	**33**	62	44

(a) The 2009 results reflect modest net gains on legacy leveraged lending and mortgage-related positions, compared with net markdowns of $10.6 billion and $2.7 billion in 2008 and 2007, respectively.
(b) 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. Prior periods have been revised to conform to the current presentation.
(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 $1.4 billion, $1.7 billion and $927 million for 2009, 2008 and 2007, respectively.
(d) The income tax benefit in 2008 includes the result of reduced deferred tax liabilities on overseas earnings.
(e) Results for 2008 include seven months of the combined Firm's (JPMorgan Chase & Co.'s and Bear Stearns') results and five months of heritage JPMorgan Chase results. 2007 reflects heritage JPMorgan Chase & Co. results only.

The following table provides IB's total net revenue by business segment.

Year ended December 31, (in millions)	2009	2008[d]	2007
Revenue by business			
Investment banking fees:			
Advisory	**$ 1,867**	$ 2,008	$ 2,273
Equity underwriting	**2,641**	1,749	1,713
Debt underwriting	**2,661**	2,150	2,630
Total investment banking fees	**7,169**	5,907	6,616
Fixed income markets[a]	**17,564**	1,957	6,339
Equity markets[b]	**4,393**	3,611	3,903
Credit portfolio[c]	**(1,017)**	860	1,433
Total net revenue	**$ 28,109**	$12,335	$18,291
Revenue by region			
Americas	**$ 15,156**	$ 2,610	$ 8,245
Europe/Middle East/Africa	**9,790**	7,710	7,330
Asia/Pacific	**3,163**	2,015	2,716
Total net revenue	**$ 28,109**	$12,335	$18,291

(a) Fixed income markets primarily include client and portfolio management revenue related to market-making across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets.
(b) Equities markets primarily include client and portfolio management revenue related to market-making across global equity products, including cash instruments, derivatives and convertibles.
(c) Credit portfolio revenue includes net interest income, fees and the impact of loan sales activity, as well as gains or losses on securities received as part of a loan restructuring, for IB's credit portfolio. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities, and changes in the credit valuation adjustment, which is the component of the fair value of a derivative that reflects the credit quality of the counterparty. Additionally, credit portfolio revenue incorporates an adjustment to the valuation of the Firm's derivative liabilities. See pages 101–125 of the Credit Risk Management section of this Annual Report for further discussion.
(d) Results for 2008 include seven months of the combined Firm's (JPMorgan Chase & Co.'s and Bear Stearns') results and five months of heritage JPMorgan Chase & Co. results. 2007 reflects heritage JPMorgan Chase & Co.'s results only.

2009 compared with 2008

Net income was $6.9 billion, compared with a net loss of $1.2 billion in the prior year. These results reflected significantly higher total net revenue, partially offset by higher noninterest expense and a higher provision for credit losses.

Total net revenue was $28.1 billion, compared with $12.3 billion in the prior year. Investment banking fees were up 21% to $7.2 billion, consisting of debt underwriting fees of $2.7 billion (up 24%), equity underwriting fees of $2.6 billion (up 51%), and advisory fees of $1.9 billion (down 7%). Fixed Income Markets revenue was $17.6 billion, compared with $2.0 billion in the prior year, reflecting improved performance across most products and modest net gains on legacy leveraged lending and mortgage-related positions, compared with net markdowns of $10.6 billion in the prior year. These results also included losses of $1.0 billion from the tightening of the Firm's credit spread on certain structured liabilities, compared with gains of $814 million in the prior year. Equity Markets revenue was $4.4 billion, up 22% from the prior year, driven by strong client revenue across products, particularly prime services, and improved trading results. These results also included losses of $536 million from the tightening of the Firm's credit spread on certain structured liabilities, compared with gains

of $510 million in the prior year. Credit Portfolio revenue was a loss of $1.0 billion versus a gain of $860 million in the prior year, driven by mark-to-market losses on hedges of retained loans compared with gains in the prior year, partially offset by the positive net impact of credit spreads on derivative assets and liabilities.

The provision for credit losses was $2.3 billion, compared with $2.0 billion in the prior year, reflecting continued weakness in the credit environment. The allowance for loan losses to end-of-period loans retained was 8.25%, compared with 4.83% in the prior year. Net charge-offs were $1.9 billion, compared with $105 million in the prior year. Total nonperforming assets were $4.2 billion, compared with $2.5 billion in the prior year.

Noninterest expense was $15.4 billion, up $1.6 billion, or 11%, from the prior year, driven by higher performance-based compensation expense, partially offset by lower headcount-related expense.

Return on Equity was 21% on $33.0 billion of average allocated capital, compared with negative 5% on $26.1 billion of average allocated capital in the prior year.

2008 compared with 2007

Net loss was $1.2 billion, a decrease of $4.3 billion from the prior year, driven by lower total net revenue, a higher provision for credit losses and higher noninterest expense, partially offset by a reduction in deferred tax liabilities on overseas earnings.

Total net revenue was $12.3 billion, down $6.0 billion, or 33%, from the prior year. Investment banking fees were $5.9 billion, down 11% from the prior year, driven by lower debt underwriting and advisory fees reflecting reduced market activity. Debt underwriting fees were $2.2 billion, down 18% from the prior year, driven by lower loan syndication and bond underwriting fees. Advisory fees of $2.0 billion declined 12% from the prior year. Equity underwriting fees were $1.7 billion, up 2% from the prior year driven by improved market share. Fixed Income Markets revenue was $2.0 billion, compared with $6.3 billion in the prior year. The decrease was driven by $5.9 billion of net markdowns on mortgage-related exposures and $4.7 billion of net markdowns on leveraged lending funded and unfunded commitments. Revenue was also adversely impacted by additional losses and costs to reduce risk related to Bear Stearns' positions. These results were offset by record performance in rates and currencies, credit trading, commodities and emerging markets as well as $814 million of gains from the widening of the Firm's credit spread on certain structured liabilities and derivatives. Equity Markets revenue was $3.6 billion, down 7% from the prior year, reflecting weak trading results, partially offset by strong client revenue across products including prime services, as well as $510 million of gains from the widening of the Firm's credit spread on certain structured liabilities and derivatives. Credit portfolio revenue was $860 million, down 40%, driven by losses from widening counterparty credit spreads.

The provision for credit losses was $2.0 billion, an increase of $1.4 billion from the prior year, predominantly reflecting a higher allowance for credit losses, driven by a weakening credit environment, as well as the effect of the transfer of $4.9 billion of funded and unfunded leveraged lending commitments to retained loans from held-for-sale in the first quarter of 2008. Net charge-offs for the year were $105 million, compared with $36 million in the prior year. Total nonperforming assets were $2.5 billion, an increase of $2.0 billion compared with the prior year, reflecting a weakening credit environment. The allowance for loan losses to average loans was 4.71% for 2008, compared with a ratio of 2.14% in the prior year.

Noninterest expense was $13.8 billion, up $770 million, or 6%, from the prior year, reflecting higher noncompensation expense driven primarily by additional expense relating to the Bear Stearns merger, offset partially by lower performance-based compensation expense.

Return on equity was negative 5% on $26.1 billion of average allocated capital, compared with 15% on $21.0 billion in the prior year.

Selected metrics

Year ended December 31, (in millions, except headcount)	**2009**	2008	2007
Selected balance sheet data (period-end)			
Loans:			
Loans retained[(a)]	**$ 45,544**	$ 71,357	$ 67,528
Loans held-for-sale and loans at fair value	**3,567**	13,660	22,283
Total loans	**49,111**	85,017	89,811
Equity	**$ 33,000**	$ 33,000	$ 21,000
Selected balance sheet data (average)			
Total assets	**$699,039**	$ 832,729	$ 700,565
Trading assets – debt and equity instruments	**273,624**	350,812	359,775
Trading assets – derivative receivables	**96,042**	112,337	63,198
Loans:			
Loans retained[(a)]	**62,722**	73,108	62,247
Loans held-for-sale and loans at fair value	**7,589**	18,502	17,723
Total loans	**70,311**	91,610	79,970
Adjusted assets[(b)]	**538,724**	679,780	611,749
Equity	**33,000**	26,098	21,000
Headcount	**24,654**	27,938	25,543

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

(b) Adjusted assets, a non-GAAP financial measure, equals total assets minus (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of variable interest entities ("VIEs"); (3) cash and securities segregated and on deposit for regulatory and other purposes; (4) goodwill and intangibles; (5) securities received as collateral; and (6) investments purchased under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AML Facility"). The amount of adjusted assets is presented to assist the reader in comparing IB's asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company's capital adequacy. IB believes an 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.

Selected metrics

Year ended December 31, (in millions, except ratios)	**2009**	2008	2007
Credit data and quality statistics			
Net charge-offs	**$ 1,904**	$ 105	$ 36
Nonperforming assets:			
Nonperforming loans:			
Nonperforming loans retained(a)(b)	**3,196**	1,143	303
Nonperforming loans held-for-sale and loans at fair value	**308**	32	50
Total nonperforming loans	**3,504**	1,175	353
Derivative receivables	**529**	1,079	29
Assets acquired in loan satisfactions	**203**	247	71
Total nonperforming assets	**4,236**	2,501	453
Allowance for credit losses:			
Allowance for loan losses	**3,756**	3,444	1,329
Allowance for lending-related commitments	**485**	360	560
Total allowance for credit losses	**4,241**	3,804	1,889
Net charge-off rate(a)(c)	**3.04%**	0.14%	0.06%
Allowance for loan losses to period-end loans retained(a)(d)	**8.25**	4.83	1.97
Allowance for loan losses to average loans retained(a)(c)	**5.99**	4.71(h)	2.14
Allowance for loan losses to nonperforming loans retained(a)(b)	**118**	301	439
Nonperforming loans to total period-end loans	**7.13**	1.38	0.39
Nonperforming loans to average loans	**4.98**	1.28	0.44
Market risk–average trading and credit portfolio VaR – 99% confidence level(d)			
Trading activities:			
Fixed income	**$ 221**	$ 181	$ 80
Foreign exchange	**30**	34	23
Equities	**75**	57	48
Commodities and other	**32**	32	33
Diversification(e)	**(131)**	(108)	(77)
Total trading VaR(f)	**227**	196	107
Credit portfolio VaR(g)	**101**	69	17
Diversification(e)	**(80)**	(63)	(18)
Total trading and credit portfolio VaR	**$ 248**	$ 202	$ 106

(a) Loans retained included credit portfolio loans, leveraged leases and other accrual loans, and excluded loans held-for-sale and loans accounted for at fair value.
(b) Allowance for loan losses of $1.3 billion and $430 million were held against these nonperforming loans at December 31, 2009 and 2008, respectively.
(c) Loans held-for-sale and loans at fair value were excluded when calculating the allowance coverage ratio and net charge-off rate.
(d) Results for 2008 include seven months of the combined Firm's (JPMorgan Chase & Co.'s and Bear Stearns') results and five months of heritage JPMorgan Chase & Co.'s results only. 2007 reflects heritage JPMorgan Chase & Co. results. For a more complete description of value-at-risk ("VaR"), see pages 126–130 of this Annual Report.
(e) Average VaRs were less than the sum of the VaRs of their market risk components, due to risk offsets resulting from portfolio diversification. The diversification effect reflected the fact that the risks were not perfectly correlated. For further discussion of VaR, see pages 126–130 of this Annual Report. The risk of a portfolio of positions is usually less than the sum of the risks of the positions themselves.
(f) Trading VaR includes predominantly all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example, correlation risk. Trading VaR does not include VaR related to held-for-sale funded loans and unfunded commitments, nor the debit valuation adjustments ("DVA") taken on derivative and structured liabilities to reflect the credit quality of the Firm. See VaR discussion on pages 126–130 and the DVA Sensitivity table on page 130 of this Annual Report for further details. Trading VaR also does not include the MSR portfolio or VaR related to other corporate functions, such as Corporate/Private Equity. Beginning in the fourth quarter of 2008, trading VaR includes the estimated credit spread sensitivity of certain mortgage products.
(g) Included VaR on derivative credit valuation adjustments ("CVA"), hedges of the CVA and mark-to-market hedges of the retained loan portfolio, which were all reported in principal transactions revenue. This VaR does not include the retained loan portfolio.
(h) Excluding the impact of a loan originated in March 2008 to Bear Stearns, the adjusted ratio would be 4.84% for 2008. The average balance of the loan extended to Bear Stearns was $1.9 billion for 2008.

Market shares and rankings(a)

	2009		2008		2007	
December 31,	Market share	Rankings	Market share	Rankings	Market share	Rankings
Global debt, equity and equity-related	**10%**	**#1**	9%	#1	8%	#2
Global syndicated loans	**10**	**1**	11	1	13	1
Global long-term debt(b)	**9**	**1**	9	3	7	3
Global equity and equity-related(c)	**13**	**1**	10	1	9	2
Global announced M&A(d)	**24**	**3**	28	2	27	4
U.S. debt, equity and equity-related	**14**	**1**	15	2	10	2
U.S. syndicated loans	**23**	**1**	24	1	24	1
U.S. long-term debt(b)	**14**	**1**	15	2	10	2
U.S. equity and equity-related(c)	**13**	**1**	11	1	11	5
U.S. announced M&A(d)	**35**	**3**	35	2	28	3

(a) Source: Thomson Reuters. Results for 2008 are pro forma for the Bear Stearns merger. Results for 2007 represent heritage JPMorgan Chase & Co. only.
(b) Includes asset-backed securities, mortgage-backed securities and municipal securities.
(c) Includes rights offerings; U.S.- domiciled equity and equity-related transactions.
(d) Global announced M&A is based on rank value; all other rankings are based on proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%. Global and U.S. announced M&A market share and rankings for 2008 and 2007 include transactions withdrawn since December 31, 2008 and 2007. U.S. announced M&A represents any U.S. involvement ranking.

According to Thomson Reuters, in 2009, the Firm was ranked #1 in Global Debt, Equity and Equity-related; #1 in Global Equity and Equity-related; #1 in Global Long-Term Debt: #1 in Global Syndicated Loans and #3 in Global Announced M&A, based on volume.

According to Dealogic, the Firm was ranked #1 in Global Investment Banking Fees generated during 2009, based on revenue.

RETAIL FINANCIAL SERVICES

Retail Financial Services, which includes the Retail Banking and Consumer Lending businesses, 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 15,400 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 23,900 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 15,700 auto dealerships and nearly 2,100 schools and universities nationwide.

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual from the FDIC for $1.9 billion through a purchase of substantially all of the assets and assumption of specified liabilities of Washington Mutual. Washington Mutual's banking operations consisted of a retail bank network of 2,244 branches, a nationwide credit card lending business, a multi-family and commercial real estate lending business, and nationwide mortgage banking activities. The transaction expanded the Firm's U.S. consumer branch network in California, Florida, Washington, Georgia, Idaho, Nevada and Oregon and created the nation's third-largest branch network.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2009	2008	2007
Revenue			
Lending- and deposit-related fees	**$ 3,969**	$ 2,546	$ 1,881
Asset management, administration and commissions	**1,674**	1,510	1,275
Mortgage fees and related income	**3,794**	3,621	2,094
Credit card income	**1,635**	939	646
Other income	**1,128**	739	883
Noninterest revenue	**12,200**	9,355	6,779
Net interest income	**20,492**	14,165	10,526
Total net revenue	**32,692**	23,520	17,305
Provision for credit losses	**15,940**	9,905	2,610
Noninterest expense			
Compensation expense	**6,712**	5,068	4,369
Noncompensation expense	**9,706**	6,612	5,071
Amortization of intangibles	**330**	397	465
Total noninterest expense	**16,748**	12,077	9,905
Income before income tax expense/(benefit)	**4**	1,538	4,790
Income tax expense/(benefit)	**(93)**	658	1,865
Net income	**$ 97**	$ 880	$ 2,925

Financial ratios			
ROE	**—%**	5%	18%
Overhead ratio	**51**	51	57
Overhead ratio excluding core deposit intangibles[(a)]	**50**	50	55

(a) Retail Financial Services uses the overhead ratio (excluding the amortization of core deposit intangibles ("CDI")), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation 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 core deposit intangible amortization expense related to the Bank of New York transaction and the Bank One merger of $328 million, $394 million and $460 million for the years ended December 31, 2009, 2008 and 2007, respectively.

2009 compared with 2008

Net income was $97 million, a decrease of $783 million from the prior year, as the increase in provision for credit losses more than offset the positive impact of the Washington Mutual transaction.

Net revenue was $32.7 billion, an increase of $9.2 billion, or 39%, from the prior year. Net interest income was $20.5 billion, up by $6.3 billion, or 45%, reflecting the impact of the Washington Mutual transaction, and wider loan and deposit spreads. Noninterest revenue was $12.2 billion, up by $2.8 billion, or 30%, driven by the impact of the Washington Mutual transaction, wider margins on mortgage originations and higher net mortgage servicing revenue, partially offset by $1.6 billion in estimated losses related to the repurchase of previously sold loans.

The provision for credit losses was $15.9 billion, an increase of $6.0 billion from the prior year. Weak economic conditions and housing price declines continued to drive higher estimated losses for the home equity and mortgage loan portfolios. The provision included an addition of $5.8 billion to the allowance for loan losses, compared with an addition of $5.0 billion in the prior year. Included in the 2009 addition to the allowance for loan losses was a $1.6 billion increase related to estimated deterioration in the Washington Mutual purchased credit-impaired portfolio. To date, no charge-offs have been recorded on purchased credit-impaired loans; see page 70 of this Annual Report for the net charge-off rates, as reported. Home equity net charge-offs were $4.7 billion (4.32% excluding purchased credit-impaired loans), compared with $2.4 billion (2.39% excluding purchased credit-impaired loans) in the prior year. Subprime mortgage net charge-offs were $1.6 billion (11.86% excluding purchased credit-impaired loans), compared with $933 million (6.10% excluding purchased credit-impaired loans) in the prior year. Prime mortgage net charge-offs were $1.9 billion (3.05% excluding purchased credit-impaired loans), compared with $526 million (1.18% excluding purchased credit-impaired loans) in the prior year.

Noninterest expense was $16.7 billion, an increase of $4.7 billion, or 39%. The increase reflected the impact of the Washington Mutual transaction and higher servicing and default-related expense.

2008 compared with 2007

Net income was $880 million, a decrease of $2.0 billion, or 70%, from the prior year, as a significant increase in the provision for credit losses was partially offset by positive MSR risk management results and the positive impact of the Washington Mutual transaction.

Total net revenue was $23.5 billion, an increase of $6.2 billion, or 36%, from the prior year. Net interest income was $14.2 billion, up $3.6 billion, or 35%, benefiting from the Washington Mutual transaction, wider loan and deposit spreads, and higher loan and deposit balances. Noninterest revenue was $9.4 billion, up $2.6 billion, or 38%, as positive MSR risk management results, the impact of the Washington Mutual transaction, higher mortgage origination volume and higher deposit-related fees were partially offset by an increase in losses related to the repurchase of previously sold loans and markdowns on the mortgage warehouse.

The provision for credit losses was $9.9 billion, an increase of $7.3 billion from the prior year. Delinquency rates have increased due to overall weak economic conditions, while housing price declines have continued to drive increased loss severities, particularly for high loan-to-value home equity and mortgage loans. The provision includes $4.7 billion in additions to the allowance for loan losses for the heritage Chase home equity and mortgage portfolios. Home equity net charge-offs were $2.4 billion (2.23% net charge-off rate; 2.39% excluding purchased credit-impaired loans), compared with $564 million (0.62% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $933 million (5.49% net charge-off rate; 6.10% excluding purchased credit-impaired loans), compared with $157 million (1.55% net charge-off rate) in the prior year. Prime mortgage net charge-offs were $526 million (1.05% net charge-off rate; 1.18% excluding purchased credit-impaired loans), compared with $33 million (0.13% net charge-off rate) in the prior year. The provision for credit losses was also affected by an increase in estimated losses for the auto, student and business banking loan portfolios.

Total noninterest expense was $12.1 billion, an increase of $2.2 billion, or 22%, from the prior year, reflecting the impact of the Washington Mutual transaction, higher mortgage reinsurance losses, higher mortgage servicing expense and investments in the retail distribution network.

Selected metrics

Year ended December 31, (in millions, except headcount and ratios)	**2009**	2008	2007
Selected balance sheet data (period-end)			
Assets	**$ 387,269**	$ 419,831	$ 256,351
Loans:			
Loans retained	**340,332**	368,786	211,324
Loans held-for-sale and loans at fair value[a]	**14,612**	9,996	16,541
Total loans	**354,944**	378,782	227,865
Deposits	**357,463**	360,451	221,129
Equity	**25,000**	25,000	16,000
Selected balance sheet data (average)			
Assets	**$ 407,497**	$ 304,442	$ 241,112
Loans:			
Loans retained	**354,789**	257,083	191,645
Loans held-for-sale and loans at fair value[a]	**18,072**	17,056	22,587
Total loans	**372,861**	274,139	214,232
Deposits	**367,696**	258,362	218,062
Equity	**25,000**	19,011	16,000
Headcount	**108,971**	102,007	69,465
Credit data and quality statistics			
Net charge-offs	**$ 10,113**	$ 4,877	$ 1,350
Nonperforming loans:			
Nonperforming loans retained	**10,611**	6,548	2,760
Nonperforming loans held-for-sale and loans at fair value	**234**	236	68
Total nonperforming loans[b][c][d]	**10,845**	6,784	2,828
Nonperforming assets[b][c][d]	**12,098**	9,077	3,378
Allowance for loan losses	**14,776**	8,918	2,668
Net charge-off rate[f]	**2.85%**	1.90%	0.70%
Net charge-off rate excluding purchased credit-impaired loans[e][f]	**3.75**	2.08	0.70
Allowance for loan losses to ending loans retained[f]	**4.34**	2.42	1.26
Allowance for loan losses to ending loans excluding purchased credit-impaired loans[e][f]	**5.09**	3.19	1.26
Allowance for loan losses to nonperforming loans retained[b][e][f]	**124**	136	97
Nonperforming loans to total loans	**3.06**	1.79	1.24
Nonperforming loans to total loans excluding purchased credit-impaired loans	**3.96**	2.34	1.24

(a) Loans at fair value consist of prime mortgage loans 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 $12.5 billion, $8.0 billion and $12.6 billion at December 31, 2009, 2008 and 2007, respectively. Average balances of these loans totaled $15.8 billion, $14.2 billion and $11.9 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

(b) Excludes purchased credit-impaired loans that were acquired as part of the Washington Mutual transaction. These loans were 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 December 31, 2009, 2008 and 2007, nonperforming loans and assets excluded: (1) mortgage loans insured by U.S. government agencies of $9.0 billion, $3.0 billion and $1.1 billion, respectively; (2) real estate owned insured

by U.S. government agencies of $579 million, $364 million and $452 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $542 million, $437 million and $417 million, respectively. These amounts are excluded, as reimbursement is proceeding normally.
(e) 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. During 2009, an allowance for loan losses of $1.6 billion was recorded for these loans, which has also been excluded from applicable ratios. To date, no charge-offs have been recorded for these loans.
(f) Loans held-for-sale and loans accounted for at fair value were excluded when calculating the allowance coverage ratio and net charge-off rate.

Retail Banking

Selected income statement data

Year ended December 31, (in millions, except ratios)	2009	2008	2007
Noninterest revenue	**$ 7,169**	$ 4,951	$ 3,763
Net interest income	**10,781**	7,659	6,193
Total net revenue	**17,950**	12,610	9,956
Provision for credit losses	**1,142**	449	79
Noninterest expense	**10,357**	7,232	6,166
Income before income tax expense	**6,451**	4,929	3,711
Net income	**$ 3,903**	$ 2,982	$ 2,245
Overhead ratio	**58%**	57%	62%
Overhead ratio excluding core deposit intangibles[(a)]	**56**	54	57

(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 core deposit intangible amortization expense related to the Bank of New York transaction and the Bank One merger of $328 million, $394 million and $460 million for the years ended December 31, 2009, 2008 and 2007, respectively.

2009 compared with 2008

Retail Banking reported net income of $3.9 billion, up by $921 million, or 31%, from the prior year. Total net revenue was $18.0 billion, up by $5.3 billion, or 42%, from the prior year. The increase reflected the impact of the Washington Mutual transaction, wider deposit spreads, higher average deposit balances and higher debit card income. The provision for credit losses was $1.1 billion, compared with $449 million in the prior year, reflecting higher estimated losses in the Business Banking portfolio. Noninterest expense was $10.4 billion, up by $3.1 billion, or 43%. The increase reflected the impact of the Washington Mutual transaction, higher FDIC insurance premiums and higher headcount-related expense.

2008 compared with 2007

Retail Banking net income was $3.0 billion, up $737 million, or 33%, from the prior year. Total net revenue was $12.6 billion, up $2.7 billion, or 27%, reflecting the impact of the Washington Mutual transaction, wider deposit spreads, higher deposit-related fees, and higher deposit balances. The provision for credit losses was $449 million, compared with $79 million in the prior year, reflecting an increase in the allowance for loan losses for Business Banking loans due to higher estimated losses on the portfolio. Noninterest expense was $7.2 billion, up $1.1 billion, or 17%, from the prior year, due to the Washington Mutual transaction and investments in the retail distribution network.

Selected metrics

Year ended December 31, (in billions, except ratios and where otherwise noted)	2009	2008	2007
Business metrics			
Business banking origination volume	**$ 2.3**	$ 5.5	$ 6.9
End-of-period loans owned	**17.0**	18.4	15.6
End-of-period deposits			
Checking	**$ 121.9**	$ 109.2	$ 66.9
Savings	**153.4**	144.0	96.0
Time and other	**58.0**	89.1	48.6
Total end-of-period deposits	**333.3**	342.3	211.5
Average loans owned	**$ 17.8**	$ 16.7	$ 14.9
Average deposits			
Checking	**$ 113.5**	$ 77.1	$ 65.8
Savings	**150.9**	114.3	97.1
Time and other	**76.4**	53.2	43.8
Total average deposits	**340.8**	244.6	206.7
Deposit margin	**2.96%**	2.89%	2.72%
Average assets	**$ 28.9**	$ 26.3	$ 25.0
Credit data and quality statistics (in millions, except ratio)			
Net charge-offs	**$ 842**	$ 346	$ 163
Net charge-off rate	**4.73%**	2.07%	1.09%
Nonperforming assets	**$ 839**	$ 424	$ 294

Retail branch business metrics

Year ended December 31,	2009	2008	2007
Investment sales volume (in millions)	**$ 21,784**	$ 17,640	$ 18,360
Number of:			
Branches	**5,154**	5,474	3,152
ATMs	**15,406**	14,568	9,186
Personal bankers	**17,991**	15,825	9,650
Sales specialists	**5,912**	5,661	4,105
Active online customers (in thousands)	**15,424**	11,710	5,918
Checking accounts (in thousands)	**25,712**	24,499	10,839

Consumer Lending

Selected income statement data

Year ended December 31, (in millions, except ratios)	2009	2008	2007
Noninterest revenue	**$ 5,031**	$ 4,404	$ 3,016
Net interest income	**9,711**	6,506	4,333
Total net revenue	**14,742**	10,910	7,349
Provision for credit losses	**14,798**	9,456	2,531
Noninterest expense	**6,391**	4,845	3,739
Income/(loss) before income tax expense/(benefit)	**(6,447)**	(3,391)	1,079
Net income/(loss)	**$ (3,806)**	$ (2,102)	$ 680
Overhead ratio	**43%**	44%	51%

2009 compared with 2008

Consumer Lending reported a net loss of $3.8 billion, compared with a net loss of $2.1 billion in the prior year.

Net revenue was $14.7 billion, up by $3.8 billion, or 35%, from the prior year. The increase was driven by the impact of the Washington Mutual transaction, wider loan spreads and higher mortgage fees and related income, partially offset by lower heritage Chase loan balances. Mortgage production revenue was $503 million,

down $395 million from the prior year, as an increase in losses from the repurchase of previously-sold loans was predominantly offset by wider margins on new originations. Operating revenue, which represents loan servicing revenue net of other changes in fair value of the MSR asset, was $1.7 billion, compared with $1.2 billion in the prior year, reflecting growth in average third-party loans serviced as a result of the Washington Mutual transaction. MSR risk management results were $1.6 billion, compared with $1.5 billion in the prior year, reflecting the positive impact of a decrease in estimated future mortgage prepayments during 2009.

The provision for credit losses was $14.8 billion, compared with $9.5 billion in the prior year, reflecting continued weakness in the home equity and mortgage loan portfolios (see Retail Financial Services discussion of the provision for credit losses, above on page 66 and Allowance for Credit Losses on pages 123–125 of this Annual Report, for further detail).

Noninterest expense was $6.4 billion, up by $1.5 billion, or 32%, from the prior year, reflecting higher servicing and default-related expense and the impact of the Washington Mutual transaction.

2008 compared with 2007

Consumer Lending net loss was $2.1 billion, compared with net income of $680 million in the prior year. Total net revenue was $10.9 billion, up $3.6 billion, or 48%, driven by higher mortgage fees and related income, the impact of the Washington Mutual transaction, higher loan balances and wider loan spreads.

The increase in mortgage fees and related income was primarily driven by higher net mortgage servicing revenue. Mortgage production revenue of $898 million was up $18 million, as higher mortgage origination volume was predominantly offset by an increase in losses related to the repurchase of previously sold loans and markdowns of the mortgage warehouse. Operating revenue, which represents loan servicing revenue net of other changes in fair value of the MSR asset was $1.2 billion, an increase of $403 million, or 50%, from the prior year reflecting growth in average third-party loans serviced which increased 42%, primarily due to the Washington Mutual transaction. MSR risk management results were $1.5 billion, compared with $411 million in the prior year.

The provision for credit losses was $9.5 billion, compared with $2.5 billion in the prior year. The provision reflected weakness in the home equity and mortgage portfolios (see Retail Financial Services discussion of the provision for credit losses for further detail).

Noninterest expense was $4.8 billion, up $1.1 billion, or 30%, from the prior year, reflecting higher mortgage reinsurance losses, the impact of the Washington Mutual transaction and higher servicing expense due to increased delinquencies and defaults.

Selected metrics

Year ended December 31, (in billions)	**2009**	2008	2007
Business metrics			
Loans excluding purchased credit-impaired loans[a]			
End-of-period loans owned			
Home equity	**$ 101.4**	$ 114.3	$ 94.8
Prime mortgage	**59.4**	65.2	34.0
Subprime mortgage	**12.5**	15.3	15.5
Option ARMs	**8.5**	9.0	—
Student loans	**15.8**	15.9	11.0
Auto loans	**46.0**	42.6	42.3
Other	**0.7**	1.3	2.1
Total end-of-period loans owned	**$ 244.3**	$ 263.6	$ 199.7
Average loans owned			
Home equity	**$ 108.3**	$ 99.9	$ 90.4
Prime mortgage	**62.2**	45.0	30.4
Subprime mortgage	**13.9**	15.3	12.7
Option ARMs	**8.9**	2.3	—
Student loans	**16.1**	13.6	10.5
Auto loans	**43.6**	43.8	41.1
Other	**1.0**	1.1	2.3
Total average loans owned	**$ 254.0**	$ 221.0	$ 187.4
Purchased credit-impaired loans[a]			
End-of-period loans owned			
Home equity	**$ 26.5**	$ 28.6	$ —
Prime mortgage	**19.7**	21.8	—
Subprime mortgage	**6.0**	6.8	—
Option ARMs	**29.0**	31.6	—
Total end-of-period loans owned	**$ 81.2**	$ 88.8	$ —
Average loans owned			
Home equity	**$ 27.6**	$ 7.1	$ —
Prime mortgage	**20.8**	5.4	—
Subprime mortgage	**6.3**	1.7	—
Option ARMs	**30.5**	8.0	—
Total average loans owned	**$ 85.2**	$ 22.2	$ —
Total consumer lending portfolio			
End-of-period loans owned			
Home equity	**$ 127.9**	$ 142.9	$ 94.8
Prime mortgage	**79.1**	87.0	34.0
Subprime mortgage	**18.5**	22.1	15.5
Option ARMs	**37.5**	40.6	—
Student loans	**15.8**	15.9	11.0
Auto loans	**46.0**	42.6	42.3
Other	**0.7**	1.3	2.1
Total end-of-period loans owned	**$ 325.5**	$ 352.4	$ 199.7
Average loans owned			
Home equity	**$ 135.9**	$ 107.0	$ 90.4
Prime mortgage	**83.0**	50.4	30.4
Subprime mortgage	**20.2**	17.0	12.7
Option ARMs	**39.4**	10.3	—
Student loans	**16.1**	13.6	10.5
Auto loans	**43.6**	43.8	41.1
Other	**1.0**	1.1	2.3
Total average loans owned[b]	**$ 339.2**	$ 243.2	$ 187.4

(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 acquisition date.

(b) Total average loans owned includes loans held-for-sale of $2.2 billion, $2.8 billion and $10.6 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

Consumer Lending (continued)

Credit data and quality statistics

(in millions, except ratios)	2009	2008	2007
Net charge-offs excluding purchased credit-impaired loans[(a)]			
Home equity	**$ 4,682**	$ 2,391	$ 564
Prime mortgage	**1,886**	526	33
Subprime mortgage	**1,648**	933	157
Option ARMs	**63**	—	—
Auto loans	**627**	568	354
Other	**365**	113	79
Total net charge-offs	**$ 9,271**	$ 4,531	$ 1,187
Net charge-off rate excluding purchased credit-impaired loans[(a)]			
Home equity	**4.32%**	2.39%	0.62%
Prime mortgage	**3.05**	1.18	0.13
Subprime mortgage	**11.86**	6.10	1.55
Option ARMs	**0.71**	—	—
Auto loans	**1.44**	1.30	0.86
Other	**2.39**	0.93	0.88
Total net charge-off rate excluding purchased credit-impaired loans[(b)]	**3.68**	2.08	0.67
Net charge-off rate – reported			
Home equity	**3.45%**	2.23%	0.62%
Prime mortgage	**2.28**	1.05	0.13
Subprime mortgage	**8.16**	5.49	1.55
Option ARMs	**0.16**	—	—
Auto loans	**1.44**	1.30	0.86
Other	**2.39**	0.93	0.88
Total net charge-off rate[(b)]	**2.75**	1.89	0.67
30+ day delinquency rate excluding purchased credit-impaired loans[(c)(d)(e)]	**5.93%**	4.21%	3.10%
Allowance for loan losses	**$ 13,798**	$ 8,254	$ 2,418
Nonperforming assets[(f)(g)]	**11,259**	8,653	3,084
Allowance for loan losses to ending loans	**4.27%**	2.36%	1.24%
Allowance for loan losses to ending loans excluding purchased credit-impaired loans[(a)]	**5.04**	3.16	1.24

(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 the credit losses over the remaining life of the portfolio. During 2009, an allowance for loan losses of $1.6 billion was recorded for these loans, which has also been excluded from applicable ratios. To date, no charge-offs have been recorded for these loans.

(b) Average loans included loans held-for-sale of $2.2 billion, $2.8 billion and $10.6 billion for the years ended December 31, 2009, 2008 and 2007, respectively, which were excluded when calculating the net charge-off rate.

(c) Excluded mortgage loans that are insured by U.S. government agencies of $9.7 billion, $3.5 billion and $1.4 billion at December 31, 2009, 2008 and 2007, respectively. These amounts were excluded, as reimbursement is proceeding normally.

(d) Excluded loans that are 30 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $942 million, $824 million and $663 million at December 31, 2009, 2008 and 2007, respectively. These amounts are excluded, as reimbursement is proceeding normally.

(e) The delinquency rate for purchased credit-impaired loans was 27.79% and 17.89% at December 31, 2009 and 2008, respectively.

(f) At December 31, 2009, 2008 and 2007, nonperforming assets excluded: (1) mortgage loans insured by U.S. government agencies of $9.0 billion, $3.0 billion and $1.1 billion, respectively; (2) real estate owned insured by U.S. government agencies of $579 million, $364 million and $452 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $542 million, $437 million and $417 million, respectively. These amounts are excluded, as reimbursement is proceeding normally.

(g) 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.

(in billions, except ratios and where otherwise noted)	2009	2008	2007
Origination volume			
Mortgage origination volume by channel			
Retail	**$ 53.9**	$ 41.1	$ 45.5
Wholesale[(a)]	**11.8**	29.4	42.7
Correspondent	**72.8**	55.5	27.9
CNT (negotiated transactions)	**12.2**	43.0	43.3
Total mortgage origination volume	**150.7**	169.0	159.4
Home equity	**2.4**	16.3	48.3
Student loans	**4.2**	6.9	7.0
Auto	**23.7**	19.4	21.3
Application volume			
Mortgage application volume by channel			
Retail	**90.9**	89.1	80.7
Wholesale[(a)]	**16.4**	63.0	86.7
Correspondent	**99.3**	82.5	41.5
Total mortgage application volume	**206.6**	234.6	208.9
Average mortgage loans held-for-sale and loans at fair value[(b)]	**16.2**	14.6	18.8
Average assets	**378.6**	278.1	216.1
Third-party mortgage loans serviced (ending)	**1,082.1**	1,172.6	614.7
Third-party mortgage loans serviced (average)	**1,119.1**	810.9	571.5
MSR net carrying value (ending)	**15.5**	9.3	8.6
Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending)	**1.43%**	0.79%	1.40%
Supplemental mortgage fees and related income details (in millions)			
Production revenue	**$ 503**	$ 898	$ 880
Net mortgage servicing revenue:			
Operating revenue:			
Loan servicing revenue	**4,942**	3,258	2,334
Other changes in MSR asset fair value	**(3,279)**	(2,052)	(1,531)
Total operating revenue	**1,663**	1,206	803
Risk management:			
Changes in MSR asset fair value due to inputs or assumptions in model	**5,804**	(6,849)	(516)
Derivative valuation adjustments and other	**(4,176)**	8,366	927
Total risk management	**1,628**	1,517	411
Total net mortgage servicing revenue	**3,291**	2,723	1,214
Mortgage fees and related income	**3,794**	3,621	2,094
Ratio of annualized loan servicing revenue to third-party mortgage loans serviced (average)	**0.44%**	0.40%	0.41%
MSR revenue multiple[(c)]	**3.25x**	1.98x	3.41x

(a) Includes rural housing loans sourced through brokers and underwritten under U.S. Department of Agriculture guidelines.

(b) 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 $15.8 billion, $14.2 billion and $11.9 billion for the years ended December 31, 2009, 2008 and 2007, respectively.

(c) 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).

Mortgage origination channels comprise the following:

Retail – Borrowers who are buying or refinancing a home through direct contact with a mortgage banker employed by the Firm using a branch office, the Internet or by phone. Borrowers are frequently referred to a mortgage banker by a banker in a Chase branch, real estate brokers, home builders or other third parties.

Wholesale – A third-party mortgage broker refers loan applications to a mortgage banker at the Firm. Brokers are independent loan originators that specialize in finding and counseling borrowers but do not provide funding for loans. The Firm exited the broker channel during 2008.

Correspondent – Banks, thrifts, other mortgage banks and other financial institutions that sell closed loans to the Firm.

Correspondent negotiated transactions ("CNTs") – These transactions occur when mid- to large-sized mortgage lenders, banks and bank-owned mortgage companies sell servicing to the Firm on an as-originated basis, and exclude purchased bulk servicing transactions. These transactions supplement traditional production channels and provide growth opportunities in the servicing portfolio in stable and rising-rate periods.

Production revenue – Includes net gains or losses on originations and sales of prime and subprime mortgage loans, other production-related fees and losses related to the repurchase of previously sold loans.

Net mortgage servicing revenue includes the following components:

(a) Operating revenue comprises:
- – all gross income earned from servicing third-party mortgage loans including stated service fees, excess service fees, late fees and other ancillary fees.
- – modeled servicing portfolio runoff (or time decay).

(b) Risk management comprises:
- – changes in MSR asset fair value due to market-based inputs such as interest rates and volatility, as well as updates to assumptions used in the MSR valuation model.
- – derivative valuation adjustments and other, which represents changes in the fair value of derivative instruments used to offset the impact of changes in the market-based inputs to the MSR valuation model.

CARD SERVICES

Card Services is one of the nation's largest credit card issuers, with more than 145 million credit cards in circulation and over $163 billion in managed loans. Customers used Chase cards to meet more than $328 billion of their spending needs in 2009.

