J P MORGAN CHASE & CO
Form 10-Q
November 09, 2010

Table of Contents

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 September 30, 2010 Commission file number 1-5805
JPMORGAN CHASE & CO.
(Exact name of registrant as specified in its charter)

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

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

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

þ Yes o No

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

þ Yes o No

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

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

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

o Yes þ No

Number of shares of common stock outstanding as of October 31, 2010: 3,909,181,427

FORM 10-Q
TABLE OF CONTENTS

	Page
Part I Financial information	
Item 1 Consolidated Financial Statements JPMorgan Chase & Co.:	
Consolidated Statements of Income (unaudited) for the three and nine months ended September 30, 2010 and 2009	108
Consolidated Balance Sheets (unaudited) at September 30, 2010, and December 31, 2009	109
Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income (unaudited) for the nine months ended September 30, 2010 and 2009	110
Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2010 and 2009	111
Notes to Consolidated Financial Statements (unaudited)	112
Consolidated Average Balance Sheets, Interest and Rates (unaudited) for the three and nine months ended September 30, 2010 and 2009	183
Glossary of Terms and Line of Business Metrics	185
Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations:	
Consolidated Financial Highlights	3
Introduction	5
Executive Overview	7
Consolidated Results of Operations	11
Explanation and Reconciliation of the Firm s Use of Non-GAAP Financial Measures	15
Business Segment Results	20
Balance Sheet Analysis	53
Off Balance Sheet Arrangements	56
Capital Management	62
Risk Management	66
Supervision and Regulation	102

Other Matters	103
Critical Accounting Estimates Used by the Firm	104
Accounting and Reporting Developments	107
Forward-Looking Statements	191
Item 3 Quantitative and Qualitative Disclosures About Market Risk	192
Item 4 Controls and Procedures	192
Part II Other information	
Item 1 Legal Proceedings	192
Item 1A Risk Factors	200
Item 2 Unregistered Sales of Equity Securities and Use of Proceeds	201
Item 3 Defaults Upon Senior Securities	202
Item 4 Submission of Matters to a Vote of Security Holders	202
Item 5 Other Information	202
Item 6 Exhibits	202

EX-31.1
EX-31.2
EX-32
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

JPMORGAN CHASE & CO.
CONSOLIDATED FINANCIAL HIGHLIGHTS

, except per share, headcount and ratios) the period ended,	3Q10	2Q10	1Q10	4Q09	3Q09	Nine months September 2010	
come statement data							
venue	**$ 23,824**	$ 25,101	$ 27,671	$ 23,164	$ 26,622	**$ 76,596**	$
terest expense	**14,398**	14,631	16,124	12,004	13,455	**45,153**	
on profit[(a)]	**9,426**	10,470	11,547	11,160	13,167	**31,443**	
or credit losses	**3,223**	3,363	7,010	7,284	8,104	**13,596**	
ore income tax expense and extraordinary	**6,203**	7,107	4,537	3,876	5,063	**17,847**	
expense	**1,785**	2,312	1,211	598	1,551	**5,308**	
ore extraordinary gain	**4,418**	4,795	3,326	3,278	3,512	**12,539**	
ry gain[(b)]					76		
e	**$ 4,418**	$ 4,795	$ 3,326	$ 3,278	$ 3,588	**$ 12,539**	$
on share data							
ings							
ore extraordinary gain	**$ 1.02**	$ 1.10	$ 0.75	$ 0.75	$ 0.80	**$ 2.86**	$
	1.02	1.10	0.75	0.75	0.82	**2.86**	
rnings[(c)]							
ore extraordinary gain	**$ 1.01**	$ 1.09	$ 0.74	$ 0.74	$ 0.80	**$ 2.84**	$
	1.01	1.09	0.74	0.74	0.82	**2.84**	
ends declared	**0.05**	0.05	0.05	0.05	0.05	**0.15**	
	42.29	40.99	39.38	39.88	39.12	**42.29**	
hares outstanding							
verage: Basic[(d)]	**3,954.3**	3,983.5	3,970.5	3,946.1	3,937.9	**3,969.4**	
	3,971.9	4,005.6	3,994.7	3,974.1	3,962.0	**3,990.7**	
hares at period-end	**3,925.8**	3,975.8	3,975.4	3,942.0	3,938.7	**3,925.8**	
e[(e)]							
	$ 41.70	$ 48.20	$ 46.05	$ 47.47	$ 46.50	**$ 48.20**	$
	35.16	36.51	37.03	40.04	31.59	**35.16**	
	38.06	36.61	44.75	41.67	43.82	**38.06**	
italization	**149,418**	145,554	177,897	164,261	172,596	**149,418**	
tios							
ommon equity (ROE[(c)])							
ore extraordinary gain	**10%**	12%	8%	8%	9%	**10%**	
	10	12	8	8	9	**10**	
angible common equity (ROTCE[(c)])							
ore extraordinary gain	**15**	17	12	12	13	**15**	

	15	17	12	12	14	**15**	
ssets (ROA)							
ore extraordinary gain	**0.86**	0.94	0.66	0.65	0.70	**0.82**	
	0.86	0.94	0.66	0.65	0.71	**0.82**	
atio	**60**	58	58	52	51	**59**	
-loans ratio	**131**	127	130	148	133	**131**	
al ratio(f)	**11.9**	12.1	11.5	11.1	10.2		
l ratio	**15.4**	15.8	15.1	14.8	13.9		
age ratio	**7.1**	6.9	6.6	6.9	6.5		
mon capital ratio(g)	**9.5**	9.6	9.1	8.8	8.2		
lance sheet data (period-end)(f)							
ets	**$ 475,515**	$ 397,508	$ 426,128	$ 411,128	$ 424,435	**$ 475,515**	$
	340,168	312,013	344,376	360,390	372,867	**340,168**	
	690,531	699,483	713,799	633,458	653,144	**690,531**	
	2,141,595	2,014,019	2,135,796	2,031,989	2,041,009	**2,141,595**	2
	903,138	887,805	925,303	938,367	867,977	**903,138**	
debt	**255,589**	248,618	262,857	266,318	272,124	**255,589**	
ockholders equity	**166,030**	162,968	156,569	157,213	154,101	**166,030**	
holders equity	**173,830**	171,120	164,721	165,365	162,253	**173,830**	
	236,810	232,939	226,623	222,316	220,861	**236,810**	

3

Table of Contents

(unaudited) (in millions, except ratios) As of or for the period ended,	**3Q10**	2Q10	1Q10	4Q09	3Q09	Nine months ended September 30, **2010**	2009
Credit quality metrics							
Allowance for credit losses[f]	**$35,034**	$36,748	$39,126	$32,541	$31,454	**$35,034**	$31,454
Allowance for loan losses to total retained loans[f]	**4.97%**	5.15%	5.40%	5.04%	4.74%	**4.97%**	4.74%
Allowance for loan losses to retained loans excluding purchased credit-impaired loans[f][h]	**5.12**	5.34	5.64	5.51	5.28	**5.12**	5.28
Nonperforming assets	**$17,656**	$18,156	$19,019	$19,741	$20,362	**$17,656**	$20,362
Net charge-offs	**4,945**	5,714	7,910	6,177	6,373	**18,569**	16,788
Net charge-off rate	**2.84%**	3.28%	4.46%	3.85%	3.84%	**3.53%**	3.28%
Wholesale net charge-off rate	**0.49**	0.44	1.84	2.31	1.93	**0.92**	1.13
Consumer net charge-off rate	**3.90**	4.49	5.56	4.60	4.79	**4.66**	4.36

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

(b) *On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank (Washington Mutual). The acquisition resulted in negative goodwill, and accordingly, the Firm recognized an extraordinary gain. A preliminary gain of $1.9 billion was recognized at December 31, 2008. The final total extraordinary gain that resulted from the Washington Mutual transaction was $2.0 billion.*

(c) *The calculation of year-to-date 2009 earnings per share (EPS) and net income applicable to common equity includes a one-time, noncash reduction of $1.1 billion, or $0.27 per share, resulting from repayment of U.S. Troubled Asset Relief Program (TARP) preferred capital. Excluding this reduction, the adjusted ROE and ROTCE for the year-to-date 2009 would have been 7% and 11%, respectively. The Firm views the adjusted ROE and ROTCE, both non-GAAP financial measures, as meaningful because they enable the comparability to prior periods. For further discussion, see Explanation and Reconciliation of the Firm s use of Non-GAAP Financial measures on pages 15 19 of this Form 10-Q and pages 50 52 of JPMorgan Chase s 2009 Annual Report.*

(d) *On June 5, 2009, the Firm issued $5.8 billion, or 163 million shares, of its common stock at $35.25 per share.*

(e) *Share prices shown for JPMorgan Chase s common stock are from the New York Stock Exchange. JPMorgan Chase s common stock is also listed and traded on the London Stock Exchange and the Tokyo Stock Exchange.*

(f) *Effective January 1, 2010, the Firm adopted new guidance that amended the accounting for the transfer of financial assets and the consolidation of variable interest entities (VIEs). Upon adoption of the new guidance, the Firm consolidated its Firm-sponsored credit card securitization trusts, Firm-administered multi-seller conduits and certain other consumer loan securitization entities, primarily mortgage-related, adding $87.7 billion and $92.2 billion of assets and liabilities, respectively, and decreasing stockholders equity and the Tier I capital ratio by $4.5 billion and 34 basis points, respectively. The reduction to stockholders equity was driven by the establishment of an allowance for loan losses of $7.5 billion (pretax) primarily related to receivables held in credit card securitization trusts that were consolidated at the adoption date.*

(g) *The Firm uses Tier 1 common capital (Tier 1 common) along with the other capital measures to assess and monitor its capital position. The Tier 1 common capital ratio (Tier 1 common ratio) is Tier 1 common divided by risk-weighed assets. For further discussion, see Regulatory capital on pages 82 84 of JPMorgan Chase s 2009 Annual Report.*

(h) *Excludes the impact of home lending purchased credit-impaired (PCI) loans for all periods. Also excludes, as of December 31, 2009, and September 30, 2009, the loans held by the Washington Mutual Master Trust (WMMT), which were consolidated onto the balance sheet at fair value during the second quarter of 2009. No allowance for loan losses was recorded for these loans as of December 31, 2009 and September 30, 2009. The balance of these loans held by the WMMT was zero at September 30, 2010, June 30, 2010 and March 31, 2010. See Note 15 on pages 198-205 of JPMorgan Chase s 2009 Annual Report.*

Table of Contents

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

This section of the Form 10-Q provides management s discussion and analysis (MD&A) of the financial condition and results of operations of JPMorgan Chase. See the Glossary of terms on pages 185 188 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 191 192 and Part II, Item 1A: Risk Factors on pages 200 201 of this Form 10-Q).

