J P MORGAN CHASE & CO
Form 10-Q
May 12, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2008 **Commission file number 1-5805**

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

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

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

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

þ Yes o No

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

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

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

o Yes þ No

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

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JPMORGAN CHASE & CO.

CONSOLIDATED FINANCIAL HIGHLIGHTS

(unaudited) (in millions, except per share, headcount and ratio data) As of or for the period ended,	**1Q08**	4Q07	3Q07	2Q07	1Q07
Selected income statement data					
Noninterest revenue	**$ 9,231**	$ 10,161	$ 9,199	$ 12,740	$ 12,866
Net interest income	**7,659**	7,223	6,913	6,168	6,102
Total net revenue	**16,890**	17,384	16,112	18,908	18,968
Provision for credit losses	**4,424**	2,542	1,785	1,529	1,008
Noninterest expense	**8,931**	10,720	9,327	11,028	10,628
Income before income tax expense	**3,535**	4,122	5,000	6,351	7,332
Income tax expense	**1,162**	1,151	1,627	2,117	2,545
Net income	**$ 2,373**	$ 2,971	$ 3,373	$ 4,234	$ 4,787
Per common share					
Net income per share: Basic	**$ 0.70**	$ 0.88	$ 1.00	$ 1.24	$ 1.38
Diluted	**0.68**	0.86	0.97	1.20	1.34
Cash dividends declared per share	**0.38**	0.38	0.38	0.38	0.34
Book value per share	**36.94**	36.59	35.72	35.08	34.45
Common shares outstanding					
Average: Basic	**3,396**	3,367	3,376	3,415	3,456
Diluted	**3,495**	3,472	3,478	3,522	3,560
Common shares at period end	**3,401**	3,367	3,359	3,399	3,416
Share price[(a)]					
High	**$ 49.29**	$ 48.02	$ 50.48	$ 53.25	$ 51.95
Low	**36.01**	40.15	42.16	47.70	45.91
Close	**42.95**	43.65	45.82	48.45	48.38
Market capitalization	**146,066**	146,986	153,901	164,659	165,280
Financial ratios					
Return on common equity (ROE)	**8%**	10%	11%	14%	17%
Return on assets (ROA)	**0.61**	0.77	0.91	1.19	1.41
Overhead ratio	**53**	62	58	58	56
Tier 1 capital ratio	**8.3**	8.4	8.4	8.4	8.5
Total capital ratio	**12.5**	12.6	12.5	12.0	11.8
Tier 1 leverage ratio	**5.9**	6.0	6.0	6.2	6.2
Selected balance sheet data (period-end)					
Total assets	**$ 1,642,862**	$ 1,562,147	$ 1,479,575	$ 1,458,042	$ 1,408,918
Securities	**101,647**	85,450	97,706	95,984	97,029
Loans	**537,056**	519,374	486,320	465,037	449,765
Deposits	**761,626**	740,728	678,091	651,370	626,428
Long-term debt	**189,995**	183,862	173,696	159,493	143,274
Total stockholders equity	**125,627**	123,221	119,978	119,211	117,704

Headcount	**182,166**	180,667	179,847	179,664	176,314
Credit quality metrics					
Allowance for credit losses	**$ 12,601**	$ 10,084	$ 8,971	$ 8,399	$ 7,853
Nonperforming assets[(b)]	**5,443**	4,237	3,181	2,586	2,421
Allowance for loan losses to total loans[(c)]	**2.29%**	1.88%	1.76%	1.71%	1.74%
Net charge-offs	**$ 1,906**	$ 1,429	$ 1,221	$ 985	$ 903
Net charge-off rate[(c)]	**1.53%**	1.19%	1.07%	0.90%	0.85%
Wholesale net charge-off (recovery) rate[(c)]	**0.18**	0.05	0.19	(0.07)	(0.02)
Managed Card net charge-off rate	**4.37**	3.89	3.64	3.62	3.57

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

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

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

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

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

INTRODUCTION

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

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

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

Investment Bank

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

Retail Financial Services

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

Card Services

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

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

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

Commercial Banking

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

Treasury & Securities Services

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

Asset Management

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

OTHER BUSINESS EVENTS

Merger with The Bear Stearns Companies Inc.