Chase continues to innovate, despite a very difficult business environment, launching new products and services such as Blueprint, Ultimate Rewards, Chase Sapphire and Ink from Chase, and earning a market leadership position in building loyalty and rewards programs. Through its merchant acquiring business, Chase Paymentech Solutions, Chase is one of the leading processors of credit-card payments.

JPMorgan Chase uses the concept of "managed basis" to evaluate the credit performance of its credit card loans, both loans on the balance sheet and loans that have been securitized. For further information, see Explanation and Reconciliation of the Firm's Use of Non-GAAP Financial Measures on pages 58–60 of this Annual Report. Managed results exclude the impact of credit card securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported net income; however, it does affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets.

The following discussion of CS's financial results reflects the acquisition of Washington Mutual's credit cards operations, as a result of the Washington Mutual transaction on September 25, 2008, and the dissolution of the Chase Paymentech Solutions joint venture on November 1, 2008. See Note 2 on pages 151–156 of this Annual Report for more information concerning these transactions.

Selected income statement data – managed basis

Year ended December 31, (in millions, except ratios)	2009	2008	2007
Revenue			
Credit card income	**$ 3,612**	$ 2,768	$ 2,685
All other income	**(692)**	(49)	361
Noninterest revenue	**2,920**	2,719	3,046
Net interest income	**17,384**	13,755	12,189
Total net revenue	**20,304**	16,474	15,235
Provision for credit losses	**18,462**	10,059	5,711
Noninterest expense			
Compensation expense	**1,376**	1,127	1,021
Noncompensation expense	**3,490**	3,356	3,173
Amortization of intangibles	**515**	657	720
Total noninterest expense	**5,381**	5,140	4,914
Income/(loss) before income tax expense/(benefit)	**(3,539)**	1,275	4,610
Income tax expense/(benefit)	**(1,314)**	495	1,691
Net income/(loss)	**$ (2,225)**	$ 780	$ 2,919
Memo: Net securitization income/(loss)	**$ (474)**	$ (183)	$ 67
Financial ratios			
ROE	**(15)%**	5%	21%
Overhead ratio	**27**	31	32

2009 compared with 2008

Card Services reported a net loss of $2.2 billion, compared with net income of $780 million in the prior year. The decrease was driven by a higher provision for credit losses, partially offset by higher total net revenue.

End-of-period managed loans were $163.4 billion, a decrease of $26.9 billion, or 14%, from the prior year, reflecting lower charge volume and a higher level of charge-offs. Average managed loans were $172.4 billion, an increase of $9.5 billion, or 6%, from the prior year, primarily due to the impact of the Washington Mutual transaction. Excluding the impact of the Washington Mutual transaction, end-of-period and average managed loans for 2009 were $143.8 billion and $148.8 billion, respectively.

Managed total net revenue was $20.3 billion, an increase of $3.8 billion, or 23%, from the prior year. Net interest income was $17.4 billion, up by $3.6 billion, or 26%, from the prior year, driven by wider loan spreads and the impact of the Washington Mutual transaction. These benefits were offset partially by higher revenue reversals associated with higher charge-offs, a decreased level of fees, lower average managed loan balances, and the impact of legislative changes. Noninterest revenue was $2.9 billion, an increase of $201 million, or 7%, from the prior year. The increase was driven by higher merchant servicing revenue related to the dissolution of the Chase Paymentech Solutions joint venture and the impact of the Washington Mutual transaction, partially offset by lower securitization income.

The managed provision for credit losses was $18.5 billion, an increase of $8.4 billion from the prior year, reflecting a higher level of charge-offs and an addition of $2.4 billion to the allowance for loan losses, reflecting continued weakness in the credit environment. The managed net charge-off rate was 9.33%, up from 5.01% in the prior year. The 30-day managed delinquency rate was 6.28%, up from 4.97% in the prior year. Excluding the impact of the Washington Mutual transaction, the managed net charge-off rate was 8.45%, and the 30-day managed delinquency rate was 5.52%.

Noninterest expense was $5.4 billion, an increase of $241 million, or 5%, from the prior year, due to the dissolution of the Chase Paymentech Solutions joint venture and the impact of the Washington Mutual transaction, partially offset by lower marketing expense.

2008 compared with 2007

Net income was $780 million, a decline of $2.1 billion, or 73%, from the prior year. The decrease was driven by a higher provision for credit losses, partially offset by higher total net revenue.

Average managed loans were $162.9 billion, an increase of $13.5 billion, or 9%, from the prior year. End-of-period managed loans were $190.3 billion, an increase of $33.3 billion, or 21%, from the prior year. Excluding Washington Mutual, average managed loans were $155.9 billion and end-of-period managed loans were $162.1

billion. The increases in both average managed loans and end-of-period managed loans were predominantly due to the impact of the Washington Mutual transaction and organic portfolio growth.

Managed total net revenue was $16.5 billion, an increase of $1.2 billion, or 8%, from the prior year. Net interest income was $13.8 billion, up $1.6 billion, or 13%, from the prior year, driven by the Washington Mutual transaction, higher average managed loan balances, and wider loan spreads. These benefits were offset partially by the effect of higher revenue reversals associated with higher charge-offs. Noninterest revenue was $2.7 billion, a decrease of $327 million, or 11%, from the prior year, driven by increased rewards expense, lower securitization income driven by higher credit losses, and higher volume-driven payments to partners; these were largely offset by increased interchange income, benefiting from a 4% increase in charge volume, as well as the impact of the Washington Mutual transaction.

The managed provision for credit losses was $10.1 billion, an increase of $4.3 billion, or 76%, from the prior year, due to an increase of $1.7 billion in the allowance for loan losses and a higher level of charge-offs. The managed net charge-off rate increased to 5.01%, up from 3.68% in the prior year. The 30-day managed delinquency rate was 4.97%, up from 3.48% in the prior year. Excluding Washington Mutual, the managed net charge-off rate was 4.92% and the 30-day delinquency rate was 4.36%.

Noninterest expense was $5.1 billion, an increase of $226 million, or 5%, from the prior year, predominantly due to the impact of the Washington Mutual transaction.

The following are brief descriptions of selected business metrics within Card Services.

- **Charge volume** – Dollar amount of cardmember purchases, balance transfers and cash advance activity.
- **Net accounts opened** – Includes originations, purchases and sales.
- **Merchant acquiring business** – A business that processes bank card transactions for merchants.
- **Bank card volume** – Dollar amount of transactions processed for merchants.
- **Total transactions** – Number of transactions and authorizations processed for merchants.

Selected metrics Year ended December 31, (in millions, except headcount, ratios and where otherwise noted)	2009	2008	2007
Financial metrics			
Percentage of average managed outstandings:			
Net interest income	**10.08%**	8.45%	8.16%
Provision for credit losses	**10.71**	6.18	3.82
Noninterest revenue	**1.69**	1.67	2.04
Risk adjusted margin[(a)]	**1.07**	3.94	6.38
Noninterest expense	**3.12**	3.16	3.29
Pretax income/(loss) (ROO)[(b)]	**(2.05)**	0.78	3.09
Net income/(loss)	**(1.29)**	0.48	1.95
Business metrics			
Charge volume (in billions)	**$ 328.3**	$ 368.9	$ 354.6
Net accounts opened (in millions)[(c)]	**10.2**	27.9	16.4
Credit cards issued (in millions)	**145.3**	168.7	155.0
Number of registered internet customers (in millions)	**32.3**	35.6	28.3
Merchant acquiring business[(d)]			
Bank card volume (in billions)	**$ 409.7**	$ 713.9	$ 719.1
Total transactions (in billions)	**18.0**	21.4	19.7
Selected balance sheet data (period-end)			
Loans:			
Loans on balance sheets	**$ 78,786**	$ 104,746	$ 84,352
Securitized loans	**84,626**	85,571	72,701
Managed loans	**$163,412**	$ 190,317	$ 157,053
Equity	**$ 15,000**	$ 15,000	$ 14,100
Selected balance sheet data (average)			
Managed assets	**$ 192,749**	$ 173,711	$ 155,957
Loans:			
Loans on balance sheets	**$ 87,029**	$ 83,293	$ 79,980
Securitized loans	**85,378**	79,566	69,338
Managed average loans	**$ 172,407**	$ 162,859	$ 149,318
Equity	**$ 15,000**	$ 14,326	$ 14,100
Headcount	**22,676**	24,025	18,554
Managed credit quality statistics			
Net charge-offs	**$ 16,077**	$ 8,159	$ 5,496
Net charge-off rate[(e)]	**9.33%**	5.01%	3.68%
Managed delinquency rates			
30+ day[(e)]	**6.28%**	4.97%	3.48%
90+ day[(e)]	**3.59**	2.34	1.65
Allowance for loan losses[(f)(g)]	**$ 9,672**	$ 7,692	$ 3,407
Allowance for loan losses to period-end loans[(f)(h)]	**12.28%**	7.34%	4.04%
Key stats – Washington Mutual only[(i)]			
Managed loans	**$ 19,653**	$ 28,250	
Managed average loans	**23,642**	6,964	
Net interest income[(j)]	**17.11%**	14.87%	
Risk adjusted margin[(a)(j)]	**(0.93)**	4.18	
Net charge-off rate[(k)]	**18.79**	12.09	
30+ day delinquency rate[(k)]	**12.72**	9.14	
90+ day delinquency rate[(k)]	**7.76**	4.39	
Key stats – excluding Washington Mutual			
Managed loans	**$143,759**	$ 162,067	$ 157,053
Managed average loans	**148,765**	155,895	149,318
Net interest income[(j)]	**8.97%**	8.16%	8.16%
Risk adjusted margin[(a)(j)]	**1.39**	3.93	6.38
Net charge-off rate	**8.45**	4.92	3.68
30+ day delinquency rate	**5.52**	4.36	3.48
90+ day delinquency rate	**3.13**	2.09	1.65

(a) Represents total net revenue less provision for credit losses.
(b) Pretax return on average managed outstandings.
(c) Results for 2008 included approximately 13 million credit card accounts acquired by JPMorgan Chase in the Washington Mutual transaction.
(d) The Chase Paymentech Solutions joint venture was dissolved effective November 1, 2008. JPMorgan Chase retained approximately 51% of the business and operates the business under the name Chase Paymentech Solutions. For the period January 1 through October 31, 2008, the data presented represents activity for the Chase Paymentech Solutions joint venture, and for the period November 1, 2008, through December 31, 2009, the data presented represents activity for Chase Paymentech Solutions.
(e) Results for 2009 and 2008 reflect the impact of purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the Washington Mutual Master Trust.
(f) Based on loans on balance sheets ("reported basis").
(g) The 2008 allowance for loan losses included an amount related to loans acquired in the Washington Mutual transaction.
(h) Includes $1.0 billion of loans at December 31, 2009, held by the Washington Mutual Master Trust, which were consolidated onto the Card Services balance sheet at fair value during the second quarter of 2009. No allowance for loan losses was recorded for these loans as of December 31, 2009. Excluding these loans, the allowance for loan losses to period-end loans was 12.43%.
(i) Statistics are only presented for periods after September 25, 2008, the date of the Washington Mutual transaction.
(j) As a percentage of average managed outstandings.
(k) Excludes the impact of purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the Washington Mutual Master Trust.

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

Year ended December 31, (in millions)	2009	2008	2007
Income statement data[(a)]			
Credit card income			
Reported	**$ 5,106**	$ 6,082	$ 5,940
Securitization adjustments	**(1,494)**	(3,314)	(3,255)
Managed credit card income	**$ 3,612**	$ 2,768	$ 2,685
Net interest income			
Reported	**$ 9,447**	$ 6,838	$ 6,554
Securitization adjustments	**7,937**	6,917	5,635
Managed net interest income	**$ 17,384**	$ 13,755	$ 12,189
Total net revenue			
Reported	**$ 13,861**	$ 12,871	$ 12,855
Securitization adjustments	**6,443**	3,603	2,380
Managed total net revenue	**$ 20,304**	$ 16,474	$ 15,235
Provision for credit losses			
Reported	**$ 12,019**	$ 6,456	$ 3,331
Securitization adjustments	**6,443**	3,603	2,380
Managed provision for credit losses	**$ 18,462**	$ 10,059	$ 5,711
Balance sheet – average balances[(a)]			
Total average assets			
Reported	**$110,516**	$ 96,807	$ 89,177
Securitization adjustments	**82,233**	76,904	66,780
Managed average assets	**$192,749**	$173,711	$ 155,957
Credit quality statistics[(a)]			
Net charge-offs			
Reported	**$ 9,634**	$ 4,556	$ 3,116
Securitization adjustments	**6,443**	3,603	2,380
Managed net charge-offs	**$ 16,077**	$ 8,159	$ 5,496
Net charge-off rates			
Reported	**11.07%**	5.47%	3.90%
Securitized	**7.55**	4.53	3.43
Managed net charge-off rate	**9.33**	5.01	3.68

(a) For a discussion of managed basis, see the non-GAAP financial measures discussion on pages 58–60 of this Annual Report.

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

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual from the FDIC, adding approximately $44.5 billion in loans to the Commercial Term Lending, Real Estate Banking and Other businesses in Commercial Banking.

Commercial Banking is divided into four primary client segments: Middle Market Banking, Commercial Term Lending, Mid-Corporate Banking, and Real Estate Banking. Middle Market Banking covers corporate, municipal, financial institution and not-for-profit clients, with annual revenue generally ranging between $10 million and $500 million. Mid-Corporate Banking covers clients with annual revenue generally ranging between $500 million and $2 billion and focuses on clients that have broader investment banking needs. Commercial Term Lending primarily provides term financing to real estate investors/owners for multi-family properties as well as financing office, retail and industrial properties. Real Estate Banking provides full-service banking to investors and developers of institutional-grade real estate properties.

Selected income statement data

Year ended December 31, (in millions)	2009	2008	2007
Revenue			
Lending- and deposit-related fees	**$ 1,081**	$ 854	$ 647
Asset management, administration and commissions	**140**	113	92
All other income[a]	**596**	514	524
Noninterest revenue	**1,817**	1,481	1,263
Net interest income	**3,903**	3,296	2,840
Total net revenue	**5,720**	4,777	4,103
Provision for credit losses	**1,454**	464	279
Noninterest expense			
Compensation expense	**776**	692	706
Noncompensation expense	**1,359**	1,206	1,197
Amortization of intangibles	**41**	48	55
Total noninterest expense	**2,176**	1,946	1,958
Income before income tax expense	**2,090**	2,367	1,866
Income tax expense	**819**	928	732
Net income	**$ 1,271**	$ 1,439	$ 1,134
Revenue by product:			
Lending	**$ 2,663**	$ 1,743	$ 1,419
Treasury services	**2,642**	2,648	2,350
Investment banking	**394**	334	292
Other	**21**	52	42
Total Commercial Banking revenue	**$ 5,720**	$ 4,777	$ 4,103

Selected income statement data

Year ended December 31, (in millions, except ratios)	2009	2008	2007
IB revenue, gross[b]	**$ 1,163**	$ 966	$ 888
Revenue by business:			
Middle Market Banking	**$ 3,055**	$ 2,939	$ 2,689
Commercial Term Lending[c]	**875**	243	—
Mid-Corporate Banking	**1,102**	921	815
Real Estate Banking[c]	**461**	413	421
Other[c]	**227**	261	178
Total Commercial Banking revenue	**$ 5,720**	$ 4,777	$ 4,103
Financial ratios			
ROE	**16%**	20%	17%
Overhead ratio	**38**	41	48

(a) Revenue from investment banking products sold to CB clients and commercial card revenue is included in all other income.
(b) Represents the total revenue related to investment banking products sold to CB clients.
(c) Results for 2009 and 2008 include total net revenue on net assets acquired in the Washington Mutual transaction.

2009 compared with 2008

Net income was $1.3 billion, a decrease of $168 million, or 12%, from the prior year, as higher provision for credit losses and noninterest expense was partially offset by higher net revenue, reflecting the impact of the Washington Mutual transaction.

Record net revenue of $5.7 billion increased $943 million, or 20%, from the prior year. Net interest income of $3.9 billion increased $607 million, or 18%, driven by the impact of the Washington Mutual transaction. Noninterest revenue was $1.8 billion, an increase of $336 million, or 23%, from the prior year, reflecting higher lending- and deposit-related fees and higher investment banking fees and other income.

On a client-segment basis, revenue from Middle Market Banking was $3.1 billion, an increase of $116 million, or 4%, from the prior year due to higher liability balances, a shift to higher-spread liability products, wider loan spreads, higher lending- and deposit-related fees, and higher other income, partially offset by a narrowing of spreads on liability products and reduced loan balances. Revenue from Commercial Term Lending (a new client segment acquired in the Washington Mutual transaction encompassing multi-family and commercial mortgage loans) was $875 million, an increase of $632 million. Mid-Corporate Banking revenue was $1.1 billion, an increase of $181 million, or 20%, driven by higher investment banking fees, increased loan spreads, and higher lending- and deposit-related fees. Real Estate Banking revenue was $461 million, an increase of $48 million, or 12%, due to the impact of the Washington Mutual transaction.

The provision for credit losses was $1.5 billion, compared with $464 million in the prior year, reflecting continued weakness in the credit environment, predominantly in real estate-related segments. Net charge-offs were $1.1 billion (1.02% net charge-off rate), compared with $288 million (0.35% net charge-off rate) in the prior year. The allowance for loan losses to end-of-period loans retained was 3.12%, up from 2.45% in the prior year. Nonperforming loans were $2.8 billion, an increase of $1.8 billion from the prior year.

Noninterest expense was $2.2 billion, an increase of $230 million, or 12%, from the prior year, due to the impact of the Washington Mutual transaction and higher FDIC insurance premiums.

2008 compared with 2007

Net income was $1.4 billion, an increase of $305 million, or 27%, from the prior year, due to growth in total net revenue including the impact of the Washington Mutual transaction, partially offset by a higher provision for credit losses.

Record total net revenue of $4.8 billion increased $674 million, or 16%. Net interest income of $3.3 billion increased $456 million, or 16%, driven by double-digit growth in liability and loan balances and the impact of the Washington Mutual transaction, partially offset by spread compression in the liability and loan portfolios. Noninterest revenue was $1.5 billion, up $218 million, or 17%, due to higher deposit- and lending-related fees.

On a client-segment basis, Middle Market Banking revenue was $2.9 billion, an increase of $250 million, or 9%, from the prior year due predominantly to higher deposit-related fees and growth in liability and loan balances. Revenue from Commercial Term Lending, a new client segment acquired in the Washington Mutual transaction, was $243 million. Mid-Corporate Banking revenue was $921 million, an increase of $106 million, or 13%, reflecting higher loan balances, investment banking revenue and deposit-related fees. Real Estate Banking revenue of $413 million decreased $8 million, or 2%.

Provision for credit losses was $464 million, an increase of $185 million, or 66%, compared with the prior year, reflecting a weakening credit environment and loan growth. Net charge-offs were $288 million (0.35% net charge-off rate), compared with $44 million (0.07% net charge-off rate) in the prior year, predominantly related to an increase in real estate charge-offs. The allowance for loan losses increased by $1.1 billion, which primarily reflected the impact of the Washington Mutual transaction. Nonperforming assets were $1.1 billion, an increase of $1.0 billion compared with the prior year, predominantly reflecting the Washington Mutual transaction and higher real estate–related balances.

Noninterest expense was $1.9 billion, a decrease of $12 million, or 1%, from the prior year, due to lower performance-based incentive compensation and volume-based charges from service providers, predominantly offset by the impact of the Washington Mutual transaction.

Selected metrics

Year ended December 31, (in millions)	2009	2008	2007
Selected balance sheet data (period-end):			
Loans:			
Loans retained	**$ 97,108**	$ 115,130	$ 64,835
Loans held-for-sale and loans at fair value	**324**	295	1,366
Total loans	**$ 97,432**	$ 115,425	$ 66,201
Equity	**8,000**	8,000	6,700

Selected metrics

Year ended December 31, (in millions, except headcount and ratio data)	2009	2008	2007
Selected balance sheet data (average):			
Total assets	**$ 135,408**	$ 114,299	$ 87,140
Loans:			
Loans retained	**106,421**	81,931	60,231
Loans held-for-sale and loans at fair value	**317**	406	863
Total loans	**$ 106,738**	$ 82,337	$ 61,094
Liability balances[(a)]	**113,152**	103,121	87,726
Equity	**$ 8,000**	$ 7,251	$6,502
Average loans by business:			
Middle Market Banking	**$ 37,459**	$ 42,193	$ 37,333
Commercial Term Lending[(b)]	**36,806**	9,310	—
Mid-Corporate Banking	**15,951**	16,297	12,481
Real Estate Banking[(b)]	**12,066**	9,008	7,116
Other[(b)]	**4,456**	5,529	4,164
Total Commercial Banking loans	**$ 106,738**	$ 82,337	$ 61,094
Headcount	**4,151**	5,206	4,125
Credit data and quality statistics:			
Net charge-offs	**$ 1,089**	$ 288	$ 44
Nonperforming loans:			
Nonperforming loans retained[(c)]	**2,764**	1,026	146
Nonperforming loans held-for-sale and loans held at fair value	**37**	—	—
Total nonperforming loans	**2,801**	1,026	146
Nonperforming assets	**2,989**	1,142	148
Allowance for credit losses:			
Allowance for loan losses[(d)]	**3,025**	2,826	1,695
Allowance for lending-related commitments	**349**	206	236
Total allowance for credit losses	**3,374**	3,032	1,931
Net charge-off rate	**1.02%**	0.35%	0.07%
Allowance for loan losses to period-end loans retained	**3.12**	2.45	2.61
Allowance for loan losses to average loans retained	**2.84**	3.04[(e)]	2.81
Allowance for loan losses to nonperforming loans retained	**109**	275	1,161
Nonperforming loans to total period-end loans	**2.87**	0.89	0.22
Nonperforming loans to total average loans	**2.62**	1.10[(e)]	0.24

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

(b) Results for 2009 and 2008 include loans acquired in the Washington Mutual transaction.

(c) Allowance for loan losses of $581 million, $208 million and $32 million were held against nonperforming loans retained for the periods ended December 31, 2009, 2008, and 2007, respectively.

(d) Beginning in 2008, the allowance for loan losses included an amount related to loans acquired in the Washington Mutual transaction and the Bear Stearns merger.

(e) Average loans in the calculation of this ratio were adjusted to include $44.5 billion of loans acquired in the Washington Mutual transaction as if the transaction occurred on July 1, 2008. Excluding this adjustment, the unadjusted allowance for loan losses to average loans retained and nonperforming loans to total average loans ratios would have been 3.45% and 1.25%, respectively, for the period ended December 31, 2008.

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

Selected income statement data

Year ended December 31, (in millions, except ratio data)	2009	2008	2007
Revenue			
Lending- and deposit-related fees	**$ 1,285**	$ 1,146	$ 923
Asset management, administration and commissions	**2,631**	3,133	3,050
All other income	**831**	917	708
Noninterest revenue	**4,747**	5,196	4,681
Net interest income	**2,597**	2,938	2,264
Total net revenue	**7,344**	8,134	6,945
Provision for credit losses	**55**	82	19
Credit reimbursement to IB[(a)]	**(121)**	(121)	(121)
Noninterest expense			
Compensation expense	**2,544**	2,602	2,353
Noncompensation expense	**2,658**	2,556	2,161
Amortization of intangibles	**76**	65	66
Total noninterest expense	**5,278**	5,223	4,580
Income before income tax expense	**1,890**	2,708	2,225
Income tax expense	**664**	941	828
Net income	**$ 1,226**	$ 1,767	$ 1,397
Revenue by business			
Treasury Services[(b)]	**$ 3,702**	$ 3,779	$ 3,190
Worldwide Securities Services[(b)]	**3,642**	4,355	3,755
Total net revenue	**$ 7,344**	$ 8,134	$ 6,945
Financial ratios			
ROE	**25%**	47%	47%
Overhead ratio	**72**	64	66
Pretax margin ratio[(c)]	**26**	33	32

Year ended December 31, (in millions, except headcount)	2009	2008	2007
Selected balance sheet data (period-end)			
Loans[(d)]	**$ 18,972**	$ 24,508	$ 18,562
Equity	**5,000**	4,500	3,000
Selected balance sheet data (average)			
Total assets	**$ 35,963**	$ 54,563	$ 53,350
Loans[(d)]	**18,397**	26,226	20,821
Liability balances[(e)]	**248,095**	279,833	228,925
Equity	**5,000**	3,751	3,000
Headcount	**26,609**	27,070	25,669

(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) Reflects an internal reorganization for escrow products from Worldwide Securities Services to Treasury Services revenue of $168 million, $224 million and $177 million for the years ended December 31, 2009, 2008 and 2007, respectively.
(c) Pretax margin represents income before income tax expense divided by total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its competitors.
(d) Loan balances include wholesale overdrafts, commercial card and trade finance loans.
(e) Liability balances include deposits and deposits swept to on–balance sheet liabilities, such as commercial paper, federal funds purchased and securities loaned or sold under repurchase agreements.

2009 compared with 2008

Net income was $1.2 billion, a decrease of $541 million, or 31%, from the prior year, driven by lower net revenue.

Net revenue was $7.3 billion, a decrease of $790 million, or 10%, from the prior year. Worldwide Securities Services net revenue was $3.6 billion, a decrease of $713 million, or 16%. The decrease was driven by lower securities lending balances, primarily as a result of declines in asset valuations and demand, lower balances and spreads on liability products, and the effect of market depreciation on certain custody assets. Treasury Services net revenue was $3.7 billion, a decrease of $77 million, or 2%, reflecting spread compression on deposit products, offset by higher trade revenue driven by wider spreads and growth across cash management and card product volumes.

TSS generated firmwide net revenue of $10.2 billion, including $6.6 billion of net revenue in Treasury Services; of that amount, $3.7 billion was recorded in the Treasury Services business, $2.6 billion was recorded in the Commercial Banking business, and $245 million was recorded in other lines of business. The remaining $3.6 billion of net revenue was recorded in Worldwide Securities Services.

The provision for credit losses was $55 million, a decrease of $27 million from the prior year.

Noninterest expense was $5.3 billion, an increase of $55 million from the prior year. The increase was driven by higher FDIC insurance premiums, predominantly offset by lower headcount-related expense.

2008 compared with 2007

Net income was a record $1.8 billion, an increase of $370 million, or 26%, from the prior year, driven by higher total net revenue. This increase was largely offset by higher noninterest expense.

Total net revenue was a record $8.1 billion, an increase of $1.2 billion, or 17%, from the prior year. Worldwide Securities Services posted record net revenue of $4.4 billion, an increase of $600 million, or 16%, from the prior year. The growth was driven by wider spreads in securities lending, foreign exchange and liability products, increased product usage by new and existing clients (largely in custody, fund services, alternative investment services and depositary receipts) and higher liability balances, reflecting increased client deposit activity resulting from recent market conditions. These benefits were offset partially by market depreciation. Treasury Services posted record net revenue of $3.8 billion, an increase of $589 million, or 18%, reflecting higher liability balances and volume growth in electronic funds transfer products and trade loans. Revenue growth from higher liability balances reflects increased client deposit activity resulting from recent market conditions as well as organic growth. TSS firmwide net revenue, which includes Treasury Services net revenue recorded in other lines of business, grew to $11.1 billion, an increase of $1.5 billion, or 16%. Treasury Services firmwide net revenue grew to $6.7 billion, an increase of $916 million, or 16%.

Noninterest expense was $5.2 billion, an increase of $643 million, or 14%, from the prior year, reflecting higher expense related to business and volume growth as well as continued investment in new product platforms.

Selected metrics

Year ended December 31, (in millions, except ratio data)	2009	2008	2007
TSS firmwide disclosures			
Treasury Services revenue – reported[a]	**$ 3,702**	$ 3,779	$ 3,190
Treasury Services revenue reported in CB	**2,642**	2,648	2,350
Treasury Services revenue reported in other lines of business	**245**	299	270
Treasury Services firmwide revenue[a][b]	**6,589**	6,726	5,810
Worldwide Securities Services revenue[a]	**3,642**	4,355	3,755
Treasury & Securities Services firmwide revenue[b]	**$ 10,231**	$ 11,081	$ 9,565
Treasury Services firmwide liability balances (average)[c][d]	**$ 274,472**	$ 264,195	$ 217,142
Treasury & Securities Services firmwide liability balances (average)[c]	**361,247**	382,947	316,651
TSS firmwide financial ratios			
Treasury Services firmwide overhead ratio[e]	**53%**	50%	55%
Treasury & Securities Services firmwide overhead ratio[e]	**62**	57	60

Selected metrics

Year ended December 31, (in millions, except ratio data and where otherwise noted)	2009	2008	2007
Firmwide business metrics			
Assets under custody (in billions)	**$ 14,885**	$ 13,205	$ 15,946
Number of:			
U.S.$ ACH transactions originated (in millions)	**3,896**	4,000	3,870
Total U.S.$ clearing volume (in thousands)	**113,476**	115,742	111,036
International electronic funds transfer volume (in thousands)[f]	**193,348**	171,036	168,605
Wholesale check volume (in millions)	**2,184**	2,408	2,925
Wholesale cards issued (in thousands)[g]	**27,138**	22,784	18,722
Credit data and quality statistics			
Net charge-offs/(recoveries)	**$ 19**	$ (2)	$ —
Nonperforming loans	**14**	30	—
Allowance for credit losses:			
Allowance for loan losses	**88**	74	18
Allowance for lending-related commitments	**84**	63	32
Total allowance for credit losses	**172**	137	50
Net charge-off/(recovery) rate	**0.10%**	(0.01)%	—%
Allowance for loan losses to period-end loans	**0.46**	0.30	0.10
Allowance for loan losses to average loans	**0.48**	0.28	0.09
Allowance for loan losses to nonperforming loans	**NM**	247	NM
Nonperforming loans to period-end loans	**0.07**	0.12	—
Nonperforming loans to average loans	**0.08**	0.11	—

(a) Reflects an internal reorganization for escrow products from Worldwide Securities Services to Treasury Services revenue of $168 million, $224 million and $177 million for the years ended December 31, 2009, 2008 and 2007, respectively.
(b) TSS firmwide revenue includes FX revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of IB. However, some of the FX revenue associated with TSS customers who are FX customers of IB is not included in TS and TSS firmwide revenue. These amounts were $661 million, $880 million and $552 million, for the years ended December 31, 2009, 2008 and 2007, respectively.
(c) Firmwide liability balances include liability balances recorded in CB.
(d) Reflects an internal reorganization for escrow products, from Worldwide Securities Services to TS liability balances, of $15.6 billion, $21.5 billion and $18.1 billion for the years ended December 31, 2009, 2008 and 2007, respectively.
(e) 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.
(f) International electronic funds transfer includes non-U.S. dollar ACH and clearing volume.
(g) Wholesale cards issued include domestic commercial, stored value, prepaid and government electronic benefit card products.

Asset Management, with assets under supervision of $1.7 trillion, is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, 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.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2009	2008	2007
Revenue			
Asset management, administration and commissions	**$ 5,621**	$ 6,004	$ 6,821
All other income	**751**	62	654
Noninterest revenue	**6,372**	6,066	7,475
Net interest income	**1,593**	1,518	1,160
Total net revenue	**7,965**	7,584	8,635
Provision for credit losses	**188**	85	(18)
Noninterest expense			
Compensation expense	**3,375**	3,216	3,521
Noncompensation expense	**2,021**	2,000	1,915
Amortization of intangibles	**77**	82	79
Total noninterest expense	**5,473**	5,298	5,515
Income before income tax expense	**2,304**	2,201	3,138
Income tax expense	**874**	844	1,172
Net income	**$ 1,430**	$ 1,357	$ 1,966
Revenue by client segment			
Private Bank[(a)]	**$ 2,585**	$ 2,565	$ 2,362
Institutional	**2,065**	1,775	2,525
Retail	**1,580**	1,620	2,408
Private Wealth Management[(a)]	**1,316**	1,387	1,340
Bear Stearns Private Client Services[(b)]	**419**	237	—
Total net revenue	**$ 7,965**	$ 7,584	$ 8,635
Financial ratios			
ROE	**20%**	24%	51%
Overhead ratio	**69**	70	64
Pretax margin ratio[(c)]	**29**	29	36

(a) In 2008, certain clients were transferred from Private Bank to Private Wealth Management. Prior periods have been revised to conform to this change.
(b) Bear Stearns Private Client Services was renamed to JPMorgan Securities at the beginning of 2010.
(c) Pretax margin represents income before income tax expense divided by total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its competitors.

2009 compared with 2008

Net income was $1.4 billion, an increase of $73 million, or 5%, from the prior year, due to higher total net revenue, offset largely by higher noninterest expense and provision for credit losses.

Total net revenue was $8.0 billion, an increase of $381 million, or 5%, from the prior year. Noninterest revenue was $6.4 billion, an increase of $306 million, or 5%, due to higher valuations of seed capital investments and net inflows, offset largely by lower market levels. Net interest income was $1.6 billion, up by $75 million, or 5%, from the prior year, due to wider loan spreads and higher deposit balances, offset partially by narrower deposit spreads.

Revenue from the Private Bank was $2.6 billion, up 1% from the prior year due to wider loan spreads and higher deposit balances, offset partially by the effect of lower market levels. Revenue from Institutional was $2.1 billion, up 16% due to higher valuations of seed capital investments and net inflows, offset partially by the effect of lower market levels. Revenue from Retail was $1.6 billion, down 2% due to the effect of lower market levels, offset largely by higher valuations of seed capital investments. Revenue from Private Wealth Management was $1.3 billion, down 5% due to narrower deposit spreads and the effect of lower market levels, offset partially by higher deposit balances and wider loan spreads. Bear Stearns Private Client Services contributed $419 million to revenue.

The provision for credit losses was $188 million, an increase of $103 million from the prior year, reflecting continued weakness in the credit environment.

Noninterest expense was $5.5 billion, an increase of $175 million, or 3%, from the prior year due to the effect of the Bear Stearns merger, higher performance-based compensation and higher FDIC insurance premiums, offset largely by lower headcount-related expense.

2008 compared with 2007

Net income was $1.4 billion, a decline of $609 million, or 31%, from the prior year, driven by lower total net revenue offset partially by lower noninterest expense.

Total net revenue was $7.6 billion, a decrease of $1.1 billion, or 12%, from the prior year. Noninterest revenue was $6.1 billion, a decline of $1.4 billion, or 19%, due to lower performance fees and the effect of market levels, including the impact of lower market valuations of seed capital investments. The lower results were offset partially by the benefit of the Bear Stearns merger and increased revenue from net asset inflows. Net interest income was $1.5 billion, up $358 million, or 31%, from the prior year, due to higher deposit and loan balances and wider deposit spreads.

Private Bank revenue grew 9% to $2.6 billion, due to increased deposit and loan balances and net asset inflows, partially offset by the effect of lower markets and lower performance fees. Institutional revenue declined 30% to $1.8 billion due to lower performance fees, partially offset by net liquidity inflows. Retail revenue declined 33% to $1.6 billion due to the effect of lower markets, including the impact of lower market valuations of seed capital investments and net equity outflows. Private Wealth Management revenue grew 4% to $1.4 billion due to higher deposit and loan balances. Bear Stearns Brokerage contributed $237 million to revenue.

The provision for credit losses was $85 million, compared with a benefit of $18 million in the prior year, reflecting a weakening credit environment.

Noninterest expense was $5.3 billion, down $217 million, or 4%, compared with the prior year due to lower performance-based compensation, largely offset by the effect of the Bear Stearns merger and higher compensation expense resulting from increased average headcount.

Selected metrics

Year ended December 31, (in millions, except headcount, ranking data, and where otherwise noted)	2009	2008	2007
Business metrics			
Number of:			
Client advisors[(a)]	**1,934**	1,840	1,868
Retirement planning services participants (in thousands)	**1,628**	1,531	1,501
Bear Stearns brokers[(b)]	**376**	324	—
% of customer assets in 4 & 5 Star Funds[(c)]	**42%**	42%	55%
% of AUM in 1st and 2nd quartiles:[(d)]			
1 year	**57%**	54%	57%
3 years	**62%**	65%	75%
5 years	**74%**	76%	76%
Selected balance sheet data (period-end)			
Loans	**$ 37,755**	$ 36,188	$ 36,089
Equity	**7,000**	7,000	4,000
Selected balance sheet data (average)			
Total assets	**$ 60,249**	$ 65,550	$ 51,882
Loans	**34,963**	38,124	29,496
Deposits	**77,005**	70,179	58,863
Equity	**7,000**	5,645	3,876
Headcount	**15,136**	15,339	14,799
Credit data and quality statistics			
Net charge-offs/(recoveries)	**$ 117**	$ 11	$ (8)
Nonperforming loans	**580**	147	12
Allowance for credit losses:			
Allowance for loan losses	**269**	191	112
Allowance for lending-related commitments	**9**	5	7
Total allowance for credit losses	**$ 278**	$ 196	$ 119
Net charge-off/(recovery) rate	**0.33%**	0.03%	(0.03)%
Allowance for loan losses to period-end loans	**0.71**	0.53	0.31
Allowance for loan losses to average loans	**0.77**	0.50	0.38
Allowance for loan losses to nonperforming loans	**46**	130	933
Nonperforming loans to period-end loans	**1.54**	0.41	0.03
Nonperforming loans to average loans	**1.66**	0.39	0.04

(a) Prior periods have been restated to conform to current methodologies.
(b) Bear Stearns Private Client Services was renamed to JPMorgan Securities at the beginning of 2010.
(c) Derived from following rating services: Morningstar for the United States; Micropal for the United Kingdom, Luxembourg, Hong Kong and Taiwan; and Nomura for Japan.
(d) Derived from following rating services: Lipper for the United States and Taiwan; Micropal for the United Kingdom, Luxembourg and Hong Kong; and Nomura for Japan.

AM's client segments comprise the following:

Institutional brings comprehensive global investment services – including asset management, pension analytics, asset-liability management and active risk-budgeting strategies – to corporate and public institutions, endowments, foundations, not-for-profit organizations and governments worldwide.

Retail provides worldwide investment management services and retirement planning and administration, through third-party and direct distribution of a full range of investment vehicles.

The **Private Bank** addresses every facet of wealth management for ultra-high-net-worth individuals and families worldwide, including investment management, capital markets and risk management, tax and estate planning, banking, capital raising and specialty-wealth advisory services.

Private Wealth Management offers high-net-worth individuals, families and business owners in the United States comprehensive wealth management solutions, including investment management, capital markets and risk management, tax and estate planning, banking and specialty-wealth advisory services.

Bear Stearns Private Client Services (renamed to JPMorgan Securities at the beginning of 2010) provides investment advice and wealth management services to high-net-worth individuals, money managers, and small corporations.

J.P. Morgan Asset Management has established two high-level measures of its overall performance.

- Percentage of assets under management in funds rated 4 and 5 stars (3 year). Mutual fund rating services rank funds based on their risk-adjusted performance over various periods. A 5 star rating is the best and represents the top 10% of industry wide ranked funds. A 4 star rating represents the next 22% of industry wide ranked funds. The worst rating is a 1 star rating.
- Percentage of assets under management in first- or second-quartile funds (one, three and five years). Mutual fund rating services rank funds according to a peer-based performance system, which measures returns according to specific time and fund classification (small, mid, multi and large cap).

Assets under supervision

2009 compared with 2008

Assets under supervision were $1.7 trillion, an increase of $205 billion, or 14%, from the prior year. Assets under management were $1.2 trillion, an increase of $116 billion, or 10%, from the prior year. The increases were due to the effect of higher market valuations and inflows in fixed income and equity products offset partially by outflows in cash products. Custody, brokerage, administration and deposit balances were $452 billion, up by $89 billion, due to the effect of higher market levels on custody and brokerage balances, and brokerage inflows in the Private Bank. The Firm also has a 42% interest in American Century Companies, Inc., whose AUM totaled $86 billion and $70 billion at December 31, 2009 and 2008, respectively, which are excluded from the AUM above.

2008 compared with 2007

Assets under supervision were $1.5 trillion, a decrease of $76 billion, or 5%, from the prior year. Assets under management were $1.1 trillion, down $60 billion, or 5%, from the prior year. The decrease was due to the effect of lower market valuations and non-liquidity outflows, predominantly offset by liquidity product inflows across all segments and the addition of Bear Stearns assets under management. Custody, brokerage, administration and deposit balances were $363 billion, down $16 billion due to the effect of lower markets on brokerage and custody balances, offset by the addition of Bear Stearns Brokerage. The Firm also has a 43% interest in American Century Companies, Inc., whose AUM totaled $70 billion and $102 billion at December 31, 2008 and 2007, respectively, which are excluded from the AUM above.