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, $173.8 billion in stockholders equity and operations in more than 60 countries as of September 30, 2010. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. Under the J.P. Morgan and Chase brands, the Firm serves millions of customers in the U.S. and many of the world s most prominent corporate, institutional and government clients.

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

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

Investment Bank

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

Retail Financial Services

Retail Financial Services (RFS) serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking, as well as through auto dealerships and school financial-aid offices. Customers can use more than 5,100 bank branches (third-largest nationally) and 15,800 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 28,500 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 16,000 auto dealerships and 1,700 schools and universities nationwide.

Card Services

Card Services (CS) is one of the nation s largest credit card issuers, with over $136 billion in loans and nearly 90 million open accounts. In the nine months ended September 30, 2010, customers used Chase cards to meet over $227 billion of their spending needs. Through its merchant acquiring business, Chase Paymentech Solutions, CS is a global leader in payment processing and merchant acquiring.

Commercial Banking

Commercial Banking (CB) delivers extensive industry knowledge, local expertise and dedicated service to more than 24,000 clients nationally, including corporations, municipalities, financial institutions and not-for-profit entities with annual revenue generally ranging from $10 million to $2 billion, and more than 35,000 real estate investors/owners. CB partners with the Firm s other businesses to provide comprehensive solutions, including lending, treasury services, investment banking and asset management to meet its clients domestic and international financial needs.

Treasury & Securities Services

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

Asset Management

Asset Management (AM), with assets under supervision of $1.8 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.

EXECUTIVE OVERVIEW

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

The U.S. economy continued to grow, albeit slowly, during the third quarter of 2010. U.S. consumer spending continued to increase at a moderate pace, in the face of high unemployment and modest income growth. Spending on equipment and technology rose during the quarter, supported by the healthy financial condition of U.S. businesses. However, hiring slowed modestly, and bank lending continued to trend lower, though at a reduced rate. Outside the U.S., the pace of growth slowed in the third quarter, reflecting a moderation in most developed and developing economies. A modest pickup in Japan and continued strong growth in China and India were the exceptions.

The equity markets rebounded in the third quarter, as recent economic data implied the U.S. economy, while recovering slowly, was not falling back into recession. The Federal Reserve maintained the target range for the federal funds rate at zero to one-quarter percent and continued to indicate that economic conditions are likely to warrant a low federal funds rate for an extended period. Also, the Federal Reserve began to buy U.S. Treasuries using the proceeds received from repayments or refinancings of outstanding mortgages in its portfolio. The Federal Reserve also announced that it was considering other options to help the economy.

Financial performance of JPMorgan Chase

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except per share data and ratios)	**2010**	2009	Change	**2010**	2009	Change
Selected income statement data						
Total net revenue	**$23,824**	$26,622	(11)%	**$76,596**	$77,270	(1)%
Total noninterest expense	**14,398**	13,455	7	**45,153**	40,348	12
Pre-provision profit	**9,426**	13,167	(28)	**31,443**	36,922	(15)
Provision for credit losses	**3,223**	8,104	(60)	**13,596**	24,731	(45)
Income before extraordinary gain	**4,418**	3,512	26	**12,539**	8,374	50
Extraordinary gain*(a)*		76	NM		76	NM
Net income	**4,418**	3,588	23	**12,539**	8,450	48
Diluted earnings per share*(b)*						
Income before extraordinary gain	**$ 1.01**	$ 0.80	26	**$ 2.84**	$ 1.50	89
Net income	**1.01**	0.82	23	**2.84**	1.51	88
Return on common equity*(b)*						
Income before extraordinary gain	**10%**	9%		**10%**	6%	
Net income	**10**	9		**10**	6	
Capital ratios						
Tier 1 capital	**11.9**	10.2				
Tier 1 common	**9.5**	8.2				

(a) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank (Washington Mutual). The acquisition resulted in negative goodwill, and accordingly, the Firm recognized an extraordinary gain. A preliminary gain of $1.9 billion was recognized at December 31, 2008. The final total extraordinary gain that resulted from the Washington Mutual transaction was $2.0 billion.

(b)

The calculation of EPS and net income applicable to common equity for the nine months ended September 30, 2009, included a one-time noncash reduction of $1.1 billion, or $0.27 per share, resulting from repayment of TARP preferred capital. Excluding this reduction, the adjusted ROE for the first nine months of 2009 would have been 7%. The Firm views the adjusted ROE, a non-GAAP financial measure, as meaningful because it enables comparability to prior periods. For further discussion, see Explanation and Reconciliation of the Firm s use of Non-GAAP Financial measures on pages 15 19 of this Form 10-Q and pages 50 52 of JPMorgan Chase s 2009 Annual Report.

Business overview

JPMorgan Chase reported third-quarter 2010 net income of $4.4 billion, or $1.01 per share, compared with net income of $3.6 billion, or $0.82 per share, in the third quarter of 2009. Current-quarter EPS included a $1.3 billion pretax ($0.18 per share after-tax) increase to litigation reserves, including those for mortgage-related matters; a $1.0 billion pretax ($0.15 per share after-tax) increase to mortgage repurchase reserves; and a benefit from a $1.5 billion pretax ($0.22 per share after-tax) reduction of loan loss reserves in Card Services. ROE for the quarter was 10%, compared with 9% in the prior year.

The increase in earnings from the third quarter of 2009 was driven by a significantly lower provision for credit losses, predominantly offset by lower net revenue and higher noninterest expense. The decline in net revenue was driven by lower principal transactions revenue, reflecting lower trading results. The lower provision for credit losses reflected improvements in both the consumer and wholesale provisions. The consumer provision declined due to a reduction in the allowance for credit losses associated with the credit card portfolio as a result of improved delinquency trends and reduced net charge-offs. The decrease in the wholesale provision was driven by a reduction in the allowance for credit losses predominantly as

a result of continued improvement in the credit quality of the commercial and industrial loan portfolio, reduced net charge-offs and net repayments. The increase in noninterest expense in the third quarter of 2010 was largely due to higher litigation expense. JPMorgan Chase maintained very high liquidity, with a deposits-to-loans ratio of 131%, and increased its capital, ending the quarter with a strong Tier 1 common ratio of 9.5%.

While overall credit costs continued to decline in the third quarter of 2010, the levels of net charge-offs in the mortgage and credit card portfolios continued to be very high. Mortgage delinquency trends remained relatively flat compared with the prior quarter, while credit card delinquencies continued to improve. Total firmwide credit reserves declined to $35.0 billion, resulting in a firmwide coverage ratio of 5.1% of total loans.

Net income for the first nine months of 2010 was $12.5 billion, or $2.84 per share, compared with $8.5 billion, or $1.51 per share, in the first nine months of 2009. The increase in earnings from the comparable 2009 nine-month period was driven by a lower provision for credit losses, partially offset by higher noninterest expense. The factors that drove the lower provision for credit losses and the higher noninterest expense in the nine-month results comparison were the same as those that drove the third-quarter results comparison. Net revenue decreased modestly in the first nine months of 2010 compared with the prior year, reflecting lower markets revenue, lower mortgage fees and related income, and lower credit card revenue, largely offset by a higher level of both private equity and securities gains.

JPMorgan Chase continued to support the economic recovery by providing capital, financing and liquidity to its clients in the U.S. and around the world. During the first nine months of 2010, the Firm loaned or raised capital for its clients of more than $1.0 trillion, and its small-business originations were up 37% over the same period last year. The Firm has offered 975,000 mortgage modifications and has approved 292,000 since the beginning of 2009. In addition, JPMorgan Chase is on track to hire over 10,000 people in the U.S. this year.

The discussion that follows highlights the current-quarter performance of each business segment, compared with the prior-year quarter. Managed basis starts with the reported U.S. GAAP results and, for each line of business and the Firm as a whole, includes certain reclassifications to present total net revenue on a tax-equivalent basis. Effective January 1, 2010, the Firm adopted new accounting guidance that required it to consolidate its Firm-sponsored credit card securitization trusts; as a result, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. Prior to the adoption of the new accounting guidance, in 2009 and all other prior periods, the U.S. GAAP results for CS and the Firm were also adjusted for certain reclassifications that assumed credit card loans that had been securitized and sold by CS remained on the Consolidated Balance Sheets. These adjustments had no impact on net income as reported by the Firm as a whole or by the lines of business. For more information about managed basis, as well as other non-GAAP financial measures used by management to evaluate the performance of each line of business, see pages 15 19 of this Form 10-Q.

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

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

Card Services reported net income compared with a net loss in the prior year, as a lower provision for credit losses was partially offset by lower net revenue. The decrease in net revenue was driven by a decline in net interest income, reflecting lower average loan balances, the impact of legislative changes and a decreased level of fees. These

decreases were partially offset by lower revenue reversals associated with lower charge-offs. The provision for credit losses decreased from the prior year, reflecting lower net charge-offs and a reduction to the allowance for loan losses due to lower estimated losses. Noninterest expense increased due to higher marketing expense.

Commercial Banking net income increased from the prior year, driven by a reduction in the provision for credit losses. Results included the impact of the purchase of a $3.5 billion loan portfolio during the third quarter of 2010. Net revenue was a record, driven by growth in liability balances, wider loan spreads, changes in the valuation of investments held at fair value and higher investment banking fees, largely offset by spread compression on liability products and lower loan

balances. The provision for credit losses decreased from the third quarter of 2009, reflecting continued improvement in the credit quality of the commercial and industrial loan portfolio. Noninterest expense increased, reflecting higher headcount-related expense.

Treasury and Securities Services net income decreased from the prior year, driven by higher noninterest expense, partially offset by higher net revenue. Treasury Services net revenue increased, driven by higher trade loan and card product volumes, partially offset by lower spreads on liability products. Worldwide Securities Services net revenue also increased, driven by higher market levels and net inflows of assets under custody, partially offset by lower spreads on liability products and securities lending. Noninterest expense for TSS increased, driven by continued investment in new product platforms, primarily related to international expansion, and higher performance-based compensation.

