

J P MORGAN CHASE & CO

Form 10-Q

May 10, 2010

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

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

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

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

Yes  No

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

Yes  No

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

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

(Do not check if a smaller reporting company)

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

Yes  No

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

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

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

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

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

**Selected balance sheet data (period-end)**

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

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(unaudited)

(in millions, except ratios)

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

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

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

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

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



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

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

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

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

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

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

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

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

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

**INTRODUCTION**

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

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

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

**Investment Bank**

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

**Retail Financial Services**

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

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**Card Services**

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

**Commercial Banking**

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

**Treasury & Securities Services**

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

**Asset Management**

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

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

**Financial performance of JPMorgan Chase**

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

**Business overview**

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

**Business outlook**

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

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

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

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

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

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

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

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

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

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

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

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

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

**Table of Contents****CONSOLIDATED RESULTS OF OPERATIONS**

This section provides a comparative discussion of JPMorgan Chase's Consolidated Results of Operations on a reported basis. Factors that relate primarily to a single business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates Used by the Firm that affect the Consolidated Results of Operations, see pages 86-88 of this Form 10-Q and pages 127-131 of JPMorgan Chase's 2009 Annual Report.

**Revenue**

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

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

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

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

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

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

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

Mortgage fees and related income decreased from the prior year, due to lower mortgage servicing rights (MSR) risk management results and lower m