Assets under supervision[(a)]

As of or for the year ended December 31, (in billions)	**2009**	2008	2007
Assets by asset class			
Liquidity	**$ 591**	$ 613	$ 400
Fixed income	**226**	180	200
Equities & multi-asset	**339**	240	472
Alternatives	**93**	100	121
Total assets under management	**1,249**	1,133	1,193
Custody/brokerage/administration/ deposits	**452**	363	379
Total assets under supervision	**$ 1,701**	$ 1,496	$ 1,572
Assets by client segment			
Institutional	**$ 709**	$ 681	$ 632
Private Bank[(b)]	**187**	181	183
Retail	**270**	194	300
Private Wealth Management[(b)]	**69**	71	78
Bear Stearns Private Client Services[(c)]	**14**	6	—
Total assets under management	**$ 1,249**	$ 1,133	$ 1,193
Institutional	**$ 710**	$ 682	$ 633
Private Bank[(b)]	**452**	378	403
Retail	**355**	262	394
Private Wealth Management[(b)]	**129**	124	142
Bear Stearns Private Client Services[(c)]	**55**	50	—
Total assets under supervision	**$ 1,701**	$ 1,496	$ 1,572

Assets by geographic region As of or for the year ended December 31, (in billions)	**2009**	2008	2007
U.S./Canada	**$ 837**	$ 798	$ 760
International	**412**	335	433
Total assets under management	**$ 1,249**	$ 1,133	$ 1,193
U.S./Canada	**$ 1,182**	$ 1,084	$ 1,032
International	**519**	412	540
Total assets under supervision	**$ 1,701**	$ 1,496	$ 1,572
Mutual fund assets by asset class			
Liquidity	**$ 539**	$ 553	$ 339
Fixed income	**67**	41	46
Equities	**143**	92	218
Alternatives	**9**	7	6
Total mutual fund assets	**$ 758**	$ 693	$ 609
Assets under management rollforward			
Beginning balance, January 1	**$ 1,133**	$ 1,193	$ 1,013
Net asset flows:			
Liquidity	**(23)**	210	78
Fixed income	**34**	(12)	9
Equities, multi-asset and alternative	**17**	(47)	28
Market/performance/other impacts[(d)]	**88**	(211)	65
Ending balance, December 31	**$ 1,249**	$ 1,133	$ 1,193
Assets under supervision rollforward			
Beginning balance, January 1	**$ 1,496**	$ 1,572	$ 1,347
Net asset flows	**50**	181	143
Market/performance/other impacts[(d)]	**155**	(257)	82
Ending balance, December 31	**$ 1,701**	$ 1,496	$ 1,572

(a) Excludes assets under management of American Century Companies, Inc., in which the Firm had a 42%, 43% and 44% ownership at December 31, 2009, 2008 and 2007, respectively.
(b) In 2008, certain clients were transferred from Private Bank to Private Wealth Management. Prior periods have been revised to conform to this change.
(c) Bear Stearns Private Client Services was renamed to JPMorgan Securities at the beginning of 2010.
(d) Includes $15 billion for assets under management and $68 billion for assets under supervision from the Bear Stearns merger in the second quarter of 2008.

CORPORATE/PRIVATE EQUITY

The Corporate/Private Equity sector comprises Private Equity, Treasury, the Chief Investment Office, corporate staff units and expense that is centrally managed. Treasury and the Chief Investment Office manage capital, liquidity, interest rate and foreign exchange risk and the investment portfolio for the Firm. The corporate staff units include Central Technology and Operations, Internal Audit, Executive Office, Finance, Human Resources, Marketing & Communications, Legal & Compliance, Corporate Real Estate and General Services, Risk Management, Corporate Responsibility and Strategy & Development. Other centrally managed expense includes the Firm's occupancy and pension-related expense, net of allocations to the business.

Selected income statement data

Year ended December 31, (in millions)	2009	2008	2007
Revenue			
Principal transactions[a][b]	**$ 1,574**	$ (3,588)	$ 4,552
Securities gains/(losses)[c]	**1,139**	1,637	39
All other income[d]	**58**	1,673	465
Noninterest revenue	**2,771**	(278)	5,056
Net interest income/(expense)	**3,863**	347	(637)
Total net revenue	**6,634**	69	4,419
Provision for credit losses	**80**	447[i][j]	(11)
Provision for credit losses – accounting conformity[e]	**—**	1,534	—
Noninterest expense			
Compensation expense	**2,811**	2,340	2,754
Noncompensation expense[f]	**3,597**	1,841	3,025
Merger costs	**481**	432	209
Subtotal	**6,889**	4,613	5,988
Net expense allocated to other businesses	**(4,994)**	(4,641)	(4,231)
Total noninterest expense	**1,895**	(28)	1,757
Income/(loss) before income tax expense/(benefit) and extraordinary gain	**4,659**	(1,884)	2,673
Income tax expense/(benefit)[g]	**1,705**	(535)	788
Income/(loss) before extraordinary gain	**2,954**	(1,349)	1,885
Extraordinary gain[h]	**76**	1,906	—
Net income	**$ 3,030**	$ 557	$ 1,885

(a) Included losses on preferred equity interests in Fannie Mae and Freddie Mac in 2008.
(b) The Firm adopted the new guidance for fair value in the first quarter of 2007. See Note 3 on pages 156–173 of this Annual Report for additional information.
(c) Included gain on sale of MasterCard shares in 2008.
(d) Included a gain from the dissolution of the Chase Paymentech Solutions joint venture and proceeds from the sale of Visa shares in its initial public offering in 2008.
(e) Represents an accounting conformity loan loss reserve provision related to the acquisition of Washington Mutual Bank's banking operations.
(f) Included $675 million FDIC special assessment during second quarter of 2009 and a release of credit card litigation reserves in 2008 and insurance recoveries related to settlement of the Enron and WorldCom class action litigations.
(g) Includes tax benefits recognized upon resolution of tax audits.
(h) Effective September 25, 2008, JPMorgan Chase acquired Washington Mutual's banking operations from the FDIC for $1.9 billion. The fair value of the Washington Mutual net assets acquired exceeded the purchase price, which resulted in negative goodwill. In accordance with U.S. GAAP for business combinations, nonfinancial assets that are not held-for-sale were written down against that negative goodwill. The negative goodwill that remained after writing down nonfinancial assets was recognized as an extraordinary gain in 2008. As a result of the final refinement of the purchase price allocation during the third quarter of 2009, the Firm recognized a $76 million increase in the extraordinary gain.
(i) In November 2008, the Firm transferred $5.8 billion of higher quality credit card loans from the legacy Chase portfolio to a securitization trust previously established by Washington Mutual ("the Trust"). As a result of converting higher credit quality Chase-originated on-book receivables to the Trust's seller's interest which has a higher overall loss rate reflective of the total assets within the Trust, approximately $400 million of incremental provision expense was recorded during the fourth quarter. This incremental provision expense was recorded in the Corporate segment as the action related to the acquisition of Washington Mutual's banking operations. For further discussion of credit card securitizations, see Note 15 on pages 206–213 of this Annual Report.
(j) Includes $9 million of credit card securitizations related to the Washington Mutual transaction.

2009 compared with 2008

Net income was $3.0 billion compared with $557 million in the prior year.

Net loss for Private Equity was $78 million compared with a net loss of $690 million in the prior year. Net revenue was $18 million, an increase of $981 million, reflecting Private Equity losses of $54 million compared with losses of $894 million. Noninterest expense was $141 million, an increase of $21 million.

Net income for Corporate was $3.7 billion, compared with $1.5 billion in the prior year. Current year results reflect higher levels of trading gains and net interest income, securities gains, an after-tax gain of $150 million from the sale of MasterCard shares, partially offset by a $419 million FDIC special assessment. Trading gains and net interest income increased due to the Chief Investment Office's ("CIO") significant purchases of mortgage-backed securities guaranteed by U.S. government agencies, corporate debt securities, U.S. Treasury and government agency securities and other asset-backed securities. These investments were generally associated with the management of interest rate risk and investment of cash resulting from the excess funding the Firm continued to experience during 2009. The increase in securities was partially offset by sales of higher-coupon instruments (part of repositioning the investment portfolio) as well as prepayments and maturities.

Selected income statement and balance sheet data for Treasury and CIO

Year ended December 31, (in millions)	2009	2008	2007
Treasury			
Securities gains[a]	**$ 1,147**	$ 1,652	$ 37
Investment securities portfolio (average)[b]	**324,037**	113,010	88,037
Investment securities portfolio (ending)[b]	**340,163**	192,564	76,480
Mortgage loans (average)	**7,427**	7,059	5,639
Mortgage loans (ending)	**8,023**	7,292	6,635

(a) Results for 2008 included a gain on the sale of MasterCard shares. All periods reflect repositioning of the Corporate investment securities portfolio and exclude gains/losses on securities used to manage risk associated with MSRs.
(b) Beginning in second quarter 2009, balances reflect Treasury and Chief Investment Office securities. Prior periods have been revised to conform with this change.

For further information on the investment portfolio, see Note 3 and Note 11 on pages 156–173 and 195–199, respectively, of this Annual Report. For further information on CIO VaR and the Firm's earnings-at-risk, see the Market Risk Management section on pages 126–132 of this Annual Report.

Prior year results included $955 million proceeds from the sale of Visa shares in its initial public offering, $627 million from the dissolution

of the Chase Payment Solutions joint venture, partially offset by losses of $642 million on preferred securities of Fannie Mae and Freddie Mac and a $248 million charge related to the offer to repurchases auction-rate securities.

Merger-related items were a net loss of $635 million compared with a loss of $211 million in the prior year. Bear Stearns net merger-related costs were $425 million compared with $836 million. The prior year included a net loss of $423 million, which represented JPMorgan Chase's 49.4% ownership in Bear Stearn's losses from April 8 to May 30, 2008. Washington Mutual net merger-related costs were $210 million, which included an extraordinary gain of $76 million, compared with a net gain of $625 million. The prior year included an extraordinary gain of $1.9 billion, conforming loan loss reserves of $911 million, credit card related loan loss reserves of $250 million and net merger-related costs of $120 million.

2008 compared with 2007

Net income for Corporate/Private Equity was $557 million, compared with net income of $1.9 billion in the prior year.

Net loss for Private Equity was $690 million, compared with net income of $2.2 billion in the prior year. Net revenue was a loss of $963 million, a decrease of $4.9 billion, reflecting Private Equity losses of $894 million, compared with gains of $4.1 billion in the prior year. Noninterest expense was $120 million, a decrease of $469 million from the prior year, reflecting lower compensation expense.

Net income for Corporate was $1.5 billion, compared with a net loss of $150 million in the prior year. 2008 included a gain of $955 million on the proceeds from the sale of Visa shares in its initial public offering, $627 million on the dissolution of the Chase Paymentech Solutions joint venture, and $414 million from the sale of MasterCard shares, partially offset by losses of $642 million on preferred securities of Fannie Mae and Freddie Mac and $303 million related to the offer to repurchase auction-rate securities. 2007 included a gain of $145 million on the sale of MasterCard shares.

Merger-related items were a net loss of $211 million, compared with a net loss of $130 million in the prior year. Items related to the Washington Mutual transaction included a $1.9 billion extraordinary gain, conforming loan loss reserves of $911 million, credit card related loan loss reserves of $250 million and net merger-related costs of $120 million. Bear Stearns merger-related items included a net loss of $423 million, which represented JPMorgan Chase's 49.4% ownership in Bear Stearn's losses from April 8 to May 30, 2008 and net merger-related costs of $413 million. Results for 2007 include merger costs of $130 million related to the Bank One and Bank of New York Transactions.

Selected metrics

Year ended December 31, (in millions, except headcount)	**2009**	2008	2007
Total net revenue			
Private equity[a]	**$ 18**	$ (963)	$ 3,967
Corporate	**6,616**	1,032	452
Total net revenue	**$ 6,634**	$ 69	$ 4,419
Net income/(loss)			
Private equity[a]	**$ (78)**	$ (690)	$ 2,165
Corporate[b][c]	**3,743**	1,458	(150)
Merger – related items[d]	**(635)**	(211)	(130)
Total net income	**$ 3,030**	$ 557	$ 1,885
Headcount	**20,199**	23,376	22,512

(a) The Firm adopted the new guidance for fair value in the first quarter of 2007. See Note 3 on pages 156–173 of this Annual Report for additional information.
(b) Included $675 million FDIC special assessment during second quarter of 2009 and a release of credit card litigation reserves in 2008 and insurance recoveries related to settlement of the Enron and WorldCom class action litigations.
(c) Includes tax benefits recognized upon resolution of tax audits.
(d) Includes an accounting conformity loan loss reserve provision and an extraordinary gain related to the Washington Mutual transaction in 2008. 2008 also reflects items related to the Bear Stearns merger, which included Bear Stearns' equity earnings, merger costs, Bear Stearns asset management liquidation costs and Bear Stearns private client services broker retention expense. 2007 represent costs related to the Bank One transaction in 2004 and the Bank of New York transaction in 2006.

Private equity portfolio

2009 compared with 2008

The carrying value of the private equity portfolio at December 31, 2009, was $7.3 billion, up from $6.9 billion at December 31, 2008. The portfolio increase was primarily driven by additional follow-on investments and net unrealized gains on the existing portfolio, partially offset by sales during 2009. The portfolio represented 6.3% of the Firm's stockholders' equity less goodwill at December 31, 2009, up from 5.8% at December 31, 2008.

2008 compared with 2007

The carrying value of the private equity portfolio at December 31, 2008, was $6.9 billion, down from $7.2 billion at December 31, 2007. The portfolio decrease was primarily driven by unfavorable valuation adjustments on existing investments, partially offset by new investments, and the addition of the Bear Stearns portfolios. The portfolio represented 5.8% of the Firm's stockholders' equity less goodwill at December 31, 2008, down from 9.2% at December 31, 2007.

Selected income statement and balance sheet data

Year ended December 31, (in millions)	**2009**	2008	2007
Private equity			
Realized gains	**$ 109**	$ 1,717	$ 2,312
Unrealized gains/(losses)[a][b]	**(81)**	(2,480)	1,607
Total direct investments	**28**	(763)	3,919
Third-party fund investments	**(82)**	(131)	165
Total private equity gains/(losses)[c]	**$ (54)**	$ (894)	$ 4,084
Private equity portfolio information[d]			
Direct investments			
Publicly held securities			
Carrying value	**$ 762**	$ 483	$ 390
Cost	**743**	792	288
Quoted public value	**791**	543	536
Privately held direct securities			
Carrying value	**5,104**	5,564	5,914
Cost	**5,959**	6,296	4,867
Third-party fund investments[e]			
Carrying value	**1,459**	805	849
Cost	**2,079**	1,169	1,076
Total private equity portfolio – Carrying value	**$ 7,325**	$ 6,852	$ 7,153
Total private equity portfolio – Cost	**$ 8,781**	$ 8,257	$ 6,231

(a) Unrealized gains/(losses) contain reversals of unrealized gains and losses that were recognized in prior periods and have now been realized.
(b) The Firm adopted the new guidance for fair value in the first quarter of 2007. For additional information, see Note 3 on pages 156–173 of this Annual Report.
(c) Included in principal transactions revenue in the Consolidated Statements of Income.
(d) For more information on the Firm's policies regarding the valuation of the private equity portfolio, see Note 3 on pages 156–173 of this Annual Report.
(e) Unfunded commitments to third-party equity funds were $1.5 billion, $1.4 billion and $881 million at December 31, 2009, 2008 and 2007, respectively.

BALANCE SHEET ANALYSIS

Selected Consolidated Balance Sheets data

December 31, (in millions)	2009	2008
Assets		
Cash and due from banks	**$ 26,206**	$ 26,895
Deposits with banks	**63,230**	138,139
Federal funds sold and securities purchased under resale agreements	**195,404**	203,115
Securities borrowed	**119,630**	124,000
Trading assets:		
Debt and equity instruments	**330,918**	347,357
Derivative receivables	**80,210**	162,626
Securities	**360,390**	205,943
Loans	**633,458**	744,898
Allowance for loan losses	**(31,602)**	(23,164)
Loans, net of allowance for loan losses	**601,856**	721,734
Accrued interest and accounts receivable	**67,427**	60,987
Premises and equipment	**11,118**	10,045
Goodwill	**48,357**	48,027
Mortgage servicing rights	**15,531**	9,403
Other intangible assets	**4,621**	5,581
Other assets	**107,091**	111,200
Total assets	**$ 2,031,989**	$ 2,175,052
Liabilities		
Deposits	**$ 938,367**	$ 1,009,277
Federal funds purchased and securities loaned or sold under repurchase agreements	**261,413**	192,546
Commercial paper	**41,794**	37,845
Other borrowed funds	**55,740**	132,400
Trading liabilities:		
Debt and equity instruments	**64,946**	45,274
Derivative payables	**60,125**	121,604
Accounts payable and other liabilities	**162,696**	187,978
Beneficial interests issued by consolidated VIEs	**15,225**	10,561
Long-term debt	**266,318**	270,683
Total liabilities	**1,866,624**	2,008,168
Stockholders' equity	**165,365**	166,884
Total liabilities and stockholders' equity	**$ 2,031,989**	$ 2,175,052

Consolidated Balance Sheets overview

The following is a discussion of the significant changes in the Consolidated Balance Sheets from December 31, 2008.

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

The Firm uses these instruments as part of its liquidity management activities, to manage the Firm's cash positions and risk-based capital requirements, and to support the Firm's trading and risk management activities. In particular, the Firm uses securities purchased under resale agreements and securities borrowed to provide funding or liquidity to clients by purchasing and borrowing their securities for the short-term. The decrease in deposits with banks primarily reflected lower demand for interbank lending and lower deposits with the Federal Reserve Bank relative to the elevated levels at the end of 2008. The decrease in securities purchased under resale agreements was largely due to a shift by the Firm of its excess cash to the available-for-sale ("AFS") securities portfolio, offset partially by higher securities purchased under resale agreements in IB due to improved and more liquid market conditions.

For additional information on the Firm's Liquidity Risk Management, see pages 96–100 of this Annual Report.

Trading assets and liabilities – debt and equity instruments

Debt and equity trading instruments are used for both market-making and, to a limited extent, proprietary risk-taking activities. These instruments consist predominantly of fixed-income securities, including government and corporate debt; equity securities, including convertible securities; loans, including prime mortgage and other loans warehoused by RFS and IB for sale or securitization purposes and accounted for at fair value; and physical commodities inventories carried at the lower of cost or fair value. The decrease in trading assets – debt and equity instruments reflected the effect of balance sheet management activities and the impact of the challenging capital markets environment that existed during the latter part of 2008, which continued into the first half of 2009, partially offset by stabilization in the capital markets during the second half of 2009. Trading liabilities – debt and equity instruments increased as market conditions improved and capital markets stabilized from the prior year. For additional information, refer to Note 3 on pages 156–173 of this Annual Report.

Trading assets and liabilities – derivative receivables and payables

Derivative instruments enable end-users to transform or mitigate exposure to credit or market risks. The value of a derivative is derived from its reference to an underlying variable or combination of variables, such as interest rate, credit, foreign exchange, equity or commodity prices or indices. JPMorgan Chase makes markets in derivatives for customers and also uses derivatives to hedge or manage risks of market exposures and to make investments. The majority of the Firm's derivatives are entered into for market-making purposes. The decrease in derivative receivables and payables was primarily related to tightening credit spreads, volatile foreign exchange rates and rising rates on interest rate swaps. For additional information, refer to Derivative contracts on pages 110–112, and Note 3 and Note 5 on pages 156–173 and 175–183, respectively, of this Annual Report.

Securities

Substantially all of the securities portfolio is classified as AFS and is used primarily to manage the Firm's exposure to interest rate movements and to invest cash resulting from excess funding positions. The increase in the securities portfolio was due to elevated levels of excess cash, which was used to purchase mortgage-backed securities guaranteed by U.S. government agencies, corporate debt securities, U.S. Treasury and government agency securities and other asset-backed securities. The increase in securities was partially offset by sales of higher-coupon instruments, as part of positioning of the portfolio, as well as prepayments and maturities. For additional information related to securities, refer to the Corporate/Private Equity segment on pages 82–83, and Note 3 and Note 11 on pages 156–173 and 195–199, respectively, of this Annual Report.

Loans and allowance for loan losses

The Firm provides loans to a variety of customers, from large corporate and institutional clients to individual consumers. Loans decreased across most lines of business. Although gross new lending volumes remained at levels consistent with 2008, continued lower customer demand, repayments and charge-offs in the wholesale and consumer businesses resulted in lower balances. Lower charge volume on credit cards and the effect of tighter underwriting and loan qualification standards, also contributed to the decrease in loans.

The allowance for loan losses increased in both the consumer and wholesale businesses, as weak economic conditions, housing price declines and higher unemployment rates continued to drive higher estimated losses for most of the Firm's loan portfolios. For a more detailed discussion of the loan portfolio and the allowance for loan losses, refer to Credit Risk Management on pages 101–125, and Notes 3, 4, 13 and 14 on pages 156–173, 173–175, 200–204 and 204–206, respectively, of this Annual Report.

Accrued interest and accounts receivable

Accrued interest and accounts receivable consist of accrued interest receivables from interest-earning assets; receivables from customers (primarily from activities related to IB's Prime Services business); receivables from brokers, dealers and clearing organizations; and receivables from failed securities sales. The increase in accrued interest and accounts receivable primarily reflected higher accounts receivable associated with maturities of credit card securitizations, as well as slightly higher failed securities sales.

Other assets

Other assets consist of private equity and other investments, collateral received, corporate and bank-owned life insurance policies, assets acquired in loan satisfactions (including real estate owned) and all other assets, including receivables for securities provided as collateral. The decrease in other assets was primarily due to a decline to zero in the balance related to the Federal Reserve Bank of Boston AML Facility. This Facility was ended by the Federal Reserve Bank of Boston on February 1, 2010.

Goodwill

Goodwill arises from business combinations and represents the excess of the purchase price of an acquired entity over the fair value amounts assigned to assets acquired and liabilities assumed. The increase in goodwill was largely due to final purchase accounting adjustments related to the Bear Stearns merger, foreign currency translation adjustments related to the Firm's Canadian credit card operations, and IB's acquisition of a commodities business. For additional information on goodwill, see Note 17 on pages 222–225 of this Annual Report.

Mortgage servicing rights

MSRs represent the fair value of future cash flows for performing specified mortgage servicing activities (predominantly with respect to residential mortgages) for others. MSRs are either purchased from third parties or retained upon sale or securitization of mortgage loans. Servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to the investors of the mortgage-backed securities. MSRs increased due to increases in the fair value of the MSR asset, related primarily to market interest rate and other changes affecting the Firm's estimate of future prepayments, as well as sales in RFS of originated loans for which servicing rights were retained. These increases were offset partially by servicing portfolio run-off. For additional information on MSRs, see Note 17 on pages 222–225 of this Annual Report.

Other intangible assets

Other intangible assets consist of purchased credit card relationships, other credit card–related intangibles, core deposit intangibles and other intangibles. The decrease in other intangible assets primarily reflected amortization expense, partially offset by foreign currency translation adjustments related to the Firm's Canadian credit card operations. For additional information on other intangible assets, see Note 17 on pages 222–225 of this Annual Report.

Deposits

Deposits represent a liability to customers, both retail and wholesale, related to non-brokerage funds held on their behalf. Deposits are classified by location (U.S. and non-U.S.), whether they are interest- or noninterest-bearing, and by type (i.e., demand, money market, savings, time or negotiable order of withdrawal accounts). Deposits help provide a stable and consistent source of funding for the Firm. Wholesale deposits in TSS declined from the elevated levels at December 31, 2008, reflecting the continued normalization of deposit levels following the strong inflows resulting from the heightened volatility and credit concerns affecting the markets during the latter part of 2008. Organic growth in deposits in CB and RFS was offset partially by the maturity of high rate interest-bearing CDs that were acquired as part of the Washington Mutual transaction. For more information on deposits, refer to the RFS and AM segment discussions on pages 66–71 and 79–81, respectively; the Liquidity Risk Management discussion on pages 96–100; and Note 19 on page 226 of this Annual Report. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 75–76 and 77–78, respectively, of this Annual Report.

Federal funds purchased and securities loaned or sold under repurchase agreements

The Firm uses these instruments as part of its liquidity management activities and to support the Firm's trading and risk management activities. In particular, the Firm uses federal funds purchased and securities loaned or sold under repurchase agreements as short-term funding sources and to make securities available to clients for their short-term liquidity purposes. The increase in securities sold under repurchase agreements was primarily attributable to favorable pricing and the financing of the increase in the AFS securities portfolio. For additional information on the Firm's Liquidity Risk Management, see pages 96–100 of this Annual Report.

Commercial paper and other borrowed funds

The Firm uses commercial paper and other borrowed funds as part of its liquidity management activities to meet short-term funding needs, and in connection with a TSS liquidity management product, whereby excess client funds are transferred into commercial paper overnight sweep accounts. The decrease in other borrowed funds was predominantly due to lower advances from Federal Home Loan Banks; the absence of borrowings from the Federal Reserve under the Term

Auction Facility program and a decline to zero in the balance related to the Federal Reserve Bank of Boston AML Facility, which was ended on February 1, 2010. For additional information on the Firm's Liquidity Risk Management and other borrowed funds, see pages 96–100, and Note 20 on page 227 of this Annual Report.

Accounts payable and other liabilities

Accounts payable and other liabilities consist of accounts payable to customers (primarily from activities related to IB's Prime Services business); payables to brokers, dealers and clearing organizations; payables from failed securities purchases; accrued expense, including interest-bearing liabilities; and all other liabilities, including obligations to return securities received as collateral. The decrease in accounts payable and other liabilities primarily reflected lower customer payables due predominantly to lower balances in the brokerage accounts of IB's Prime Services customers.

Beneficial interests issued by consolidated VIEs

JPMorgan Chase uses VIEs to assist clients in accessing the financial markets in a cost-efficient manner. A VIE is consolidated if the Firm will absorb a majority of a VIE's expected losses, receive a majority of a VIE's expected residual returns, or both. Included in the caption "beneficial interests issued by consolidated VIEs" are interest-bearing beneficial-interest liabilities issued by the consolidated VIEs, which increased as a result of the consolidation during the second quarter of 2009 of a multi-seller conduit and a credit card loan securitization trust (Washington Mutual Master Trust). For additional information on Firm-sponsored VIEs and loan securitization trusts, see Off–Balance Sheet Arrangements and Contractual Cash Obligations below, and Note 16 on pages 214–222 of this Annual Report.

Long-term debt

The Firm uses long-term debt (including trust preferred capital debt securities) to provide cost-effective and diversified sources of funds and as critical components of the Firm's liquidity and capital management activities. Long-term debt decreased slightly, predominantly due to net redemptions and maturities. The Firm also issued $11.0 billion and $2.6 billion of non-FDIC guaranteed debt in the U.S. and European markets, respectively, and $2.5 billion of trust preferred capital debt securities. For additional information on the Firm's long-term debt activities, see the Liquidity Risk Management discussion on pages 96–100 of this Annual Report.

Stockholders' equity

The decrease in total stockholders' equity was largely due to the redemption in the second quarter of 2009 of the $25.0 billion Series K Preferred Stock issued to the U.S. Treasury pursuant to TARP, and the declaration of cash dividends on preferred and common stock. The decrease was almost entirely offset by net income for 2009; the issuance of $5.8 billion of common equity in the public markets; a net increase in accumulated other comprehensive income, due primarily to net unrealized gains from overall market spread and market liquidity improvement, as well as changes in the composition of investments in the AFS securities portfolio; and net issuances under the Firm's employee stock-based compensation plans. For a further discussion, see the Capital Management section on pages 90–93, Note 23 on pages 230–231 and Note 26 on page 233 of this Annual Report.

OFF–BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

JPMorgan Chase is involved with several types of off–balance sheet arrangements, including special purpose entities ("SPEs") and lending-related financial instruments (e.g., commitments and guarantees).

Special-purpose entities

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

SPEs are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks. These arrangements are integral to the markets for mortgage-backed securities, commercial paper and other asset-backed securities.

JPMorgan Chase uses SPEs as a source of liquidity for itself and its clients by securitizing financial assets, and by creating investment products for clients. The Firm is involved with SPEs through multi-seller conduits and investor intermediation activities, and as a result of its loan securitizations, through qualifying special purpose entities ("QSPEs"). This discussion focuses mostly on multi-seller conduits and investor intermediation. For a detailed discussion of all SPEs with which the Firm is involved, and the related accounting, see Note 1, Note 15 and Note 16 on pages 150–151, 206–213 and 214–222, respectively, of this Annual Report.

During the quarter ended June 30, 2009, the Firm took certain actions related to both the Chase Issuance Trust (the "Trust") and the Washington Mutual Master Trust (the "WMM Trust"). These actions and their impact on the Firm's Consolidated Balance Sheets and results of operations are further discussed in Note 15 on pages 206–213 of this Annual Report.

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

The Firm modifies loans that it services, and that were sold to off-balance sheet SPEs, pursuant to the U.S. Treasury's Making Home Affordable ("MHA") programs and the Firm's other loss mitigation programs. For both the Firm's on–balance sheet loans and loans serviced for others, approximately 600,000 mortgage modifications had been offered to borrowers in 2009. Of these, 89,000 have

achieved permanent modification. Substantially all of the loans contractually modified to date were modified under the Firm's other loss mitigation programs. See Consumer Credit Portfolio on pages 114–123 of this Annual Report for more details on these loan modifications.

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., was downgraded below specific levels, primarily "P-1", "A-1" and "F1" for Moody's, Standard & Poor's and Fitch, respectively. The amount of these liquidity commitments was $34.2 billion and $61.0 billion at December 31, 2009 and 2008, 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. The Firm's liquidity commitments to SPEs are included in other unfunded commitments to extend credit and asset purchase agreements, as shown in the Off-balance sheet lending-related financial instruments and guarantees table on page 89 of this Annual Report.

As noted above, the Firm is involved with three types of SPEs: multi-seller conduits, investor intermediation, and its own loan securitization activities. A summary of each type of SPE follows.

Multi-seller conduits

The Firm helps customers meet their financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. Multi-seller conduit entities are separate bankruptcy-remote entities that purchase interests in, and make loans secured by, pools of receivables and other financial assets pursuant to agreements with customers of the Firm. The conduits fund their purchases and loans through the issuance of highly-rated commercial paper to third-party investors. The primary source of repayment of the commercial paper is the cash flow from the pools of assets. JPMorgan Chase receives fees related to the structuring of multi-seller conduit transactions and receives compensation from the multi-seller conduits for its role as administrative agent, liquidity provider, and provider of program-wide credit enhancement.

Investor intermediation

As a financial intermediary, the Firm creates certain types of VIEs and also structures transactions, typically derivative structures, with these VIEs to meet investor needs. The Firm may also provide liquidity and other support. The risks inherent in derivative instruments or liquidity commitments are managed similarly to other credit, market and liquidity risks to which the Firm is exposed. The principal types of VIEs the Firm uses in these structuring activities are municipal bond vehicles, credit-linked note vehicles, asset swap vehicles and collateralized debt obligation vehicles.

Loan securitizations

JPMorgan Chase securitizes and sells a variety of loans, including residential mortgages, credit cards, automobile, student, and commercial loans (primarily related to real estate). JPMorgan Chase-sponsored securitizations utilize SPEs as part of the securitization process. These SPEs were structured to meet the definition of a QSPE (as discussed in Note 1 on pages 150–151 of this Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs were not reflected on the Firm's Consolidated Balance Sheets (except for retained interests, as described below) as of December 31, 2009. The primary purpose of these vehicles is to meet investor needs and generate liquidity for the Firm through the sale of loans to the QSPEs. These QSPEs are financed through the issuance of fixed- or floating-rate asset-backed securities that are sold to third-party investors or held by the Firm. For a discussion regarding the new consolidation guidance for VIEs including securitization entities, see "Accounting for transfers of financial assets and consolidation of variable interest entities" on page 141 of this Annual Report.

Special-purpose entities revenue

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

Revenue from VIEs and Securitization Entities(a)

Year ended December 31, (in millions)	**2009**	2008	2007
Multi-seller conduits	**$ 460**	$ 314	$ 187(c)
Investor intermediation	**34**	22	33
QSPEs and other securitization entities(b)	**2,510**	1,742	1,420
Total	**$ 3,004**	$ 2,078	$ 1,640

(a) Includes revenue associated with both consolidated VIEs and significant nonconsolidated VIEs.
(b) Excludes servicing revenue from loans sold to and securitized by third parties.
(c) Excludes the markdown on subprime CDO assets that was recorded in principal transactions revenue in 2007.

Off–balance sheet lending-related financial instruments and guarantees

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw upon the commitment or the Firm be required to fulfill its obligation under the guarantee, and the counterparty subsequently fail to perform according to the terms of the contract. These commitments and guarantees often expire without being drawn and even higher proportions expire without a default. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. For further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see page 113 and Note 31 on pages 238–242 of this Annual Report.

The accompanying table on the next page presents, as of December 31, 2009, the contractual maturity amounts of off–balance sheet lending-related financial instruments and guarantees. 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 accompanying 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 Note 31 on pages 238–242 of this Annual Report. Asset purchase agreements are agreements with the Firm's administered multi-seller, asset-backed commercial paper conduits, and other third-party entities. In 2009, the Firm consolidated a multi-seller conduit due to the redemption of the expected loss note. As a result, asset purchase agreements, in the following table, exclude $7.9 billion at December 31, 2009, related to this consolidated multi-seller conduit. The maturities, in the accompanying table, are based on the weighted-average life of the underlying assets in the SPE, which are based on the remainder of each conduit transaction's committed liquidity facility plus either the expected weighted average life of the assets should the committed liquidity facility expire without renewal, or the expected time to sell the underlying assets in the securitization market.

Contractual cash obligations

In the normal course of business, the Firm enters into various contractual obligations that may require future cash payments. Commitments for future cash expenditures primarily include contracts to purchase future services and capital expenditures related to real estate–related obligations and equipment.

The accompanying table on the next page summarizes, by remaining maturity, JPMorgan Chase's off–balance sheet lending-related financial instruments and significant contractual cash obligations at December 31, 2009. Contractual purchases and capital expenditures in the table below reflect the minimum contractual obligation under legally enforceable contracts with terms that are both fixed and determinable. Excluded from the following table are a number of obligations to be settled in cash, primarily in under one year. These obligations are reflected on the Firm's Consolidated Balance Sheets and include federal funds purchased and securities loaned or sold under repurchase agreements; commercial paper; other borrowed funds; purchases of debt and equity instruments; derivative payables; and certain purchases of instruments that resulted in settlement failures. Also excluded are contingent payments associated with certain acquisitions that could not be estimated. For discussion regarding long-term debt (including trust preferred capital debt securities), see Note 22 on pages 228–229 of this Annual Report. For discussion regarding operating leases, see Note 30 on page 238 of this Annual Report.

The following table presents maturity information for off-balance sheet lending-related financial instruments, guarantees and other commitments.

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

By remaining maturity at December 31, (in millions)	2009					2008
	2010	2011-2012	2013-2014	After 2014	**Total**	Total
Lending-related						
Consumer:						
Home equity — senior lien	**$ 293**	**$ 1,650**	**$ 5,603**	**$ 11,700**	**$ 19,246**	$ 27,998
Home equity — junior lien	**647**	**3,998**	**12,050**	**20,536**	**37,231**	67,745
Prime mortgage	**1,654**	**—**	**—**	**—**	**1,654**	5,079
Subprime mortgage	**—**	**—**	**—**	**—**	**—**	—
Option ARMs	**—**	**—**	**—**	**—**	**—**	—
Auto loans	**5,380**	**84**	**3**	**—**	**5,467**	4,726
Credit card	**569,113**	**—**	**—**	**—**	**569,113**	623,702
All other loans	**9,907**	**207**	**109**	**1,006**	**11,229**	12,257
Total consumer	**586,994**	**5,939**	**17,765**	**33,242**	**643,940**	741,507
Wholesale:						
Other unfunded commitments to extend credit[(a)]	**71,855**	**94,977**	**20,728**	**4,585**	**192,145**	189,563
Asset purchase agreements	**8,659**	**11,134**	**2,755**	**137**	**22,685**	53,729
Standby letters of credit and financial guarantees[(a)(b)(c)]	**25,568**	**47,203**	**16,349**	**2,365**	**91,485**	95,352
Unused advised lines of credit	**31,826**	**3,569**	**62**	**216**	**35,673**	36,300
Other letters of credit[(a)(b)]	**3,713**	**1,183**	**255**	**16**	**5,167**	4,927
Total wholesale	**141,621**	**158,066**	**40,149**	**7,319**	**347,155**	379,871
Total lending-related	**$ 728,615**	**$ 164,005**	**$ 57,914**	**$ 40,561**	**$ 991,095**	$ 1,121,378
Other guarantees						
Securities lending guarantees[(d)]	**$ 170,777**	**$ —**	**$ —**	**$ —**	**$ 170,777**	$ 169,281
Residual value guarantees	**670**	**1**	**1**	**—**	**672**	670
Derivatives qualifying as guarantees[(e)]	**20,310**	**18,608**	**8,759**	**39,514**	**87,191**	83,835

Contractual cash obligations

By remaining maturity at December 31, (in millions)	2010	2011-2012	2013-2014	After 2014	Total	2008 Total
Time deposits	**$ 211,377**	**$ 14,479**	**$ 4,865**	**$ 938**	**$ 231,659**	$ 299,101
Advances from the Federal Home Loan Banks	**23,597**	**2,583**	**741**	**926**	**27,847**	70,187
Long-term debt	**37,075**	**95,915**	**42,805**	**90,523**	**266,318**	270,683
Long-term beneficial interests[(f)]	**3,957**	**2,515**	**407**	**3,559**	**10,438**	10,561
Operating leases[(g)]	**1,652**	**3,179**	**2,857**	**8,264**	**15,952**	16,868
Equity investment commitments[(h)]	**1,477**	**2**	**—**	**895**	**2,374**	2,424
Contractual purchases and capital expenditures	**2,005**	**862**	**419**	**488**	**3,774**	2,687
Obligations under affinity and co-brand programs	**1,091**	**2,144**	**1,604**	**2,059**	**6,898**	8,138
Other liabilities[(i)]	**906**	**891**	**873**	**2,690**	**5,360**	5,005
Total	**$ 283,137**	**$ 122,570**	**$ 54,571**	**$ 110,342**	**$ 570,620**	$ 685,654

(a) Represents the contractual amount net of risk participations totaling $24.6 billion and $26.4 billion for standby letters of credit and other financial guarantees at December 31, 2009 and 2008, respectively, $690 million and $1.1 billion for other letters of credit at December 31, 2009 and 2008, respectively, and $643 million and $789 million for other unfunded commitments to extend credit at December 31, 2009 and 2008, respectively. In regulatory filings with the Federal Reserve Board these commitments are shown gross of risk participations.

(b) JPMorgan Chase held collateral relating to $31.5 billion and $31.0 billion of standby letters of credit, respectively, and $1.3 billion and $1.0 billion of other letters of credit at December 31, 2009 and 2008, respectively.

(c) Includes unissued standby letters-of-credit commitments of $38.4 billion and $39.5 billion at December 31, 2009 and 2008, respectively.

(d) Collateral held by the Firm in support of securities lending indemnification agreements was $173.2 billion and $170.1 billion at December 31, 2009 and 2008, 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.

(e) Represents notional amounts of derivatives qualifying as guarantees. For further discussion of guarantees, see Note 5 on pages 175–183 and Note 31 on pages 238–242 of this Annual Report.

(f) Included on the Consolidated Balance Sheets in beneficial interests issued by consolidated variable interest entities.

(g) Includes noncancelable operating leases for premises and equipment used primarily for banking purposes and for energy-related tolling service agreements. Excludes the benefit of noncancelable sublease rentals of $1.8 billion and $2.3 billion at December 31, 2009 and 2008, respectively.

(h) Includes unfunded commitments to third-party private equity funds of $1.5 billion and $1.4 billion at December 31, 2009 and 2008, respectively. Also includes unfunded commitments for other equity investments of $897 million and $1.0 billion at December 31, 2009 and 2008, respectively. These commitments include $1.5 billion at December 31, 2009, related to investments that are generally fair valued at net asset value as discussed in Note 3 on pages 156–173 of this Annual Report.