Asset Management net income decreased modestly from the prior year, as higher noninterest expense was largely offset by higher net revenue and a lower provision for credit losses. The growth in net revenue was driven by higher loan originations, the effect of higher market levels, net inflows to products with higher margins and higher deposit and loan balances, partially offset by narrower deposit and loan spreads, lower brokerage revenue and lower quarterly valuations of seed capital investments. Noninterest expense rose due to an increase in headcount.

Corporate/Private Equity net income decreased from the prior year, driven by lower net revenue and higher noninterest expense. The decrease in net revenue reflected lower net interest income from the investment portfolio and lower trading and securities gains, offset partially by higher private equity gains. The increase in noninterest expense was largely due to 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. As noted above, these risks and uncertainties could cause the Firm s actual results to differ materially from those set forth in such forward-looking statements. See Forward-Looking Statements on pages 191 192 and Risk Factors on pages 200 201 of this Form 10-Q.

JPMorgan Chase s outlook for the fourth 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.

In the Retail Banking business within RFS, management expects revenue to be stable over the next several quarters, despite continued economic pressure on consumers and consumer spending levels. The Firm has made changes in its policies consistent with and, in certain respects, beyond the requirements of the newly-enacted legislation relating to non-sufficient funds and overdraft fees. Results in the third quarter of 2010 reflected the full impact of the approximately $700 million reduction to annualized Retail Banking net income associated with these changes.

In the Mortgage Banking & Other Consumer Lending business within RFS, management expects revenue to continue to be negatively affected by continued elevated levels of repurchases of mortgages previously sold, for example, to U.S. government-sponsored entities (GSEs). Management estimates that realized repurchase losses could total approximately $1.2 billion in 2011.

In addition, during the third quarter of 2010, the Firm determined that certain documents executed in connection with mortgage loan foreclosures may not have complied with all applicable procedural requirements. Accordingly, the Firm temporarily halted foreclosures, foreclosure sales and evictions in certain states so that it could review its foreclosure processes. Furthermore, state and federal officials have announced investigations into the procedures followed by mortgage servicing companies and banks, including the Firm and its affiliates, in completing affidavits relating to foreclosures. The Firm is cooperating with these investigations and is dedicating significant resources to address these issues. The Firm expects to incur additional costs and expenses in resolving these issues. For further discussion, see Loan modification activities on pages 91 94 of this Form 10-Q.

In the Real Estate Portfolios business within RFS, management believes that, given the continued economic and housing market uncertainty, it remains possible that quarterly net charge-offs could be approximately $1.0 billion for the home equity portfolio, $400 million for the prime mortgage portfolio and $400 million for the subprime mortgage portfolio over the next several quarters. For the purchased credit impaired real estate portfolios, the lifetime loss estimates assume some improvement in both delinquency and loss severity trends over time; if the timing of these

improvements differs from current projections, loan loss reserves could increase. For example, if delinquencies and severities for these portfolios do not follow recent trends and instead remain at current levels over the next two years, related reserves could increase by approximately $3.0 billion over that time period. Given current origination and production levels, combined with management s current estimate of portfolio runoff levels, the residential real estate portfolio is expected to decline by approximately 10% to 15% annually for the foreseeable future. The effect of such a reduction in the residential real estate portfolio is expected to reduce the portfolio s 2010 net interest income by approximately $1.0 billion from the 2009 level. The continued portfolio runoff will

reduce net interest income over time; however, this reduction in net interest income will be more than offset by an improvement in credit costs and lower expenses. As the portfolio continues to run off, management anticipates that approximately $1.0 billion of capital may be redeployed each year, subject to the capital requirements associated with the remaining portfolio.

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

In CS, management expects end-of-period outstandings for the Chase portfolio (excluding the Washington Mutual portfolio) to decline by approximately 15%, or $21 billion, from 2009 levels, to approximately $123 billion by the end of 2010. More than half of this decline is driven by a planned reduction in balance transfer offers. Management estimates that this decline could bottom out in the third quarter of 2011 and by the end of 2011 the outstandings in the portfolio could be approximately $120 billion and reflect a better mix of customers. The Washington Mutual portfolio declined to $15 billion at the end of the third quarter of 2010, from $20 billion at the end of 2009. Management estimates that the Washington Mutual portfolio could decline to $10 billion by the end of 2011.

Also, management estimates that CS net income may be reduced, on an annualized basis, by approximately $750 million as a result of the impact of the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (CARD Act), including the regulatory guidance defining reasonable and proportional fees. Third-quarter 2010 net income reflected approximately 65% of the estimated quarterly impact, and management estimates that the full impact could be reflected in the fourth quarter of 2010. The net charge-off rates for both the Chase and Washington Mutual credit card portfolios are anticipated to continue to improve if current delinquency trends continue. The net charge-off rate for the Chase portfolio (excluding the Washington Mutual portfolio) could be approximately 7.5% in the fourth quarter of 2010. However, overall results for CS will depend on the economic environment and any resulting reserve actions.

While recent economic data implied the U.S. economy was not falling back into recession, high unemployment persisted. Even as consumer-lending net charge-offs and delinquencies have improved as noted above, the consumer credit portfolio remains under stress. Further declines in U.S. housing prices and increases in the unemployment rate remain possible; if this were to occur, it would adversely affect the Firm s results.

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

In Private Equity (within the Corporate/Private Equity segment), earnings will likely continue to be volatile and be influenced by capital markets activity, market levels, the performance of the broader economy and investment-specific issues. Corporate s net interest income levels and securities gains will generally trend with the size and duration of the investment securities portfolio. Corporate net income (excluding Private Equity, and excluding merger-related items, material litigation expenses and significant nonrecurring items, if any) is anticipated to trend toward a level of approximately $300 million per quarter.

Management expects modest continued downward pressure on the net interest margin in the fourth quarter of 2010, primarily resulting from continued repositioning of the investment securities portfolio in Corporate, runoff of loans with higher contractual interest rates in the Real Estate Portfolios and CS businesses, and the impact of the CARD Act legislation on CS.

Regarding regulatory reform, JPMorgan Chase intends to work with the Firm s regulators as they proceed with the extensive rulemaking required to implement financial reforms. The Firm will continue to devote substantial resources to achieving implementation of regulatory reforms in a way that preserves the value the Firm delivers to its clients.

Management and the Firm s Board of Directors continually evaluate alternatives to deploy the Firm s strong capital base in ways that will enhance shareholder value. Such alternatives could include the repurchase of common stock, increasing the common stock dividend and pursuing alternative investment opportunities. The Firm resumed its repurchases of common stock beginning in the second quarter of 2010 under its preexisting Board authorization. The Firm s current share repurchase activity is intended to offset share count increases resulting from employee equity

awards and is consistent with the Firm s goal of maintaining an appropriate share count. The aggregate amount and timing of future repurchases will depend, among other factors, on market conditions and management s judgment regarding economic conditions, the Firm s earnings outlook, the need to maintain adequate capital levels (in light of business needs and regulatory requirements) and alternative investment opportunities. With regard to any decision by the Firm s Board of Directors concerning any increase in the level of the common stock dividend, their determination will be subject to their judgment that the likelihood of another severe economic downturn has sufficiently diminished; that there is evidence of sustained underlying growth in employment for at least several months; that overall business performance and credit have stabilized or improved; and that such action is warranted, taking into consideration, among other factors, the Firm s earnings outlook, the need to maintain adequate capital levels, 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 104 106 of this Form 10-Q and pages 127 131 of JPMorgan Chase s 2009 Annual Report.

Revenue

	Three months ended September 30,			Nine months ended September 30,		
(in millions)	**2010**	2009	Change	**2010**	2009	Change
Investment banking fees	**$ 1,476**	$ 1,679	(12)%	**$ 4,358**	$ 5,171	(16)%
Principal transactions	**2,341**	3,860	(39)	**8,979**	8,958	
Lending- and deposit-related fees	**1,563**	1,826	(14)	**4,795**	5,280	(9)
Asset management, administration and commissions	**3,188**	3,158	1	**9,802**	9,179	7
Securities gains	**102**	184	(45)	**1,712**	729	135
Mortgage fees and related income	**707**	843	(16)	**2,253**	3,228	(30)
Credit card income	**1,477**	1,710	(14)	**4,333**	5,266	(18)
Other income	**468**	625	(25)	**1,465**	685	114
Noninterest revenue	**11,322**	13,885	(18)	**37,697**	38,496	(2)
Net interest income	**12,502**	12,737	(2)	**38,899**	38,774	
Total net revenue	**$23,824**	$26,622	(11)%	**$76,596**	$77,270	(1)%

Total net revenue for the third quarter of 2010 was $23.8 billion, down by $2.8 billion, or 11%, from the third quarter of 2009. Results were driven by lower principal transactions revenue, reflecting lower trading revenue in IB partially offset by an increase in private equity gains. Total net revenue for the first nine months of 2010 was $76.6 billion, down by $674 million, or 1%, from the prior year. The decline reflected lower markets revenue in IB and Corporate, lower mortgage fees and related income in RFS, and lower credit card revenue, largely offset by a higher level of both private equity and securities gains in Corporate.

Investment banking fees for the third quarter and first nine months of 2010 decreased from the comparable periods of 2009 due to lower equity underwriting fees, partially offset by higher debt underwriting fees. Lower advisory fees also contributed to the decline for the first nine months of 2010. Overall industry-wide equity underwriting volumes were lower in the third quarter and first nine months of 2010 compared with the respective periods in 2009. For additional information on investment banking fees, which are primarily recorded in IB, see IB segment results on pages 21 24 of this Form 10-Q.

Principal transactions revenue, which consists of revenue from the Firm s trading and private equity investing activities, decreased from the third quarter of 2009 and was relatively flat compared with the first nine months of 2009. Trading revenue declined in both comparable periods, driven by lower fixed income revenue in IB, reflecting lower results in credit and rates markets. Trading revenue also reflected third-quarter losses of $493 million, compared with $1.0 billion in the prior- year third quarter; and gains in the first nine months of 2010 of $494 million, compared with losses of $1.9 billion in the comparable 2009 period. These results were associated with changes in the Firm s credit spreads on certain structured and derivative liabilities. A partial offset to the decline in the nine-month period was the absence of mark-to-market losses on hedges of retained loans in IB compared with the prior year. Private equity gains in both the third quarter and first nine months of 2010 improved from the comparable 2009 periods.

Results in the nine-month period swung to gains in 2010 from losses in 2009. For additional information on principal transactions revenue, see IB and Corporate/Private Equity segment results on pages 21 24 and 51 53, respectively, and Note 6 on page 140 of this Form 10-Q.