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

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

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

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

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

Purchase of additional interest in Highbridge Capital Management

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

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EXECUTIVE OVERVIEW

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

Financial performance of JPMorgan Chase

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

Business overview

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

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

During the first quarter of 2008, the performance of the Firm was negatively affected by the overall global economic environment. The Investment Bank incurred a loss for the quarter reflecting significant markdowns related to mortgage and leveraged lending exposures. Retail Financial Services also recorded a loss driven by a significantly higher provision for credit losses due to ongoing weakness in the home equity and mortgage loan portfolios. Card Services earnings decreased due to a higher level of net charge-offs; Commercial Bank's earnings declined slightly as a higher provision for credit losses more than offset increased revenue; and Asset Management results declined as

revenue flattened and expense increased. The Firm continued to invest in building each of its businesses, which helped to drive revenue and market share growth. Treasury & Securities Services net income increased significantly as higher revenue was partially offset by increased expense. RFS, CS, CB, and TSS each reported organic revenue growth. In addition, CB, TSS and AM increased deposits, assets under custody and assets under management, respectively. The IB continued to gain market share across products and ranked #1 for global investment banking fees and ranked #1, based on volume, for global debt, equity and equity-related. On March 16, 2008, the Firm announced the planned acquisition of Bear Stearns, which will add new capabilities in prime brokerage and clearing and is expected to strengthen equities, mortgage trading, commodities and asset management. The transaction is expected to close by

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

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

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

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

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

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

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

Asset Management net income decreased from the prior year due primarily to higher total noninterest expense, lower performance fees and lower market valuations for seed capital investments in JPMorgan funds. These results were

offset partially by increased revenue from asset inflows, and growth in deposit and loan balances. The provision for credit losses increased from a benefit in the prior year, primarily driven by an increase in loan balances and a lower level of recoveries. The increase in total noninterest expense was due primarily to higher compensation expense, reflecting increased headcount.

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

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

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

Business outlook

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

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

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

The Investment Bank continues to be negatively affected by the disruption in the credit and mortgage markets, as well as by overall lower levels of liquidity and wider credit spreads. Continuation of these factors could potentially lead to reduced levels of client activity, difficulty in syndicating leveraged loans, lower investment banking fees and lower trading revenue. The Firm s trading results could also be affected by the tightening of credit spreads. Assets with currently impaired values could recover a portion of previous markdowns; however, if the Firm s own credit spreads tighten, the fair value of certain liabilities would be reduced, which would negatively affect trading results. While some leveraged finance loans were sold during the first quarter of 2008, the Firm held $22.5 billion of leveraged loans and unfunded commitments as held-for-sale as of March 31, 2008. Markdowns in excess of 11% have been taken on the leveraged lending positions as of March 31, 2008. These positions are difficult to hedge effectively and if market

conditions deteriorate further in the second quarter of 2008, further markdowns may be necessary on this asset class. The Investment Bank also held, at March 31, 2008, an aggregate $12.8 billion of prime and Alt-A mortgage exposure and $1.9 billion of subprime mortgage exposures which could also be negatively affected by market conditions. In addition, $3.1 billion of auction-rate securities with low maximum reset rates were held on balance sheet due to a significant reduction in liquidity as a result of credit concerns with monoline bond insurers. Other exposures as of March 31, 2008 that have higher levels of risk given the current market environment include: CDO warehouse and unsold positions of $4.4 billion (over 90% corporate loans and bonds) and Commercial Mortgage-Backed

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

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

CONSOLIDATED RESULTS OF OPERATIONS

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

Total net revenue

The following table presents the components of total net revenue.

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

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

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

Principal transactions revenue consists of trading revenue and private equity gains. The Firm s trading activities in the first quarter of 2008 resulted in a net loss in contrast with the record level of gains achieved in the first quarter of 2007. The net loss was due primarily to markdowns of $1.2 billion on prime, Alt-A and subprime mortgages; markdowns of $1.1 billion on leveraged lending funded and unfunded commitments; and markdowns of $266 million

on CDO warehouses and unsold positions. These markdowns were offset partially by record revenue in rates and currencies, and a combined benefit of $949 million from the widening of the Firm s credit spread on certain structured liabilities. Private equity gains declined significantly driven by lower gains of $200 million, compared with gains of $1.3 billion in the prior year, which included a fair value adjustment related to the adoption of SFAS 157 (Fair Value Measurements). For a further discussion of principal transactions revenue, see the IB and Corporate/Private Equity segment results on pages 16 19 and 36 37, respectively, and Note 5 on pages 81 83 of this Form 10-Q.

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

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

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

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

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

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

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

Provision for credit losses	Three months ended March 31,		
(in millions)	**2008**	2007	Change
Provision for credit losses	**$ 4,424**	$ 1,008	339%

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

Management on pages 48 61 of this Form 10-Q.

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Noninterest expense

The following table presents the components of noninterest expense.

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

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

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

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

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

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

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

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

Income tax expense

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

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

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

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 69 72 of this Form 10-Q. That presentation, which is referred to as reported basis, provides the reader with an understanding of the Firm s results that can be tracked consistently from year to year and enables a comparison of the Firm s performance with other companies U.S. GAAP financial statements.