(i) Includes deferred annuity contracts. Excluded contributions to the U.S. pension and other postretirement benefits plans, as these contributions are not reasonably estimable at this time. Also excluded are unrecognized tax benefits of $6.6 billion and $5.9 billion at December 31, 2009 and 2008, respectively, as the timing and amount of future cash payments are not determinable at this time.

CAPITAL MANAGEMENT

A strong capital position is essential to the Firm's business strategy and competitive position. The Firm's capital strategy focuses on long-term stability, which enables it to build and invest in market-leading businesses, even in a highly stressed environment. Senior management considers the implications on the Firm's capital strength prior to making any decision on future business activities. In addition to considering the Firm's earnings outlook, senior management evaluates all sources and uses of capital and makes decisions to vary any source or use to preserve the Firm's capital strength.

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.

The quality and composition of capital are key factors in senior management's evaluation of the Firm's capital adequacy. The Firm strongly emphasizes the quality of its capital and, accordingly, holds a significant amount of its capital in the form of common equity. The Firm uses the following three capital disciplines:

- *Regulatory capital* – The capital required according to standards stipulated by U.S. bank regulatory agencies.
- *Economic risk capital* – A bottoms-up assessment of the underlying risks of the Firm's business activities, utilizing internal risk-assessment methodologies.
- *Line of business equity* – The amount the Firm believes each business segment would require if it were operating independently, which incorporates sufficient capital to address economic risk measures, regulatory capital requirements and capital levels for similarly rated peers.

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.

In connection with the U.S. Government's Supervisory Capital Assessment Program in 2009, U.S. banking regulators developed a new measure of capital, Tier 1 common capital, which is defined as Tier 1 capital less elements of Tier 1 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 capital, a non-GAAP financial measure, is used by banking regulators, investors and analysts to assess and compare the quality and composition of the Firm's capital with the capital of other financial services companies. The Firm uses Tier 1 common capital along with the other capital measures presented below to assess and monitor its capital position.

The Federal Reserve granted the Firm, for a period of 18 months following the Bear Stearns merger, relief up to a certain specified amount and subject to certain conditions from the Federal Reserve's risk-based capital and leverage requirements with respect to Bear Stearns' risk-weighted assets and other exposures acquired. The OCC granted JPMorgan Chase Bank, N.A. similar relief from its risk-based capital and leverage requirements. The relief would have ended, by its terms, on September 30, 2009. Commencing in the second quarter of 2009, the Firm no longer adjusted its risk-based capital ratios to take into account the relief in the calculation of its risk-based capital ratios as of June 30, 2009.

JPMorgan Chase maintained Tier 1 and Total capital ratios at December 31, 2009 and 2008, in excess of the well-capitalized standards established by the Federal Reserve, as indicated in the tables below. In addition, the Firm's Tier 1 common ratio was significantly above the 4% well-capitalized standard that was established at the time of the Supervisory Capital Assessment Program. For more information, see Note 29 on pages 236–237 of this Annual Report.

Risk-based capital ratios

December 31, (in millions)	**2009**	2008
Tier 1 capital[a]	**11.1%**	10.9%
Total capital	**14.8**	14.8
Tier 1 leverage	**6.9**	6.9
Tier 1 common	**8.8**	7.0

(a) On January 1, 2010, the Firm adopted new accounting standards which required the consolidation of the Firm's credit card securitization trusts, bank-administered asset-backed commercial paper conduits, and certain mortgage and other consumer securitization entities. Refer to Note 16 on pages 214–222 of this Annual Report for additional information about the impact to the Firm of the new guidance.

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

Risk-based capital components and assets

December 31, (in millions)	2009	2008
Tier 1 capital		
Tier 1 common capital:		
Total stockholders' equity	**$ 165,365**	$ 166,884
Less: Preferred stock	**8,152**	31,939
Common stockholders' equity	**157,213**	134,945
Effect of certain items in accumulated other comprehensive income/(loss) excluded from Tier 1 common equity	**75**	5,084
Less: Goodwill[(a)]	**46,630**	46,417
Fair value DVA on derivative and structured note liabilities related to the Firm's credit quality	**912**	2,358
Investments in certain subsidiaries	**802**	679
Other intangible assets	**3,660**	3,667
Tier 1 common capital	**105,284**	86,908
Preferred stock	**8,152**	31,939
Qualifying hybrid securities and noncontrolling interests[(b)]	**19,535**	17,257
Total Tier 1 capital	**132,971**	136,104
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2 capital	**28,977**	31,659
Qualifying allowance for credit losses	**15,296**	17,187
Adjustment for investments in certain subsidiaries and other	**(171)**	(230)
Total Tier 2 capital	**44,102**	48,616
Total qualifying capital	**$ 177,073**	$ 184,720
Risk-weighted assets[(c)]	**$ 1,198,006**	$ 1,244,659
Total adjusted average assets[(d)]	**$ 1,933,767**	$ 1,966,895

(a) Goodwill is net of any associated deferred tax liabilities.
(b) Primarily includes trust preferred capital debt securities of certain business trusts.
(c) Includes off–balance sheet risk-weighted assets at December 31, 2009 and 2008, of $367.4 billion and $357.5 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.

The Firm's Tier 1 common capital was $105.3 billion at December 31, 2009, compared with $86.9 billion at December 31, 2008, an increase of $18.4 billion. The increase was due to net income (adjusted for DVA) of $13.2 billion, a $5.8 billion issuance of common stock in June 2009, and net issuances of common stock under the Firm's employee stock-based compensation plans of $2.7 billion. The increase was partially offset by $2.1 billion of dividends on preferred and common stock and the $1.1 billion one-time noncash adjustment to common stockholders' equity related to the redemption of the $25.0 billion Series K Preferred Stock issued to the U.S. Treasury under the Capital Purchase Program. On June 5, 2009, the Firm issued $5.8 billion, or 163 million shares, of common stock to satisfy a regulatory condition requiring the Firm to demonstrate it could access the equity capital markets in order to be eligible to redeem the Series K Preferred Stock issued to the U.S. Treasury. The proceeds from this issuance were used for general corporate purposes.

The Firm's Tier 1 capital was $133.0 billion at December 31, 2009, compared with $136.1 billion at December 31, 2008, a decrease of $3.1 billion. The decrease in Tier 1 capital reflects the redemption of the Series K Preferred Stock, partially offset by the increase in Tier 1 common capital and $2.3 billion net issuances of qualifying trust preferred capital debt securities.

Additional information regarding the Firm's regulatory capital ratios and the related federal regulatory capital requirements and the capital ratios of the Firm's significant banking subsidiaries at December 31, 2009 and 2008, are presented in Note 29 on pages 236–237 of this Annual Report.

Capital Purchase Program

Pursuant to the Capital Purchase Program, on October 28, 2008, the Firm issued to the U.S. Treasury, for total proceeds of $25.0 billion, (i) 2.5 million shares of Series K Preferred Stock, and (ii) a Warrant to purchase up to 88,401,697 shares of the Firm's common stock, at an exercise price of $42.42 per share, subject to certain antidilution and other adjustments. On June 17, 2009, the Firm redeemed all of the outstanding shares of Series K Preferred Stock, and repaid the full $25.0 billion principal amount together with accrued dividends. The U.S. Treasury exchanged the Warrant for 88,401,697 warrants, each of which is a warrant to purchase a share of the Firm's common stock at an exercise price of $42.42 per share and, on December 11, 2009, sold the warrants in a secondary public offering for $950 million. The Firm did not purchase any of the warrants sold by the U.S. Treasury.

Basel II

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

Prior to full implementation of the new Basel II Framework, JPMorgan Chase will be required to complete a qualification period of four consecutive quarters during which it will need to demonstrate that it meets the requirements of the new rule to the satisfaction of its primary U.S. banking regulators. The U.S. implementation timetable consists of the qualification period, starting no later than April 1, 2010, followed by a minimum transition period of three years. During the transition period, Basel II risk-based capital requirements cannot fall below certain floors based on current ("Basel I") regulations. JPMorgan Chase 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.

Broker-dealer regulatory capital

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

JPMorgan Securities and J.P. Morgan Clearing Corp. have elected to compute their minimum net capital requirements in accordance with the "Alternative Net Capital Requirements" of the Net Capital Rule. At December 31, 2009, JPMorgan Securities' net capital, as defined by the Net Capital Rule, of $7.4 billion exceeded the minimum requirement by $6.9 billion. J.P. Morgan Clearing Corp.'s net capital of $5.2 billion exceeded the minimum requirement by $3.6 billion.

In addition to its minimum net capital requirement, 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 December 31, 2009, 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 primarily based on four risk factors: credit, market, operational and private equity risk. The growth in economic risk capital from 2008 was primarily driven by higher credit risk capital within the consumer businesses, due to the full year effect of the Washington Mutual transaction and revised performance data in light of the recent weak economic environment.

Economic risk capital	Yearly Average	
(in billions)	**2009**	2008
Credit risk	**$ 51.3**	$ 37.8
Market risk	**15.4**	10.5
Operational risk	**8.5**	6.3
Private equity risk	**4.7**	5.3
Economic risk capital	**79.9**	59.9
Goodwill	**48.3**	46.1
Other[(a)]	**17.7**	23.1
Total common stockholders' equity	**$ 145.9**	$ 129.1

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

Credit risk capital

Credit risk capital is estimated separately for the wholesale businesses (IB, CB, TSS and AM) and consumer businesses (RFS and CS).

Credit risk capital for the overall wholesale credit portfolio is defined in terms of unexpected credit losses, both from defaults and declines in the portfolio value due to credit deterioration, measured over a one-year period at a confidence level consistent with an "AA" credit rating standard. Unexpected losses are losses in excess of those for which allowance for credit losses are maintained. The capital methodology is based on several principal drivers of credit risk: exposure at default (or loan-equivalent amount), default likelihood, credit spreads, loss severity and portfolio correlation.

Credit risk capital for the consumer portfolio is based on product and other relevant risk segmentation. Actual segment level default and severity experience are used to estimate unexpected losses for a one-year horizon at a confidence level consistent with an "AA" credit rating standard. Results for certain segments or portfolios are derived from available benchmarks and are not model-driven.

Market risk capital

The Firm calculates market risk capital guided by the principle that capital should reflect the risk of loss in the value of portfolios and financial instruments caused by adverse movements in market variables, such as interest and foreign exchange rates, credit spreads, securities prices and commodities prices, taking into account the liquidity of the financial instruments. Results from daily VaR, biweekly stress-test, issuer credit spread and default risk calculations as well as other factors are used to determine appropriate capital levels. Market risk capital is allocated to each business segment based on its risk contribution. See Market Risk Management on pages 126–132 of this Annual Report for more information about these market risk measures.

Operational risk capital

Capital is allocated to the lines of business for operational risk using a risk-based capital allocation methodology which estimates operational risk on a bottoms-up basis. The operational risk capital model is based on actual losses and potential scenario-based stress losses, with adjustments to the capital calculation to reflect changes in the quality of the control environment or the use of risk-transfer products. The Firm believes its model is consistent with the new Basel II Framework. See Operational Risk Management on page 133 of this Annual Report for more information about operational risk.

Private equity risk capital

Capital is allocated to privately- and publicly- held securities, third-party fund investments, and commitments in the private equity portfolio to cover the potential loss associated with a decline in equity markets and related asset devaluations. In addition to negative market fluctuations, potential losses in private equity investment portfolios can be magnified by liquidity risk. The capital allocation for the private equity portfolio is based on measurement of the loss experience suffered by the Firm and other market participants over a prolonged period of adverse equity market conditions.

Line of business equity

The Firm's framework for allocating capital is based on the following objectives:

- Integrate firmwide capital management activities with capital management activities within each of the lines of business

- Measure performance consistently across all lines of business
- Provide comparability with peer firms for each of the lines of business

Equity for a line of business represents the amount the Firm believes the business would require if it were operating independently, incorporating sufficient capital to address economic risk measures, regulatory capital requirements and capital levels for similarly rated peers. Capital is also allocated to each line of business for, among other things, goodwill and other intangibles associated with acquisitions effected by the line of business. Return on common equity is measured and internal targets for expected returns are established as a key measure of a business segment's performance.

Relative to 2008, line of business equity remained largely unchanged during 2009.

Line of business equity

December 31, (in billions)	**2009**	2008
Investment Bank	**$ 33.0**	$ 33.0
Retail Financial Services	**25.0**	25.0
Card Services	**15.0**	15.0
Commercial Banking	**8.0**	8.0
Treasury & Securities Services	**5.0**	4.5
Asset Management	**7.0**	7.0
Corporate/Private Equity	**64.2**	42.4
Total common stockholders' equity	**$ 157.2**	$ 134.9

Line of business equity

	Yearly Average	
(in billions)	**2009**	2008
Investment Bank	**$ 33.0**	$ 26.1
Retail Financial Services	**25.0**	19.0
Card Services	**15.0**	14.3
Commercial Banking	**8.0**	7.3
Treasury & Securities Services	**5.0**	3.8
Asset Management	**7.0**	5.6
Corporate/Private Equity	**52.9**	53.0
Total common stockholders' equity	**$ 145.9**	$ 129.1

In 2010, the Firm will enhance its line of business equity framework to better align equity assigned to each line of business with the anticipated changes in the business, as well as changes in the competitive and regulatory landscape. The lines of business will be capitalized based on the Tier 1 common standard, rather than the Tier 1 Capital standard.

Capital actions

Dividends

On February 23, 2009, the Board of Directors reduced the Firm's quarterly common stock dividend from $0.38 to $0.05 per share, effective with the dividend paid on April 30, 2009, to shareholders of record on April 6, 2009. The action enabled the Firm to retain approximately $5 billion in common equity during 2009, and was taken to ensure the Firm had sufficient capital strength in the event the very weak economic conditions that existed at the beginning of the year further deteriorated.

For information regarding dividend restrictions, see Note 23 and Note 28 on pages 230–231 and 236, respectively, of this Annual Report.

The following table shows the common dividend payout ratio based on reported net income.

Common dividend payout ratio

Year ended December 31,	**2009**	2008	2007
Common dividend payout ratio	**9%**	114%	34%

Issuance

On June 5, 2009, the Firm issued $5.8 billion, or 163 million shares, of common stock at $35.25 per share. On September 30, 2008, the Firm issued $11.5 billion, or 284 million shares, of common stock at $40.50 per share. The proceeds from these issuances were used for general corporate purposes. For additional information regarding common stock, see Note 24 on pages 231–232 of this Annual Report.

Stock repurchases

In April 2007, the Board of Directors approved a stock repurchase program that authorizes the repurchase of up to $10.0 billion of the Firm's common shares. In connection with the U.S. Treasury's sale of the warrants it received as part of the Capital Purchase Program, the Board of Directors amended the Firm's securities repurchase program to authorize the repurchase of warrants for its stock. During the years ended December 31, 2009 and 2008, the Firm did not repurchase any shares of its common stock. As of December 31, 2009, $6.2 billion of authorized repurchase capacity remained under the repurchase program with respect to repurchases of common stock, and all the authorized repurchase capacity remained with respect to the warrants.

The authorization to repurchase common stock and warrants will be utilized at management's discretion, and the timing of purchases and the exact number of shares and warrants purchased is subject to various factors, including market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position (taking into account goodwill and intangibles); internal capital generation; and alternative potential investment opportunities. The repurchase program does not include specific price targets or timetables, may be executed through open market purchases or privately negotiated transactions, or utilizing Rule 10b5-1 programs; and may be suspended at any time. 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 that is 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 5, Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities, on page 18 of JPMorgan Chase's 2009 Form 10-K.

RISK MANAGEMENT

Risk is an inherent part of JPMorgan Chase's business activities and the Firm's overall risk tolerance is established in the context of the Firm's earnings power, capital, and diversified business model. 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. It is also intended to create a culture of risk awareness and personal responsibility throughout the Firm. The Firm's ability to properly identify, measure, monitor and report risk is critical to both its soundness and profitability.

- Risk identification: The Firm's exposure to risk through its daily business dealings, including lending, trading and capital markets activities, is identified and aggregated through the Firm's risk management infrastructure. In addition, individuals who manage risk positions, particularly those that are complex, are responsible for identifying and estimating potential losses that could arise from specific or unusual events that may not be captured in other models, and those risks are communicated to senior management.
- Risk measurement: The Firm measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that the Firm's risk estimates are reasonable and reflect underlying positions.
- Risk monitoring/control: The Firm's risk management policies and procedures incorporate risk mitigation strategies and include approval limits by customer, product, industry, country and business. These limits are monitored on a daily, weekly and monthly basis, as appropriate.
- Risk reporting: Executed on both a line of business and a consolidated basis. This information is reported to management on a daily, weekly and monthly basis, as appropriate. There are eight major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, private equity risk, operational risk, legal and fiduciary risk, and reputation risk.

Risk governance

The Firm's risk governance structure starts with each line of business being responsible for managing its own risks. Each line of business works closely with Risk Management through its own risk committee and its own chief risk officer to manage its risk. Each line of business risk committee is responsible for decisions regarding the business' risk strategy, policies and controls. The Firm's Chief Risk Officer is a member of the line of business risk committees.

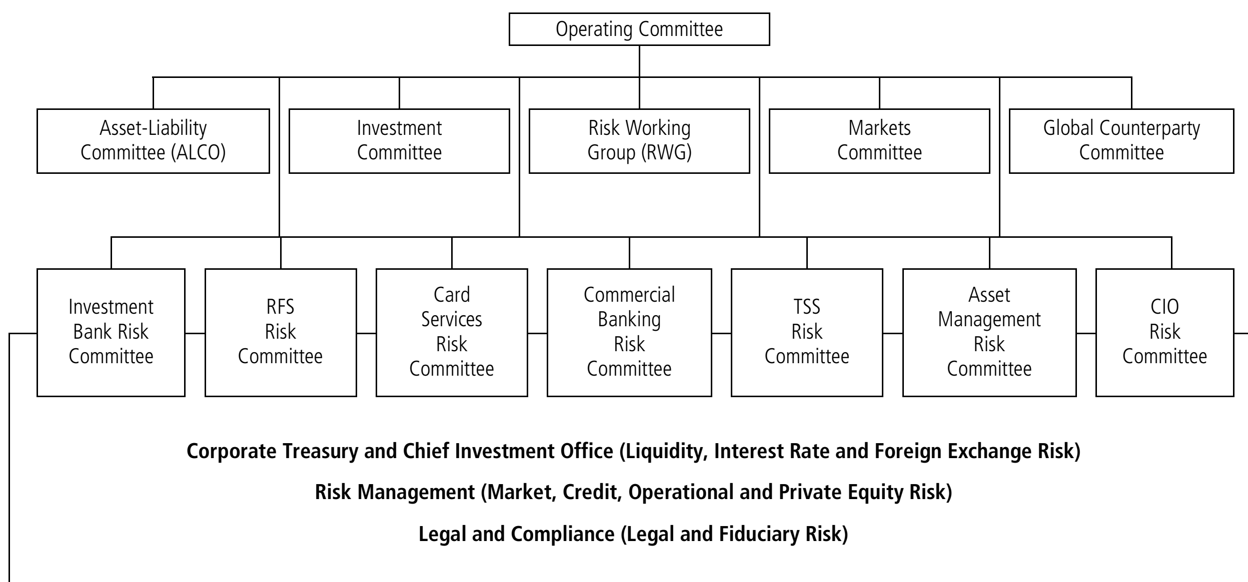
Overlaying the line of business risk management are four corporate functions with risk management–related responsibilities, including the Chief Investment Office, Corporate Treasury, Legal and Compliance and Risk Management.

Risk Management is headed by the Firm's Chief Risk Officer, who is a member of the Firm's Operating Committee and who reports to the Chief Executive Officer and the Board of Directors, primarily through the Board's Risk Policy Committee. Risk Management is responsible for providing an independent firmwide function of risk management and controls. Within the Firm's Risk Management function are units responsible for credit risk, market risk, operational risk and private equity risk, as well as risk reporting, risk policy and risk technology and operations. Risk technology and operations is responsible for building the information technology infrastructure used to monitor and manage risk.

The Chief Investment Office and Corporate Treasury are responsible for measuring, monitoring, reporting and managing the Firm's liquidity, interest rate and foreign exchange risk.

Legal and Compliance has oversight for legal and fiduciary risk.

In addition to the risk committees of the lines of business and the above-referenced risk management functions, the Firm also has an Investment Committee, an Asset-Liability Committee and three other risk-related committees – the Risk Working Group, the Global Counterparty Committee and the Markets Committee. All of these committees are accountable to the Operating Committee which is involved in setting the Firm's overall risk appetite. The membership of these committees are composed of senior management of the Firm, including representatives of lines of business, Risk Management, Finance and other senior executives. The committees meet frequently to discuss a broad range of topics including, for example, current market conditions and other external events, risk exposures, and risk concentrations to ensure that the impact of risk factors are considered broadly across the Firm's businesses.



The Asset-Liability Committee monitors the Firm's overall interest rate risk and liquidity risk. ALCO is responsible for reviewing and approving the Firm's liquidity policy and contingency funding plan. ALCO also reviews the Firm's funds transfer pricing policy (through which lines of business "transfer" interest rate and foreign exchange risk to Corporate Treasury in the Corporate/Private Equity segment), earnings at risk, overall interest rate position, funding requirements and strategy, and the Firm's securitization programs (and any required liquidity support by the Firm of such programs).

The Investment Committee, chaired by the Firm's Chief Financial Officer, oversees global merger and acquisition activities undertaken by JPMorgan Chase for its own account that fall outside the scope of the Firm's private equity and other principal finance activities.

The Risk Working Group is chaired by the Firm's Chief Risk Officer and meets monthly to review issues that cross lines of business such as risk policy, risk methodology, Basel II and other regulatory issues, and such other topics referred to it by line-of-business risk committees or the Firm's Chief Risk Officer.

The Markets Committee, chaired by the Chief Risk Officer, meets weekly to review, monitor and discuss significant risk matters, which may include credit, market and operational risk issues; market moving events; large transactions; hedging strategies; reputation risk; conflicts of interest; and other issues.

The Global Counterparty Committee designates to the Chief Risk Officer of the Firm certain counterparties with which the Firm may trade at exposure levels above portfolio-established thresholds when deemed appropriate to support the Firm's trading activities. The Committee meets quarterly to review total exposures with these counterparties, with particular focus on counterparty trading exposures, and to direct changes in exposure levels as needed.

The Board of Directors exercises its oversight of risk management, principally through the Board's Risk Policy Committee and Audit Committee. The Risk Policy Committee oversees senior management risk-related responsibilities, including reviewing management policies and performance against these policies and related benchmarks. The Audit Committee is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of compliance with the Firm's operational risk management processes.

LIQUIDITY RISK MANAGEMENT

The ability to maintain a sufficient level of liquidity is crucial to financial services companies, particularly their ability to maintain appropriate levels of liquidity during periods of adverse conditions. JPMorgan Chase's primary sources of liquidity include a diversified deposit base and access to the long-term debt (including trust preferred capital debt securities) and equity capital markets. The Firm's funding strategy is intended to ensure liquidity and diversity of funding sources to meet actual and contingent liabilities during both normal and stress periods. Consistent with this strategy, JPMorgan Chase maintains large pools of highly liquid unencumbered assets and significant sources of secured funding, and monitors its capacity in the wholesale funding markets across various geographic regions and in various currencies. The Firm also maintains access to secured funding capacity through overnight borrowings from various central banks. Throughout the recent financial crisis, the Firm successfully raised both secured and unsecured funding.

Governance

The Firm's governance process is designed to ensure that its liquidity position remains strong. The Asset-Liability Committee reviews and approves the Firm's liquidity policy and contingency funding plan. Corporate Treasury formulates and is responsible for executing the Firm's liquidity policy and contingency funding plan as well as measuring, monitoring, reporting and managing the Firm's liquidity risk profile. JPMorgan Chase uses a centralized approach for liquidity risk management to maximize liquidity access, minimize funding costs and permit identification and coordination of global liquidity risk. This approach involves frequent communication with the business segments, disciplined management of liquidity at the parent holding company, comprehensive market-based pricing of all assets and liabilities, continuous balance sheet management, frequent stress testing of liquidity sources, and frequent reporting to and communication with senior management and the Board of Directors regarding the Firm's liquidity position.

Liquidity monitoring

The Firm monitors liquidity trends, tracks historical and prospective on– and off–balance sheet liquidity obligations, identifies and measures internal and external liquidity warning signals to permit early detection of liquidity issues, and manages contingency planning (including identification and testing of various company-specific and market-driven stress scenarios). Various tools, which together contribute to an overall firmwide liquidity perspective, are used to monitor and manage liquidity. Among others, these include: (i) analysis of the timing of liquidity sources versus liquidity uses (i.e., funding gaps) over periods ranging from overnight to one year; (ii) management of debt and capital issuances to ensure that the illiquid portion of the balance sheet can be funded by equity, long-term debt (including trust preferred capital debt securities) and deposits the Firm believes to be stable; and (iii) assessment of the Firm's capacity to raise incremental unsecured and secured funding.

Liquidity of the parent holding company and its nonbank subsidiaries is monitored independently as well as in conjunction with the liquidity of the Firm's bank subsidiaries. At the parent holding company level, long-term funding is managed to ensure that the parent holding company has, at a minimum, sufficient liquidity to cover its obligations and those of its nonbank subsidiaries within the next 12 months. For bank subsidiaries, the focus of liquidity risk management is on maintenance of unsecured and secured funding capacity sufficient to meet on– and off–balance sheet obligations.

A component of liquidity management is the Firm's contingency funding plan. The goal of the plan is to ensure appropriate liquidity during normal and stress periods. The plan considers various temporary and long-term stress scenarios where access to wholesale unsecured funding is severely limited or nonexistent, taking into account both on– and off–balance sheet exposures, and separately evaluates access to funding sources by the parent holding company and the Firm's bank subsidiaries.

Recent events

The extraordinary levels of volatility exhibited in global markets during the second half of 2008 began to subside in 2009. Market participants were able to regain access to the debt, equity and consumer loan securitization markets as spreads tightened and liquidity returned to the markets.

The Firm believes its liquidity position is strong, based on its liquidity metrics as of December 31, 2009. The Firm believes that its unsecured and secured funding capacity is sufficient to meet its on– and off–balance sheet obligations. JPMorgan Chase's long-dated funding, including core liabilities, exceeded illiquid assets.

On March 30, 2009, the Federal Reserve announced that, effective April 27, 2009, it would reduce the amount it lent against certain loans pledged as collateral to the Federal Reserve Banks for discount window or payment-system risk purposes, in order to reflect recent trends in the values of those types of collateral. On October 19, 2009, the Federal Reserve further reduced the amount it lent against such collateral. These changes by the Federal Reserve did not have a material impact on the Firm's aggregate funding capacity.

The Firm participated in the FDIC's Temporary Liquidity Guarantee Program (the "TLG Program"), which was implemented in late 2008 as a temporary measure to help restore confidence in the financial system. This program is comprised of two components: the Debt Guarantee Program that provided an FDIC guarantee for certain senior unsecured debt issued through October 31, 2009, and the Transaction Account Guarantee Program (the "TAG Program") that provides unlimited insurance on certain noninterest-bearing transaction accounts. The expiration date of the TAG Program was extended by six months, from December 31, 2009, to June 30, 2010, to provide continued support to those institutions most affected by the recent financial crisis and to phase out

the program in an orderly manner. On October 22, 2009, the Firm notified the FDIC that, as of January 1, 2010, it would no longer participate in the TAG Program. As a result of the Firm's decision to opt out of the program, after December 31, 2009, funds held in noninterest-bearing transaction accounts will no longer be guaranteed in full, but will be insured up to $250,000 under the FDIC's general deposit rules. The insurance amount of $250,000 per depositor is in effect through December 31, 2013. On January 1, 2014, the insurance amount will return to $100,000 per depositor for all account categories except Individual Retirement Accounts ("IRAs") and certain other retirement accounts, which will remain at $250,000 per depositor.

Funding

Sources of funds

The deposits held by the RFS, CB, TSS and AM lines of business are generally stable sources of funding for JPMorgan Chase Bank, N.A. As of December 31, 2009, total deposits for the Firm were $938.4 billion, compared with $1.0 trillion at December 31, 2008. A significant portion of the Firm's deposits are retail deposits (38% at December 31, 2009), which are less sensitive to interest rate changes or market volatility and therefore are considered more stable than market-based (i.e., wholesale) liability balances. In addition, through the normal course of business, the Firm benefits from substantial liability balances originated by RFS, CB, TSS and AM. These franchise-generated liability balances include deposits, as well as deposits that are swept to on–balance sheet liabilities (e.g., commercial paper, federal funds purchased, and securities loaned or sold under repurchase agreements), a significant portion of which are considered to be stable and consistent sources of funding due to the nature of the businesses from which they are generated. For further discussions of deposit and liability balance trends, see the discussion of the results for the Firm's business segments and the Balance sheet analysis on pages 63–81 and 84–86, respectively, of this Annual Report.

Additional sources of funding include a variety of unsecured short- and long-term instruments, including federal funds purchased, certificates of deposit, time deposits, bank notes, commercial paper, long-term debt, trust preferred capital debt securities, preferred stock and common stock. Secured sources of funding include securities loaned or sold under repurchase agreements, asset-backed securitizations, and borrowings from the Chicago, Pittsburgh and San Francisco Federal Home Loan Banks. The Firm also borrows from the Federal Reserve (including discount-window borrowings, the Primary Dealer Credit Facility and the Term Auction Facility); however, the Firm does not view such borrowings from the Federal Reserve as a primary means of funding.

Issuance

Funding markets are evaluated on an ongoing basis to achieve an appropriate global balance of unsecured and secured funding at favorable rates. Generating funding from a broad range of sources in a variety of geographic locations enhances financial flexibility and limits dependence on any one source.

During 2009 and 2008, the Firm issued $19.7 billion and $20.8 billion, respectively, of FDIC-guaranteed long-term debt under the TLG Program, which became effective in October 2008. In 2009 the Firm also issued non-FDIC guaranteed debt of $16.1 billion, including $11.0 billion of senior notes and $2.5 billion of trust preferred capital debt securities, in the U.S. market, and $2.6 billion of senior notes in the European markets. In 2008 the Firm issued non-FDIC guaranteed debt of $23.6 billion, including $12.2 billion of senior notes and $1.8 billion of trust preferred capital debt securities in the U.S. market and $9.6 billion of senior notes in non-U.S. markets. Issuing non-FDIC guaranteed debt in the capital markets in 2009 was a prerequisite to redeeming the $25.0 billion of Series K Preferred Stock. In addition, during 2009 and 2008, JPMorgan Chase issued $15.5 billion and $28.0 billion, respectively, of IB structured notes that are included within long-term debt. During 2009 and 2008, $55.7 billion and $62.7 billion, respectively, of long-term debt (including trust preferred capital debt securities) matured or was redeemed, including $27.2 billion and $35.8 billion, respectively, of IB structured notes; the maturities or redemptions in 2009 offset the issuances during the period. During 2009 and 2008, the Firm also securitized $26.5 billion and $21.4 billion, respectively, of credit card loans.

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 U.S. Securities and Exchange Commission.

Cash flows

For the years ended December 31, 2009, 2008 and 2007, cash and due from banks decreased $689 million, $13.2 billion and $268 million, respectively. The following discussion highlights the major activities and transactions that affected JPMorgan Chase's cash flows during 2009, 2008 and 2007.

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 years ended December 31, 2009 and 2008, net cash provided by operating activities was $121.9 billion and $23.1 billion, respectively, while for the year ended December 31, 2007, net cash used in operating activities was $110.6 billion. In 2009, the net decline in trading assets and liabilities was affected by balance sheet management activities and the impact of the challenging capital markets environment that existed at December 31, 2008, and continued into the first half of 2009. In 2009 and 2008, 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. In addition, for 2009 and 2008 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 reduced levels as a result of the lower activity in these markets since the second half of 2007.

For the year ended December 31, 2007, the net cash used in trading activities reflected a more active capital markets environment, largely from client-driven market-making activities. Also during 2007, cash used to originate or purchase loans held-for-sale was higher than proceeds from sales, securitizations and paydowns of such loans, although these activities were affected by a significant deterioration in liquidity in the second half of 2007.

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 year ended December 31, 2009, net cash of $29.4 billion was provided by investing activities, primarily from: a decrease in deposits with banks reflecting lower demand for inter-bank lending and lower deposits with the Federal Reserve Bank relative to the elevated levels at the end of 2008; a net decrease in the loan portfolio across most businesses, driven by continued lower customer demand and loan sales in the wholesale businesses, lower charge volume on credit cards, slightly higher credit card securitizations, and paydowns; and the maturity of all asset-backed commercial paper issued by money market mutual funds in connection with the AML facility of the Federal Reserve Bank of Boston. Largely offsetting these cash proceeds were net purchases of AFS securities associated with the Firm's management of interest rate risk and investment of cash resulting from an excess funding position.

For the year ended December 31, 2008, net cash of $283.7 billion was used in investing activities, primarily for: increased deposits with banks as the result of the availability of excess cash for short-term investment opportunities through interbank lending, and reserve balances held by the Federal Reserve (which became an investing activity in 2008, reflecting a policy change of the Federal Reserve to pay interest to depository institutions on reserve balances); net purchases of investment securities in the AFS portfolio to manage the Firm's exposure to interest rate movements; net additions to the wholesale loan portfolio from organic growth in CB; additions to the consumer prime mortgage portfolio as a result of the decision to retain, rather than sell, new originations of nonconforming prime mortgage loans; an increase in securities purchased under resale agreements reflecting growth in demand from clients for liquidity; and net purchases of asset-backed commercial paper from money market mutual funds in connection with the AML facility of the Federal Reserve Bank of Boston. Partially offsetting these uses of cash were proceeds from loan sales and securitization activities as well as net cash received from acquisitions and the sale of an investment. Additionally, in June 2008, in connection with the Bear Stearns merger, the Firm sold assets acquired from Bear Stearns to the FRBNY and received cash proceeds of $28.85 billion.

For the year ended December 31,2007, net cash of $74.2 billion was used in investing activities, primarily for: funding purchases in the AFS securities portfolio to manage the Firm's exposure to interest rate movements; net additions to the wholesale retained loan portfolios in IB, CB and AM, mainly as a result of business growth; a net increase in the consumer retained loan portfolio, primarily reflecting growth in RFS in home equity loans and net additions to the RFS's subprime mortgage loans portfolio (which was affected by management's decision in the third quarter to retain (rather than sell) new subprime mortgages); growth in prime mortgage loans originated by RFS and AM that were not eligible to be sold to U.S. government agencies or U.S. government-sponsored enterprises; and increases in securities purchased under resale agreements as a result of a higher level of cash that was available for short-term investment opportunities in connection with the Firm's efforts to build liquidity. These net uses of cash were partially offset by cash proceeds received from sales and maturities of AFS securities and from credit card, residential mortgage, student and wholesale loan sales and securitization activities.

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 2009, net cash used in financing activities was $152.2 billion; this reflected a decline in wholesale deposits, predominantly in TSS, driven by the continued normalization of wholesale deposit levels resulting from the mitigation of credit concerns, compared with the heightened market volatility and credit concerns in the latter part of 2008; a decline in other borrowings, due to the absence of borrowings from the Federal Reserve under the Term Auction Facility program; net repayments of advances from Federal Home Loan Banks and the maturity of the nonrecourse advances under the Federal Reserve Bank of Boston AML Facility; the June 17, 2009, repayment in full of the $25.0 billion principal amount of Series K Preferred Stock issued to the U.S. Treasury; and the payment of cash dividends on common and preferred stock. Cash was also used for the net repayment of long-term debt and trust pre-

ferred capital debt securities, as issuances of FDIC-guaranteed debt and non-FDIC guaranteed debt in both the U.S. and European markets were more than offset by redemptions. Cash proceeds resulted from an increase in securities loaned or sold under repurchase agreements, partly attributable to favorable pricing and to financing the increased size of the Firm's AFS securities portfolio; and the issuance of $5.8 billion of common stock. There were no repurchases in the open market of common stock or the warrants during 2009.

In 2008, net cash provided by financing activities was $247.8 billion due to: growth in wholesale deposits, in particular, interest- and noninterest-bearing deposits in TSS (driven by both new and existing clients, and due to the deposit inflows related to the heightened volatility and credit concerns affecting the global markets that began in the third quarter of 2008), as well as increases in AM and CB (due to organic growth); proceeds of $25.0 billion from the issuance of preferred stock and the Warrant to the U.S. Treasury under the Capital Purchase Program; additional issuances of common stock and preferred stock used for general corporate purposes; an increase in other borrowings due to nonrecourse secured advances under the Federal Reserve Bank of Boston AML Facility to fund the purchase of asset-backed commercial paper from money market mutual funds; increases in federal funds purchased and securities loaned or sold under repurchase agreements in connection with higher client demand for liquidity and to finance growth in the Firm's AFS securities portfolio; and a net increase in long-term debt due to a combination of non-FDIC guaranteed debt and trust preferred capital debt securities issued prior to December 4, 2008, and the issuance of $20.8 billion of FDIC-guaranteed long-term debt issued during the fourth quarter of 2008. The fourth-quarter FDIC-guaranteed debt issuance was offset partially by maturities of non-FDIC guaranteed long-term debt during the same period. The increase in long-term debt (including trust preferred capital debt securities) was used primarily to fund certain illiquid assets held by the parent holding company and to build liquidity. Cash was also used to pay dividends on common and preferred stock. The Firm did not repurchase any shares of its common stock during 2008.

In 2007, net cash provided by financing activities was $184.1 billion due to a net increase in wholesale deposits from growth in business volumes, in particular, interest-bearing deposits at TSS, AM and CB; net issuances of long-term debt (including trust preferred capital debt securities) primarily to fund certain illiquid assets held by the parent holding company and build liquidity, and by IB from client-driven structured notes transactions; and growth in commercial paper issuances and other borrowed funds due to growth in the volume of liability balances in sweep accounts in TSS and CB, and to fund trading positions and to further build liquidity. Cash was used to repurchase common stock and pay dividends on common stock.

Credit ratings

The cost and availability of financing are influenced by credit ratings. Reductions in these ratings could have an adverse effect on the Firm's access to liquidity sources, increase the cost of funds, trigger additional collateral or funding requirements and decrease the number of investors and counterparties willing to lend to the Firm. Additionally, the Firm's funding requirements for VIEs and other third-party commitments may be adversely affected. For additional information on the impact of a credit ratings downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on pages 86–87 and Ratings profile of derivative receivables marked to market ("MTM"), and Note 5 on page 111 and pages 175–183, respectively, of this Annual Report.

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

The credit ratings of the parent holding company and each of the Firm's significant banking subsidiaries as of January 15, 2010, were as follows.

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

Ratings actions affecting the Firm

On March 4, 2009, Moody's revised the outlook on the Firm to negative from stable. This action was the result of Moody's view that the Firm's ability to generate capital would be adversely affected by higher credit costs due to the global recession. The rating action by Moody's in the first quarter of 2009 did not have a material impact on the cost or availability of the Firm's funding. At December 31, 2009, Moody's outlook remained negative.

Ratings from S&P and Fitch on JPMorgan Chase and its principal bank subsidiaries remained unchanged at December 31, 2009, from December 31, 2008. At December 31, 2009, S&P's outlook remained negative, while Fitch's outlook remained stable.

Following the Firm's earnings release on January 15, 2010, S&P and Moody's announced that their ratings on the Firm remained unchanged.

If the Firm's senior long-term debt ratings were downgraded by one additional notch, the Firm believes the incremental cost of funds or loss of funding would be manageable, within the context of current market conditions and the Firm's liquidity resources. JPMorgan Chase's unsecured debt does not contain requirements that would call for an acceleration of payments, maturities or changes in the structure of the existing debt, provide any limitations on future borrowings or require additional collateral, based on unfavorable

changes in the Firm's credit ratings, financial ratios, earnings, or stock price.

On February 24, 2009, S&P lowered the ratings on the trust preferred capital debt securities and other hybrid securities of 45 U.S. financial institutions, including those of JPMorgan Chase & Co. The Firm's ratings on trust preferred capital debt and noncumulative perpetual preferred securities were lowered from A- to BBB+. This action was the result of S&P's general view that there is an increased likelihood of issuers suspending interest and dividend payments in the current environment. This action by S&P did not have a material impact on the cost or availability of the Firm's funding.