Lending- and deposit-related fees for the third quarter and first nine months of 2010 decreased from the prior-year periods. These declines reflected lower deposit-related fees in RFS associated, in part, with newly-enacted legislation related to non-sufficient funds and overdraft fees; this was partially offset by higher lending-related service fees in particular, for the first nine months of 2010, in IB and CB. For additional information on lending- and deposit-related fees, which are mostly recorded in RFS, TSS and CB, see the RFS segment results on pages 25 35, the TSS segment results on pages 44 46 and the CB segment results on pages 41 43 of this Form 10-Q.

Asset management, administration and commissions revenue was relatively flat in the third quarter of 2010 compared with the prior year and increased in the first nine months of 2010 compared with the prior year. Results in both periods included higher asset management fees in AM, driven by the effect of higher market levels, net inflows to products with higher margins and higher performance fees; higher administration fees in TSS, resulting from the effect of higher market levels and net inflows of assets under custody; and lower brokerage commissions in IB. For additional information on these fees and commissions, see the segment discussions for AM on pages 47 51 and TSS on pages 44 46 of this Form 10-Q.

Securities gains decreased in the third quarter of 2010 compared with the third quarter of 2009 and increased in the first nine months of 2010 compared with the first nine months of 2009. Results for both comparable periods were affected by actions taken to reposition the Corporate investment securities portfolio in connection with managing the Firm s structural interest rate risk; for the third-quarter comparison, gains from the repositioning activities were lower, while for the nine-month comparison, the gains were higher. For additional information on securities gains, which are mostly recorded in the Firm s Corporate business, and Corporate s investment securities portfolio, see the Corporate/Private Equity segment discussion on pages 51 53 of this Form 10-Q.

Mortgage fees and related income decreased from the third quarter and first nine months of 2009, driven by lower net production revenue, predominantly reflecting higher repurchase losses. The third quarter of 2010 included a $1.0 billion increase in the repurchase reserve, as a result of higher estimated future repurchase demands; for the first nine months of 2010, the increase in the reserve was $1.6 billion. (These charges for increasing the reserve are booked as contra-revenue.) Production revenue, excluding repurchase losses, increased from both periods, reflecting wider margins; also contributing to the increase for the third quarter of 2010 were higher mortgage origination volumes. For the first nine months of 2010, an additional driver of the decline in mortgage fees and related income from the comparable 2009 period was lower net mortgage servicing revenue, reflecting lower MSR risk management results, which were predominantly offset by higher operating revenue. For additional information on mortgage fees and related income, which is recorded primarily in RFS, see RFS s Mortgage Banking & Other Consumer Lending discussion on pages 29 32 of this Form 10-Q.

Credit card income decreased from the third quarter and first nine months of 2009, due predominantly to the impact of the new consolidation guidance related to variable interest entities (VIEs), effective January 1, 2010, that required the Firm to consolidate the assets and liabilities of its Firm-sponsored credit card securitization trusts. Adoption of the new guidance resulted in the elimination of all servicing fees received from Firm-sponsored credit card securitization trusts (offset by related increases in net interest income and the provision for credit losses, and the elimination of securitization income/losses in other income). Lower revenue from fee-based products also contributed to the decrease in credit card income for both periods. For a more detailed discussion of the impact of the adoption of the new consolidation guidance on the Consolidated Statements of Income, see Explanation and Reconciliation of the Firm s Use of Non-GAAP Financial Measures on pages 15 19 of this Form 10-Q. For additional information on credit card income, see the CS segment results on pages 36 40 of this Form 10-Q.

Other income decreased in the third quarter of 2010 compared with the prior year, as a result of a gain recognized in the third quarter of 2009 in Corporate on the sale of certain assets, and lower valuations on seed capital investments in AM. For the first nine months of 2010, other income increased compared with the prior year, due to the write-down of securitization interests during the first nine months of 2009. Higher auto operating lease income in RFS also contributed to the increase in other income. These items were offset partially by lower valuations on seed capital investments in AM.

Net interest income declined modestly in the third quarter of 2010 compared with the prior-year quarter and was relatively flat for the first nine months of 2010 compared with the prior-year period. Declining loan balances were predominantly offset by the impact of the adoption of the new consolidation guidance related to VIEs (which increased net interest income by approximately $1.4 billion for the third quarter of 2010 and by approximately $4.6 billion for the first nine months of 2010). Excluding the impact of the adoption of the new accounting guidance, net interest income decreased for both the third quarter and first nine months of 2010 compared with the comparable 2009 periods, driven by lower average loan balances, primarily in CS, RFS and IB, and lower yields on credit card receivables, reflecting the impact of legislative changes. The Firm s interest-earning assets for the third quarter of 2010

were $1.7 trillion, and the net yield on those assets, on a fully taxable-equivalent (FTE) basis, was 3.01%, a decrease of nine basis points from the third quarter of 2009. The Firm s interest-earning assets for the first nine months of 2010 were $1.7 trillion, and the net yield on those assets, on a FTE basis, was 3.13%, a decrease of two basis points from the first nine months of 2009. For a more detailed discussion of the impact of the adoption of the new consolidation guidance related to VIEs on the

Consolidated Statements of Income, see Explanation and Reconciliation of the Firm s Use of Non-GAAP Financial Measures on pages 15 19 of this Form 10-Q. For a further information on the impact of the legislative changes on the Consolidated Statements of Income, see CS discussion on Credit Card Legislation on page 37 of this Form 10-Q.

Provision for credit losses (in millions)	Three months ended September 30, **2010**	2009	Change	Nine months ended September 30, **2010**	2009	Change
Wholesale	**$ 44**	$ 779	(94)%	**$ (764)**	$ 3,553	NM
Consumer	**3,179**	7,325	(57)	**14,360**	21,178	(32)%
Total provision for credit losses	**$3,223**	$8,104	(60)%	**$13,596**	$24,731	(45)%

The provision for credit losses decreased significantly from the third quarter and first nine months of 2009. The decrease in the consumer provision for both 2010 periods reflected a reduction in the allowance for credit losses as a result of improved delinquency trends and reduced net charge-offs; the reductions in the allowance for loan losses in CS were $1.5 billion and $4.0 billion in the third quarter and first nine months of 2010, respectively (compared with additions of $575 million and $2.0 billion in the comparable 2009 periods). The decrease in the wholesale provision in both 2010 periods reflected a reduction in the allowance for credit losses predominantly as a result of continued improvement in the credit quality of the commercial and industrial loan portfolio, reduced net charge-offs and repayments. For a more detailed discussion of the loan portfolio and the allowance for credit losses, see the segment discussions for RFS on pages 25 35, CS on pages 36 40, IB on pages 21 24 and CB on pages 41 43, and the Allowance for Credit Losses section on pages 95 98 of this Form 10-Q.

Noninterest expense

(in millions)	Three months ended September 30, **2010**	2009	Change	Nine months ended September 30, **2010**	2009	Change
Compensation expense*(a)*	**$ 6,661**	$ 7,311	(9)%	**$21,553**	$21,816	(1)%
Noncompensation expense:						
Occupancy	**884**	923	(4)	**2,636**	2,722	(3)
Technology, communications and equipment	**1,184**	1,140	4	**3,486**	3,442	1
Professional and outside services	**1,718**	1,517	13	**4,978**	4,550	9
Marketing	**651**	440	48	**1,862**	1,241	50
Other*(b)(c)(d)*	**3,082**	1,767	74	**9,942**	5,332	86
Amortization of intangibles	**218**	254	(14)	**696**	794	(12)
Total noncompensation expense	**7,737**	6,041	28	**23,600**	18,081	31
Merger costs		103	NM		451	NM
Total noninterest expense	**$14,398**	$13,455	7%	**$45,153**	$40,348	12%

(a)

Year-to-date 2010 included a payroll tax expense related to the U.K. Bank Payroll Tax on certain compensation awarded from December 9, 2009, to April 5, 2010, to relevant banking employees.

(b) *Includes litigation expense of $1.5 billion and $5.2 billion for the three and nine months ended September 30, 2010, compared with $246 million and a net benefit of $10 million for the three and nine months ended September 30, 2009, respectively.*

(c) *Includes foreclosed property expense of $251 million and $798 million for the three and nine months ended September 30, 2010, respectively, compared with $346 million and $965 million for the three and nine months ended September 30, 2009, respectively. For additional information regarding foreclosed property, see Note 13 on page 196 of JPMorgan Chase s 2009 Annual Report.*

(d) *Year-to-date 2009 included a $675 million Federal Deposit Insurance Corporation (FDIC) special assessment.*

Total noninterest expense for the third quarter of 2010 was $14.4 billion, up by $943 million, or 7%, from the third quarter of 2009. For the first nine months of 2010, total noninterest expense was $45.2 billion, up by $4.8 billion, or 12%, from the comparable 2009 period. The increase for both periods was driven by higher noncompensation expense, predominantly due to higher litigation expense.

The decrease in compensation expense from the third quarter of 2009 was predominantly due to lower performance-based incentives, particularly in IB; this was partially offset by higher salary expense related to investments in the businesses, including the addition of sales force in RFS and client advisors in AM. Compensation expense for the first nine months of 2010 decreased from the prior-year period, predominantly due to lower performance-based incentives, largely offset by the impact of the U.K. Bank Payroll Tax and higher salary expense related to investments in the businesses.

Table of Contents

Noncompensation expense increased for the third quarter and first nine months of 2010 compared with the prior-year periods, due to higher litigation expense. Also contributing to the increase were higher marketing expense in CS and higher professional services expense, due to investments in systems in the businesses and increased brokerage, clearing and exchange transaction processing expense in IB. Partially offsetting the increase in the nine-month comparison was the absence of a $675 million FDIC special assessment recognized in the second quarter of 2009. For a further discussion of litigation expense, see Litigation reserve in Note 21 Commitments and Contingencies on pages 173 174 of this Form 10-Q. For a discussion of amortization of intangibles, refer to Note 16 on pages 167 170 of this Form 10-Q.

There were no merger costs recorded in 2010. Merger costs of $103 million and $451 million were recorded in the third quarter and first nine months of 2009, respectively. For additional information on merger costs, refer to Note 10 on page 143 of this Form 10-Q.