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

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

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

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

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

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

	Three months ended March 31, 2007			
(in millions, except per share and ratio data)	Reported results	Credit card[(a)]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 1,739	$	$	$ 1,739
Principal transactions	4,487			4,487
Lending & deposit-related fees	895			895
Asset management, administration and commissions	3,186			3,186
Securities gains	2			2
Mortgage fees and related income	476			476

Credit card income	1,563	(746)		817
Other income	518		110	628
Noninterest revenue	12,866	(746)	110	12,230
Net interest income	6,102	1,339	70	7,511
Total net revenue	18,968	593	180	19,741
Provision for credit losses	1,008	593		1,601
Noninterest expense	10,628			10,628
Income before income tax expense	7,332		180	7,512
Income tax expense	2,545		180	2,725
Net income	$ 4,787	$	$	$ 4,787
Diluted earnings per share	$ 1.34	$	$	$ 1.34
Return on common equity	17%	%	%	17%
Return on equity less goodwill	27			27
Return on assets	1.41	NM	NM	1.34
Overhead ratio	56	NM	NM	54

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

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

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BUSINESS SEGMENT RESULTS

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

Description of business segment reporting methodology

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

Segment Results Managed Basis[(a)]

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

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

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

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INVESTMENT BANK

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

Selected income statement data (in millions, except ratios)	Three months ended March 31, **2008**	2007	Change
Revenue			
Investment banking fees	**$ 1,206**	$ 1,729	(30)%
Principal transactions	**(798)**	3,142	NM
Lending & deposit-related fees	**102**	93	10
Asset management, administration and commissions	**744**	641	16
All other income	**(66)**	42	NM
Noninterest revenue	**1,188**	5,647	(79)
Net interest income	**1,823**	607	200
Total net revenue[a]	**3,011**	6,254	(52)
Provision for credit losses	**618**	63	NM
Credit reimbursement from TSS[b]	**30**	30	
Noninterest expense			
Compensation expense	**1,241**	2,637	(53)
Noncompensation expense	**1,312**	1,194	10
Total noninterest expense	**2,553**	3,831	(33)
Income (loss) before income tax expense	**(130)**	2,390	NM
Income tax expense (benefit)	**(43)**	850	NM
Net income (loss)	**$ (87)**	$ 1,540	NM
Financial ratios			
ROE	**(2)%**	30%	
ROA	**(0.05)**	0.95	
Overhead ratio	**85**	61	
Compensation expense as a % of total net revenue	**41**	42	
Revenue by business			
Investment banking fees:			
Advisory	**$ 483**	$ 472	2
Equity underwriting	**359**	393	(9)
Debt underwriting	**364**	864	(58)

Total investment banking fees	**1,206**	1,729	(30)
Fixed income markets	**466**	2,592	(82)
Equity markets	**976**	1,539	(37)
Credit portfolio	**363**	394	(8)
Total net revenue	**$ 3,011**	$ 6,254	(52)
Revenue by region			
Americas	**$ 536**	$ 3,366	(84)
Europe/Middle East/Africa	**1,641**	2,251	(27)
Asia/Pacific	**834**	637	31
Total net revenue	**$ 3,011**	$ 6,254	(52)

(a) Total net revenue included tax-equivalent adjustments, primarily due to tax-exempt income from municipal bond investments and income tax credits related to affordable housing investments, of $289 million and $152 million for the quarters ended March 31, 2008 and 2007, respectively.

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

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Quarterly results

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

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

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

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

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

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

(a) Loans retained included credit portfolio loans,

leveraged leases and other accrual loans, and excluded loans at fair value.

(b) Adjusted assets, a non-GAAP financial measure, equals total assets minus (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of variable interest entities (VIEs) consolidated under FIN 46R; (3) cash and securities segregated and on deposit for regulatory and other purposes; and (4) goodwill and intangibles. The amount of adjusted assets is presented to assist the reader in comparing IB s asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to

assess a company s capital adequacy. IB believes an adjusted asset amount that excludes the assets discussed above, which were considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.

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

(d) *Loans held-for-sale and loans accounted for at fair value were excluded when*

calculating the allowance coverage ratio and net charge-off (recovery) rate.

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

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

(g) *Trading VAR includes substantially all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example,*

correlation risk or the credit spread sensitivity of certain mortgage products. Trading VAR does not include VAR related to held-for-sale funded loans and unfunded commitments, nor the debit valuation adjustments (DVA) taken on derivative and structured liabilities to reflect the credit quality of the Firm. See the DVA Sensitivity table on page 63 of this Form 10-Q for further details. Trading VAR also does not include the MSR portfolio or VAR related to other corporate functions, such as Corporate and Private Equity.

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(h) *Included VAR on derivative credit valuation adjustments, hedges of the credit valuation adjustment and mark-to-market hedges of the retained loan portfolio, which were all reported in principal transactions revenue. The VAR does not include the retained loan portfolio.*

(i) *The allowance for loan losses to period-end loans was 2.46% at March 31, 2008.*

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

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

(a) *Source: Thomson Financial*

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

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

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RETAIL FINANCIAL SERVICES

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

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

(a) Retail Financial Services uses the overhead ratio (excluding the amortization of core deposit intangibles (CDI)), a

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

Quarterly results

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

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

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