On December 22, 2009, Moody's lowered the ratings on certain of the Firm's hybrid securities. The downgrades were consistent with Moody's revised guidelines for rating hybrid securities and subordinated debt. The ratings of junior subordinated debt securities with cumulative deferral features were lowered to A2 from A1, while those of cumulative preferred securities were downgraded to A3 from A2, and ratings for non-cumulative preferred securities were lowered to Baa1 from A2.

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

Ratings actions affecting Firm-sponsored securitization trusts

In 2009, in light of increasing levels of losses in the Firm-sponsored securitization trusts due to the then worsening economic environment, S&P, Moody's and Fitch took various ratings actions with respect to the securities issued by the Firm's credit card securitization trusts, including the Chase Issuance Trust, Chase Credit Card Master Trust, Washington Mutual Master Note Trust and SCORE Credit Card Trust, including placing the ratings of certain securities of such Trusts on negative credit watch or review for possible downgrade, and, in a few circumstances, downgrading the ratings of some of the securities.

On May 12, 2009, the Firm took certain actions to increase the credit enhancement underlying the credit card asset-backed securities of the Chase Issuance Trust. As a result of these actions, the ratings of all asset-backed credit card securities of the Chase Issuance Trust were affirmed by the credit rating agencies, except for a negative rating outlook by Fitch which remains, as of December 31, 2009, on the subordinated securities of the Chase Issuance Trust.

On May 19, 2009, the Firm removed from the Washington Mutual Master Note Trust all remaining credit card receivables that had been originated by Washington Mutual. As a result of this action, the ratings of all asset-backed credit card securities of the Washington Mutual Master Note Trust were raised or affirmed by the credit rating agencies, with the exception that the senior securities of the Washington Mutual Master Note Trust were downgraded by S&P on December 23, 2009. S&P's action was the result of their consideration of a linkage between the ratings of the securities of Washington Mutual Master Note Trust and the Firm's own ratings as a result of the consolidation onto the Firm's Consolidated Balance Sheet of the assets and liabilities of the Washington Mutual Master Note Trust following the Firm's actions on May 19, 2009 (please refer to page 208 under Note 15 of this Annual Report).

The Firm did not take any actions to increase the credit enhancement underlying securitizations issued by the Chase Credit Card Master Trust and the SCORE Credit Card Trust during 2009. Certain mezzanine securities and subordinated securities of the Chase Credit Card Master Trust were downgraded by S&P and Moody's on August 6, 2009, and July 10, 2009, respectively. The senior and subordinated securities of the SCORE Credit Card Trust were placed on review for possible downgrade by Moody's on January 20, 2010.

The Firm believes the ratings actions described above did not have a material impact on the Firm's liquidity and ability to access the asset-backed securitization market.

With the exception of the Washington Mutual Master Note Trust as described above, the ratings on the Firm's asset-backed securities programs are currently independent of the Firm's own ratings. However, no assurance can be given that the credit rating agencies will not in the future consider there being a linkage between the ratings of the Firm's asset-backed securities programs and the Firm's own ratings as a result of accounting guidance for QSPEs and VIEs that became effective January 1, 2010. For a further discussion of the new FASB guidance, see "Accounting and reporting developments" and Note 16 on pages 140–142 and 214–222, respectively, of this Annual Report.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from obligor or counterparty default. The Firm provides credit (for example, through loans, lending-related commitments, guarantees and derivatives) to a variety of customers, from large corporate and institutional clients to the individual consumer. For the wholesale business, credit risk management includes the distribution of the Firm's syndicated loan originations into the marketplace with exposure held in the retained portfolio averaging less than 10%. Wholesale loans generated by CB and AM are generally retained on the balance sheet. With regard to the consumer credit market, the Firm focuses on creating a portfolio that is diversified from both a product and a geographic perspective. Loss mitigation strategies are being employed for all home lending portfolios. These strategies include rate reductions, forbearance and other actions intended to minimize economic loss and avoid foreclosure. In the mortgage business, originated loans are either retained in the mortgage portfolio or securitized and sold to U.S. government agencies and U.S. government-sponsored enterprises.

Credit risk organization

Credit risk management is overseen by the Chief Risk Officer and implemented within the lines of business. The Firm's credit risk management governance consists of the following functions:

- establishing a comprehensive credit risk policy framework
- monitoring and managing credit risk across all portfolio segments, including transaction and line approval
- assigning and managing credit authorities in connection with the approval of all credit exposure
- managing criticized exposures and delinquent loans
- calculating the allowance for credit losses and ensuring appropriate credit risk-based capital management

Risk identification

The Firm is exposed to credit risk through lending and capital markets activities. Credit risk management works in partnership with the business segments in identifying and aggregating exposures across all lines of business.

Risk measurement

To measure credit risk, the Firm employs several methodologies for estimating the likelihood of obligor or counterparty default. Methodologies for measuring credit risk vary depending on several factors, including type of asset (e.g., consumer installment versus wholesale loan), risk measurement parameters (e.g., delinquency status and credit bureau score versus wholesale risk-rating) and risk management and collection processes (e.g., retail collection center versus centrally managed workout groups). Credit risk measurement is based on the amount of exposure should the obligor or the counterparty default, the probability of default and the loss severity given a default event. Based on these factors and related market-based inputs, the Firm estimates both probable and unexpected losses for the wholesale and consumer portfolios. Probable losses, reflected in the provision for credit losses, are based primarily upon statistical estimates of credit losses as a result of obligor or counterparty default. However, probable losses are not the sole indicators of risk. If losses were entirely predictable, the probable loss rate could be factored into pricing and covered as a normal and recurring cost of doing business. Unexpected losses, reflected in the allocation of credit risk capital, represent the potential volatility of actual losses relative to the probable level of losses. Risk measurement for the wholesale portfolio is assessed primarily on a risk-rated basis; for the consumer portfolio, it is assessed primarily on a credit-scored basis.

Risk-rated exposure

For portfolios that are risk-rated (generally held in IB, CB, TSS and AM), probable and unexpected loss calculations are based on estimates of probability of default and loss given default. Probability of default is the expected default calculated on an obligor basis. Loss given default is an estimate of losses given a default event and takes into consideration collateral and structural support for each credit facility. Calculations and assumptions are based on management information systems and methodologies which are under continual review. Risk ratings are assigned to differentiate risk within the portfolio and are reviewed on an ongoing basis by Credit Risk Management and revised, if needed, to reflect the borrowers' current financial position, risk profiles and the related collateral and structural positions.

Credit-scored exposure

For credit-scored portfolios (generally held in RFS and CS), probable loss is based on a statistical analysis of inherent losses over discrete periods of time. Probable losses are estimated using sophisticated portfolio modeling, credit scoring and decision-support tools to project credit risks and establish underwriting standards. In addition, common measures of credit quality derived from historical loss experience are used to predict consumer losses. Other risk characteristics evaluated include recent loss experience in the portfolios, changes in origination sources, portfolio seasoning, loss severity and underlying credit practices, including charge-off policies. These analyses are applied to the Firm's current portfolios in order to estimate delinquencies and severity of losses, which determine the amount of probable losses. These factors and analyses are updated at least on a quarterly basis or more frequently as market conditions dictate.

Risk monitoring

The Firm has developed policies and practices that are designed to preserve the independence and integrity of the approval and decision-making process of extending credit, and to ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio review parameters and guidelines for management of distressed exposure. Wholesale credit risk is monitored regularly on both an aggregate portfolio level and on an individual customer basis. Management of the Firm's wholesale exposure is accomplished through a number

of means including loan syndication and participations, loan sales, securitizations, credit derivatives, use of master netting agreements and collateral and other risk-reduction techniques, which are further discussed in the following risk sections. For consumer credit risk, the key focus items are trends and concentrations at the portfolio level, where potential problems can be remedied through changes in underwriting policies and portfolio guidelines. Consumer Credit Risk Management monitors trends against business expectations and industry benchmarks.

Risk reporting

To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit quality forecasts, concentrations levels and risk profile changes are reported regularly to senior credit risk management. Detailed portfolio reporting of industry, customer, product and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, senior management, as mentioned on page 94 of this Annual Report.

2009 Credit risk overview

During 2009, the credit environment experienced further deterioration compared with 2008, resulting in increased defaults, downgrades and reduced liquidity. In the first part of the year, the pace of deterioration increased, adversely affecting many financial institutions and impacting the functioning of credit markets, which remained weak. The pace of deterioration also gave rise to a high level of uncertainty regarding the ultimate extent of the downturn. The Firm's credit portfolio was affected by these market conditions and experienced continued deteriorating credit quality, especially in the first part of the year, generally consistent with the market.

For the wholesale portfolio, criticized assets, nonperforming assets and charge-offs increased significantly from 2008, reflecting continued weakness in the portfolio, particularly in commercial real estate. In the latter part of the year, there were some positive indicators, for example, loan origination activity and market liquidity improved and credit spreads tightened. The wholesale businesses have remained focused on actively managing the portfolio, including ongoing, in-depth reviews of credit quality and industry, product and client concentrations. Underwriting standards across all areas of lending have remained under review and strengthened where appropriate, consistent with evolving market conditions and the Firm's risk management activities. In light of the current market conditions, the wholesale allowance for loan loss coverage ratio has been strengthened to 3.57% from 2.64% at the end of 2008.

The consumer portfolio credit performance continued to be negatively affected by the economic environment of 2009. Higher unemployment and weaker overall economic conditions have led to a significant increase in the number of loans charged off, while continued weak housing prices have driven a significant increase in the severity of loss recognized on real estate loans that defaulted. During 2009, the Firm took proactive action to assist homeowners most in need of financial assistance, including participation in the U.S. Treasury Making Home Affordable ("MHA") programs, which are designed to assist eligible homeowners in a number of ways, one of which is by modifying the terms of their mortgages. The MHA programs and the Firm's other loss-mitigation programs for financially troubled borrowers generally represent various concessions, such as term extensions, rate reductions and deferral of principal payments that would have been required under the terms of the original agreement. The Firm's loss-mitigation programs are intended to minimize economic loss to the Firm, while providing alternatives to foreclosure.

More detailed discussion of the domestic consumer credit environment can be found in Consumer Credit Portfolio on pages 114–123 of this Annual Report.

CREDIT PORTFOLIO

The following table presents JPMorgan Chase's credit portfolio as of December 31, 2009 and 2008. Total credit exposure at December 31, 2009, decreased by $322.6 billion from December 31, 2008, reflecting decreases of $170.5 billion in the wholesale portfolio and $152.1 billion in the consumer portfolio. During 2009, lending-related commitments decreased by $130.3 billion, managed loans decreased by $112.4 billion and derivative receivables decreased by $82.4 billion.

While overall portfolio exposure declined, the Firm provided more than $600 billion in new loans and lines of credit to consumer and wholesale clients in 2009, including individuals, small businesses, large corporations, not-for-profit organizations, U.S. states and municipalities, and other financial institutions.

In the table below, reported loans include loans retained; loans held-for-sale (which are carried at the lower of cost or fair value, with changes in value recorded in noninterest revenue); and loans accounted for at fair value. Loans retained are presented net of unearned income, unamortized discounts and premiums, and net deferred loan costs; for additional information, see Note 13 on pages 200–204 of this Annual Report. 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, which are described in Note 13 on pages 200–204 of this Annual Report. Average retained loan balances are used for the net charge-off rate calculations.

Total credit portfolio

As of or for the year ended December 31,	Credit exposure		Nonperforming assets(c)(d)		90 days or more past due and still accruing(d)		Net charge-offs		Average annual net charge-off rate(e)(f)	
(in millions, except ratios)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Total credit portfolio										
Loans retained	**$ 627,218**	$ 728,915	**$ 17,219**	$ 8,921	**$ 4,355**	$ 3,275	**$ 22,965**	$ 9,835	**3.42%**	1.73 %
Loans held-for-sale	**4,876**	8,287	**234**	12	**—**	—	**—**	—	**—**	—
Loans at fair value	**1,364**	7,696	**111**	20	**—**	—	**—**	—	**—**	—
Loans – reported	**633,458**	744,898	**17,564**	8,953	**4,355**	3,275	**22,965**	9,835	**3.42**	1.73
Loans – securitized(a)	**84,626**	85,571	**—**	—	**2,385**	1,802	**6,443**	3,612	**7.55**	4.53
Total managed loans	**718,084**	830,469	**17,564**	8,953	**6,740**	5,077	**29,408**	13,447	**3.88**	2.08
Derivative receivables	**80,210**	162,626	**529**	1,079	**—**	—	**NA**	NA	**NA**	NA
Receivables from customers	**15,745**	16,141	**—**	—	**—**	—	**NA**	NA	**NA**	NA
Interests in purchased receivables	**2,927**	—	**—**	—	**—**	—	**—**	—	**—**	—
Total managed credit-related assets	**816,966**	1,009,236	**18,093**	10,032	**6,740**	5,077	**29,408**	13,447	**3.88**	2.08
Lending-related commitments	**991,095**	1,121,378	**NA**	NA	**NA**	NA	**NA**	NA	**NA**	NA
Assets acquired in loan satisfactions										
Real estate owned	**NA**	NA	**1,548**	2,533	**NA**	NA	**NA**	NA	**NA**	NA
Other	**NA**	NA	**100**	149	**NA**	NA	**NA**	NA	**NA**	NA
Total assets acquired in loan satisfactions	**NA**	NA	**1,648**	2,682	**NA**	NA	**NA**	NA	**NA**	NA
Total credit portfolio	**$1,808,061**	$ 2,130,614	**$ 19,741**	$12,714	**$ 6,740**	$ 5,077	**$ 29,408**	$ 13,447	**3.88%**	2.08 %
Net credit derivative hedges notional(b)	**$ (48,376)**	$ (91,451)	**$ (139)**	$ —	**NA**	NA	**NA**	NA	**NA**	NA
Liquid securities collateral held against derivatives	**(15,519)**	(19,816)	**NA**	NA	**NA**	NA	**NA**	NA	**NA**	NA

(a) Represents securitized credit card receivables. For further discussion of credit card securitizations, see Note 15 on pages 206–213 of this Annual Report.

(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 111–112 and Note 5 on pages 175–183 of this Annual Report.

(c) At December 31, 2009 and 2008, nonperforming loans and assets excluded: (1) mortgage loans insured by U.S. government agencies of $9.0 billion and $3.0 billion, respectively; (2) real estate owned insured by U.S. government agencies of $579 million and $364 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $542 million and $437 million, respectively. These amounts are excluded, as reimbursement is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the Federal Financial Institutions Examination Council, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

(d) 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.

(e) Net charge-off ratios were calculated using: (1) average retained loans of $672.3 billion and $567.0 billion for the years ended December 31, 2009 and 2008, respectively; (2) average securitized loans of $85.4 billion and $79.6 billion for the years ended December 31, 2009 and 2008, respectively; and (3) average managed loans of $757.7 billion and $646.6 billion for the years ended December 31, 2009 and 2008, respectively.

(f) Firmwide net charge-off ratios were calculated including average purchased credit-impaired loans of $85.4 billion and $22.3 billion at December 31, 2009 and 2008, respectively. Excluding the impact of purchased credit-impaired loans, the total Firm's managed net charge-off rate would have been 4.37% and 2.15% respectively.

WHOLESALE CREDIT PORTFOLIO

As of December 31, 2009, wholesale exposure (IB, CB, TSS and AM) decreased by $170.5 billion from December 31, 2008. The $170.5 billion decrease was primarily driven by decreases of $82.4 billion of derivative receivables, $57.9 billion of loans and $32.7 billion of lending-related commitments. The decrease in derivative receivables was primarily related to tightening credit spreads, volatile foreign exchange rates and rising rates on interest rate swaps. Loans and lending-related commitments decreased across most wholesale lines of business, as lower customer demand continued to affect the level of lending activity.

Wholesale

As of or for the year ended December 31,	Credit exposure		Nonperforming loans[b]		90 days past due and still accruing	
(in millions)	**2009**	2008	**2009**	2008	**2009**	2008
Loans retained	**$ 200,077**	$ 248,089	**$ 6,559**	$ 2,350	**$ 332**	$ 163
Loans held-for-sale	**2,734**	6,259	**234**	12	**—**	—
Loans at fair value	**1,364**	7,696	**111**	20	**—**	—
Loans – reported	**$ 204,175**	$ 262,044	**$ 6,904**	$ 2,382	**$ 332**	$ 163
Derivative receivables	**80,210**	162,626	**529**	1,079	**—**	—
Receivables from customers	**15,745**	16,141	**—**	—	**—**	—
Interests in purchased receivables	**2,927**	—	**—**	—	**—**	—
Total wholesale credit-related assets	**303,057**	440,811	**7,433**	3,461	**332**	163
Lending-related commitments	**347,155**	379,871	**NA**	NA	**NA**	NA
Total wholesale credit exposure	**$ 650,212**	$ 820,682	**$ 7,433**	$ 3,461	**$ 332**	$ 163
Net credit derivative hedges notional[a]	**$ (48,376)**	$ (91,451)	**$ (139)**	$ —	**NA**	NA
Liquid securities collateral held against derivatives	**(15,519)**	(19,816)	**NA**	NA	**NA**	NA

(a) 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 111–112, and Note 5 on pages 175–183 of this Annual Report.

(b) Excludes assets acquired in loan satisfactions. For additional information, see the wholesale nonperforming assets by line of business segment table on pages 108–109 of this Annual Report.

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of December 31, 2009 and 2008. The ratings scale is based on the Firm's internal risk ratings, which generally correspond to the ratings as defined by S&P and Moody's.

Wholesale credit exposure – maturity and ratings profile

	Maturity profile[(c)]				Ratings profile			
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%**

	Maturity profile[(c)]				Ratings profile			
December 31, 2008 (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%	43%	25%	100%	$ 161	$ 87	$ 248	65%
Derivative receivables	31	36	33	100	127	36	163	78
Lending-related commitments	37	59	4	100	317	63	380	83
Total excluding loans held-for-sale and loans at fair value	34%	50%	16%	100%	$ 605	$ 186	791	77%
Loans held-for-sale and loans at fair value[(a)]							14	
Receivables from customers							16	
Total exposure							$ 821	
Net credit derivative hedges notional[(b)]	47%	47%	6%	100%	$ (82)	$ (9)	$ (91)	90%

(a) Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio.
(b) Represents the net notional amounts of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under U.S. GAAP.
(c) The maturity profile of loans and lending-related commitments is based on the remaining contractual maturity. The maturity profile of derivative receivables is based on the maturity profile of average exposure. See Derivative contracts on pages 110–112 of this Annual Report for further discussion of average exposure.

Wholesale credit exposure – selected industry exposures

The Firm focuses on the management and diversification of its industry exposures, with particular attention paid to industries with actual or potential credit concerns. Customer receivables representing primarily margin loans to prime and retail brokerage clients of $15.7 billion are included in the table. These margin loans are generally fully collateralized by cash or highly liquid securities to satisfy daily minimum collateral requirements. Exposures deemed criticized generally represent a ratings profile similar to a rating of "CCC+"/"Caa1" and lower, as defined by S&P and Moody's. The total criticized component of the portfolio, excluding loans held-for-sale and loans at fair value, increased to $33.2 billion at December 31, 2009, from $26.0 billion at year-end 2008. The increase was primarily related to downgrades within the portfolio.

During the fourth quarter of 2009, the Firm revised certain industry classifications to better reflect risk correlations and enhance the Firm's management of industry risk. Below are summaries of the top 25 industry exposures as of December 31, 2009 and 2008. For additional information on industry concentrations, see Note 32 on pages 242–243 of this Annual Report.

Wholesale credit exposure – selected industry exposures

December 31, 2009 (in millions, except ratios)	Credit exposure(d)	% of portfolio	Investment grade	Noninvestment-grade		% of criticized portfolio	Net charge-offs/ (recoveries)	Credit derivative hedges(e)	Collateral held against derivative receivables(f)
				Noncriticized	Criticized				
Top 25 industries[a]									
Real estate	**$ 68,509**	**11%**	**55%**	**$ 18,810**	**$ 11,975**	**36%**	**$ 688**	**$ (1,168)**	**$ (35)**
Banks and finance companies	**54,053**	**9**	**81**	**8,424**	**2,053**	**6**	**719**	**(3,718)**	**(8,353)**
Healthcare	**35,605**	**6**	**83**	**5,700**	**329**	**1**	**10**	**(2,545)**	**(125)**
State and municipal governments	**34,726**	**5**	**93**	**1,850**	**466**	**1**	**—**	**(204)**	**(193)**
Utilities	**27,178**	**4**	**81**	**3,877**	**1,238**	**4**	**182**	**(3,486)**	**(360)**
Consumer products	**27,004**	**4**	**64**	**9,105**	**515**	**2**	**35**	**(3,638)**	**(4)**
Asset managers	**24,920**	**4**	**82**	**3,742**	**680**	**2**	**7**	**(40)**	**(2,105)**
Oil and gas	**23,322**	**4**	**73**	**5,854**	**386**	**1**	**16**	**(2,567)**	**(6)**
Retail and consumer services	**20,673**	**3**	**58**	**7,867**	**782**	**2**	**35**	**(3,073)**	**—**
Holding companies	**16,018**	**3**	**86**	**2,107**	**110**	**—**	**275**	**(421)**	**(320)**
Technology	**14,169**	**2**	**63**	**4,004**	**1,288**	**4**	**28**	**(1,730)**	**(130)**
Insurance	**13,421**	**2**	**69**	**3,601**	**599**	**2**	**7**	**(2,735)**	**(793)**
Machinery and equipment manufacturing	**12,759**	**2**	**57**	**5,122**	**350**	**1**	**12**	**(1,327)**	**(1)**
Metals/mining	**12,547**	**2**	**56**	**4,906**	**639**	**2**	**24**	**(1,963)**	**—**
Media	**12,379**	**2**	**55**	**3,898**	**1,692**	**5**	**464**	**(1,606)**	**—**
Telecom services	**11,265**	**2**	**69**	**3,273**	**251**	**1**	**31**	**(3,455)**	**(62)**
Securities firms and exchanges	**10,832**	**2**	**76**	**2,467**	**145**	**—**	**—**	**(289)**	**(2,139)**
Business services	**10,667**	**2**	**61**	**3,859**	**344**	**1**	**8**	**(107)**	**—**
Building materials/construction	**10,448**	**2**	**43**	**4,537**	**1,399**	**4**	**98**	**(1,141)**	**—**
Chemicals/plastics	**9,870**	**2**	**67**	**2,626**	**611**	**2**	**22**	**(1,357)**	**—**
Transportation	**9,749**	**1**	**66**	**2,745**	**588**	**2**	**61**	**(870)**	**(242)**
Central government	**9,557**	**1**	**99**	**77**	**—**	**—**	**—**	**(4,814)**	**(30)**
Automotive	**9,357**	**1**	**41**	**4,252**	**1,240**	**4**	**52**	**(1,541)**	**—**
Leisure	**6,822**	**1**	**40**	**2,274**	**1,798**	**5**	**151**	**(301)**	**—**
Agriculture/paper manufacturing	**5,801**	**1**	**37**	**3,132**	**500**	**2**	**10**	**(897)**	**—**
All other[b]	**135,791**	**22**	**86**	**15,448**	**3,205**	**10**	**197**	**(3,383)**	**(621)**
Subtotal	**$ 627,442**	**100%**	**73%**	**$ 133,557**	**$ 33,183**	**100%**	**$ 3,132**	**$ (48,376)**	**$ (15,519)**
Loans held-for-sale and loans at fair value	**4,098**				**1,545**				
Receivables from customers	**15,745**								
Interest in purchased receivables[c]	**2,927**								
Total	**$ 650,212**			**$ 133,557**	**$ 34,728**		**$ 3,132**	**$ (48,376)**	**$ (15,519)**

December 31, 2008 (in millions, except ratios)	Credit exposure(d)	% of portfolio	Investment grade	Noninvestment-grade		% of criticized portfolio	Net charge-offs/ (recoveries)	Credit derivative hedges(e)	Collateral held against derivative receivables(f)
				Noncriticized	Criticized				
Top 25 industries[a]									
Real estate	$ 80,284	10%	70%	$ 17,849	$ 5,961	23%	$ 212	$ (2,141)	$ (48)
Banks and finance companies	75,577	10	79	12,953	2,849	11	28	(5,016)	(9,457)
Healthcare	38,032	5	83	6,092	436	2	2	(5,338)	(199)
State and municipal governments	36,772	5	94	1,278	847	3	—	(677)	(134)
Utilities	34,246	4	83	5,844	114	—	3	(9,007)	(65)
Consumer products	29,766	4	65	9,504	792	3	32	(8,114)	(54)
Asset managers	49,256	6	85	6,418	819	3	15	(115)	(5,303)
Oil and gas	24,746	3	75	5,940	231	1	15	(6,627)	(7)
Retail and consumer services	23,223	3	54	9,357	1,311	5	(6)	(6,120)	(55)
Holding companies	14,466	2	70	4,182	116	1	(1)	(689)	(309)
Technology	17,025	2	67	5,391	230	1	—	(3,922)	(3)
Insurance	17,744	2	78	3,138	712	3	—	(5,016)	(846)
Machinery and equipment manufacturing	14,501	2	64	5,095	100	—	22	(3,743)	(6)
Metals/mining	14,980	2	61	5,579	262	1	(7)	(3,149)	(3)
Media	13,177	2	61	3,779	1,305	5	26	(3,435)	—
Telecom services	13,237	2	63	4,368	499	2	(5)	(7,073)	(92)
Securities firms and exchanges	25,590	3	81	4,744	138	1	—	(151)	(898)
Business services	11,247	1	64	3,885	145	1	46	(357)	—
Building materials/construction	12,065	2	49	4,925	1,342	5	22	(2,601)	—
Chemicals/plastics	11,719	1	66	3,357	591	2	5	(2,709)	—
Transportation	10,253	1	64	3,364	319	1	—	(1,567)	—
Central government	14,441	2	98	276	—	—	—	(4,548)	(35)
Automotive	11,448	1	52	3,687	1,775	7	(1)	(2,975)	(1)
Leisure	8,158	1	42	2,827	1,928	7	(1)	(721)	—
Agriculture/paper manufacturing	6,920	1	43	3,226	726	3	1	(835)	—
All other[b]	181,713	23	86	22,321	2,449	9	(6)	(4,805)	(2,301)
Subtotal	$ 790,586	100%	77%	$ 159,379	$ 25,997	100%	$ 402	$ (91,451)	$ (19,816)
Loans held-for-sale and loans at fair value	13,955				2,258				
Receivables from customers	16,141								
Interest in purchased receivables[c]	—								
Total	$ 820,682			$ 159,379	$ 28,255		$ 402	$ (91,451)	$ (19,816)

(a) Rankings are based on exposure at December 31, 2009. The rankings of the industries presented in the 2008 table are based on the rankings of such industries at year-end 2009, not actual rankings in 2008.
(b) For more information on exposures to SPEs included in all other, see Note 16 on pages 214–222 of this Annual Report.
(c) Represents undivided interests in pools of receivables and similar types of assets due to the consolidation during 2009 of one of the Firm-administered multi-seller conduits.
(d) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against derivative receivables or loans.
(e) 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.
(f) Represents other liquid securities collateral held by the Firm as of December 31, 2009 and 2008, respectively.

Presented below is a discussion of several industries to which the Firm has significant exposure, as well as industries the Firm continues to monitor because of actual or potential credit concerns. For additional information, refer to the tables above and on the preceding page.

- Real estate: Exposure to this industry decreased by 15% or $11.8 billion from 2008 as loans and commitments were managed down, predominantly through repayments and loans sales. This sector continues to be challenging as property values in the U.S. remain under pressure, particularly in certain regions. The ratios of nonperforming loans and net charge-offs to loans have increased from 2008 due to deterioration in the commercial real estate portfolio, particularly in the latter half of 2009. The multi-family portfolio, which represents almost half of the commercial real estate exposure, accounts for the smallest proportion of nonperforming loans and net charge-offs. The commercial lessors portfolio involves real estate leased to retail, industrial and office space tenants, while the commercial construction and development portfolio includes financing for the construction of office and professional buildings and malls. Commercial real estate exposure in CB is predominantly secured; CB's exposure represents the majority of the Firm's commercial real estate exposure. IB manages less than one fifth of the total Firm's commercial real estate exposure; IB's exposure represents primarily unsecured lending to Real Estate Investment Trust ("REITs"), lodging, and homebuilding clients. The increase in criticized real estate exposure was largely a result of downgrades within the overall portfolio reflecting the continued weakening credit environment.

The following table presents additional information on the wholesale real estate industry for the periods ended December 31, 2009 and 2008.

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)	% of net charge-offs to total loans [b]
Commercial real estate subcategories							
Multi-family	**$ 32,073**	**47%**	**$ 3,986**	**$ 1,109**	**3.57%**	**$ 199**	**0.64%**
Commercial lessors	**18,512**	**27**	**4,017**	**1,057**	**6.97**	**232**	**1.53**
Commercial construction and development	**6,593**	**10**	**1,518**	**313**	**6.81**	**105**	**2.28**
Other[a]	**11,331**	**16**	**2,454**	**409**	**6.44**	**152**	**2.39**
Total commercial real estate	**$ 68,509**	**100%**	**$ 11,975**	**$ 2,888**	**5.05%**	**$ 688**	**1.20%**

December 31, 2008 (in millions, except ratios)	Credit exposure	% of credit portfolio	Criticized exposure	Nonperforming loans	% of nonperforming loans to total loans[b]	Net charge-offs/ (recoveries)	% of net charge-offs to total loans [b]
Commercial real estate subcategories							
Multi-family	$ 36,188	45%	$ 1,191	$ 293	0.87%	$ (1)	—%
Commercial lessors	21,037	26	1,649	74	0.43	4	0.02
Commercial construction and development	6,688	8	706	82	1.95	4	0.10
Other[a]	16,371	21	2,415	357	3.89	205	2.23
Total commercial real estate	$ 80,284	100%	$ 5,961	$ 806	1.25%	$ 212	0.33%

(a) Other includes lodging, REITs, single family, homebuilders and other real estate.
(b) Ratios were calculated using end-of-period retained loans of $57.2 billion and $64.5 billion for the years ended December 31, 2009 and 2008, respectively.

- Banks and finance companies: Exposure to this industry decreased by 28% or $21.5 billion from 2008, primarily as a result of lower derivative exposure to commercial banks.
- Automotive: Conditions in the U.S. had improved by the end of 2009, largely as a result of the government supported restructuring of General Motors and Chrysler in the first half of 2009 and the related effects on automotive suppliers. Exposure to this industry decreased by 18% or $2.1 billion and criticized exposure decreased 30% or $535 million from 2008, largely due to loan repayments and sales. Most of the Firm's remaining criticized exposure in this segment remains performing and is substantially secured.
- Leisure: Exposure to this industry decreased by 16% or $1.3 billion from 2008 due to loan repayments and sales, primarily in gaming. While exposure to this industry declined, the criticized component remained elevated due to the continued weakness in the industry, particularly in gaming. The gaming portfolio continues to be managed actively.
- All other: All other in the wholesale credit exposure concentration table on pages 106–107 of this Annual Report at December 31, 2009 (excluding loans held-for-sale and loans at fair value) included $135.8 billion of credit exposure to seven industry segments. Exposures related to SPEs and to Individuals, Private Education & Civic Organizations were 44% and 47%, respectively, of this category. SPEs provide secured financing (generally backed by receivables, loans or bonds) originated by a diverse group of companies in industries that are not highly correlated. For further discussion of SPEs, see Note 16 on pages 214–222 of this Annual Report. The remaining all other exposure is well-diversified across industries and none comprise more than 1.0% of total exposure.

Loans

The following table presents wholesale loans and nonperforming assets by business segment as of December 31, 2009 and 2008.

	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**[b]	**$ 203**	**$ —**	**$ 4,236**
Commercial Banking	**97,108**	**324**	**97,432**	**2,801**	**—**	**187**	**1**	**2,989**
Treasury & Securities Services	**18,972**	**—**	**18,972**	**14**	**—**	**—**	**—**	**14**
Asset Management	**37,755**	**—**	**37,755**	**580**	**—**	**2**	**—**	**582**
Corporate/Private Equity	**698**	**207**	**905**	**5**	**—**	**—**	**—**	**5**
Total	**$ 200,077**	**$ 4,098**	**$ 204,175**	**$ 6,904**[a]	**$ 529**	**$ 392**	**$ 1**	**$ 7,826**

(in millions)	December 31, 2008 Loans Retained	Held-for-sale and fair value	Total	Nonperforming Loans	Derivatives	Assets acquired in loan satisfactions Real estate owned	Other	Nonperforming assets
Investment Bank	$ 71,357	$ 13,660	$ 85,017	$ 1,175	$ 1,079[(b)]	$ 247	$ —	$ 2,501
Commercial Banking	115,130	295	115,425	1,026	—	102	14	1,142
Treasury & Securities Services	24,508	—	24,508	30	—	—	—	30
Asset Management	36,188	—	36,188	147	—	—	25	172
Corporate/Private Equity	906	—	906	4	—	—	—	4
Total	$ 248,089	$ 13,955	$ 262,044	$ 2,382[(a)]	$ 1,079	$ 349	$ 39	$ 3,849

(a) The Firm held allowance for loan losses of $2.0 billion and $712 million related to nonperforming retained loans resulting in allowance coverage ratios of 31% and 30%, at December 31, 2009 and 2008, respectively. Wholesale nonperforming loans represent 3.38% and 0.91% of total wholesale loans at December 31, 2009 and 2008, respectively.

(b) Nonperforming derivatives represent less than 1.0% of the total derivative receivables net of cash collateral at both December 31, 2009 and 2008.

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 $200.1 billion at December 31, 2009, compared with $248.1 billion at December 31, 2008. The $48.0 billion decrease, across most wholesale lines of business, reflected lower customer demand. Loans held-for-sale and loans at fair value relate primarily to syndicated loans and loans transferred from the retained portfolio. Held-for-sale loans and loans carried at fair value were $4.1 billion and $14.0 billion at December 31, 2009 and 2008, respectively. The decreases in both held-for-sale loans and loans at fair value reflected sales, reduced carrying values and lower volumes in the syndication market.

The Firm actively manages wholesale credit exposure through loan and commitment sales. During 2009 and 2008, the Firm sold $3.9 billion of loans and commitments in each year, recognizing losses of $38 million and $41 million in each period, respectively. These results include gains or losses on sales of nonperforming loans, if any, as discussed on page 110 of this Annual Report. These activities are not related to the Firm's securitization activities, which are undertaken for liquidity and balance sheet–management purposes. For further discussion of securitization activity, see Liquidity Risk Management and Note 15 on pages 96–100 and 206–213, respectively, of this Annual Report.

Nonperforming wholesale loans were $6.9 billion at December 31, 2009, an increase of $4.5 billion from December 31, 2008, reflecting continued deterioration in the credit environment, predominantly related to loans in the real estate, leisure and banks and finance companies industries. As of December 31, 2009, wholesale loans restructured as part of a troubled debt restructuring were approximately $1.1 billion.

The following table presents the geographic distribution of wholesale loans and nonperforming loans as of December 31, 2009 and 2008. The geographic distribution of the wholesale portfolio is determined based predominantly on the domicile of the borrower.

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

Wholesale (in millions)	**December 31, 2009** Loans	Nonperforming loans	December 31, 2008 Loans	Nonperforming loans
U.S.	**$ 149,085**	**$ 5,844**	$ 186,776	$ 2,123
Non-U.S.	**55,090**	**1,060**	75,268	259
Ending balance	**$ 204,175**	**$ 6,904**	$ 262,044	$ 2,382

The following table presents the change in the nonperforming loan portfolio for the years ended December 31, 2009 and 2008.

Nonperforming loan activity
Wholesale

Year ended December 31, (in millions)	2009	2008
Beginning balance	**$ 2,382**	$ 514
Additions	**13,591**	3,381
Reductions:		
Paydowns and other	**4,964**	859
Gross charge-offs	**2,974**	521
Returned to performing	**341**	93
Sales	**790**	40
Total reductions	**9,069**	1,513
Net additions	**4,522**	1,868
Ending balance	**$ 6,904**	$ 2,382

The following table presents net charge-offs, which are defined as gross charge-offs less recoveries, for the years ended December 31, 2009 and 2008. The amounts in the table below do not include gains from sales of nonperforming loans.

Net charge-offs
Wholesale

Year ended December 31, (in millions, except ratios)	2009	2008
Loans – reported		
Average loans retained	**$ 223,047**	$ 219,612
Net charge-offs	**3,132**	402
Average annual net charge-off rate	**1.40%**	0.18%

Derivative contracts

In the normal course of business, the Firm uses derivative instruments to meet the needs of customers; to generate revenue through trading activities; to manage exposure to fluctuations in interest rates, currencies and other markets; and to manage the Firm's credit exposure. For further discussion of these contracts, see Note 5 and Note 32 on pages 175–183 and 242–243 of this Annual Report.

The following tables summarize the net derivative receivables MTM for the periods presented.

Derivative receivables marked to market

December 31, (in millions)	Derivative receivables MTM 2009	2008
Interest rate[(a)]	**$ 26,777**	$ 49,996
Credit derivatives	**18,815**	44,695
Foreign exchange[(a)]	**21,984**	38,820
Equity	**6,635**	14,285
Commodity	**5,999**	14,830
Total, net of cash collateral	**80,210**	162,626
Liquid securities collateral held against derivative receivables	**(15,519)**	(19,816)
Total, net of all collateral	**$ 64,691**	$ 142,810

(a) In 2009, cross-currency interest rate swaps previously reported in interest rate contracts were reclassified to foreign exchange contracts to be more consistent with industry practice. The effect of this change resulted in a reclassification of $14.1 billion of cross-currency interest rate swaps to foreign exchange contracts as of December 31, 2008.

The amount of derivative receivables reported on the Consolidated Balance Sheets of $80.2 billion and $162.6 billion at December 31, 2009 and 2008, respectively, are the amount 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 on the Consolidated Balance Sheets represent the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in management's view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of $15.5 billion and $19.8 billion at December 31, 2009 and 2008, respectively, resulting in total exposure, net of all collateral, of $64.7 billion and $142.8 billion at December 31, 2009 and 2008, respectively. The decrease of $78.1 billion in derivative receivables MTM, net of the above mentioned collateral, from December 31, 2008, was primarily related to tightening credit spreads, volatile foreign exchange rates and rising rates on interest rate swaps.

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 December 31, 2009 and 2008, the Firm held $16.9 billion and $22.2 billion of this additional collateral, respectively. The derivative receivables MTM, net of all collateral, also do not include other credit enhancements, such as letters of credit.

While useful as a current view of credit exposure, the net MTM value of the derivative receivables does not capture the potential future variability of that credit exposure. To capture the potential future variability of credit exposure, the Firm calculates, on a client-by-client basis, three measures of potential derivatives-related credit loss: Peak, Derivative Risk Equivalent ("DRE"), and Average exposure ("AVG"). These measures all incorporate netting and collateral benefits, where applicable.

Peak exposure to a counterparty is an extreme measure of exposure calculated at a 97.5% confidence level. DRE exposure is a measure that expresses the risk of derivative exposure on a basis intended to be equivalent to the risk of loan exposures. The measurement is done by equating the unexpected loss in a derivative counterparty exposure (which takes into consideration both the loss volatility and the credit rating of the counterparty) with the unexpected loss in a loan exposure (which takes into consideration only the credit rating of the counterparty). DRE is a less extreme measure of potential credit loss than Peak and is the primary measure used by the Firm for credit approval of derivative transactions.

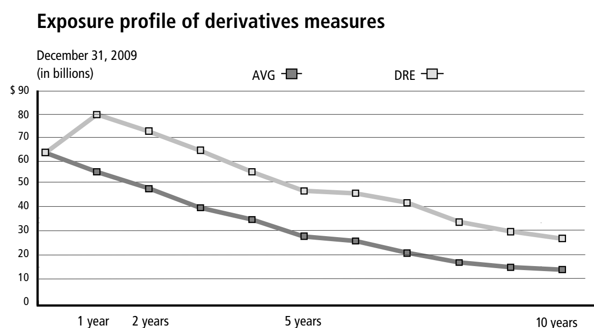
Finally, AVG is a measure of the expected MTM value of the Firm's derivative receivables at future time periods, including the benefit of collateral. AVG exposure over the total life of the derivative contract is used as the primary metric for pricing purposes and is used to calculate credit capital and the CVA, as further described below. AVG exposure was $49.0 billion and $83.7 billion at December 31, 2009 and 2008, respectively, compared with derivative receivables MTM, net of all collateral, of $64.7 billion and $142.8 billion at December 31, 2009 and 2008, respectively.