Income tax expense

	Three months ended September 30,		Nine months ended September 30,	
(in millions, except rate)	**2010**	2009	**2010**	2009
Income before income tax expense	**$ 6,203**	$ 5,063	**$ 17,847**	$ 12,191
Income tax expense	**1,785**	1,551	**5,308**	3,817
Effective tax rate	**28.8%**	30.6%	**29.7%**	31.3%

The decrease in the effective tax rate for the third quarter and first nine months of 2010 compared with the prior-year periods was primarily the result of lower state and local income taxes, as well as tax benefits recognized upon the resolution of tax audits in both 2010 periods. These decreases were partially offset by the impact of higher reported pretax income for 2010. For additional information on income taxes, see Critical Accounting Estimates Used by the Firm on pages 104 106 of this Form 10-Q.

Extraordinary gain

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual. This transaction was accounted for under the purchase method of accounting for business combinations. The adjusted net asset value of the banking operations after purchase accounting adjustments was higher than the consideration paid by JPMorgan Chase, resulting in an extraordinary gain. In the third quarter of 2009, the Firm recognized a $76 million increase in the extraordinary gain associated with the final purchase accounting adjustments for the acquisition. The preliminary gain recognized in 2008 was $1.9 billion. For a further discussion of the Washington Mutual transaction, see Note 2 on pages 143 148 of the Firm s 2009 Annual Report.

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

The Firm prepares its consolidated financial statements using accounting principles generally accepted in the U.S. (U.S. GAAP); these financial statements appear on pages 108 111 of this Form 10-Q. That presentation, which is referred to as reported basis, provides the reader with an understanding of the Firm s results that can be tracked consistently from year to year and enables a comparison of the Firm s performance with other companies U.S. GAAP financial statements.

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

Prior to January 1, 2010, the Firm s managed-basis presentation also included certain reclassification adjustments that assumed credit card loans securitized by CS remained on the balance sheet. Effective January 1, 2010, the Firm adopted new accounting guidance that required the Firm to consolidate its Firm-sponsored credit card securitizations trusts. The income, expense and credit costs associated with these securitization activities are now recorded in the 2010 Consolidated Statements of Income in the same classifications that were previously used to report such items on a managed basis. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For additional information on the new accounting guidance, see Note 15 on pages 155 167 of this Form 10-Q.

The presentation in 2009 of CS results on a managed basis assumed that credit card loans that had been securitized and sold in accordance with U.S. GAAP remained on the Consolidated Balance Sheets, and that the earnings on the securitized loans were classified in the same manner as the earnings on retained loans recorded on the Consolidated Balance Sheets. JPMorgan Chase used the concept of managed basis to evaluate the credit performance and overall financial performance of the entire managed credit card portfolio. Operations were funded and decisions were made about allocating resources, such as employees and capital, based on managed financial information. In addition, the same underwriting standards and ongoing risk monitoring are used for both loans on the Consolidated Balance Sheets and securitized loans. Although securitizations result in the sale of credit card receivables to a trust, JPMorgan Chase retains the ongoing customer relationships, as the customers may continue to use their credit cards; accordingly, the customer s credit performance affects both the securitized loans and the loans retained on the Consolidated Balance Sheets. JPMorgan Chase believed that this managed-basis information was useful to investors, as it enabled them to understand both the credit risks associated with the loans reported on the Consolidated Balance Sheets and the Firm s retained interests in securitized loans. For a reconciliation of 2009 reported to managed basis results for CS, see CS segment results on pages 36 40 of this Form 10-Q. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 15 on pages 155 167 of this Form 10-Q.

Tangible common equity (TCE) represents common stockholders equity (i.e., total stockholders equity less preferred stock) less identifiable intangible assets (other than MSRs) and goodwill, net of related deferred tax liabilities. ROTCE, a non-GAAP financial ratio, measures the Firm s earnings as a percentage of TCE and is, in management s view, a meaningful measure to assess the Firm s use of equity.

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

Table of Contents

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

(in millions, except per share and ratios)	Three months ended September 30, 2010 Reported results	Credit card[(b)]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 1,476**	**NA**	**$**	**$ 1,476**
Principal transactions	**2,341**	**NA**		**2,341**
Lending and deposit related fees	**1,563**	**NA**		**1,563**
Asset management, administration and commissions	**3,188**	**NA**		**3,188**
Securities gains	**102**	**NA**		**102**
Mortgage fees and related income	**707**	**NA**		**707**
Credit card income	**1,477**	**NA**		**1,477**
Other income	**468**	**NA**	**415**	**883**
Noninterest revenue	**11,322**	**NA**	**415**	**11,737**
Net interest income	**12,502**	**NA**	**96**	**12,598**
Total net revenue	**23,824**	**NA**	**511**	**24,335**
Noninterest expense	**14,398**	**NA**		**14,398**
Pre-provision profit	**9,426**	**NA**	**511**	**9,937**
Provision for credit losses	**3,223**	**NA**		**3,223**
Income before income tax expense	**6,203**	**NA**	**511**	**6,714**
Income tax expense	**1,785**	**NA**	**511**	**2,296**
Net income	**$ 4,418**	**NA**	**$**	**$ 4,418**
Diluted earnings per share	**$ 1.01**	**NA**	**$**	**$ 1.01**
Return on assets	**0.86%**	**NA**	**NM**	**0.86%**
Overhead ratio	**60**	**NA**	**NM**	**59**

(in millions, except per share and ratios)	Three months ended September 30, 2009 Reported results	Credit card[(b)]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 1,679	$	$	$ 1,679
Principal transactions	3,860			3,860
Lending and deposit related fees	1,826			1,826
Asset management, administration and commissions	3,158			3,158
Securities gains	184			184
Mortgage fees and related income	843			843
Credit card income	1,710	(285)		1,425

Other income	625		371	996
Noninterest revenue	13,885	(285)	371	13,971
Net interest income	12,737	1,983	89	14,809
Total net revenue	26,622	1,698	460	28,780
Noninterest expense	13,455			13,455
Pre-provision profit	13,167	1,698	460	15,325
Provision for credit losses	8,104	1,698		9,802
Income before income tax expense and extraordinary gain	5,063		460	5,523
Income tax expense	1,551		460	2,011
Income before extraordinary gain	3,512			3,512
Extraordinary gain	76			76
Net income	$ 3,588	$	$	$ 3,588
Diluted earnings per share[(a)]	$ 0.80	$	$	$ 0.80
Return on assets[(a)]	0.70%	NM	NM	0.67%
Overhead ratio	51	NM	NM	47

NA: Not applicable

Table of Contents

	Nine months ended September 30, 2010			
(in millions, except per share and ratios)	Reported results	Credit card[b]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	**$ 4,358**	**NA**	**$**	**$ 4,358**
Principal transactions	**8,979**	**NA**		**8,979**
Lending and deposit related fees	**4,795**	**NA**		**4,795**
Asset management, administration and commissions	**9,802**	**NA**		**9,802**
Securities gains	**1,712**	**NA**		**1,712**
Mortgage fees and related income	**2,253**	**NA**		**2,253**
Credit card income	**4,333**	**NA**		**4,333**
Other income	**1,465**	**NA**	**1,242**	**2,707**
Noninterest revenue	**37,697**	**NA**	**1,242**	**38,939**
Net interest income	**38,899**	**NA**	**282**	**39,181**
Total net revenue	**76,596**	**NA**	**1,524**	**78,120**
Noninterest expense	**45,153**	**NA**		**45,153**
Pre-provision profit	**31,443**	**NA**	**1,524**	**32,967**
Provision for credit losses	**13,596**	**NA**		**13,596**
Income before income tax expense	**17,847**	**NA**	**1,524**	**19,371**
Income tax expense	**5,308**	**NA**	**1,524**	**6,832**
Net income	**$12,539**	**NA**	**$**	**$12,539**
Diluted earnings per share	**$ 2.84**	**NA**	**$**	**$ 2.84**
Return on assets	**0.82%**	**NA**	**NM**	**0.82%**
Overhead ratio	**59**	**NA**	**NM**	**58**

	Nine months ended September 30, 2009			
(in millions, except per share and ratios)	Reported results	Credit card[b]	Fully tax-equivalent adjustments	Managed basis
Revenue				
Investment banking fees	$ 5,171	$	$	$ 5,171
Principal transactions	8,958			8,958
Lending and deposit related fees	5,280			5,280
Asset management, administration and commissions	9,179			9,179
Securities gains	729			729
Mortgage fees and related income	3,228			3,228
Credit card income	5,266	(1,119)		4,147
Other income	685		1,043	1,728

Noninterest revenue	38,496	(1,119)	1,043	38,420
Net interest income	38,774	5,945	272	44,991
Total net revenue	77,270	4,826	1,315	83,411
Noninterest expense	40,348			40,348
Pre-provision profit	36,922	4,826	1,315	43,063
Provision for credit losses	24,731	4,826		29,557
Income before income tax expense and extraordinary gain	12,191		1,315	13,506
Income tax expense	3,817		1,315	5,132
Income before extraordinary gain	8,374			8,374
Extraordinary gain	76			76
Net income	$ 8,450	$	$	$ 8,450
Diluted earnings per share[(a)]	$ 1.50	$	$	$ 1.50
Return on assets[(a)]	0.55%	NM	NM	0.53%
Overhead ratio	52	NM	NM	48

(a) Based on income before extraordinary gain.

(b) See pages 36 40 of this Form 10-Q for a discussion of the effect of credit card securitizations on CS results.
NA: Not applicable

Table of Contents

Three months ended September 30, (in millions)	2010 Reported	2010 Securitized[(a)]	2010 Managed	2009 Reported	2009 Securitized[(a)]	2009 Managed
Loans Period-end	**$ 690,531**	**NA**	**$ 690,531**	$ 653,144	$87,028	$ 740,172
Total assets average	**2,041,113**	**NA**	**2,041,113**	1,999,176	82,779	2,081,955

Nine months ended September 30, (in millions)	2010 Reported	2010 Securitized[(a)]	2010 Managed	2009 Reported	2009 Securitized[(a)]	2009 Managed
Loans Period-end	**$ 690,531**	**NA**	**$ 690,531**	$ 653,144	$87,028	$ 740,172
Total assets average	**2,041,156**	**NA**	**2,041,156**	2,034,640	82,383	2,117,023

(a) *Loans securitized are defined as loans that were sold to nonconsolidated securitization trusts and were not included in reported loans as of or for the three and nine months ended September 30, 2009. For further discussion of credit card securitizations, see Note 15 on pages 155 167 of this Form 10-Q.*

Average tangible common equity

	Three months ended					Nine months ended	
(in millions)	**Sept. 30, 2010**	June 30, 2010	March 31, 2010	Dec. 31, 2009	Sept. 30, 2009	**Sept. 30, 2010**	Sept. 30, 2009
Common stockholders equity	**$163,962**	$159,069	$156,094	$156,525	$149,468	**$159,737**	$142,322
Less: Goodwill	**48,745**	48,348	48,542	48,341	48,328	**48,546**	48,225
Less: Certain identifiable intangible assets	**4,094**	4,265	4,307	4,741	4,984	**4,221**	5,214
Add: Deferred tax liabilities[(a)]	**2,620**	2,564	2,541	2,533	2,531	**2,575**	2,552
Tangible common equity (TCE)	**$113,743**	$109,020	$105,786	$105,976	$ 98,687	**$109,545**	$ 91,435

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

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

The calculation of year-to-date 2009 net income applicable to common equity includes a one-time, noncash reduction of $1.1 billion resulting from the repayment of TARP preferred capital. Excluding this reduction ROE would have been 7% for year-to-date 2009 as disclosed in the table below. The Firm views the adjusted ROE, a non-GAAP financial measure, as meaningful because it increases the comparability to prior periods.

	Nine months ended September 30, 2009
	Excluding the

(in millions, except ratios)	As reported	TARP redemption
Return on equity		
Net income	$ 8,450	$ 8,450
Less: Preferred stock dividends	1,165	1,165
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112	
Net income applicable to common equity	$ 6,173	$ 7,285
Average common stockholders equity	$ 142,322	$ 142,322
Return on common equity	6%	7%

Table of Contents

Impact on diluted earnings per share of redemption of TARP preferred stock issued to the U.S. Treasury

Net income applicable to common equity for year-to-date 2009 includes a one-time, noncash reduction of approximately $1.1 billion resulting from the repayment of TARP preferred capital. The following table presents the calculations of the effect on net income applicable to common stockholders for year-to-date 2009 and the $0.27 reduction to diluted EPS which resulted from the repayment.

	Nine months ended September 30, 2009	
(in millions, except per share)	As reported	Effect of TARP redemption
Diluted earnings per share		
Net income	$ 8,450	$
Less: Preferred stock dividends	1,165	
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	1,112	1,112
Net income applicable to common equity	$ 6,173	$ (1,112)
Less: Dividends and undistributed earnings allocated to participating securities	348	(64)
Net income applicable to common stockholders	$ 5,825	$ (1,048)
Total weighted average diluted shares outstanding	3,848.3	3,848.3
Net income per share	$ 1.51	$ (0.27)

Other financial measures

The Firm also discloses the allowance for loan losses to total retained loans, excluding home lending PCI loans and loans held by the WMMT. For a further discussion of this credit metric, see Allowance for Credit Losses on pages 95-98 of this Form 10-Q.

Table of Contents

BUSINESS SEGMENT RESULTS

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

Description of business segment reporting methodology

Results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. The management reporting process that derives business segment results allocates income and expense using market-based methodologies. For a further discussion of those methodologies, see Business Segment Results Description of business segment reporting methodology on pages 53 54 of JPMorgan Chase s 2009 Annual Report. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods.

Business segment capital allocation changes

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. Effective January 1, 2010, the Firm enhanced its line of business equity framework to better align equity assigned to each line of business with the changes anticipated to occur in the business, and in the competitive and regulatory landscape. The lines of business are now capitalized based on the Tier 1 common standard, rather than the Tier 1 capital standard. For a further discussion of the changes, see Capital Management Line-of-business equity on page 65 of this Form 10-Q.

Segment Results Managed Basis[(a)]

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

Three months ended September 30, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income/(loss)			Return on equity	
	2010	2009	Change	**2010**	2009	Change	**2010**	2009	Change	**2010**	2009
Investment Bank[(b)]	**$ 5,353**	$ 7,508	(29)%	**$ 3,704**	$ 4,274	(13)%	**$1,286**	$1,921	(33)%	**13%**	23%
Retail Financial Services	**7,646**	8,218	(7)	**4,517**	4,196	8	**907**	7	NM	**13**	
Card Services	**4,253**	5,159	(18)	**1,445**	1,306	11	**735**	(700)	NM	**19**	(19)
Commercial Banking	**1,527**	1,459	5	**560**	545	3	**471**	341	38	**23**	17
Treasury & Securities Services	**1,831**	1,788	2	**1,410**	1,280	10	**251**	302	(17)	**15**	24
Asset Management	**2,172**	2,085	4	**1,488**	1,351	10	**420**	430	(2)	**26**	24
Corporate/Private Equity[(b)]	**1,553**	2,563	(39)	**1,274**	503	153	**348**	1,287	(73)	**NM**	NM
Total	**$24,335**	$28,780	(15)%	**$14,398**	$13,455	7%	**$4,418**	$3,588	23%	**10%**	9%

Nine months ended September 30, (in millions, except ratios)	Total net revenue			Noninterest expense			Net income/(loss)			Return on equity	
	2010	2009	Change	**2010**	2009	Change	**2010**	2009	Change	**2010**	2009
Investment Bank[(b)]	**$20,004**	$23,180	(14)%	**$13,064**	$13,115	%	**$ 5,138**	$ 4,998	3%	**17%**	20%
Retail Financial Services	**23,231**	25,023	(7)	**13,040**	12,446	5	**1,818**	496	267	**9**	3
Card Services	**12,917**	15,156	(15)	**4,283**	3,985	7	**775**	(1,919)	NM	**7**	(17)
Commercial Banking	**4,429**	4,314	3	**1,641**	1,633		**1,554**	1,047	48	**26**	17

Treasury & Securities Services	**5,468**	5,509	(1)	**4,134**	3,887	6	**822**	989	(17)	**17**	26
Asset Management	**6,371**	5,770	10	**4,335**	4,003	8	**1,203**	1,006	20	**25**	19
Corporate/Private Equity[b]	**5,700**	4,459	28	**4,656**	1,279	264	**1,229**	1,833	(33)	**NM**	NM
Total	**$78,120**	$83,411	(6)%	**$45,153**	$40,348	12%	**$12,539**	$ 8,450	48%	**10%**	6%

(a) Represents reported results on a tax-equivalent basis. The managed basis also assumes that credit card loans in Firm-sponsored credit card securitization trusts remained on the balance sheet for 2009. Firm-sponsored credit card securitizations were consolidated at their carrying values on January 1, 2010, under the new consolidation guidance related to VIEs.

(b) Corporate/Private Equity includes an adjustment to offset IB s inclusion of the credit reimbursement from TSS in total net revenue; TSS reports the reimbursement to IB as a separate line on its income statement (not part of total revenue).

Table of Contents

INVESTMENT BANK

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

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue						
Investment banking fees	**$1,502**	$1,658	(9)%	**$ 4,353**	$ 5,277	(18)%
Principal transactions	**1,129**	2,714	(58)	**7,165**	8,070	(11)
Lending- and deposit-related fees	**205**	185	11	**610**	490	24
Asset management, administration and commissions	**565**	633	(11)	**1,761**	2,042	(14)
All other income[a]	**61**	63	(3)	**196**	(101)	NM
Noninterest revenue	**3,462**	5,253	(34)	**14,085**	15,778	(11)
Net interest income[b]	**1,891**	2,255	(16)	**5,919**	7,402	(20)
Total net revenue[c]	**5,353**	7,508	(29)	**20,004**	23,180	(14)
Provision for credit losses	**(142)**	379	NM	**(929)**	2,460	NM
Noninterest expense						
Compensation expense	**2,031**	2,778	(27)	**7,882**	8,785	(10)
Noncompensation expense	**1,673**	1,496	12	**5,182**	4,330	20
Total noninterest expense	**3,704**	4,274	(13)	**13,064**	13,115	
Income before income tax expense	**1,791**	2,855	(37)	**7,869**	7,605	3
Income tax expense	**505**	934	(46)	**2,731**	2,607	5
Net income	**$1,286**	$1,921	(33)	**$ 5,138**	$ 4,998	3
Financial ratios						
Return on common equity	**13%**	23%		**17%**	20%	
Return on assets	**0.68**	1.12		**0.97**	0.94	
Overhead ratio	**69**	57		**65**	57	
Compensation expense as a percentage of total net revenue[d]	**38**	37		**39**	38	
Revenue by business						
Investment banking fees:						
Advisory	**$ 385**	$ 384		**$ 1,045**	$ 1,256	(17)
Equity underwriting	**333**	681	(51)	**1,100**	2,092	(47)
Debt underwriting	**784**	593	32	**2,208**	1,929	14
Total investment banking fees	**1,502**	1,658	(9)	**4,353**	5,277	(18)
Fixed income markets	**3,123**	5,011	(38)	**12,150**	14,829	(18)
Equity markets	**1,135**	941	21	**3,635**	3,422	6
Credit portfolio[a]	**(407)**	(102)	(299)	**(134)**	(348)	61

Total net revenue	**$5,353**	$7,508	(29)	**$20,004**	$23,180	(14)
Revenue by region[(a)]						
Americas	**$2,857**	$3,850	(26)	**$11,354**	$12,284	(8)
Europe/Middle East/Africa	**1,531**	2,912	(47)	**5,882**	8,288	(29)
Asia/Pacific	**965**	746	29	**2,768**	2,608	6
Total net revenue	**$5,353**	$7,508	(29)	**$20,004**	$23,180	(14)

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

(b) The decrease in net interest income in the third quarter and year-to-date 2010 was primarily due to lower loan balances, lower Prime Services spreads and lower yielding fixed income trading balances.

(c) Total net revenue included tax-equivalent adjustments, predominantly due to income tax credits related to affordable housing and alternative energy investments, as well as tax-exempt income from municipal bond investments of $390 million and $371 million for the quarters ended September 30, 2010 and 2009, respectively, and $1.2 billion and $1.1 billion for year-to-date 2010 and 2009, respectively.

(d) The compensation expense as a percentage of total net revenue ratio for year-to-date of 2010 excluding the payroll tax expense related to the U.K. Bank Payroll Tax on certain compensation awarded from December 9, 2009, to April 5, 2010 to relevant banking employees, which is a non-GAAP financial measure, was 37%. IB excludes this tax from the ratio because it enables comparability with prior periods.

Table of Contents

Quarterly results

Net income was $1.3 billion, down 33% compared with the prior year. The decrease reflected lower revenue, partially offset by lower noninterest expense and a benefit from the provision for credit losses.