The MTM value of the Firm's derivative receivables incorporates an adjustment, the CVA, to reflect the credit quality of counterparties.

The CVA is based on the Firm's AVG to a counterparty and the counterparty's credit spread in the credit derivatives market. The primary components of changes in CVA are credit spreads, new deal activity or unwinds, and changes in the underlying market environment. The Firm believes that active risk management is essential to controlling the dynamic credit risk in the derivatives portfolio. In addition, the Firm takes into consideration the potential for correlation between the Firm's AVG to a counterparty and the counterparty's credit quality within the credit approval process. The Firm risk manages exposure to changes in CVA by entering into credit derivative transactions, as well as interest rate, foreign exchange, equity and commodity derivative transactions.

The accompanying graph shows exposure profiles to derivatives over the next ten years as calculated by the DRE and AVG metrics. The two measures generally show declining exposure after the first year, if no new trades were added to the portfolio.

Exposure profile of derivatives measures



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

Ratings profile of derivative receivables MTM

Rating equivalent	**2009**		2008	
December 31, (in millions, except ratios)	Exposure net of of all collateral	% of exposure net of all collateral	Exposure net of of all collateral	% of exposure net of all collateral
AAA/Aaa to AA-/Aa3	**$ 25,530**	**40%**	$ 68,708	48%
A+/A1 to A-/A3	**12,432**	**19**	24,748	17
BBB+/Baa1 to BBB-/Baa3	**9,343**	**14**	15,747	11
BB+/Ba1 to B-/B3	**14,571**	**23**	28,186	20
CCC+/Caa1 and below	**2,815**	**4**	5,421	4
Total	**$ 64,691**	**100%**	$ 142,810	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 89% as of December 31, 2009, largely unchanged from 88% at December 31, 2008.

The Firm posted $56.7 billion and $99.1 billion of collateral at December 31, 2009 and 2008, 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 December 31, 2009, 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 $1.2 billion and $3.6 billion, respectively, of additional collateral to be posted by the Firm. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade to a specified rating of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

Credit derivatives are financial contracts that isolate credit risk from an underlying instrument (such as a loan or security) and transfers that risk from one party (the buyer of credit protection) to another (the seller of credit protection). The Firm is both a purchaser and seller of credit protection. As a purchaser of credit protection, the Firm has risk that the counterparty providing the credit protection will default. As a seller of credit protection, the Firm has risk that the underlying instrument referenced in the contract will be subject to a credit event. Of the Firm's $80.2 billion of total derivative receivables MTM at December 31, 2009, $18.8 billion, or 23%, was associated with credit derivatives, before the benefit of liquid securities collateral.

One type of credit derivatives the Firm enters into with counterparties are credit default swaps ("CDS"). For further detailed discussion of these and other types of credit derivatives, see Note 5 on pages 175–183 of this Annual Report. The large majority of CDS are subject to collateral arrangements to protect the Firm from counterparty credit risk. In 2009, the frequency and size of defaults for both trading counterparties and the underlying debt referenced in credit derivatives were well above historical norms. The use of collateral to settle against defaulting counterparties generally performed as designed in significantly mitigating the Firm's exposure to these counterparties.

The Firm uses credit derivatives for two primary purposes: first, in its capacity as a market-maker in the dealer/client business to meet the needs of customers; and second, in order to mitigate the Firm's own credit risk associated with its overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments).

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold as of December 31, 2009 and 2008, distinguishing between dealer/client activity and credit portfolio activity.

	Notional amount				
	Dealer/client		Credit portfolio		
December 31, (in billions)	Protection purchased[(a)]	Protection sold	Protection purchased[(a)(b)]	Protection sold	Total
2009	**$2,997**	**$2,947**	**$ 49**	**$ 1**	**$ 5,994**
2008	$ 4,193	$ 4,102	$ 92	$ 1	$ 8,388

(a) Included $3.0 trillion and $4.0 trillion at December 31, 2009 and 2008, respectively, of notional exposure within protection purchased where the Firm has protection sold with identical underlying reference instruments. For a further discussion on credit derivatives, see Note 5 on pages 175–183 of this Annual Report.
(b) Included $19.7 billion and $34.9 billion at December 31, 2009 and 2008, respectively, that represented the notional amount for structured portfolio protection; the Firm retains the first risk of loss on this portfolio.

Dealer/client business

Within the dealer/client business, the Firm actively manages credit derivatives by buying and selling credit protection, predominantly on corporate debt obligations, according to client demand for credit risk protection on the underlying reference instruments. Protection may be bought or sold by the Firm on single reference debt instruments ("single-name" credit derivatives), portfolios of referenced instruments ("portfolio" credit derivatives) or quoted indices ("indexed" credit derivatives). The risk positions are largely matched as the Firm's exposure to a given reference entity under a contract to sell protection to a counterparty may be offset partially, or entirely, with a contract to purchase protection from another counterparty on the same underlying instrument. Any residual default exposure and spread risk is actively managed by the Firm's various trading desks.

At December 31, 2009, the total notional amount of protection purchased and sold decreased by $2.4 trillion from year-end 2008. The decrease was primarily due to the impact of industry efforts to reduce offsetting trade activity.

Credit portfolio activities

Management of the Firm's wholesale exposure is accomplished through a number of means including loan syndication and participations, loan sales, securitizations, credit derivatives, use of master netting agreements, and collateral and other risk-reduction techniques. The Firm also manages its wholesale credit exposure by purchasing protection through single-name and portfolio credit derivatives to manage the credit risk associated with loans, lending-related commitments and derivative receivables. Gains or losses on the credit derivatives are expected to offset the unrealized increase or decrease in credit risk on the loans, lending-related commitments or derivative receivables. This activity does not reduce the reported level of assets on the balance sheet or the level of reported off–balance sheet commitments, although it does provide the Firm with credit risk protection. The Firm also diversifies its exposures by selling credit protection, which increases exposure to industries or clients where the Firm has little or no client-related exposure; however, this activity is not material to the Firm's overall credit exposure.

Use of single-name and portfolio credit derivatives

	Notional amount of protection purchased and sold	
December 31, (in millions)	**2009**	2008
Credit derivatives used to manage:		
Loans and lending-related commitments	**$ 36,873**	$ 81,227
Derivative receivables	**11,958**	10,861
Total protection purchased[(a)]	**$ 48,831**	$ 92,088
Total protection sold	**455**	637
Credit derivatives hedges notional	**$ 48,376**	$ 91,451

(a) Included $19.7 billion and $34.9 billion at December 31, 2009 and 2008, 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 related to the Firm's credit derivatives used for managing credit exposure, as well as the MTM 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.

Year ended December 31, (in millions)	**2009**	2008	2007
Hedges of lending-related commitments[(a)]	**$ (3,258)**	$ 2,216	$ 350
CVA and hedges of CVA[(a)]	**1,920**	(2,359)	(363)
Net gains/(losses)[(b)]	**$ (1,338)**	$ (143)	$ (13)

(a) These hedges do not qualify for hedge accounting under U.S. GAAP.
(b) Excludes losses of $2.7 billion and gains of $530 million and $373 million for the years ended December 31, 2009, 2008 and 2007, respectively, of other principal transactions revenue that are not associated with hedging activities.

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 $347.2 billion at December 31, 2009, compared with $379.9 billion at December 31, 2008, reflecting lower customer demand. 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 $179.8 billion and $204.3 billion as of December 31, 2009 and 2008, respectively.

Emerging markets country exposure

The Firm has a comprehensive internal process for measuring and managing exposures to emerging markets countries. There is no common definition of emerging markets, but the Firm generally includes in its definition those countries whose sovereign debt ratings are equivalent to "A+" or lower. Exposures to a country include all credit-related lending, trading and investment activities, whether cross-border or locally funded. In addition to monitoring country exposures, the Firm uses stress tests to measure and manage the risk of extreme loss associated with sovereign crises.

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

Top 10 emerging markets country exposure

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**

At December 31, 2008	Cross-border					**Total**
(in billions)	Lending[(a)]	Trading[(b)]	Other[(c)]	Total	Local[(d)]	**exposure**
South Korea	$ 2.9	$ 1.6	$ 0.9	$ 5.4	$2.3	$ 7.7
India	2.2	2.8	0.9	5.9	0.6	6.5
China	1.8	1.6	0.3	3.7	0.8	4.5
Brazil	1.8	—	0.5	2.3	1.3	3.6
Taiwan	0.1	0.2	0.3	0.6	2.5	3.1
Hong Kong	1.3	0.3	1.2	2.8	—	2.8
United Arab Emirates	1.8	0.7	—	2.5	—	2.5
Mexico	1.9	0.3	0.3	2.5	—	2.5
South Africa	0.9	0.5	0.4	1.8	—	1.8
Russia	1.3	0.2	0.3	1.8	—	1.8

(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 securities 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.

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, with a primary focus on serving the prime consumer credit market. The portfolio also includes home equity loans and lines of credit secured by junior liens, mortgage loans with interest-only payment options to predominantly prime borrowers, as well as certain payment-option loans acquired from Washington Mutual that may result in negative amortization.

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, loan-to-value ratios, FICO scores and delinquency status. These purchased credit-impaired loans are accounted for on a pool basis, and the pools are considered to be performing. At the time of the acquisition, these loans were recorded at fair value, including an estimate of losses that were expected to be incurred over the estimated remaining lives of the loan pools. Therefore, no allowance for loan losses was recorded for these loans as of the transaction date. In 2009, management concluded that it was probable that higher expected future credit losses for certain pools of the purchased credit-impaired portfolio would result in a decrease in expected future cash flows for these pools. As a result, an allowance for loan losses of $1.6 billion was established.

The credit performance of the consumer portfolio across the entire product spectrum continues to be negatively affected by the economic environment. Higher unemployment and weaker overall economic conditions have led to a significant increase in the number of loans charged off, while continued weak housing prices have driven a significant increase in the severity of loss recognized on real estate loans that default. Delinquencies and nonperforming loans continued to increase in 2009. The increases in these credit quality metrics were due, in part, to foreclosure moratorium programs, which ended in early 2009. These moratoriums halted stages of the foreclosure process while the U.S. Treasury developed its homeowner assistance program (i.e., MHA) and the Firm enhanced its foreclosure-prevention programs. Due to a high volume of foreclosures after the moratoriums, processing timelines for foreclosures were elongated by approximately 100 days. Losses related to these loans continued to be recognized in accordance with the Firm's normal charge-off practices, but some delinquent loans that would have otherwise been foreclosed upon remain in the mortgage and home equity loan portfolios. Additional deterioration in the overall economic environment, including continued deterioration in the labor and residential real estate markets, could cause delinquencies and losses to increase beyond the Firm's current expectations.

Since mid-2007, the Firm has taken actions to reduce risk exposure to consumer loans by tightening both underwriting and loan qualification standards for both real estate and non-real estate lending products. For residential real estate lending, tighter income verification, more conservative collateral valuation, reduced loan-to-value maximums, and higher FICO and custom risk score requirements are just some of the actions taken to date to mitigate risk related to new originations. The Firm believes that these actions have better aligned loan pricing with the underlying credit risk of the loans. In addition, originations of subprime mortgage loans, stated income and broker-originated mortgage and home equity loans have been eliminated entirely to further reduce originations with high-risk characteristics. The Firm has never originated option adjustable-rate mortgages. The tightening of underwriting criteria for auto loans has resulted in the reduction of both extended-term and high loan-to-value financing.

As a further action to reduce risk associated with lending-related commitments, the Firm has reduced or canceled certain lines of credit as permitted by law. For example, the Firm may reduce or close home equity lines of credit when there are significant decreases in the value of the underlying property or when there has been a demonstrable decline in the creditworthiness of the borrower. Similarly, certain inactive credit card lines have been closed and a number of active credit card lines have been reduced.

The following table presents 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 200–204 of this Annual Report.

Consumer portfolio

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure		Nonperforming loans[i][j]		90 days or more past due and still accruing[j]		Net charge-offs		Average annual net charge-off rate[k]	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Consumer loans – excluding purchased credit-impaired loans and loans held-for-sale										
Home equity – senior lien[a]	**$ 27,376**	$ 29,793	**$ 477**	$ 291	**$ —**	$ —	**$ 234**	$ 86	**0.80%**	0.33%
Home equity – junior lien[b]	**74,049**	84,542	**1,188**	1,103	**—**	—	**4,448**	2,305	**5.62**	3.12
Prime mortgage	**66,892**	72,266	**4,355**	1,895	**—**	—	**1,894**	526	**2.74**	1.02
Subprime mortgage	**12,526**	15,330	**3,248**	2,690	**—**	—	**1,648**	933	**11.86**	6.10
Option ARMs	**8,536**	9,018	**312**	10	**—**	—	**63**	—	**0.71**	—
Auto loans[c]	**46,031**	42,603	**177**	148	—	—	**627**	568	**1.44**	1.30
Credit card – reported[d][e]	**78,786**	104,746	**3**	4	**3,481**	2,649	**9,634**	4,556	**11.07**	5.47
All other loans	**31,700**	33,715	**900**	430	**542**	463	**1,285**	459	**3.88**	1.58
Total consumer loans	**345,896**	392,013	**10,660**	6,571	**4,023**	3,112	**19,833**	9,433	**5.45**	2.90
Consumer loans – purchased credit-impaired[f]										
Home equity	**26,520**	28,555	**NA**	NA	**NA**	NA	**NA**	NA	**NA**	NA
Prime mortgage	**19,693**	21,855	**NA**	NA	**NA**	NA	**NA**	NA	**NA**	NA
Subprime mortgage	**5,993**	6,760	**NA**	NA	**NA**	NA	**NA**	NA	**NA**	NA
Option ARMs	**29,039**	31,643	**NA**	NA	**NA**	NA	**NA**	NA	**NA**	NA
Total consumer loans – purchased credit-impaired	**81,245**	88,813	**NA**	NA	**NA**	NA	**NA**	NA	**NA**	NA
Total consumer loans – retained	**427,141**	480,826	**10,660**	6,571	**4,023**	3,112	**19,833**	9,433	**4.41**	2.71
Loans held-for-sale	**2,142**	2,028	**—**	—	**—**	—	**—**	—	**—**	—
Total consumer loans – reported	**429,283**	482,854	**10,660**	6,571	**4,023**	3,112	**19,833**	9,433	**4.41**	2.71
Credit card – securitized[g]	**84,626**	85,571	**—**	—	**2,385**	1,802	**6,443**	3,612	**7.55**	4.53
Total consumer loans – managed	**513,909**	568,425	**10,660**	6,571	**6,408**	4,914	**26,276**	13,045	**4.91**	3.06
Total consumer loans – managed – excluding purchased credit-impaired loans[f]	**432,664**	479,612	**10,660**	6,571	**6,408**	4,914	**26,276**	13,045	**5.85**	3.22
Consumer lending-related commitments:										
Home equity – senior lien[a][h]	**19,246**	27,998								
Home equity – junior lien[b][h]	**37,231**	67,745								
Prime mortgage	**1,654**	5,079								
Subprime mortgage	**—**	—								
Option ARMs	**—**	—								
Auto loans	**5,467**	4,726								
Credit card[h]	**569,113**	623,702								
All other loans	**11,229**	12,257								
Total lending-related commitments	**643,940**	741,507								
Total consumer credit portfolio	**$1,157,849**	$1,309,932								
Memo: Credit card – managed	**$ 163,412**	$ 190,317	**$ 3**	$ 4	**$ 5,866**	$ 4,451	**$ 16,077**	$ 8,168	**9.33%**	5.01%

(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) Excludes operating lease-related assets of $2.9 billion and $2.2 billion for December 31, 2009 and 2008, respectively.
(d) Includes $1.0 billion of loans at December 31, 2009, held by the Washington Mutual Master Trust, which were consolidated onto the Firm’s Consolidated Balance Sheets at fair value during the second quarter of 2009.
(e) Includes billed finance charges and fees net of an allowance for uncollectible amounts.
(f) 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. If charge-offs were reported comparable to the non-credit impaired portfolio, life-to-date principal charge-offs would have been $16.7 billion.
(g) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see CS on pages 72–74 of this Annual Report.

(h) The credit card and home equity lending-related commitments represent the total available lines of credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit would be utilized at the same time. For credit card commitments and home equity commitments (if certain conditions are met), the Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.
(i) At December 31, 2009 and 2008, nonperforming loans excluded: (1) mortgage loans insured by U.S. government agencies of $9.0 billion and $3.0 billion, respectively; and (2) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $542 million and $437 million, respectively. These amounts are excluded, as reimbursement is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the Federal Financial Institutions Examination Council, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.
(j) 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.
(k) Average consumer loans held-for-sale and loans at fair value were $2.2 billion and $2.8 billion for the years ended December 31, 2009 and 2008, respectively. These amounts were excluded when calculating the net charge-off rates.

The following table presents consumer nonperforming assets by business segment as of December 31, 2009 and 2008.

Consumer nonperforming assets

	2009				2008			
		Assets acquired in loan satisfactions				Assets acquired in loan satisfactions		
As of December 31, (in millions)	Nonperforming loans	Real estate owned	Other	Nonperforming assets	Nonperforming loans	Real estate owned	Other	Nonperforming assets
Retail Financial Services[(a)]	**$10,611**	**$ 1,154**	**$ 99**	**$11,864**	$ 6,548	$ 2,183	$ 110	$ 8,841
Card Services[(a)]	**3**	**—**	**—**	**3**	4	—	—	4
Corporate/Private Equity	**46**	**2**	**—**	**48**	19	1	—	20
Total	**$10,660**	**$ 1,156**	**$ 99**	**$11,915**	$ 6,571	$ 2,184	$ 110	$ 8,865

(a) At December 31, 2009 and 2008, nonperforming loans and assets excluded: (1) mortgage loans insured by U.S. government agencies of $9.0 billion and $3.0 billion, respectively; (2) real estate owned insured by U.S. government agencies of $579 million and $364 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $542 million and $437 million, respectively. These amounts are excluded, as reimbursement is proceeding normally. In addition, the Firm's policy is generally to exempt credit card loans from being placed on nonaccrual status as permitted by regulatory guidance. Under guidance issued by the Federal Financial Institutions Examination Council, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier.

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

Home equity: Home equity loans at December 31, 2009 were $101.4 billion, a decrease of $12.9 billion from year-end 2008. The decrease primarily reflected lower loan originations, coupled with loan paydowns and charge-offs. The 2009 provision for credit losses for the home equity portfolio included net increases of $2.1 billion to the allowance for loan losses, reflecting the impact of the weak housing prices and higher unemployment. Senior lien nonperforming loans increased from the prior year due to the weak economic environment, while junior lien nonperforming loans were relatively unchanged. Net charge-offs have increased from the prior year due to higher frequency and severity of losses.

Mortgage: Mortgage loans at December 31, 2009, which include prime mortgages, subprime mortgages, adjustable-rate mortgages ("option ARMs") acquired in the Washington Mutual transaction and mortgage loans held-for-sale, were $88.3 billion, representing an $8.5 billion decrease from year-end 2008. The decrease is due to lower prime mortgage loans retained in the portfolio and higher loan charge-offs, as well as the run-off of the subprime and option ARM portfolios. Net charge-offs have increased from the prior year across all segments of the mortgage portfolio due to both higher frequency and a significant increase in the severity of losses.

Prime mortgages of $67.3 billion decreased $5.2 billion from December 31, 2008. The 2009 provision for credit losses included a net increase of $1.0 billion to the allowance for loan losses reflecting the impact of the weak economic environment. Early-stage delinquencies improved in the latter part of the year, while late-stage delinquencies have increased as a result of prior foreclosure moratoriums and ongoing trial modification activity, driving an increase in nonperforming loans.

Subprime mortgages of $12.5 billion decreased $2.8 billion from December 31, 2008, as a result of paydowns, discontinuation of new originations and charge-offs on delinquent loans. The 2009 provision for credit losses included a net increase of $625 million to the allowance for loan losses, reflecting the impact of high loss severities driven by declining home prices.

Option ARMs of $8.5 billion represent less than 5% of non-purchased credit-impaired real estate loans and were $482 million lower than December 31, 2008, due to run-off of the portfolio. This portfolio is primarily comprised of loans with low loan-to-value ratios and high borrower FICOs. Accordingly, the Firm currently expects substantially lower losses on this portfolio when compared with the purchased credit-impaired option ARM portfolio. The cumulative amount of unpaid interest added to the unpaid principal balance due to negative amortization of option ARMs was $78 million at December 31, 2009. New originations of option ARMs were discontinued by Washington Mutual prior to the date of JPMorgan Chase's acquisition of Washington Mutual. The Firm has not originated, and does not originate, option ARMs.

Auto loans: As of December 31, 2009, auto loans were $46.0 billion, an increase of $3.4 billion from year-end 2008, partially as a result of new originations in connection with the U.S. government's "cash for clunkers" program in the third quarter. Delinquent loans were slightly lower than the prior year. Loss severities also decreased as a result of higher used-car prices nationwide. The auto loan portfolio reflects a high concentration of prime quality credits.

Credit card: JPMorgan Chase analyzes its credit card portfolio on a managed basis, which includes credit card receivables on the Consolidated Balance Sheets and those receivables sold to investors through securitizations. Managed credit card receivables were $163.4 billion at December 31, 2009, a decrease of $26.9 billion from year-end 2008, reflecting lower charge volume and a higher level of charge-offs.

The 30-day managed delinquency rate increased to 6.28% at December 31, 2009, from 4.97% at December 31, 2008, and the managed credit card net charge-off rate increased to 9.33% in 2009, from 5.01% in 2008. These increases reflect the current weak economic environment, especially in metropolitan statistical areas ("MSAs") experiencing the greatest housing price depreciation and highest unemployment and to the credit performance of loans acquired in the Washington Mutual transaction. The allowance for loan losses was increased by $2.0 billion for 2009, reflecting a provision for loan losses of $2.4 billion, partially offset by the reclassification of $298 million related to an issuance and retention of securities from the Chase Issuance Trust. The managed credit card portfolio continues to reflect a well-seasoned, largely rewards-based portfolio that has good U.S. geographic diversification.

Managed credit card receivables, excluding the Washington Mutual portfolio, were $143.8 billion at December 31, 2009, compared with $162.1 billion at December 31, 2008. The 30-day managed delinquency rate was 5.52% at December 31, 2009, up from 4.36% at December 31, 2008; the managed credit card net charge-off rate, excluding the Washington Mutual portfolio increased to 8.45% in 2009 from 4.92% in 2008.

Managed credit card receivables of the Washington Mutual portfolio were $19.7 billion at December 31, 2009, compared with $28.3 billion at December 31, 2008. Excluding the impact of the purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the Washington Mutual Master Trust, the Washington Mutual portfolio's 30-day managed delinquency rate was 12.72% at December 31, 2009, compared with 9.14% at December 31, 2008, and the 2009 net charge-off rate was 18.79%.

All other: All other loans primarily include business banking loans (which are highly collateralized loans, often with personal loan guarantees), student loans, and other secured and unsecured consumer loans. As of December 31, 2009, other loans, including loans held-for-sale, were $33.6 billion, down $2.0 billion from year-end 2008, primarily as a result of lower business banking loans. The 2009 provision for credit losses reflected a net increase of $580 million to the allowance for loan losses and an increase in net charge-offs of $826 million related to the business banking and student loan portfolios, reflecting the impact of the weak economic environment.

Purchased credit-impaired: Purchased credit-impaired loans were $81.2 billion at December 31, 2009, compared with $88.8 billion at December 31, 2008. This portfolio represents loans acquired in the Washington Mutual transaction that were recorded at fair value at the time of acquisition. The fair value of these loans included an estimate of credit losses expected to be realized over the remaining lives of the loans, and therefore no allowance for loan losses was recorded for these loans as of the acquisition date.

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

During 2009, management concluded that it was probable that higher expected principal credit losses for the purchased credit-impaired prime mortgage and option ARM pools would result in a decrease in expected cash flows for these pools. As a result, an allowance for loan losses of $1.1 billion and $491 million, respectively, was established for these pools. The credit performance of the other pools has generally been consistent with the estimate of losses at the acquisition date. Accordingly, no impairment for these other pools has been recognized.

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

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

- Geographic distribution of loans, including certain residential real estate loans with high loan-to-value ratios; and
- Loans that are 30+ days past due.

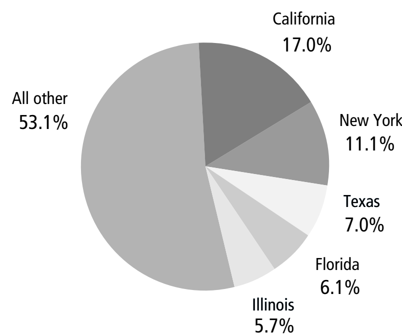
The following tables present the geographic distribution of managed consumer credit outstandings by product as of December 31, 2009 and 2008, excluding purchased credit-impaired loans.

Consumer loans by geographic region – excluding purchased credit-impaired loans

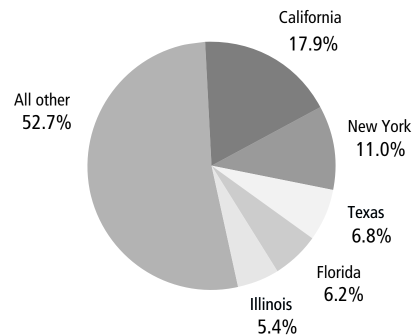
December 31, 2009 (in billions)	Home equity – senior lien	Home equity – junior lien	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans– reported	Card securitized	Total consumer loans– managed
California	**$ 3.6**	**$16.9**	**$ 19.1**	**$ 1.7**	**$ 3.8**	**$ 45.1**	**$ 4.4**	**$ 11.0**	**$ 1.8**	**$ 62.3**	**$ 11.4**	**$ 73.7**
New York	**3.4**	**12.4**	**9.2**	**1.5**	**0.9**	**27.4**	**3.8**	**6.0**	**4.2**	**41.4**	**6.7**	**48.1**
Texas	**4.2**	**2.7**	**2.5**	**0.4**	**0.2**	**10.0**	**4.3**	**5.6**	**3.8**	**23.7**	**6.5**	**30.2**
Florida	**1.2**	**4.1**	**6.0**	**1.9**	**0.7**	**13.9**	**1.8**	**5.2**	**0.9**	**21.8**	**4.8**	**26.6**
Illinois	**1.8**	**4.8**	**3.4**	**0.6**	**0.4**	**11.0**	**2.4**	**3.9**	**2.4**	**19.7**	**4.9**	**24.6**
Ohio	**2.3**	**1.9**	**0.8**	**0.3**	**—**	**5.3**	**3.2**	**3.1**	**2.9**	**14.5**	**3.4**	**17.9**
New Jersey	**0.8**	**3.8**	**2.3**	**0.6**	**0.3**	**7.8**	**1.8**	**3.0**	**0.9**	**13.5**	**3.6**	**17.1**
Michigan	**1.3**	**1.9**	**1.4**	**0.3**	**—**	**4.9**	**2.1**	**2.4**	**2.5**	**11.9**	**2.9**	**14.8**
Arizona	**1.6**	**3.6**	**1.6**	**0.3**	**0.1**	**7.2**	**1.5**	**1.7**	**1.6**	**12.0**	**2.1**	**14.1**
Pennsylvania	**0.2**	**1.2**	**0.7**	**0.4**	**0.1**	**2.6**	**2.0**	**2.8**	**0.8**	**8.2**	**3.2**	**11.4**
Washington	**0.9**	**2.4**	**1.9**	**0.3**	**0.4**	**5.9**	**0.6**	**1.5**	**0.4**	**8.4**	**1.5**	**9.9**
Colorado	**0.4**	**1.7**	**1.8**	**0.2**	**0.2**	**4.3**	**1.0**	**1.6**	**0.8**	**7.7**	**2.1**	**9.8**
All other	**5.7**	**16.6**	**16.6**	**4.0**	**1.4**	**44.3**	**17.1**	**31.0**	**10.6**	**103.0**	**31.5**	**134.5**
Total	**$ 27.4**	**$ 74.0**	**$ 67.3**	**$ 12.5**	**$ 8.5**	**$ 189.7**	**$ 46.0**	**$ 78.8**	**$ 33.6**	**$ 348.1**	**$ 84.6**	**$ 432.7**

December 31, 2008 (in billions)	Home equity – senior lien	Home equity – junior lien	Prime mortgage	Subprime mortgage	Option ARMs	Total home loan portfolio	Auto	Card reported	All other loans	Total consumer loans – reported	Card securitized	Total consumer loans – managed
California	$ 3.9	$ 19.3	$ 22.8	$ 2.2	$ 3.8	$ 52.0	$ 4.7	$ 14.8	$ 2.0	$ 73.5	$ 12.5	$ 86.0
New York	3.3	13.0	10.4	1.7	0.9	29.3	3.7	8.3	4.7	46.0	6.6	52.6
Texas	5.0	3.1	2.7	0.4	0.2	11.4	3.8	7.4	4.1	26.7	6.1	32.8
Florida	1.3	5.0	6.0	2.3	0.9	15.5	1.5	6.8	0.9	24.7	5.2	29.9
Illinois	1.9	5.3	3.3	0.7	0.3	11.5	2.2	5.3	2.5	21.5	4.6	26.1
Ohio	2.6	2.0	0.7	0.4	—	5.7	3.3	4.1	3.3	16.4	3.4	19.8
New Jersey	0.8	4.2	2.5	0.8	0.3	8.6	1.6	4.2	0.9	15.3	3.6	18.9
Michigan	1.4	2.2	1.3	0.4	—	5.3	1.5	3.4	2.8	13.0	2.8	15.8
Arizona	1.7	4.2	1.6	0.4	0.2	8.1	1.6	2.3	1.9	13.9	1.8	15.7
Pennsylvania	0.2	1.4	0.7	0.5	0.1	2.9	1.7	3.9	0.7	9.2	3.2	12.4
Washington	1.0	2.8	2.3	0.3	0.5	6.9	0.6	2.0	0.4	9.9	1.6	11.5
Colorado	0.5	1.9	1.9	0.3	0.3	4.9	0.9	2.1	0.9	8.8	2.1	10.9
All other	6.2	20.1	16.3	4.9	1.5	49.0	15.5	40.1	10.5	115.1	32.1	147.2
Total	$ 29.8	$ 84.5	$ 72.5	$ 15.3	$ 9.0	$ 211.1	$ 42.6	$ 104.7	$ 35.6	$ 394.0	$ 85.6	$ 479.6

Top 5 States Consumer Loans - Managed [(a)]
(at December 31, 2009)



Top 5 States Consumer Loans - Managed [(a)]
(at December 31, 2008)



(a) Excluding the purchased credit-impaired loans acquired in the Washington Mutual transaction.

The following table presents the geographic distribution of certain residential real estate loans with current estimated combined loan-to-value ratios ("LTVs") in excess of 100% as of December 31, 2009 and 2008, excluding purchased credit-impaired loans acquired in the Washington Mutual transaction. The estimated collateral values used to calculate the current estimated combined LTV ratios in the following table were derived from a nationally recognized home price index measured at the MSAs level. Because home price indices can have wide variability and such derived real estate values do not represent actual appraised loan-level collateral values, the resulting ratios are necessarily imprecise and should therefore be viewed as estimates.

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

December 31, 2009 (in billions, except ratios)	Home equity – junior lien[(c)]	Prime mortgage[(c)(d)]	Subprime mortgage[(c)]	Total	% of total loans[(e)]
California	**$ 8.3**	**$ 9.4**	**$ 1.1**	**$ 18.8**	**50%**
New York	**2.3**	**1.3**	**0.3**	**3.9**	**17**
Arizona	**2.8**	**1.1**	**0.2**	**4.1**	**75**
Florida	**2.8**	**3.9**	**1.3**	**8.0**	**67**
Michigan	**1.3**	**0.9**	**0.2**	**2.4**	**67**
All other	**8.1**	**6.1**	**1.8**	**16.0**	**22**
Total combined LTV >100%	**$ 25.6**	**$ 22.7**	**$ 4.9**	**$ 53.2**	**35%**
As a percentage of total loans	**35%**	**34%**	**39%**	**35%**	
Total portfolio average combined LTV at origination	**74**	**74**	**79**		
Total portfolio average current estimated combined LTV[(b)]	**97**	**93**	**101**		

December 31, 2008[(f)] (in billions, except ratios)	Home equity – junior lien[(c)]	Prime mortgage[(c)(d)]	Subprime mortgage[(c)]	Total	% of total loans[(e)]
California	$ 8.4	$ 7.9	$ 1.3	$ 17.6	40%
New York	1.8	0.6	0.3	2.7	11
Arizona	2.9	0.9	0.2	4.0	65
Florida	2.9	2.9	1.5	7.3	55
Michigan	1.3	0.6	0.3	2.2	56
All other	7.5	3.3	1.6	12.4	16
Total combined LTV >100%	$ 24.8	$ 16.2	$ 5.2	$ 46.2	27%
As a percentage of total loans	29%	22%	34%	27%	
Total portfolio average combined LTV at origination	75	72	79		
Total portfolio average current estimated combined LTV[(b)]	91	83	91		

(a) Home equity–junior lien, prime mortgage and subprime mortgage loans with current estimated combined LTVs greater than 80% up to and including 100% were $17.9 billion, $17.6 billion and $3.5 billion, respectively, at December 31, 2009.
(b) The average current estimated combined LTV ratio reflects the outstanding balance at the balance sheet date, divided by the estimated current property value. Current property values are estimated based on home valuation models utilizing nationally recognized home price index valuation estimates.
(c) Represents combined loan-to-value, which considers all available lien positions related to the property.
(d) Includes mortgage loans insured by the U.S. government agencies of $5.3 billion and $1.8 billion at December 31, 2009 and 2008, respectively.
(e) Represents total loans of the product types noted in this table by geographic location.
(f) December 2008 estimated collateral values for the heritage Washington Mutual portfolio have been changed to conform to values derived from the home price index used for the JPMorgan Chase portfolio. Home price indices generally have different valuation methods and assumptions and therefore can yield a wide range of estimates.

The consumer credit portfolio is geographically diverse. The greatest concentration of loans is in California, which represents 18% of total on-balance sheet consumer loans and 24% of total residential real estate loans at December 2009, compared to 19% and 25%, respectively, at December 2008. Of the total on-balance sheet consumer loan portfolio, $149.4 billion, or 43%, are concentrated in California, New York, Arizona, Florida and Michigan at December 2009 compared to $171.1 billion, or 43%, at December 2008.

Declining home prices have had a significant impact on the estimated collateral value underlying the Firm's residential real estate loan portfolio. In general, the delinquency rate for loans with high current estimated combined LTV ratios is greater than the delinquency rate for loans in which the borrower has equity in the collateral. While a large portion of the loans with current estimated combined LTV ratios greater than 100% continue to pay and are current, the continued willingness and ability of these borrowers to pay is currently uncertain. Nonperforming loans in the residential real estate portfolio totaled $9.6 billion, of which 64% was greater than 150 days past due at December 31, 2009. Of the nonperforming loans that were greater than 150 days past due at December 31, 2009, approximately 36% of the unpaid principal balance of these loans has been charged-down to estimated collateral value.

Consumer 30+ day delinquency information

	30+ day delinquent loans		30+ day delinquency rate	
December 31, (in millions, except ratios)	**2009**	2008	**2009**	2008
Consumer loans – excluding purchased credit-impaired loans(a)				
Home equity – senior lien	**$ 833**	$ 585	**3.04%**	1.96%
Home equity – junior lien	**2,515**	2,563	**3.40**	3.03
Prime mortgage	**5,532**(b)	3,180(b)	**8.21**(d)	4.39(d)
Subprime mortgage	**4,232**	3,760	**33.79**	24.53
Option ARMs	**438**	68	**5.13**	0.75
Auto loans	**750**	963	**1.63**	2.26
Credit card – reported	**6,093**	5,653	**7.73**	5.40
All other loans	**1,306**(c)	708(c)	**3.91**	1.99
Total consumer loans – excluding purchased credit-impaired loans – reported	**$ 21,699**	$ 17,480	**6.23%**	4.44%
Credit card – securitized	**4,174**	3,811	**4.93**	4.45
Total consumer loans – excluding purchased credit-impaired loans – managed	**$ 25,873**	$ 21,291	**5.98%**	4.44%
Memo: Credit card – managed	**$ 10,267**	$ 9,464	**6.28%**	4.97%

(a) The delinquency rate for purchased credit-impaired loans, which is based on the unpaid principal balance, was 27.79% and 17.89% at December 31, 2009 and 2008, respectively.

(b) Excludes 30+ day delinquent mortgage loans that are insured by U.S. government agencies of $9.7 billion and $3.5 billion at December 31, 2009 and 2008, respectively. These amounts are excluded, as reimbursement is proceeding normally.

(c) Excludes 30+ day delinquent loans that are 30 days or more past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program, of $942 million and $824 million at December 31, 2009 and 2008, respectively. These amounts are excluded as reimbursement is proceeding normally.

(d) The denominator for the calculation of the 30+ day delinquency rate includes: (1) residential real estate loans reported in the Corporate/Private Equity segment; and (2) mortgage loans insured by U.S. government agencies. The 30+ day delinquency rate excluding these loan balances was 11.24% and 5.14% at December 31, 2009 and 2008, respectively.

Consumer 30+ day delinquencies have increased to 6.23% of the consumer loan portfolio at December 31, 2009, in comparison to 4.44% at December 31, 2008, driven predominately by an increase in residential real estate delinquencies which increased $3.4 billion. Late stage delinquencies (150+ days delinquent) increased significantly reflecting the impacts of trial loan modifications and foreclosure moratorium backlogs. Losses related to these loans continue to be recognized in accordance with the Firm's normal charge-off practices; as such, these loans are reflected at their estimated collateral value. Early stage delinquencies (30 - 89 days delinquent) in the residential real estate portfolios have remained relatively flat year over year.

Concentrations of credit risk – purchased credit-impaired loans

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

Combined LTV ratios and ratios of carrying values to current estimated collateral values – purchased credit-impaired

December 31, 2009 (in billions, except ratios)	Unpaid principal balance[b]	Current estimated combined LTV ratio[c][d]	Carrying value[e]	Ratio of carrying value to current estimated collateral value
Option ARMs[a]	**$ 37.4**	**128%**	**$ 29.0**	**98%**[f]
Home equity	**32.9**	**127**	**26.5**	**102**
Prime mortgage	**22.0**	**121**	**19.7**	**102**[f]
Subprime mortgage	**9.0**	**122**	**6.0**	**81**

December 31, 2008[g] (in billions, except ratios)	Unpaid principal balance[b]	Current estimated combined LTV ratio[c][d]	Carrying value[e]	Ratio of carrying value to current estimated collateral value
Option ARMs	$ 41.6	113%	$ 31.6	86%
Home equity	39.8	115	28.6	82
Prime mortgage	25.0	107	21.8	94
Subprime mortgage	10.3	112	6.8	73

(a) The cumulative amount of unpaid interest that has been added to the unpaid principal balance of option ARMs was $1.9 billion at December 31, 2009. Assuming market interest rates, the Firm would expect the following balance of current loans to experience a payment recast: $6.3 billion in 2010 and $3.9 billion in 2011, of which $4.8 billion and $3.7 billion relate to the purchased credit-impaired portfolio.

(b) Represents the contractual amount of principal owed.

(c) Represents the aggregate unpaid principal balance of loans divided by the estimated current property value. Current property values are estimated based on home valuation models utilizing nationally recognized home price index valuation estimates.

(d) Represents current estimated combined loan-to-value, which considers all available lien positions related to the property.

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

(f) Ratios of carrying value to current estimated collateral value for the prime mortgage and option ARM portfolios are net of the allowance for loan losses of $1.1 billion and $491 million, respectively, as of December 31, 2009.

(g) December 2008 estimated collateral values for the heritage Washington Mutual portfolio have been changed to conform to values derived from home price index used for the JPMorgan Chase portfolio. Home price indices generally have different valuation methods and assumptions and therefore can yield a wide range of estimates.

Purchased credit-impaired loans in the states of California and Florida represented 54% and 11%, respectively, of total purchased credit-impaired loans at December 31, 2009, compared with 53% and 11%, respectively, at December 31, 2008. The current estimated combined LTV ratios were 137% and 149% for California and Florida loans, respectively, at December 31, 2009, compared with 121% and 125%, respectively, at December 31, 2008. Loan concentrations in California and Florida, as well as the continuing decline in housing prices in those states, have contributed negatively to both the current estimated combined LTV ratio and the ratio of carrying value to current collateral value for loans in the purchased credit-impaired portfolio.

While the carrying value of the purchased credit-impaired loans is marginally below the current collateral value of the loans, the ultimate performance of this portfolio is highly dependent on the borrowers' behavior and ongoing ability and willingness to continue to make payments on homes with negative equity as well as the cost of alternative housing. The purchased credit-impaired portfolio was recorded at fair value at the time of acquisition which included an estimate of losses expected to be incurred over the estimated remaining lives of the loan pools. During 2009, management concluded that it was probable that higher than expected future principal credit losses would result in a decrease in the expected future cash flows of the prime and option ARM pools. As a result an allowance for loan losses of $1.6 billion was established.

Residential real estate loan modification activities: During 2009, the Firm reviewed its residential real estate portfolio to identify homeowners most in need of assistance, opened new regional counseling centers, hired additional loan counselors, introduced new financing alternatives, proactively reached out to borrowers to offer pre-qualified modifications, and commenced a new process to independently review each loan before moving it into the foreclosure process. In addition, during the first quarter of 2009, the U.S. Treasury introduced the MHA programs, which are designed to assist eligible homeowners in a number of ways, one of which is by modifying the terms of their mortgages. The Firm is participating in the MHA programs while continuing to expand its other loss-mitigation efforts for financially distressed borrowers who do not qualify for the MHA programs. The MHA programs and the Firm's other loss-mitigation programs for financially troubled borrowers generally represent various concessions such as term extensions, rate reductions and deferral of principal payments that would have otherwise been required under the terms of the original agreement. When the Firm modifies home equity lines of credit in troubled debt restructurings, future lending commitments related to the modified loans are canceled as part of the terms of the modification. Under all of these programs, borrowers must make at least three payments under the revised contractual terms during a trial modification period and be successfully re-underwritten with income verification before their loans can be permanently modified. The Firm's loss-mitigation programs are intended to minimize economic loss to the Firm, while providing alternatives to foreclosure. The success of these programs is highly dependent on borrowers' ongoing ability and willingness to repay in accordance with the modified terms and could be adversely affected by additional deterioration in the economic environment or shifts in borrower behavior. For both the Firm's on-balance sheet loans and loans serviced for others, approximately 600,000 mortgage modifications had been offered to borrowers in 2009. Of these, 89,000 have achieved permanent modification. Substantially all of the loans contractually modified to date were modified under the Firm's other loss mitigation programs.

The following table presents information relating to restructured on-balance sheet residential real estate loans for which concessions have been granted to borrowers experiencing financial difficulty as of December 31, 2009. Modifications of purchased credit-impaired loans continue to be accounted for and reported as purchased credit-impaired loans, and the impact of the modification is incorporated into the Firm's quarterly assessment of whether a probable and/or significant change in estimated future principal cash flows has occurred. Modifications of loans other than purchased credit-impaired are generally accounted for and reported as troubled debt restructurings.

Restructured residential real estate loans[(a)]

December 31, 2009 (in millions)	On–balance sheet loans	Nonperforming on–balance sheet loans[(d)]
Restructured residential real estate loans – excluding purchased credit-impaired loans[(b)]		
Home equity – senior lien	$ 168	$ 30
Home equity – junior lien	222	43
Prime mortgage	634	243
Subprime mortgage	1,998	598
Option ARMs	8	6
Total restructured residential real estate loans – excluding purchased credit-impaired loans	$ 3,030	$ 920
Restructured purchased credit-impaired loans[(c)]		
Home equity	$ 453	NA
Prime mortgage	1,526	NA
Subprime mortgage	1,954	NA
Option ARMs	2,972	NA
Total restructured purchased credit-impaired loans	$ 6,905	NA

(a) Restructured residential real estate loans were immaterial at December 31, 2008.
(b) Amounts represent the carrying value of restructured residential real estate loans.
(c) Amounts represent the unpaid principal balance of restructured purchased credit-impaired loans.
(d) Nonperforming loans modified in a troubled debt restructuring may be returned to accrual status when repayment is reasonably assured and the borrower has made a minimum of six payments under the new terms.

Real estate owned ("REO"): As part of the residential real estate foreclosure process, loans are written down to the fair value of the underlying real estate asset, less costs to sell. In those instances where the Firm gains title, ownership and possession of individual properties at the completion of the foreclosure process, these REO assets are managed for prompt sale and disposition at the best possible economic value. Any further gains or losses on REO assets are recorded as part of other income. Operating expense, such as real estate taxes and maintenance, are charged to other expense. REO assets declined from year-end 2008 as a result of the foreclosure moratorium in early 2009 and the subsequent increase in loss mitigation activities. It is anticipated that REO assets will increase over the next several quarters, as loans moving through the foreclosure process are expected to increase.

Portfolio transfers: The Firm regularly evaluates market conditions and overall economic returns and makes an initial determination as to whether new originations will be held-for-investment or sold within the foreseeable future. The Firm also periodically evaluates the expected economic returns of previously originated loans under prevailing market conditions to determine whether their designation as held-for-sale or held-for-investment continues to be appropriate. When the Firm determines that a change in this designation is appropriate, the loans are transferred to the appropriate classification. Since the second half of 2007, all new prime mortgage originations that cannot be sold to U.S. government agencies and U.S. government-sponsored enterprises have been designated as held-for-investment. Prime mortgage loans originated with the intent to sell are accounted for at fair value and classified as trading assets in the Consolidated Balance Sheets.

ALLOWANCE FOR CREDIT LOSSES

JPMorgan Chase's allowance for loan losses covers the wholesale (risk-rated) and consumer (primarily scored) loan portfolios and represents management's estimate of probable credit losses inherent in the Firm's loan portfolio. Management also computes an allowance for wholesale lending-related commitments using a methodology similar to that used for the wholesale loans. During 2009, the Firm did not make any significant changes to the methodologies or policies described in the following paragraphs.

Wholesale loans are 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. Consumer loans, other than purchased credit-impaired loans, are generally charged off to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, 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 of receiving notification about a specified event (e.g., bankruptcy of the borrower), whichever is earlier. Residential mortgage products are generally charged off to an amount equal to the net realizable value of the underlying collateral, no later than the date the loan becomes 180 days past due. Other consumer products, if collateralized, are generally charged off to the net realizable value of the underlying collateral at 120 days past due.

Determining the appropriateness of the allowance is complex and requires judgment about the effect of matters that are inherently uncertain. Assumptions about unemployment rates, housing prices and overall economic conditions could have a significant impact on the Firm's determination of loan quality. Subsequent evaluations of the loan portfolio, in light of then-prevailing factors, may result in significant changes in the allowances for loan losses and lending-related commitments in future periods. At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. As of December 31, 2009, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses inherent in the portfolio, including those not yet identifiable).

For a further discussion of the components of the allowance for credit losses, see Critical Accounting Estimates Used by the Firm on pages 135–139 and Note 14 on pages 204–206 of this Annual Report.

The allowance for credit losses increased by $8.7 billion from the prior year to $32.5 billion. Excluding held-for-sale loans, loans carried at fair value, and purchased credit-impaired consumer loans, the allowance for loan losses represented 5.51% of loans at December 31, 2009, compared with 3.62% at December 31, 2008.

The consumer allowance for loan losses increased by $7.8 billion from the prior year, primarily as a result of an increased allowance for loan losses in residential real estate and credit card. The increase included additions to the allowance for loan losses of $5.2 billion, driven by higher estimated losses for residential mortgage and home equity loans as the weak labor market and weak overall economic conditions have resulted in increased delinquencies, and continued weak housing prices have driven a significant increase in loss severity. The allowance for loan losses related to credit card increased $2.0 billion from the prior year, reflecting continued weakness in the credit environment. The increase reflects an addition of $2.4 billion through the provision for loan losses, partially offset by the reclassification of $298 million related to the issuance and retention of securities from the Chase Issuance Trust.

The wholesale allowance for loan losses increased by $600 million from December 31, 2008, reflecting the effect of a continued weakening credit environment.

To provide for the risk of loss inherent in the Firm's process of extending credit an allowance for lending-related commitments is held for the Firm, which is reported in other liabilities. The allowance is computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown. For a further discussion on the allowance for lending-related commitments, see Note 14 on page 204–206 of this Annual Report.

The allowance for lending-related commitments for both wholesale and consumer, which is reported in other liabilities, was $939 million and $659 million at December 31, 2009 and 2008, respectively. The increase reflects downgrades within the wholesale portfolio due to the continued weakening credit environment during 2009.

The credit ratios in the table below are based on retained loan balances, which exclude loans held-for-sale and loans accounted for at fair value. As of December 31, 2009 and 2008, wholesale retained loans were $200.1 billion and $248.1 billion, respectively; and consumer retained loans were $427.1 billion and $480.8 billion, respectively. For the years ended December 31, 2009 and 2008, average wholesale retained loans were $223.0 billion and $219.6 billion, respectively; and average consumer retained loans were $449.2 billion and $347.4 billion, respectively.

Summary of changes in the allowance for credit losses

Year ended December 31, (in millions)	2009 Wholesale	2009 Consumer	2009 Total	2008 Wholesale	2008 Consumer	2008 Total
Allowance for loan losses:						
Beginning balance at January 1,	**$ 6,545**	**$ 16,619**	**$ 23,164**	$ 3,154	$ 6,080	$ 9,234
Gross charge-offs	**3,226**	**20,792**	**24,018**	521	10,243	10,764
Gross (recoveries)	**(94)**	**(959)**	**(1,053)**	(119)	(810)	(929)
Net charge-offs	**3,132**	**19,833**	**22,965**	402	9,433	9,835
Provision for loan losses:						
Provision excluding accounting conformity	**3,684**	**28,051**	**31,735**	2,895	16,765	19,660
Accounting conformity[(a)]	**—**	**—**	**—**	641	936	1,577
Total provision for loan losses	**3,684**	**28,051**	**31,735**	3,536	17,701	21,237
Acquired allowance resulting from Washington Mutual transaction	**—**	**—**	**—**	229	2,306	2,535
Other[(b)]	**48**	**(380)**	**(332)**	28	(35)	(7)
Ending balance at December 31	**$ 7,145**	**$ 24,457**	**$ 31,602**	$ 6,545	$ 16,619	$ 23,164
Components:						
Asset-specific[(c)(d)]	**$ 2,046**	**$ 996**	**$ 3,042**	$ 712	$ 379	$ 1,091
Formula-based	**5,099**	**21,880**	**26,979**	5,833	16,240	22,073
Purchased credit-impaired	**—**	**1,581**	**1,581**	—	—	—
Total allowance for loan losses	**$ 7,145**	**$ 24,457**	**$ 31,602**	$ 6,545	$ 16,619	$ 23,164
Allowance for lending-related commitments:						
Beginning balance at January 1,	**$ 634**	**$ 25**	**$ 659**	$ 835	$ 15	$ 850
Provision for lending-related commitments						
Provision excluding accounting conformity	**290**	**(10)**	**280**	(214)	(1)	(215)
Accounting conformity[(a)]	**—**	**—**	**—**	5	(48)	(43)
Total provision for lending-related commitments	**290**	**(10)**	**280**	(209)	(49)	(258)
Acquired allowance resulting from Washington Mutual transaction	**—**	**—**	**—**	—	66	66
Other[(b)]	**3**	**(3)**	**—**	8	(7)	1
Ending balance at December 31	**$ 927**	**$ 12**	**$ 939**	$ 634	$ 25	$ 659
Components:						
Asset-specific	**$ 297**	**$ —**	**$ 297**	$ 29	$ —	$ 29
Formula-based	**630**	**12**	**642**	605	25	630
Total allowance for lending-related commitments	**$ 927**	**$ 12**	**$ 939**	$ 634	$ 25	$ 659
Total allowance for credit losses	**$ 8,072**	**$ 24,469**	**$ 32,541**	$ 7,179	$ 16,644	$ 23,823
Credit ratios:						
Allowance for loan losses to retained loans	**3.57%**	**5.73%**	**5.04%**	2.64%	3.46%	3.18%
Net charge-off rates[(e)]	**1.40**	**4.41**	**3.42**	0.18	2.71	1.73
Credit ratios excluding home lending purchased credit-impaired loans and loans held by the Washington Mutual Master Trust						
Allowance for loan losses to retained loans[(f)]	**3.57**	**6.63**	**5.51**	2.64	4.24	3.62

(a) Related to the Washington Mutual transaction in 2008.
(b) Predominantly includes a reclassification in 2009 related to the issuance and retention of securities from the Chase Issuance Trust, as well as reclassifications of allowance balances related to business transfers between wholesale and consumer businesses in the first quarter of 2008.
(c) Relates to risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a troubled debt restructuring.
(d) The asset-specific consumer allowance for loan losses includes troubled debt restructuring reserves of $754 million and $258 million at December 31, 2009 and 2008, respectively. Prior period amounts have been reclassified to conform to the current presentation.
(e) 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.
(f) Excludes the impact of purchased credit-impaired loans that were acquired as part of the Washington Mutual transaction and loans held by the Washington Mutual Master Trust, which were consolidated onto the Firm's balance sheet at fair value during the second quarter of 2009. As of December 31, 2009, an allowance for loan losses of $1.6 billion was recorded for the purchased credit-impaired loans, which has also been excluded from applicable ratios. No allowance was recorded for the loans that were consolidated from the Washington Mutual Master Trust as of December 31, 2009. To date, no charge-offs have been recorded for any of these loans.

The following table includes a credit ratio excluding the following items: home lending purchased credit-impaired loans acquired in the Washington Mutual transaction; and credit card loans held by the Washington Mutual Master Trust, which were consolidated onto the Firm's balance sheet at fair value during the second quarter of 2009. The purchased credit-impaired 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. Accordingly, no allowance for loan losses was recorded for these loans as of the acquisition date. Subsequent evaluations of estimated credit deterioration in this portfolio resulted in the recording of an allowance for loan losses of $1.6 billion at December 31, 2009. For more information on home lending purchased credit-impaired loans, see pages 117 and 121 of this Annual Report. For more information on the consolidation of assets from the Washington Mutual Master Trust, see Note 15 on pages 206–213 of this Annual Report.

The calculation of the allowance for loan losses to total retained loans, excluding both home lending purchased credit-impaired loans and loans held by the Washington Mutual Master Trust, is presented below.

December 31, (in millions, except ratios)	**2009**	2008
Allowance for loan losses	**$ 31,602**	$ 23,164
Less: Allowance for purchased credit-impaired loans	**1,581**	—
Adjusted allowance for loan losses	**$ 30,021**	$ 23,164
Total loans retained	**$ 627,218**	$ 728,915
Less: Firmwide purchased credit-impaired loans	**81,380**	89,088
Loans held by the Washington Mutual Master Trust	**1,002**	—
Adjusted loans	**$ 544,836**	$ 639,827
Allowance for loan losses to ending loans excluding purchased credit-impaired loans and loans held by the Washington Mutual Master Trust	**5.51%**	3.62%

The following table presents the allowance for credit losses by business segment at December 31, 2009 and 2008.

December 31, (in millions)	Allowance for credit losses					
	2009			2008		
	Loan losses	Lending-related commitments	Total	Loan losses	Lending-related commitments	Total
Investment Bank	**$ 3,756**	**$ 485**	**$ 4,241**	$ 3,444	$ 360	$ 3,804
Commercial Banking	**3,025**	**349**	**3,374**	2,826	206	3,032
Treasury & Securities Services	**88**	**84**	**172**	74	63	137
Asset Management	**269**	**9**	**278**	191	5	196
Corporate/Private Equity	**7**	**—**	**7**	10	—	10
Total Wholesale	**7,145**	**927**	**8,072**	6,545	634	7,179
Retail Financial Services	**14,776**	**12**	**14,788**	8,918	25	8,943
Card Services	**9,672**	**—**	**9,672**	7,692	—	7,692
Corporate/Private Equity	**9**	**—**	**9**	9	—	9
Total Consumer	**24,457**	**12**	**24,469**	16,619	25	16,644
Total	**$ 31,602**	**$ 939**	**$ 32,541**	$ 23,164	$ 659	$ 23,823

Provision for credit losses

The managed provision for credit losses was $38.5 billion for the year ended December 31, 2009, up by $13.9 billion from the prior year. The prior-year included a $1.5 billion charge to conform Washington Mutual's allowance for loan losses, which affected both the consumer and wholesale portfolios. For the purpose of the following analysis, this charge is excluded. The consumer-managed provision for credit losses was $34.5 billion for the year ended December 31, 2009, compared with $20.4 billion in the prior year, reflecting an increase in the allowance for credit losses in the home lending and credit card loan portfolios. Included in the 2009 addition to the allowance for loan losses was a $1.6 billion increase related to estimated deterioration in the Washington Mutual purchased credit-impaired portfolio. The wholesale provision for credit losses was $4.0 billion for the year ended December 31, 2009, compared with $2.7 billion in the prior year, reflecting continued weakness in the credit environment.

Year ended December 31, (in millions)	Provision for credit losses								
	Loan losses			Lending-related commitments			Total		
	2009	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Investment Bank	**$ 2,154**	$ 2,216	$ 376	**$ 125**	$ (201)	$ 278	**$ 2,279**	$ 2,015	$ 654
Commercial Banking	**1,314**	505	230	**140**	(41)	49	**1,454**	464	279
Treasury & Securities Services	**34**	52	11	**21**	30	8	**55**	82	19
Asset Management	**183**	87	(19)	**5**	(2)	1	**188**	85	(18)
Corporate/Private Equity(a)(b)	**(1)**	676	—	**(1)**	5	—	**(2)**	681	—
Total Wholesale	**3,684**	3,536	598	**290**	(209)	336	**3,974**	3,327	934
Retail Financial Services	**15,950**	9,906	2,620	**(10)**	(1)	(10)	**15,940**	9,905	2,610
Card Services – reported	**12,019**	6,456	3,331	**—**	—	—	**12,019**	6,456	3,331
Corporate/Private Equity(a)(c)(d)	**82**	1,339	(11)	**—**	(48)	—	**82**	1,291	(11)
Total Consumer	**28,051**	17,701	5,940	**(10)**	(49)	(10)	**28,041**	17,652	5,930
Total provision for credit losses – reported	**31,735**	21,237	6,538	**280**	(258)	326	**32,015**	20,979	6,864
Credit card – securitized	**6,443**	3,612	2,380	**—**	—	—	**6,443**	3,612	2,380
Total provision for credit losses – managed	**$ 38,178**	$ 24,849	$ 8,918	**$ 280**	$ (258)	$ 326	**$ 38,458**	$ 24,591	$ 9,244

(a) Includes accounting conformity provisions related to the Washington Mutual transaction in 2008.
(b) Includes provision expense related to loans acquired in the Bear Stearns merger in the second quarter of 2008.
(c) Includes amounts related to held-for-investment prime mortgages transferred from AM to the Corporate/Private Equity segment.
(d) In November 2008, the Firm transferred $5.8 billion of higher quality credit card loans from the legacy Chase portfolio to a securitization trust previously established by Washington Mutual ("the Trust"). As a result of converting higher credit quality Chase-originated on-book receivables to the Trust's seller's interest which has a higher overall loss rate reflective of the total assets within the Trust, approximately $400 million of incremental provision expense was recorded during the fourth quarter. This incremental provision expense was recorded in the Corporate segment as the action related to the acquisition of Washington Mutual's banking operations. For further discussion of credit card securitizations, see Note 15 on pages 206–213 of this Annual Report.

MARKET RISK MANAGEMENT

Market risk is the exposure to an adverse change in the market value of portfolios and financial instruments caused by a change in market prices or rates.

Market risk management
Market Risk is an independent risk management function, aligned primarily with each of the Firm's business segments. Market Risk works in partnership with the business segments to identify and monitor market risks throughout the Firm as well as to define market risk policies and procedures. The risk management function is headed by the Firm's Chief Risk Officer.

Market Risk seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and make the Firm's market risk profile transparent to senior management, the Board of Directors and regulators. Market Risk is responsible for the following functions:

- Establishing a comprehensive market risk policy framework
- Independent measurement, monitoring and control of business segment market risk
- Definition, approval and monitoring of limits
- Performance of stress testing and qualitative risk assessments

Risk identification and classification
Each business segment is responsible for the comprehensive identification and verification of market risks within its units. The highest concentrations of market risk are found in IB, Consumer Lending, and the Firm's Chief Investment Office in the Corporate/Private Equity segment.

IB makes markets and trades its products across several different asset classes. These asset classes primarily include fixed income risk (both interest rate risk and credit spread risk), foreign exchange, equities and commodities risk. These trading risks may lead to the potential decline in net income due to adverse changes in market rates. In addition to these trading risks, there are risks in IB's credit portfolio from retained loans and commitments, derivative credit valuation adjustments, hedges of the credit valuation adjustments and mark-to-market hedges of the retained loan portfolio. Additional risk positions result from the debit valuation adjustments taken on certain structured liabilities and derivatives to reflect the credit quality of the Firm.

The Firm's Consumer Lending business unit includes the Firm's mortgage pipeline and warehouse loans, MSRs and all related hedges. These activities give rise to complex interest rate risks, as well as option and basis risk. Option risk arises primarily from prepayment options embedded in mortgages and changes in the probability of newly originated mortgage commitments actually closing. Basis risk results from differences in the relative movements of the rate indices underlying mortgage exposure and other interest rates.

The Chief Investment Office is primarily concerned with managing structural market risks which arise out of the various business activities of the Firm. These include structural interest rate risk, and foreign exchange risk. Market Risk measures and monitors the gross structural exposures as well as the net exposures related to these activities.

Risk measurement

Tools used to measure risk
Because no single measure can reflect all aspects of market risk, the Firm uses various metrics, both statistical and nonstatistical, including:

- Nonstatistical risk measures
- Value-at-risk
- Loss advisories
- Drawdowns
- Economic value stress testing
- Earnings-at-risk stress testing
- Risk identification for large exposures ("RIFLE")

Nonstatistical risk measures
Nonstatistical risk measures other than stress testing include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Firm's market risk exposure. They are aggregated by line of business and by risk type, and are used for monitoring limits, one-off approvals and tactical control.

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

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

In the third quarter of 2008, the Firm revised its reported IB Trading and credit portfolio VaR measure to include additional risk positions previously excluded from VaR, thus creating a more comprehensive view of the Firm's market risks. In addition, the Firm moved to calculating VaR using a 95% confidence level to provide a more stable measure of the VaR for day-to-day risk management. The following sections describe JPMorgan Chase's VaR measures under both the legacy 99% confidence level as well as the new 95% confidence level. The Firm intends to present VaR solely at the 95% confidence level commencing in the first quarter of 2010, as information for two complete year-to-date periods will then be available.

The table below shows the results of the Firm's VaR measure using the legacy 99% confidence level.

99% Confidence-Level VaR
IB trading VaR by risk type and credit portfolio VaR

As of or for the year ended	**2009**			2008			At December 31,	
December 31,[a] (in millions)	Average	Minimum	Maximum	Average	Minimum	Maximum	**2009**	2008
By risk type:								
Fixed income	**$ 221**	**$ 112**	**$ 289**	$ 181	$ 99	$ 409	**$ 123**	$ 253
Foreign exchange	**30**	**10**	**67**	34	13	90	**18**	70
Equities	**75**	**13**	**248**	57	19	187	**64**	69
Commodities and other	**32**	**16**	**58**	32	24	53	**23**	26
Diversification	**(131)**[b]	**NM**[c]	**NM**[c]	(108)[b]	NM[c]	NM[c]	**(99)**[b]	(152)[b]
Trading VaR	**$ 227**	**$ 103**	**$ 357**	$ 196	$ 96	$ 420	**$ 129**	$ 266
Credit portfolio VaR	**101**	**30**	**221**	69	20	218	**37**	171
Diversification	**(80)**[b]	**NM**[c]	**NM**[c]	(63)[b]	NM[c]	NM[c]	**(20)**[b]	(120)[b]
Total trading and credit portfolio VaR	**$ 248**	**$ 132**	**$ 397**	$ 202	$ 96	$ 449	**$ 146**	$ 317

(a) The results for the year ended December 31, 2008, include five months of heritage JPMorgan Chase & Co. only results and seven months of combined JPMorgan Chase & Co. and Bear Stearns results.

(b) Average and period-end VaRs were less than the sum of the VaRs of its market risk components, which is due to risk offsets resulting from portfolio diversification. The diversification effect reflects the fact that the risks 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.

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

The 99% confidence level trading VaR includes substantially all trading activities in IB. Beginning in the fourth quarter of 2008, the credit spread sensitivities of certain mortgage products were included in trading VaR. This change had an insignificant impact on the average fourth quarter VaR. For certain other products included in the trading VaR, particular risk parameters are not fully captured – for example, correlation risk. Trading VaR does not include: held-for-sale funded loan and unfunded commitments positions (however, it does include hedges of those positions); the DVA taken on derivative and structured liabilities to reflect the credit quality of the Firm; the MSR portfolio; and securities and instruments held by other corporate functions, such as Private Equity. See the DVA Sensitivity table on page 130 of this Annual Report for further details. For a discussion of MSRs and the corporate functions, see Note 3 on pages 156–173, Note 17 on pages 222–225 and Corporate/ Private Equity on pages 82–83 of this Annual Report.

2009 VaR results (99% confidence level VaR)

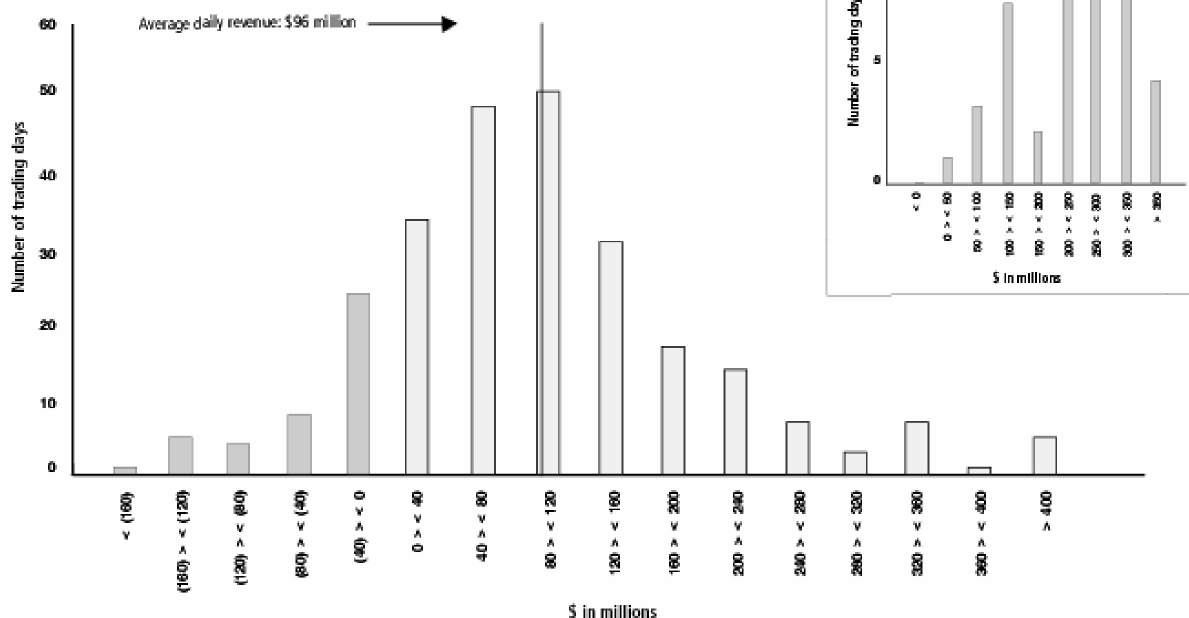
IB's average total trading and credit portfolio VaR was $248 million for 2009, compared with $202 million for 2008, primarily driven by market volatility. Volatility began to significantly increase across all asset classes from late 2008 and persisted through the first quarter of 2009. From the second quarter of 2009 onwards, volatility in the markets gradually declined; however, the impact of the volatile periods was still reflected in the 2009 VaR numbers.

Spot total trading and credit portfolio VaR as of December 31, 2009, was $146 million, compared with $317 million as of December 31, 2008. The decrease in the spot VaR in 2009 reflects the reduction in overall risk levels as well as the aforementioned decline in market volatility by the end of 2009 when compared to the end of 2008.

For 2009, compared with the prior year, average trading VaR diversification increased to $131 million, or 37% of the sum of the components, from $108 million, or 36% of the sum of the components in the prior year. In general, over the course of the year, VaR exposures can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR backtesting (99% confidence level VaR)

To evaluate the soundness of its VaR model, the Firm conducts daily back-testing of VaR against daily IB market risk–related revenue, which is defined as the change in value of principal transactions revenue (excluding private equity gains/(losses)) plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. The daily IB market risk–related revenue excludes gains and losses on held-for-sale funded loans and unfunded commitments and from DVA. The following histogram illustrates the daily market risk–related gains and losses for IB trading businesses for the year ended 2009. The chart shows that IB posted market risk–related gains on 219 out of 261 days in this period, with 54 days exceeding $160 million. The inset graph looks at those days on which IB experienced losses and depicts the amount by which 99% confidence level VaR exceeded the actual loss on each of those days. Losses were sustained on 42 days during the year ended December 31, 2009, with no loss exceeding the VaR measure. The Firm would expect to incur losses greater than that predicted by VaR estimates once in every 100 trading days, or about two to three times a year.



The table below shows the results of the Firm's VaR measure using a 95% confidence level.

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

(in millions)	At December 31, 2009	At December 31, 2008	Year ended December 31, Average(a) 2009
IB VaR by risk type:			
Fixed income	**$ 80**	$ 180	**$ 160**
Foreign exchange	**10**	38	**18**
Equities	**43**	39	**47**
Commodities and other	**14**	25	**20**
Diversification benefit to IB trading VaR	**(54)**	(108)	**(91)**
IB Trading VaR	**$ 93**	$ 174	**$ 154**
Credit portfolio VaR	**21**	77	**52**
Diversification benefit to IB trading and credit portfolio VaR	**(9)**	(57)	**(42)**
Total IB trading and credit portfolio VaR	**$ 105**	$ 194	**$ 164**
Consumer Lending VaR	**28**	112	**57**
Chief Investment Office (CIO) VaR	**76**	114	**103**
Diversification benefit to total other VaR	**(13)**	(48)	**(36)**
Total other VaR	**$ 91**	$ 178	**$ 124**
Diversification benefit to total IB and other VaR	**(73)**	(86)	**(82)**
Total IB and other VaR	**$ 123**	$ 286	**$ 206**

(a) Results for the year ended December 31, 2008, are not available.

VaR measurement

The Firm's 95% VaR measure above includes all the risk positions taken into account under the 99% confidence level VaR measure, as well as syndicated lending facilities that the Firm intends to distribute. The Firm utilizes proxies to estimate the VaR for these products since daily time series are largely not available. In addition, the 95% VaR measure also includes certain positions utilized as part of the Firm's risk management function within the Chief Investment Office ("CIO") and in the Consumer Lending businesses to provide a Total IB and other VaR measure. The CIO VaR includes positions, primarily in debt securities and credit products, used to manage structural risk and other risks, including interest rate, credit and mortgage risks arising from the Firm's ongoing business activities. The Consumer Lending VaR includes the Firm's mortgage pipeline and warehouse loans, MSRs and all related hedges. In the Firm's view, including these items in VaR produces a more complete perspective of the Firm's market risk profile.

The 95% VaR measure continues to exclude the DVA taken on certain structured liabilities and derivatives to reflect the credit quality of the Firm. It also excludes certain activities such as Private Equity, principal investing (e.g., mezzanine financing, tax-oriented investments, etc.) and balance sheet, capital management positions and longer-term investments managed by the CIO. These longer-term positions are managed through the Firm's earnings-at-risk and other cash flow–monitoring processes rather than by using a VaR measure. Principal investing activities and Private Equity positions are managed using stress and scenario analysis.

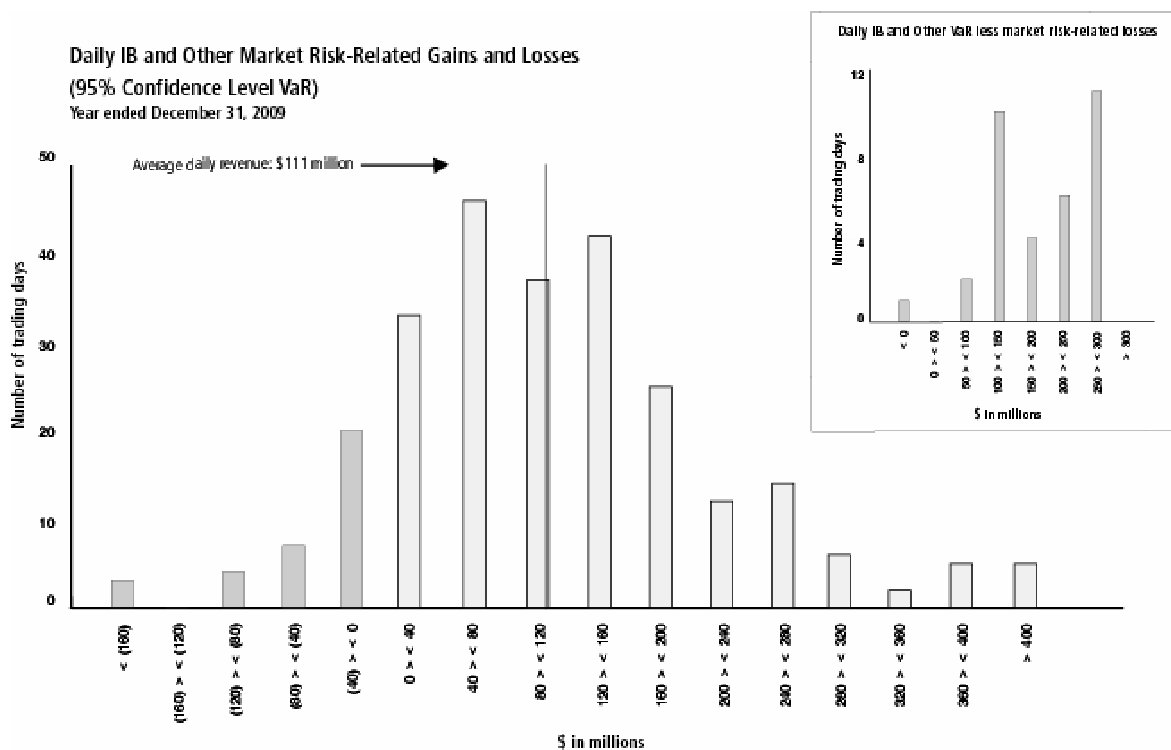
2009 VaR results (95% confidence level VaR)

Spot IB and other VaR as of December 31, 2009, was $123 million, compared with $286 million as of December 31, 2008. The decrease in spot VaR in 2009 is a consequence of reductions in overall risk as well as declining market volatility. In general, over the course of the year, VaR exposures can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VaR backtesting (95% confidence level VaR)

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

The following histogram illustrates the daily market risk–related gains and losses for IB and Consumer/CIO positions for 2009. The chart shows that the Firm posted market risk–related gains on 227 out of 261 days in this period, with 69 days exceeding $160 million. The inset graph looks at those days on which the Firm experienced losses and depicts the amount by which the 95% confidence level VaR exceeded the actual loss on each of those days. Losses were sustained on 34 days during 2009 and exceeded the VaR measure on one day due to high market volatility in the first quarter of 2009. Under the 95% confidence interval, the Firm would expect to incur daily losses greater than that predicted by VaR estimates about twelve times a year.



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

Debit valuation adjustment sensitivity

(in millions)	1 Basis Point Increase in JPMorgan Chase Credit Spread
December 31, 2009	**$ 39**
December 31, 2008	$ 37

Loss advisories and drawdowns

Loss advisories and drawdowns are tools used to highlight to senior management trading losses above certain levels and initiate discussion of remedies.

Economic value stress testing

While VaR reflects the risk of loss due to adverse changes in normal markets, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets. The Firm conducts economic-value stress tests using multiple scenarios that assume credit spreads widen significantly, equity prices decline and significant changes in interest rates across the major currencies. Other scenarios focus on the risks predominant in individual business segments and include scenarios that focus on the potential for adverse movements in complex portfolios. Scenarios were updated more frequently in 2009 and, in some cases, redefined to reflect the significant market volatility which began in late 2008. Along with VaR, stress testing is important in measuring and controlling risk. Stress testing enhances the understanding of the Firm's risk profile and loss potential, and stress losses are monitored against limits. Stress testing is also utilized in one-off approvals and cross-business risk measurement, as well as an input to economic capital allocation. Stress-test results, trends and explanations based on current market risk positions are reported to the Firm's senior management and to the lines of business to help them better measure and manage risks and to understand event risk–sensitive positions.

Earnings-at-risk stress testing

The VaR and stress-test measures described above illustrate the total economic sensitivity of the Firm's Consolidated Balance Sheets to changes in market variables. The effect of interest rate exposure on reported net income is also important. Interest rate risk exposure in the Firm's core nontrading business activities (i.e., asset/liability management positions) results from on–and off–balance sheet positions and can occur due to a variety of factors, including:

- Differences in the timing among the maturity or repricing of assets, liabilities and off–balance sheet instruments. For example, if liabilities reprice quicker than assets and funding interest rates are declining, earnings will increase initially.
- Differences in the amounts of assets, liabilities and off–balance sheet instruments that are repricing at the same time. For example, if more deposit liabilities are repricing than assets when general interest rates are declining, earnings will increase initially.
- Differences in the amounts by which short-term and long-term market interest rates change (for example, changes in the slope of the yield curve, because the Firm has the ability to lend at long-term fixed rates and borrow at variable or short-term fixed rates). Based on these scenarios, the Firm's earnings would be affected negatively by a sudden and unanticipated increase in short-term rates paid on its liabilities (e.g., deposits) without a corresponding increase in long-term rates received on its assets (e.g., loans). Conversely, higher long-term rates received on assets generally are beneficial to earnings, particularly when the increase is not accompanied by rising short-term rates paid on liabilities.
- The impact of changes in the maturity of various assets, liabilities or off–balance sheet instruments as interest rates change. For example, if more borrowers than forecasted pay down higher-rate loan balances when general interest rates are declining, earnings may decrease initially.

The Firm manages interest rate exposure related to its assets and liabilities on a consolidated, corporate-wide basis. Business units transfer their interest rate risk to Treasury through a transfer-pricing system, which takes into account the elements of interest rate exposure that can be risk-managed in financial markets. These elements include asset and liability balances and contractual rates of interest, contractual principal payment schedules, expected prepayment experience, interest rate reset dates and maturities, rate indices used for repricing, and any interest rate ceilings or floors for adjustable rate products. All transfer-pricing assumptions are dynamically reviewed.

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

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

JPMorgan Chase's 12-month pretax earnings sensitivity profile as of December 31, 2009 and 2008, is as follows.

	Immediate change in rates			
(in millions)	+200bp	+100bp	-100bp	-200bp
December 31, 2009	**$ (1,594)**	**$ (554)**	**NM[(a)]**	**NM[(a)]**
December 31, 2008	$ 336	$ 672	NM[(a)]	NM[(a)]

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

The change in earnings at risk from December 31, 2008, results from a higher level of AFS securities and an updated baseline scenario that uses higher short-term interest rates. The Firm's risk to rising rates is largely the result of increased funding costs on assets, partially offset by widening deposit margins, which are currently compressed due to very low short-term interest rates.

Additionally, another interest rate scenario, involving a steeper yield curve with long-term rates rising 100 basis points and short-term rates staying at current levels, results in a 12-month pretax earnings benefit of $449 million. The increase in earnings is due to reinvestment of maturing assets at the higher long-term rates, with funding costs remaining unchanged.

Risk identification for large exposures

Individuals who manage risk positions, particularly those that are complex, are responsible for identifying potential losses that could arise from specific, unusual events, such as a potential tax change, and estimating the probabilities of losses arising from such events. This information is entered into the Firm's RIFLE database. Management of trading businesses control RIFLE entries, thereby permitting the Firm to monitor further earnings vulnerability not adequately covered by standard risk measures.