Net revenue was $5.4 billion, compared with $7.5 billion in the prior year. Investment banking fees were $1.5 billion, down 9%; these consisted of equity underwriting fees of $333 million (down 51%), debt underwriting fees of $784 million (up 32%) and advisory fees of $385 million (flat compared with the prior year). Fixed Income Markets revenue was $3.1 billion, compared with $5.0 billion in the prior year. The decrease largely reflected lower results in credit and rates markets. The current period also included losses of $149 million from the tightening of the Firm s credit spreads on certain structured liabilities, compared with losses of $497 million in the prior period. Equity Markets revenue was $1.1 billion, compared with $941 million in the prior year, reflecting solid client revenue. The current period also included losses of $96 million from the tightening of the Firm s credit spreads on certain structured liabilities, compared with losses of $343 million in the prior period. Credit Portfolio revenue was a loss of $407 million, primarily reflecting the negative net impact of credit spreads on derivative assets and liabilities, partially offset by net interest income and fees on retained loans.

The provision for credit losses was a benefit of $142 million, compared with an expense of $379 million in the prior year. The current-quarter provision reflected a reduction in the allowance for loan losses, largely related to net repayments and loan sales. The allowance for loan losses to end-of-period loans retained was 3.85%, compared with 8.44% in the prior year. The decline in the allowance ratio was due largely to the consolidation of asset-backed commercial paper conduits in accordance with new accounting guidance, effective January 1, 2010; excluding these balances, the current-quarter allowance coverage ratio was 6.20%. Net charge-offs were $33 million, compared with $750 million in the prior year. Nonperforming loans were $2.4 billion, down by $2.5 billion from the prior year.

Noninterest expense was $3.7 billion, down 13% from the prior year, primarily due to lower compensation expense.

ROE was 13% on $40.0 billion of average allocated capital.

Year-to-date results

Net income was $5.1 billion, up 3% compared with the prior year. These results primarily reflected a benefit from the provision for credit losses, compared with an expense in the prior year, partially offset by lower net revenue.

Net revenue was $20.0 billion, compared with $23.2 billion in the prior year. Investment banking fees were $4.4 billion, down 18% from the prior year; these consisted of debt underwriting fees of $2.2 billion (up 14%), equity underwriting fees of $1.1 billion (down 47%), and advisory fees of $1.0 billion (down 17%). Fixed Income Markets revenue was $12.2 billion, compared with $14.8 billion in the prior year. The decrease from the prior year largely reflected lower results in rates and credit markets, partially offset by gains of $307 million from the widening of the Firm s credit spread on certain structured liabilities, compared with losses of $848 million in the prior year. Equity Markets revenue was $3.6 billion, compared with $3.4 billion in the prior year, reflecting solid client revenue, as well as gains of $142 million from the widening of the Firm s credit spread on certain structured liabilities, compared with losses of $453 million in the prior year. Credit Portfolio revenue was a loss of $134 million, primarily reflecting negative impact of credit spreads on derivative assets as well as mark-to-market losses on hedges of retained loans, partially offset by net interest income and fees on loans.

The provision for credit losses was a benefit of $929 million, compared with an expense of $2.5 billion in the prior year. The current-year provision reflected a reduction in the allowance for loan losses, largely related to net repayments and loan sales. Net charge-offs were $758 million, compared with $1.2 billion in the prior year.

Noninterest expense was $13.1 billion, flat to the prior year, as lower performance-based compensation expense was largely offset by increased litigation reserves, including those for mortgage-related matters. Current-year results also included the impact of the U.K. Bank Payroll Tax.

ROE on equity was 17% on $40.0 billion of average allocated capital.

Table of Contents

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount and ratios)	**2010**	2009	Change	**2010**	2009	Change
Selected balance sheet data (period-end)						
Loans:[(a)]						
Loans retained[(b)]	**$ 51,299**	$ 55,703	(8)%	**$ 51,299**	$ 55,703	(8)%
Loans held-for-sale and loans at fair value	**2,252**	4,582	(51)	**2,252**	4,582	(51)
Total loans	**53,551**	60,285	(11)	**53,551**	60,285	(11)
Equity	**40,000**	33,000	21	**40,000**	33,000	21
Selected balance sheet data (average)						
Total assets	**$746,926**	$678,796	10	**$711,277**	$707,396	1
Trading assets debt and equity instruments	**300,517**	270,695	11	**293,605**	269,668	9
Trading assets derivative receivables	**76,530**	86,651	(12)	**69,547**	103,929	(33)
Loans:[(a)]						
Loans retained[(b)]	**53,331**	61,269	(13)	**55,042**	66,479	(17)
Loans held-for-sale and loans at fair value	**2,678**	4,981	(46)	**3,118**	8,745	(64)
Total loans	**56,009**	66,250	(15)	**58,160**	75,224	(23)
Adjusted assets[(c)]	**539,459**	515,718	5	**524,658**	545,235	(4)
Equity	**40,000**	33,000	21	**40,000**	33,000	21
Headcount	**26,373**	24,828	6	**26,373**	24,828	6
Credit data and quality statistics						
Net charge-offs	**$ 33**	$ 750	(96)	**$ 758**	$ 1,219	(38)
Nonperforming assets:						
Nonperforming loans:						
Nonperforming loans retained[(b)(d)]	**2,025**	4,782	(58)	**2,025**	4,782	(58)
Nonperforming loans held-for-sale and loans at fair value	**361**	128	182	**361**	128	182
Total nonperforming loans	**2,386**	4,910	(51)	**2,386**	4,910	(51)
Derivative receivables	**255**	624	(59)	**255**	624	(59)
Assets acquired in loan satisfactions	**148**	248	(40)	**148**	248	(40)
Total nonperforming assets	**2,789**	5,782	(52)	**2,789**	5,782	(52)
Allowance for credit losses:						
Allowance for loan losses	**1,976**	4,703	(58)	**1,976**	4,703	(58)
Allowance for lending-related commitments	**570**	401	42	**570**	401	42
Total allowance for credit losses	**2,546**	5,104	(50)	**2,546**	5,104	(50)
Net charge-off rate[(b)(e)]	**0.25%**	4.86%		**1.84%**	2.45%	
Allowance for loan losses to period-end loans retained[(b)(e)]	**3.85**	8.44		**3.85**	8.44	

Allowance for loan losses to average loans retained(b)(e)		**3.71**		7.68			**3.59**		7.07	
Allowance for loan losses to nonperforming loans retained(b)(d)(e)		**98**		98			**98**		98	
Nonperforming loans to period-end loans		**4.46**		8.14			**4.46**		8.14	
Nonperforming loans to average loans		**4.26**		7.41			**4.10**		6.53	
Market risk average trading and credit portfolio VaR 95% confidence level										
Trading activities:										
Fixed income	**$**	**72**	$	182	(60)	**$**	**68**	$	173	(61)
Foreign exchange		**9**		19	(53)		**11**		19	(42)
Equities		**21**		19	11		**22**		55	(60)
Commodities and other		**13**		23	(43)		**16**		22	(27)
Diversification(f)		**(38)**		(97)	61		**(43)**		(101)	57
Total trading VaR(g)		**77**		146	(47)		**74**		168	(56)
Credit portfolio VaR(h)		**30**		29	3		**25**		61	(59)
Diversification(f)		**(8)**		(32)	75		**(9)**		(52)	83
Total trading and credit portfolio VaR	**$**	**99**	$	143	(31)	**$**	**90**	$	177	(49)

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

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

(c) *Adjusted assets, a non-GAAP financial measure, equals total assets minus: (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of consolidated VIEs; (3) cash and securities segregated and on deposit for regulatory and other purposes; (4) goodwill and intangibles; (5) securities received as collateral; and (6) investments purchased under the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AML Facility). The amount of adjusted assets is presented to assist the reader in comparing IB s asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company s capital adequacy. IB believes an adjusted asset amount that excludes the assets discussed above, which were considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.*

(d) *Allowance for loan losses of $603 million and $1.8 billion were held against these nonperforming loans at September 30, 2010 and 2009, respectively.*

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

(f) *Average value-at-risk (VaR) was less than the sum of the VaR of the components described above, which is due to portfolio diversification. The diversification effect reflects the fact that the risks were not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves. For a further discussion of VaR, see pages 99 101 of this Form 10-Q.*

(g) *Trading VaR includes predominantly all trading activities in IB, as well as syndicated lending facilities that the Firm intends to distribute; however, particular risk parameters of certain products are not fully captured, for example, correlation risk. Trading VaR does not include the debit valuation adjustments (DVA) taken on derivative and structured liabilities to reflect the credit quality of the Firm. See VaR discussion on pages 99 101 and the DVA Sensitivity table on page 101 of this Form 10-Q for further details. Trading VaR includes the estimated credit spread sensitivity of certain mortgage products.*

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

According to Dealogic, for the first nine months of 2010, the Firm was ranked #1 in Global Debt, Equity and Equity-Related; #1 in Global Equity and Equity-Related; #1 in Global Long-Term Debt; #2 in Global Syndicated Loans and #2 in Global Announced M&A based on volume.

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

	Nine months ended September 30, 2010		Full-year 2009	
Market shares and rankings[(a)]	Market Share	Rankings	Market Share	Rankings
Global investment banking fees[(b)]	**8%**	**#1**	9%	#1
Global debt, equity and equity-related	**7**	**#1**	9	#1
Global syndicated loans	**9**	**#2**	8	#1
Global long-term debt[(c)]	**7**	**#1**	8	#1
Global equity and equity-related[(d)]	**8**	**#1**	12	#1
Global announced M&A[(e)]	**18**	**#2**	23	#3

U.S. debt, equity and equity-related	**11**	**#1**	15	#1
U.S. syndicated loans	**20**	**#2**	22	#1
U.S. long-term debt[(c)]	**11**	**#1**	14	#1
U.S. equity and equity-related	**16**	**#1**	16	#2
U.S. announced M&A[(e)]	**23**	**#3**	36	#2

(a) *Source: Dealogic. Global Investment Banking fees reflects ranking of fees and market share. Remainder of rankings reflects transaction volume rank and market share.*

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

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

(d) *Equity and equity-related rankings include rights offerings and Chinese A-Shares.*

(e) *Global announced M&A is based on transaction value at announcement; all other rankings are based on transaction proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%. M&A for year-to-date 2010 and full-year 2009 reflects the removal of any withdrawn transactions. U.S. announced M&A represents any U.S. involvement ranking.*

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 15,800 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 28,500 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 16,000 auto dealerships and 1,700 schools and universities nationwide. Prior to January 1, 2010, RFS was reported as: Retail Banking and Consumer Lending. Commencing January 1, 2010, Consumer Lending for reporting purposes is presented as: (1) Mortgage Banking & Other Consumer Lending, and (2) Real Estate Portfolios. Mortgage Banking & Other Consumer Lending comprises mortgage production and servicing, auto finance, and student and other lending activities. Real Estate Portfolios comprises residential mortgages and home equity loans, including the PCI portfolio acquired in the Washington Mutual transaction. This change is intended solely to provide further clarity around the Real Estate Portfolios. Retail Banking, which includes branch banking and business banking activities, is not affected by these reporting revisions.