Risk monitoring and control

Limits

Market risk is controlled primarily through a series of limits. Limits reflect the Firm's risk appetite in the context of the market environment and business strategy. In setting limits, the Firm takes into consideration factors such as market volatility, product liquidity, business trends and management experience.

Market risk management regularly reviews and updates risk limits. Senior management, including the Firm's Chief Executive Officer and Chief Risk Officer, is responsible for reviewing and approving risk limits on an ongoing basis.

The Firm maintains different levels of limits. Corporate-level limits include VaR and stress limits. Similarly, line-of-business limits include VaR and stress limits and may be supplemented by loss advisories, nonstatistical measurements and instrument authorities. Businesses are responsible for adhering to established limits, against which exposures are monitored and reported. Limit breaches are reported in a timely manner to senior management, and the affected business segment is required to reduce trading positions or consult with senior management on the appropriate action.

Qualitative review

The Market Risk Management group also performs periodic reviews as necessary of both businesses and products with exposure to market risk to assess the ability of the businesses to control their market risk. Strategies, market conditions, product details and risk controls are reviewed and specific recommendations for improvements are made to management.

Model review

Some of the Firm's financial instruments cannot be valued based on quoted market prices but are instead valued using pricing models. Such models are used for management of risk positions, such as reporting against limits, as well as for valuation. The Model Risk Group, which is independent of the businesses and market risk management, reviews the models the Firm uses and assesses model appropriateness and consistency. The model reviews consider a number of factors about the model's suitability for valuation and risk management of a particular product, including whether it accurately reflects the characteristics of the transaction and its significant risks, the suitability and convergence properties of numerical algorithms, reliability of data sources, consistency of the treatment with models for similar products, and sensitivity to input parameters and assumptions that cannot be priced from the market.

Reviews are conducted of new or changed models, as well as previously accepted models, to assess whether there have been any changes in the product or market that may impact the model's validity and whether there are theoretical or competitive developments that may require reassessment of the model's adequacy. For a summary of valuations based on models, see Critical Accounting Estimates Used by the Firm on pages 135–139 of this Annual Report.

Risk reporting

Nonstatistical exposures, value-at-risk, loss advisories and limit excesses are reported daily to senior management. Market risk exposure trends, value-at-risk trends, profit-and-loss changes and portfolio concentrations are reported weekly. Stress-test results are reported at least every two weeks to the businesses and senior management.

PRIVATE EQUITY RISK MANAGEMENT

Risk management

The Firm makes principal investments in private equity. The illiquid nature and long-term holding period associated with these investments differentiates private equity risk from the risk of positions held in the trading portfolios. The Firm's approach to managing private equity risk is consistent with the Firm's general risk governance structure. Controls are in place establishing expected levels for total and annual investment in order to control the overall size of the portfolio. Industry and geographic concentration limits are in place and intended to ensure diversification of the portfolio. All investments are approved by an investment committee that includes executives who are not part of the investing businesses. An independent valuation function is responsible for reviewing the appropriateness of the carrying values of private equity investments in accordance with relevant accounting policies. At December 31, 2009 and 2008, the carrying value of the Private Equity portfolio was $7.3 billion and $6.9 billion, respectively, of which $762 million and $483 million, respectively, represented publicly-traded positions. For further information on the Private Equity portfolio, see page 83 of this Annual Report.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events.

Overview

Operational risk is inherent in each of the Firm's businesses and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, inappropriate behavior of employees, or vendors that do not perform in accordance with their arrangements. These events could result in financial losses and other damage to the Firm, including reputational harm.

To monitor and control operational risk, the Firm maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in light of the Firm's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject. Notwithstanding these control measures, the Firm incurs operational losses.

The Firm's approach to operational risk management is intended to mitigate such losses by supplementing traditional control-based approaches to operational risk with risk measures, tools and disciplines that are risk-specific, consistently applied and utilized firmwide. Key themes are transparency of information, escalation of key issues and accountability for issue resolution.

One of the ways operational risk is mitigated is through insurance maintained by the Firm. The Firm purchases insurance to be in compliance with local laws and regulations, as well as to serve other needs of the Firm. Insurance may also be required by third parties with whom the Firm does business. The insurance purchased is reviewed and approved by senior management.

The Firm's operational risk framework is supported by Phoenix, an internally designed operational risk software tool. Phoenix integrates the individual components of the operational risk management framework into a unified, web-based tool. Phoenix enhances the capture, reporting and analysis of operational risk data by enabling risk identification, measurement, monitoring, reporting and analysis to be done in an integrated manner, thereby enabling efficiencies in the Firm's monitoring and management of its operational risk.

For purposes of identification, monitoring, reporting and analysis, the Firm categorizes operational risk events as follows:

- Client service and selection
- Business practices
- Fraud, theft and malice
- Execution, delivery and process management
- Employee disputes
- Disasters and public safety
- Technology and infrastructure failures

Risk identification

Risk identification is the recognition of the operational risk events that management believes may give rise to operational losses. All businesses utilize the Firm's standard self-assessment process and supporting architecture as a dynamic risk management tool. The goal of the self-assessment process is for each business to identify the key operational risks specific to its environment and assess the degree to which it maintains appropriate controls. Action plans are developed for control issues identified, and businesses are held accountable for tracking and resolving these issues on a timely basis.

Risk measurement

Operational risk is measured for each business on the basis of historical loss experience using a statistically based loss-distribution approach. The current business environment, potential stress scenarios and measures of the control environment are then factored into the statistical measure in determining the Firmwide operational risk capital. This methodology is designed to comply with the advanced measurement rules under the new Basel II Framework.

Risk monitoring

The Firm has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis, performed both at a line-of-business level and by risk-event type, enables identification of the causes associated with risk events faced by the businesses. Where available, the internal data can be supplemented with external data for comparative analysis with industry patterns. The data reported enables the Firm to back-test against self-assessment results. The Firm is a founding member of the Operational Riskdata eXchange Association, a not-for-profit industry association formed for the purpose of collecting operational loss data, sharing data in an anonymous form and benchmarking results back to members. Such information supplements the Firm's ongoing operational risk measurement and analysis.

Risk reporting and analysis

Operational risk management reports provide timely and accurate information, including information about actual operational loss levels and self-assessment results, to the lines of business and senior management. The purpose of these reports is to enable management to maintain operational risk at appropriate levels within each line of business, to escalate issues and to provide consistent data aggregation across the Firm's businesses and support areas.

Audit alignment

Internal Audit utilizes a risk-based program of audit coverage to provide an independent assessment of the design and effectiveness of key controls over the Firm's operations, regulatory compliance and reporting. This includes reviewing the operational risk framework, the effectiveness and accuracy of the business self-assessment process and the loss data-collection and reporting activities.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

A firm's success depends not only on its prudent management of the liquidity, credit, market and operational risks that are part of its business risks, but equally on the maintenance among many constituents – clients, investors, regulators, as well as the general public – of a reputation for business practices of the highest quality. Attention to reputation always has been a key aspect of the Firm's practices, and maintenance of the Firm's reputation is the responsibility of everyone at the Firm. JPMorgan Chase bolsters this individual responsibility in many ways, including through the Firm's Code of Conduct, training, maintaining adherence to policies and procedures, and oversight functions that approve transactions. These oversight functions include line-of-businesses risk committees, a Conflicts Office, which examines wholesale transactions with the potential to create conflicts of interest for the Firm; and a Reputation Risk Office and regional Reputation Risk Committees, which review certain transactions that have the potential to affect adversely the Firm's reputation. These regional committees, whose members are senior representatives of businesses and control functions in the region, focus among other things on complex derivatives and structured finance transactions with clients with the goal that these transactions not be used to mislead the client's investors or others.

Fiduciary risk management

The risk management committees within each line of business include in their mandate oversight of the legal, reputational and, where appropriate, fiduciary risks in their businesses that may produce significant losses or reputational damage. The Fiduciary Risk Management function works with the relevant line-of-business risk committees, with the goal of ensuring that businesses providing investment or risk management products or services that give rise to fiduciary duties to clients perform at the appropriate standard relative to their fiduciary relationship with a client. Of particular focus are the policies and practices that address a business' responsibilities to a client, including client suitability determination; disclosure obligations and communications; and performance expectations with respect to risk management products or services being provided. In this way, the relevant line-of-business risk committees, together with the Fiduciary Risk Management function, provide oversight of the Firm's efforts to monitor, measure and control the risks that may arise in the delivery of products or services to clients that give rise to such fiduciary duties, as well as those stemming from any of the Firm's fiduciary responsibilities to employees under the Firm's various employee benefit plans.

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

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the retained wholesale and consumer loan portfolios, as well as the Firm's portfolio of wholesale and consumer lending-related commitments. The allowance for loan losses is intended to adjust the value of the Firm's loan assets to reflect probable credit losses as of the balance sheet date. For a further discussion of the methodologies used in establishing the Firm's allowance for credit losses, see Note 14 on pages 204–206 of this Annual Report.

Wholesale loans and lending-related commitments

The methodology for calculating the allowance for loan losses and the allowance for lending-related commitments involves significant judgment. First and foremost, it involves the early identification of credits that are deteriorating. Second, it involves judgment in establishing the inputs used to estimate the allowances. Third, it involves management judgment to evaluate certain macroeconomic factors, underwriting standards, and other relevant internal and external factors affecting the credit quality of the current portfolio, and to refine loss factors to better reflect these conditions.

The Firm uses a risk-rating system to determine the credit quality of its wholesale loans. Wholesale loans are reviewed for information affecting the obligor's ability to fulfill its obligations. In assessing the risk rating of a particular loan, among the factors considered are the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based on an evaluation of historical and current information and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could affect the risk rating assigned by the Firm to that loan.

The Firm applies its judgment to establish loss factors used in calculating the allowances. Wherever possible, the Firm uses independent, verifiable data or the Firm's own historical loss experience in its models for estimating the allowances. Many factors can affect estimates of loss, including volatility of loss given default, probability of default and rating migrations. Consideration is given as to whether the loss estimates should be calculated as an average over the entire credit cycle or at a particular point in the credit cycle, as well as to which external data should be used and when they should be used. Choosing data that are not reflective of the Firm's specific loan portfolio characteristics could also affect loss estimates. The application of different inputs would change the amount of the allowance for credit losses determined appropriate by the Firm.

Management also applies its judgment to adjust the loss factors derived, taking into consideration model imprecision, external factors and economic events that have occurred but are not yet reflected in the loss factors. Historical experience of both loss given default and probability of default are considered when estimating these adjustments. Factors related to concentrated and deteriorating industries also are incorporated where relevant. These estimates are based on management's view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards and other relevant internal and external factors affecting the credit quality of the current portfolio.

As noted above, the Firm's wholesale allowance is sensitive to the risk rating assigned to a loan. As of December 31, 2009, assuming a one-notch downgrade in the Firm's internal risk ratings for its entire wholesale portfolio, the allowance for loan losses for the wholesale portfolio would increase by approximately $1.8 billion. This sensitivity analysis is hypothetical. In the Firm's view, the likelihood of a one-notch downgrade for all wholesale loans within a short timeframe is remote. The purpose of this analysis is to provide an indication of the impact of risk ratings on the estimate of the allowance for loan losses for wholesale loans. It is not intended to imply management's expectation of future deterioration in risk ratings. Given the process the Firm follows in determining the risk ratings of its loans, management believes the risk ratings currently assigned to wholesale loans are appropriate.

Consumer loans and lending-related commitments

The allowance for credit losses for the consumer portfolio is sensitive to changes in the economic environment, delinquency status, FICO scores, the realizable value of collateral, borrower behavior and other risk factors, and it is intended to represent management's best estimate of incurred losses as of the balance sheet date. The credit performance of the consumer portfolio across the entire consumer credit product spectrum continues to be negatively affected by the economic environment, as the weak labor market and overall economic conditions have resulted in increased delinquencies, while continued weak housing prices have driven a significant increase in loss severity. Significant judgment is required to estimate the duration and severity of the current economic downturn, as well as its potential impact on housing prices and the labor market. While the allowance for credit losses is highly sensitive to both home prices and unemployment rates, in the current market it is difficult to estimate how potential changes in one or both of these factors might affect

the allowance for credit losses. For example, while both factors are important determinants of overall allowance levels, changes in one factor or the other may not occur at the same rate, or changes may be directionally inconsistent such that improvement in one factor may offset deterioration in the other. In addition, changes in these factors would not necessarily be consistent across geographies or product types. Finally, it is difficult to predict the extent to which changes in both or either of these factors would ultimately affect the frequency of losses, the severity of losses or both; and overall loss rates are a function of both the frequency and severity of individual loan losses.

The allowance is calculated by applying statistical loss factors and other risk indicators to pools of loans with similar risk characteristics to arrive at an estimate of incurred losses in the portfolio. Management applies judgment to the statistical loss estimates for each loan portfolio category using delinquency trends and other risk characteristics to estimate charge-offs. Management uses additional statistical methods and considers portfolio and collateral valuation trends to review the appropriateness of the primary statistical loss estimate. The statistical calculation is adjusted to take into consideration model imprecision, external factors and current economic events that have occurred but are not yet reflected in the factors used to derive the statistical calculation, and is accomplished in part by analyzing the historical loss experience for each major product segment. In the current economic environment, it is difficult to predict whether historical loss experience is indicative of future loss levels. Management applies judgment in determining this adjustment, taking into account the uncertainties associated with current macroeconomic and political conditions, quality of underwriting standards, and other relevant internal and external factors affecting the credit quality of the portfolio.

Fair value of financial instruments, MSRs and commodities inventory

JPMorgan Chase carries a portion of its assets and liabilities at fair value. The majority of such assets and liabilities are carried at fair value on a recurring basis. Certain assets and liabilities are carried at fair value on a nonrecurring basis, including loans accounted for at the lower of cost or fair value that are only subject to fair value adjustments under certain circumstances.

Under U.S. GAAP there is a three-level valuation hierarchy for disclosure of fair value measurements. An instrument's categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Therefore, for instruments classified in levels 1 and 2 of the hierarchy, where inputs are principally based on observable market data, there is less judgment applied in arriving at a fair value measurement. For instruments classified within level 3 of the hierarchy, judgments are more significant. The Firm reviews and updates the fair value hierarchy classifications on a quarterly basis. Changes from one quarter to the next related to the observability of inputs to a fair value measurement may result in a reclassification between hierarchy levels.

Assets carried at fair value

The following table includes the Firm's assets measured at fair value and the portion of such assets that are classified within level 3 of the valuation hierarchy.

December 31,	**2009**		2008	
(in billions, except ratio data)	Total at fair value	Level 3 total	Total at fair value	Level 3 total
Trading debt and equity securities[a]	**$ 330.9**	**$ 35.2**	$ 347.4	$ 41.4
Derivative receivables – gross	**1,565.5**	**46.7**	2,741.7	53.0
Netting adjustment	**(1,485.3)**	**—**	(2,579.1)	—
Derivative receivables – net	**80.2**	**46.7**[d]	162.6	53.0[d]
Available-for-sale securities	**360.4**	**13.2**	205.9	12.4
Loans	**1.4**	**1.0**	7.7	2.7
MSRs	**15.5**	**15.5**	9.4	9.4
Private equity investments	**7.3**	**6.6**	6.9	6.4
Other[b]	**44.4**	**9.5**	49.6	8.1
Total assets measured at fair value on a recurring basis	**840.1**	**127.7**	789.5	133.4
Total assets measured at fair value on a nonrecurring basis[c]	**8.2**	**2.7**	11.0	4.3
Total assets measured at fair value	**$ 848.3**	**$ 130.4**[e]	$ 800.5	$ 137.7[e]
Less: level 3 assets for which the Firm does not bear economic exposure		**2.1**		21.2
Total level 3 assets for which the Firm bears economic exposure		**$ 128.3**		$ 116.5
Total Firm assets	**$ 2,032.0**		$ 2,175.1	
Level 3 assets as a percentage of total Firm assets		**6%**		6%
Level 3 assets for which the Firm bears economic exposure as a percentage of total Firm assets		**6**		5
Level 3 assets as a percentage of total Firm assets at fair value		**15**		17
Level 3 assets for which the Firm bears economic exposure as a percentage of total assets at fair value		**15**		15

(a) Includes physical commodities carried at the lower of cost or fair value.
(b) Includes certain securities purchased under resale agreements, securities borrowed, accrued interest receivable and other investments.
(c) Predominantly includes delinquent mortgage and home equity loans, where impairment is based on the fair value of the underlying collateral, and leveraged lending loans carried on the Consolidated Balance Sheets at the lower of cost or fair value.

(d) Derivative receivable and derivative payable balances are presented net on the Consolidated Balance Sheets where there is a legally enforceable master netting agreement in place with counterparties. For purposes of the table above, the Firm does not reduce derivative receivable and derivative payable balances for netting adjustments, either within or across the levels of the fair value hierarchy, as such an adjustment is not relevant to a presentation that is based on the transparency of inputs to the valuation of an asset or liability. Therefore, the derivative balances reported in the fair value hierarchy levels are gross of any netting adjustments. However, if the Firm were to net such balances, the reduction in the level 3 derivative receivable and derivative payable balances would be $16.0 billion at December 31, 2009.

(e) Included in the table above are, at December 31, 2009 and 2008, $80.0 billion and $95.1 billion, respectively, of level 3 assets, consisting of recurring and nonrecurring assets carried by IB. This includes $2.1 billion and $21.2 billion, respectively, of assets for which the Firm serves as an intermediary between two parties and does not bear economic exposure.

Valuation

The Firm has an established and well-documented process for determining fair value. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on internally developed models that primarily use as inputs market-based or independently sourced market parameters. The Firm's process is intended to ensure that all applicable inputs are appropriately calibrated to market data, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Firm's creditworthiness, constraints on liquidity and unobservable parameters that are applied consistently over time.

For instruments classified within level 3 of the hierarchy, judgments used to estimate fair value may be significant. In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate model to use. Second, due to the lack of observability of significant inputs, management must assess all relevant empirical data in deriving valuation inputs – including, but not limited to, yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity. Finally, management judgment must be applied to assess the appropriate level of valuation adjustments to reflect counterparty credit quality, the Firm's creditworthiness, constraints on liquidity and unobservable parameters, where relevant. The judgments made are typically affected by the type of product and its specific contractual terms, and the level of liquidity for the product or within the market as a whole. The Firm has numerous controls in place to ensure that its valuations are appropriate. An independent model review group reviews the Firm's valuation models and approves them for use for specific products. All valuation models of the Firm are subject to this review process. A price verification group, independent from the risk-taking functions, ensures observable market prices and market-based parameters are used for valuation whenever possible. For those products with material parameter risk for which observable market levels do not exist, an independent review of the assumptions made on pricing is performed. Additional review includes deconstruction of the model valuations for certain structured instruments into their components; benchmarking valuations, where possible, to similar products; validating valuation estimates through actual cash settlement; and detailed review and explanation of recorded gains and losses, which are analyzed daily and over time. Valuation adjustments, which are also determined by the independent price verification group, are based on established policies and applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more transparent, the Firm continues to refine its valuation methodologies. During 2009, no changes were made to the Firm's valuation models that had, or are expected to have, a material impact on the Firm's Consolidated Balance Sheets or results of operations.

Imprecision in estimating unobservable market inputs can affect the amount of revenue or loss recorded for a particular position. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value for individual financial instruments, see Note 3 on pages 156–173 of this Annual Report. In addition, for a further discussion of the significant judgments and estimates involved in the determination of the Firm's mortgage-related exposures, see "Mortgage-related exposures carried at fair value" in Note 3 on pages 169–170 of this Annual Report.

Purchased credit-impaired loans

In connection with the Washington Mutual transaction, JPMorgan Chase acquired certain loans with evidence of deterioration of credit quality since the origination and for which it was probable, at acquisition, that the Firm would be unable to collect all contractually required payments receivable. 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 are expected to be incurred over the estimated remaining lives of the loan pools. Many of the assumptions and estimates underlying the estimation of the initial fair value and the ongoing updates to management's expectation of future cash flows are both significant and subjective, particularly considering the current economic environment. The level of future home price declines, the duration and severity of the current economic downturn, and the lack of market liquidity and transparency are factors that have influenced, and may continue to affect, these assumptions and estimates.

Determining which loans are included in the scope is highly subjective and requires significant judgment. In the Washington Mutual transaction, consumer loans with certain attributes (e.g., higher loan-to-value ratios, borrowers with lower FICO scores, delinquencies) were determined to be credit-impaired, provided that those attributes arose subsequent to the loans' origination dates. A wholesale loan was determined to be credit-impaired if it was risk-rated such that it would otherwise have required an asset-specific allowance for loan losses.

Loans determined to be purchased credit-impaired were initially recorded at fair value, which included estimated future credit losses.

If such loans had not been within the scope of the accounting guidance for purchased credit-impaired loans, they would have been recorded at the present values of amounts to be received determined at appropriate current interest rates, less an allowance for loan losses (i.e., the Washington Mutual allowance for loan losses would have been carried over at the acquisition date).

The Firm estimated the fair value of its purchased credit-impaired loans at the acquisition date by discounting the cash flows expected to be collected at a market-observable discount rate, when available, adjusted for factors that a market participant would consider in determining fair value. The initial estimate of cash flows to be collected was derived from assumptions such as default rates, loss severities and the amount and timing of prepayments.

The accounting guidance for these loans provides that the excess of the cash flows initially expected to be collected over the fair value of the loans at the acquisition date (i.e., the accretable yield) should be accreted into interest income at a level rate of return over the term of the loan, provided that the timing and amount of future cash flows is reasonably estimable. The initial estimate of cash flows expected to be collected must be updated each subsequent reporting period based on updated assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable decreases in expected loan principal cash flows after acquisition trigger the recognition of impairment, through the provision and allowance for loan losses, which is then measured based on the present value of the expected principal loss, plus any related foregone interest cash flows discounted at the pool's effective interest rate. Probable and significant increases in expected principal cash flows would first reverse any related allowance for loan losses; any remaining increases must be recognized prospectively as interest income over the remaining lives of the loans. The impacts of (i) prepayments, (ii) changes in variable interest rates and (iii) other changes in timing of expected cash flows are recognized prospectively as adjustments to interest income. As described above, the process of estimating cash flows expected to be collected has a significant impact on the initial recorded amount of the purchased credit-impaired loans and on subsequent recognition of impairment losses and/or interest income. Estimating these cash flows requires a significant level of management judgment. In addition, certain of the underlying assumptions are highly subjective. As of December 31, 2009, a 1% decrease in expected future principal cash payments for the entire portfolio of purchased credit-impaired loans would result in the recognition of an allowance for loan losses for these loans of approximately $800 million.

Finally, the accounting guidance states that investors may aggregate loans into pools that have common risk characteristics and thereby use a composite interest rate and estimate of cash flows expected to be collected for the pools. The Firm has aggregated substantially all of the purchased credit-impaired loans identified in the Washington Mutual transaction (i.e., the residential real estate loans) into pools with common risk characteristics. The pools then become the unit of accounting and are considered one loan for purposes of accounting for these loans at and subsequent to acquisition. Once a pool is assembled, the integrity of the pool must be maintained. Significant judgment is required in evaluating whether individual loans have common risk characteristics for purposes of establishing pools of loans.

Goodwill impairment

Under U.S. GAAP, goodwill must be allocated to reporting units and tested for impairment at least annually. The Firm's process and methodology used to conduct goodwill impairment testing is described in Note 17 on pages 222–225 of this Annual Report.

Management applies significant judgment when estimating the fair value of its reporting units. Imprecision in estimating (a) the future earnings potential of the Firm's reporting units and (b) the relevant cost of equity or terminal value growth rates can affect the estimated fair value of the reporting units. The fair values of a significant majority of the Firm's reporting units exceeded their carrying values by substantial amounts (fair value as a percent of carrying value ranged from 140% to 500%) and thus, did not indicate a significant risk of goodwill impairment based on current projections and valuations.

However, the goodwill associated with the Firm's consumer lending businesses in RFS and CS have elevated risk due to their exposure to U.S. consumer credit risk. The valuation of these businesses and their assets are particularly dependent upon economic conditions (including unemployment rates and home prices) that affect consumer credit risk and behavior, as well as potential legislative and regulatory changes that could affect the Firm's consumer lending businesses. The assumptions used in the valuation of these businesses include portfolio outstanding balances, net interest margin, operating expense and forecasted credit losses and were made using management's best projections. The cost of equity used in the discounted cash flow model reflected the estimated risk and uncertainty for these businesses and was evaluated in comparison with relevant market peers. The fair value of the credit card lending business within CS exceeded its carrying value by approximately 8%. The fair value of a consumer lending business within RFS did not exceed its carrying value; however, implied fair value of the goodwill allocated to this consumer lending business within RFS significantly exceeded its carrying value.

The Firm did not recognize goodwill impairment as of December 31, 2009, based on management's best estimates. However, prolonged weakness or deterioration in economic market conditions, or additional regulatory or legislative changes, may result in declines in projected business performance beyond management's expectations. This could cause the estimated fair values of the Firm's reporting units or their associated goodwill to decline, which may result in a material impairment charge to earnings in a future period related to some portion of their associated goodwill.

Income taxes

JPMorgan Chase is subject to the income tax laws of the various jurisdictions in which it operates, including U.S. federal, state and local and non-U.S. jurisdictions. These laws are often complex and may be subject to different interpretations. To determine the financial statement impact of accounting for income taxes, including the provision for income tax expense and unrecognized tax benefits, JPMorgan Chase must make assumptions and judgments about how to interpret and apply these complex tax laws to numerous transactions and business events, as well as the timing of when certain items may affect taxable income in the U.S. and non-U.S. tax jurisdictions.

JPMorgan Chase's interpretations of tax laws around the world are subject to review and examination by the various taxing authorities in the jurisdictions where the Firm operates, and disputes may occur regarding its view on a tax position. These disputes over interpretations with the various taxing authorities may be settled by audit, administrative appeals or adjudication by the court systems of the tax jurisdictions in which the Firm operates. JPMorgan Chase regularly reviews whether it may be assessed additional income taxes as a result of the resolution of these matters, and the Firm records additional reserves as appropriate. In addition, the Firm may revise its estimate of income taxes due to changes in income tax laws, legal interpretations and tax planning strategies. It is possible that revisions in the Firm's estimate of income taxes may materially affect the Firm's results of operations in any reporting period.

The Firm's provision for income taxes is composed of current and deferred taxes. Deferred taxes arise from differences between assets and liabilities measured for financial reporting versus income tax return purposes. Deferred tax assets are recognized if, in management's judgment, their realizability is determined to be more likely than not. The Firm has also recognized deferred tax assets in connection with certain net operating losses. The Firm performs regular reviews to ascertain the realizability of its deferred tax assets. These reviews include management's estimates and assumptions regarding future taxable income, which also incorporates various tax planning strategies, including strategies that may be available to utilize net operating losses before they expire. In connection with these reviews, if a deferred tax asset is determined to be unrealizable, a valuation allowance is established. As of December 31, 2009, management has determined it is more likely than not that the Firm will realize its deferred tax assets, net of the existing valuation allowance.

The Firm adjusts its unrecognized tax benefits as necessary when additional information becomes available. Uncertain tax positions that meet the more-likely-than-not recognition threshold are measured to determine the amount of benefit to recognize. An uncertain tax position is measured at the largest amount of benefit that management believes is more likely than not to be realized upon settlement. It is possible that the reassessment of JPMorgan Chase's unrecognized tax benefits may have a material impact on its effective tax rate in the period in which the reassessment occurs.

ACCOUNTING AND REPORTING DEVELOPMENTS

FASB Accounting Standards Codification

In July 2009, the FASB implemented the FASB Accounting Standards Codification (the "Codification") as the single source of authoritative U.S. generally accepted accounting principles. The Codification simplifies the classification of accounting standards into one online database under a common referencing system, organized into eight areas, ranging from industry-specific to general financial statement matters. Use of the Codification is effective for interim and annual periods ending after September 15, 2009. The Firm began to use the Codification on the effective date, and it had no impact on the Firm's Consolidated Financial Statements. However, throughout this Annual Report, all references to prior FASB, AICPA and EITF accounting pronouncements have been removed, and all non-SEC accounting guidance is referred to in terms of the applicable subject matter.

Business combinations/noncontrolling interests in consolidated financial statements

In December 2007, the FASB issued guidance which amended the accounting and reporting of business combinations, as well as noncontrolling (i.e., minority) interests. For JPMorgan Chase, the guidance became effective for business combinations that close on or after January 1, 2009. The guidance for noncontrolling interests, as amended, became effective for JPMorgan Chase for fiscal periods beginning January 1, 2009. In April 2009, the FASB issued additional guidance, which amends the accounting for contingencies acquired in a business combination.

The amended guidance for business combinations generally only impacts the accounting for transactions that closed after December 31, 2008, and generally only impacts certain aspects of business combination accounting, such as the accounting for transaction costs and certain merger-related restructuring reserves, as well as the accounting for partial acquisitions where control is obtained by JPMorgan Chase. One exception to the prospective application of the business-combination guidance relates to accounting for income taxes associated with transactions that closed prior to January 1, 2009. Once the purchase accounting measurement period closes for these acquisitions, any further adjustments to income taxes recorded as part of these business combinations will impact income tax expense. Previously, these adjustments were predominantly recorded as adjustments to goodwill.

The guidance for noncontrolling interests, as amended, requires that they be accounted for and presented as equity if material, rather than as a liability or mezzanine equity. The presentation and disclosure requirements for noncontrolling interests are to be applied retrospectively. The adoption of the reporting requirements for noncontrolling interests was not material to the Firm's Consolidated Balance Sheets or results of operations.

Accounting for transfers of financial assets and repurchase financing transactions

In February 2008, the FASB issued guidance which requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer to be evaluated together as a linked transaction, unless certain criteria are met. The Firm adopted the guidance on January 1, 2009, for transactions entered into after the date of adoption. The adoption of the guidance did not have a material impact on the Firm's Consolidated Balance Sheets or results of operations.

Disclosures about derivative instruments and hedging activities

In March 2008, the FASB issued guidance which amends the prior disclosure requirements for derivatives. The guidance, which is effective for fiscal years beginning after November 15, 2008, requires increased disclosures about derivative instruments and hedging activities and their effects on an entity's financial position, financial performance and cash flows. The Firm adopted the guidance on January 1, 2009, and it only affected JPMorgan Chase's disclosures of derivative instruments and related hedging activities, and not its Consolidated Balance Sheets or results of operations.

Determining whether instruments granted in share-based payment transactions are participating securities

In June 2008, the FASB issued guidance for participating securities, which clarifies that unvested stock-based compensation awards containing nonforfeitable rights to dividends or dividend equivalents (collectively, "dividends"), are considered participating securities and therefore included in the two-class method calculation of EPS. Under this method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The Firm adopted the guidance retrospectively effective January 1, 2009, and EPS data for all prior periods have been revised. Adoption of the guidance did not affect the Firm's results of operations, but basic and diluted EPS were reduced as disclosed in Note 25 on page 232 of this Annual Report.

Determining whether an instrument (or embedded feature) is indexed to an entity's own stock

In June 2008, the FASB issued guidance which establishes a two-step process for evaluating whether equity-linked financial instruments and embedded features are indexed to a company's own stock for purposes of determining whether the derivative scope exception should be applied. The guidance is effective for fiscal years beginning after December 2008. The adoption of this guidance on January 1, 2009, did not have an impact on the Firm's Consolidated Balance Sheets or results of operations.

Employers' disclosures about postretirement benefit plan assets

In December 2008, the FASB issued guidance requiring more detailed disclosures about employers' plan assets, including investment strategies, classes of plan assets, concentrations of risk within plan assets and valuation techniques used to measure their fair value. This guidance is effective for fiscal years ending after December 15, 2009. The Firm adopted these additional disclosure requirements on December 31, 2009, and it only affected JPMorgan Chase's disclosures and not its Consolidated Balance Sheets or results of operations. Refer to Note 8 on pages 184–191 of this Annual Report for additional information.

The recognition and presentation of other-than-temporary impairment

In April 2009, the FASB issued guidance which amends the other-than-temporary impairment model for debt securities. Under the guidance, an other-than-temporary-impairment must be recognized if an investor has the intent to sell the debt security or if it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost basis. In addition, the guidance changes the amount of impairment to be recognized in current-period earnings when an investor does not have the intent to sell, or if it is more likely than not that it will not be required to sell the debt security, as in these cases only the amount of the impairment associated with credit losses is recognized in income. The guidance also requires additional disclosures regarding the calculation of credit losses, as well as factors considered in reaching a conclusion that an investment is not other-than-temporarily impaired. The guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Firm elected to early adopt the guidance as of January 1, 2009. For additional information regarding the impact on the Firm of the adoption of the guidance, see Note 11 on pages 195–199 of this Annual Report.

Determining fair value when the volume and level of activity for the asset or liability have significantly decreased, and identifying transactions that are not orderly

In April 2009, the FASB issued guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly declined. The guidance also includes identifying circumstances that indicate a transaction is not orderly. The guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted. The Firm elected to early adopt the guidance in the first quarter of 2009. The application of the guidance did not have an impact on the Firm's Consolidated Balance Sheets or results of operations.

Interim disclosures about fair value of financial instruments

In April 2009, the FASB issued guidance that requires disclosures about the fair value of certain financial instruments (including financial instruments not carried at fair value) to be presented in interim financial statements in addition to annual financial statements. The guidance is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Firm adopted the additional disclosure requirements for second-quarter 2009 reporting.

Subsequent events

In May 2009, the FASB issued guidance that established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance was effective for interim or annual financial periods ending after June 15, 2009. The Firm adopted the guidance in the second quarter of 2009. The application of the guidance did not have any impact on the Firm's Consolidated Balance Sheets or results of operations.

Accounting for transfers of financial assets and consolidation of variable interest entities

In June 2009, the FASB issued guidance which amends the accounting for the transfers of financial assets and the consolidation of VIEs. The guidance eliminates the concept of QSPEs and provides additional guidance with regard to accounting for transfers of financial assets. The guidance also changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and rewards-based model to a qualitative model, based on control and economics. The guidance became effective for annual reporting periods beginning after November 15, 2009, including all interim periods within the first annual reporting period. The Firm adopted the new guidance for VIEs on January 1, 2010, which required the consolidation of the Firm's credit card securitization trusts, bank-administered asset-backed commercial paper conduits, and certain mortgage and other consumer securitization entities. At adoption, the Firm added approximately $88 billion of U.S. GAAP assets, and stockholders' equity decreased by approximately $4 billion.

In February 2010, the FASB finalized an amendment that defers the requirements of the new consolidation guidance for determining the primary beneficiary of a VIE for certain investment funds, including mutual funds, private equity funds and hedge funds. For the funds included in the deferral, the Firm will continue to apply other existing authoritative guidance to determine whether such funds should be consolidated; as such, these funds are not included in the above disclosure of the impact of adopting the new guidance for VIEs.

For additional information about the impact to the Firm of the adoption of the new guidance on January 1, 2010, see Note 16 on pages 214–222 of this Annual Report.

Measuring liabilities at fair value

In August 2009, the FASB issued guidance clarifying how to develop fair value measurements for liabilities, particularly where there may be a lack of observable market information. This guidance is effective for interim or annual periods beginning after August 26, 2009. The Firm adopted the guidance in the third quarter of 2009, and it did not have an impact on the Firm's Consolidated Balance Sheets or results of operations.

Measuring fair value of certain alternative investments

In September 2009, the FASB issued guidance which amends the guidance on fair value measurements and offers a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV") per share when the fair value is not readily determinable. This guidance is effective for the first interim or annual reporting period ending after December 15, 2009. The Firm adopted the guidance in the fourth quarter of 2009, and it did not have a material impact on the Firm's Consolidated Balance Sheets or results of operations.

Fair value measurements and disclosures

In January 2010, the FASB issued guidance that requires new disclosures, and clarifies existing disclosure requirements, about fair value measurements. The clarifications and the requirement to separately disclose transfers of instruments between level 1 and level 2 of the fair value hierarchy are effective for interim reporting periods beginning after December 15, 2009; however, the requirement to provide purchases, sales, issuances and settlements in the level 3 rollforward on a gross basis is effective for fiscal years beginning after December 15, 2010. Early adoption of the guidance is permitted.

NONEXCHANGE-TRADED COMMODITY DERIVATIVE CONTRACTS AT FAIR VALUE

In the normal course of business, JPMorgan Chase trades nonexchange-traded commodity derivative contracts. To determine the fair value of these contracts, the Firm uses various fair value estimation techniques, primarily based on internal models with significant observable market parameters. The Firm's nonexchange-traded commodity derivative contracts are primarily energy-related.

The following table summarizes the changes in fair value for nonexchange-traded commodity derivative contracts for the year ended December 31, 2009.

For the year ended December 31, 2009 (in millions)	Asset position	Liability position
Net fair value of contracts outstanding at January 1, 2009	$ 7,432	$ 5,139
Effect of legally enforceable master netting agreements	48,091	48,726
Gross fair value of contracts outstanding at January 1, 2009	55,523	53,865
Contracts realized or otherwise settled	(31,444)	(30,248)
Fair value of new contracts	12,050	10,192
Changes in fair values attributable to changes in valuation techniques and assumptions	—	—
Other changes in fair value	(5,820)	(5,582)
Gross fair value of contracts outstanding at December 31, 2009	30,309	28,227
Effect of legally enforceable master netting agreements	(25,282)	(26,490)
Net fair value of contracts outstanding at December 31, 2009	$ 5,027	$ 1,737

The following table indicates the maturities of nonexchange-traded commodity derivative contracts at December 31, 2009.

December 31, 2009 (in millions)	Asset position	Liability position
Maturity less than 1 year	$ 14,130	$ 11,544
Maturity 1–3 years	12,352	9,962
Maturity 4–5 years	2,787	1,960
Maturity in excess of 5 years	1,040	4,761
Gross fair value of contracts outstanding at December 31, 2009	30,309	28,227
Effect of legally enforceable master netting agreements	(25,282)	(26,490)
Net fair value of contracts outstanding at December 31, 2009	$ 5,027	$ 1,737

FORWARD-LOOKING STATEMENTS

From time to time, the Firm has made and will make forward-looking statements. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as "anticipate," "target," "expect," "estimate," "intend," "plan," "goal," "believe," "assume" or other words of similar meaning. Forward-looking statements provide JPMorgan Chase's current expectations or forecasts of future events, circumstances, results or aspirations. JPMorgan Chase's disclosures in this Annual Report contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The Firm also may make forward-looking statements in its other documents filed or furnished with the SEC. In addition, the Firm's senior management may make forward-looking statements orally to analysts, investors, representatives of the media and others.

All forward-looking statements are, by their nature, subject to risks and uncertainties, many of which are beyond the Firm's control. JPMorgan Chase's actual future results may differ materially from those set forth in its forward-looking statements. While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ from those in the forward-looking statements:

- local, regional and international business, economic and political conditions and geopolitical events;
- changes in financial services regulation;
- changes in trade, monetary and fiscal policies and laws;
- securities and capital markets behavior, including changes in market liquidity and volatility;
- changes in investor sentiment or consumer spending or savings behavior;
- ability of the Firm to manage effectively its liquidity;
- credit ratings assigned to the Firm or its subsidiaries;
- the Firm's reputation;
- ability of the Firm to deal effectively with an economic slowdown or other economic or market difficulty;
- technology changes instituted by the Firm, its counterparties or competitors;
- mergers and acquisitions, including the Firm's ability to integrate acquisitions;
- ability of the Firm to develop new products and services;
- acceptance of the Firm's new and existing products and services by the marketplace and the ability of the Firm to increase market share;
- ability of the Firm to attract and retain employees;
- ability of the Firm to control expense;
- competitive pressures;
- changes in the credit quality of the Firm's customers and counterparties;
- adequacy of the Firm's risk management framework;
- changes in laws and regulatory requirements;
- adverse judicial proceedings;
- changes in applicable accounting policies;
- ability of the Firm to determine accurate values of certain assets and liabilities;
- occurrence of natural or man-made disasters or calamities or conflicts, including any effect of any such disasters, calamities or conflicts on the Firm's power generation facilities and the Firm's other commodity-related activities;
- the other risks and uncertainties detailed in Part 1, Item 1A: Risk Factors in the Firm's Annual Report on Form 10-K for the year ended December 31, 2009.

Any forward-looking statements made by or on behalf of the Firm speak only as of the date they are made, and JPMorgan Chase does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. The reader should, however, consult any further disclosures of a forward-looking nature the Firm may make in any subsequent Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, or Current Reports on Form 8-K.