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue						
Lending- and deposit-related fees	**$ 759**	$1,046	(27)%	**$ 2,380**	$ 2,997	(21)%
Asset management, administration and commissions	**443**	408	9	**1,328**	1,268	5
Mortgage fees and related income	**705**	873	(19)	**2,246**	3,313	(32)
Credit card income	**502**	416	21	**1,432**	1,194	20
Other income	**379**	321	18	**1,146**	829	38
Noninterest revenue	**2,788**	3,064	(9)	**8,532**	9,601	(11)
Net interest income	**4,858**	5,154	(6)	**14,699**	15,422	(5)
Total net revenue[(a)]	**7,646**	8,218	(7)	**23,231**	25,023	(7)
Provision for credit losses	**1,548**	3,988	(61)	**6,996**	11,711	(40)
Compensation expense	**1,915**	1,728	11	**5,527**	4,990	11
Noncompensation expense	**2,533**	2,385	6	**7,304**	7,207	1
Amortization of intangibles	**69**	83	(17)	**209**	249	(16)
Total noninterest expense	**4,517**	4,196	8	**13,040**	12,446	5
Income before income tax expense	**1,581**	34	NM	**3,195**	866	269
Income tax expense	**674**	27	NM	**1,377**	370	272
Net income	**$ 907**	$ 7	NM	**$ 1,818**	$ 496	267
Financial ratios						
Return on common equity	**13%**	%		**9%**	3%	

Overhead ratio	**59**	51	**56**	50
Overhead ratio excluding core deposit intangibles[(b)]	**58**	50	**55**	49

(a) *Total net revenue included tax-equivalent adjustments associated with tax-exempt loans to municipalities and other qualified entities of $4 million and $6 million for the quarters ended September 30, 2010 and 2009, respectively, and $14 million and $18 million for the nine months ended September 30, 2010 and 2009, respectively.*

(b) *RFS uses the overhead ratio (excluding the amortization of core deposit intangibles (CDI)), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years. This method would therefore result in an improving overhead ratio over time, all things remaining equal. The non-GAAP ratio excludes Retail Banking s CDI amortization expense related to prior business combination transactions of $69 million and $83 million for the quarters ended September 30, 2010 and 2009, respectively, and $208 million and $248 million for the nine months ended September 30, 2010 and 2009, respectively.*

Table of Contents

Quarterly results

Net income was $907 million, compared with $7 million in the prior year.

Net revenue was $7.6 billion, a decrease of $572 million, or 7%, compared with the prior year. Net interest income was $4.9 billion, down by $296 million, or 6%, reflecting the impact of lower loan balances and narrower loan spreads, partially offset by a shift to wider-spread deposit products. Noninterest revenue was $2.8 billion, down by $276 million, or 9%, as lower deposit-related fees and mortgage fees and related income were partially offset by higher debit card income and auto operating lease income.

The provision for credit losses was $1.5 billion, a decrease of $2.4 billion from the prior year. While delinquency trends and net charge-offs improved compared with the prior year, the current-quarter provision continued to reflect elevated losses for the mortgage and home equity portfolios. Home equity net charge-offs were $730 million (3.10% net charge-off rate), compared with $1.1 billion (4.25% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $206 million (6.64% net charge-off rate), compared with $422 million (12.31% net charge-off rate). Prime mortgage net charge-offs were $265 million (1.84% net charge-off rate), compared with $525 million (3.45% net charge-off rate). There was no change to the allowance for loan losses in the quarter, while $1.4 billion was added in the prior year. The allowance for loan losses to ending loans retained, excluding purchased credit-impaired loans, was 5.36%, compared with 4.63% in the prior year.

Noninterest expense was $4.5 billion, an increase of $321 million, or 8%, from the prior year.

Year-to-date results

Net income was $1.8 billion, compared with $496 million in the prior year.

Net revenue was $23.2 billion, a decrease of $1.8 billion, or 7%, compared with the prior year. Net interest income was $14.7 billion, down by $723 million, or 5%, reflecting the impact of lower loan and deposit balances and narrower loan spreads, partially offset by a shift to wider-spread deposit products. Noninterest revenue was $8.5 billion, down by $1.1 billion, or 11%, as lower mortgage fees and related income and deposit-related fees were partially offset by higher debit card income and auto operating lease income.

The provision for credit losses was $7.0 billion, compared with $11.7 billion in the prior year. The current-year provision reflects an addition to the allowance for loan losses of $1.2 billion for the purchased credit-impaired portfolio, compared with prior year additions of $3.2 billion predominantly for the home equity and mortgage portfolios and $1.1 billion for the purchased credit-impaired portfolio. While delinquency trends and net charge-offs improved compared with the prior year, the provision continued to reflect elevated losses for the mortgage and home equity portfolios. Home equity net charge-offs were $2.7 billion (3.68% net charge-off rate), compared with $3.5 billion (4.26% net charge-off rate) in the prior year. Subprime mortgage net charge-offs were $945 million (9.72% net charge-off rate), compared with $1.2 billion (11.18% net charge-off rate). Prime mortgage net charge-offs were $988 million (2.24% net charge-off rate), compared with $1.3 billion (2.81% net charge-off rate).

Noninterest expense was $13.0 billion, an increase of $594 million, or 5%, from the prior year.

Table of Contents

Selected metrics (in millions, except headcount and ratios)	Three months ended September 30, **2010**	2009	Change	Nine months ended September 30, **2010**	2009	Change
Selected balance sheet data (period-end)						
Assets	**$367,675**	$397,673	(8)%	**$367,675**	$397,673	(8)%
Loans:						
Loans retained	**323,481**	346,765	(7)	**323,481**	346,765	(7)
Loans held-for-sale and loans at fair value[a]	**13,071**	14,303	(9)	**13,071**	14,303	(9)
Total loans	**336,552**	361,068	(7)	**336,552**	361,068	(7)
Deposits	**364,186**	361,046	1	**364,186**	361,046	1
Equity	**28,000**	25,000	12	**28,000**	25,000	12
Selected balance sheet data (average)						
Assets	**$375,968**	$401,620	(6)	**$383,848**	$411,693	(7)
Loans:						
Loans retained	**326,905**	349,762	(7)	**335,011**	358,623	(7)
Loans held-for-sale and loans at fair value[a]	**15,683**	19,025	(18)	**15,717**	18,208	(14)
Total loans	**342,588**	368,787	(7)	**350,728**	376,831	(7)
Deposits	**362,559**	366,944	(1)	**360,521**	371,482	(3)
Equity	**28,000**	25,000	12	**28,000**	25,000	12
Headcount	**119,424**	106,951	12	**119,424**	106,951	12
Credit data and quality statistics						
Net charge-offs	**$ 1,548**	$ 2,550	(39)	**$ 5,747**	$ 7,375	(22)
Nonperforming loans:						
Nonperforming loans retained	**9,801**	10,091	(3)	**9,801**	10,091	(3)
Nonperforming loans held-for-sale and loans at fair value	**166**	242	(31)	**166**	242	(31)
Total nonperforming loans[b][c][d]	**9,967**	10,333	(4)	**9,967**	10,333	(4)
Nonperforming assets[b][c][d]	**11,421**	11,883	(4)	**11,421**	11,883	(4)
Allowance for loan losses	**16,154**	13,286	22	**16,154**	13,286	22
Net charge-off rate[e]	**1.88%**	2.89%		**2.29%**	2.75%	
Net charge-off rate excluding purchased credit-impaired loans[e][f]	**2.44**	3.81		**2.99**	3.62	
Allowance for loan losses to ending loans retained[e]	**4.99**	3.83		**4.99**	3.83	
Allowance for loan losses to ending loans retained excluding purchased credit-impaired loans[e][f]	**5.36**	4.63		**5.36**	4.63	
Allowance for loan losses to nonperforming loans retained[b][e][f]	**136**	121		**136**	121	

Nonperforming loans to total loans	**2.96**	2.86	**2.96**	2.86
Nonperforming loans to total loans excluding purchased credit-impaired loans[(b)]	**3.81**	3.72	**3.81**	3.72

(a) Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets. These loans totaled $12.6 billion and $12.8 billion at September 30, 2010 and 2009, respectively. Average balances of these loans totaled $15.3 billion and $17.7 billion for the quarters ended September 30, 2010 and 2009, respectively, and $14.0 billion and $15.8 billion for the nine months ended September 30, 2010 and 2009, respectively.

(b) Excludes PCI loans that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis, and the pools are considered to be performing.

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

(d) At September 30, 2010 and 2009, nonperforming loans and assets exclude: (1) mortgage loans insured by U.S. government agencies of $10.2 billion and $7.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.7 billion and $579 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program (FFELP), of $572 million and $511 million, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

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

(f) Excludes the impact of PCI loans that were acquired as part of the Washington Mutual transaction. These loans were accounted for at fair value on the acquisition date, which incorporated management s estimate, as of that date, of credit losses over the remaining life of the portfolio. An allowance for loan losses of $2.8 billion and $1.1 billion was recorded for these loans at September 30, 2010 and 2009, respectively, which has also been excluded from applicable ratios. To date, no charge-offs have been recorded for these loans.

Table of Contents

RETAIL BANKING

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Noninterest revenue	**$1,691**	$1,844	(8)%	**$ 5,077**	$ 5,365	(5)%
Net interest income	**2,745**	2,732		**8,092**	8,065	
Total net revenue	**4,436**	4,576	(3)	**13,169**	13,430	(2)
Provision for credit losses	**175**	208	(16)	**534**	894	(40)
Noninterest expense	**2,779**	2,646	5	**7,989**	7,783	3
Income before income tax expense	**1,482**	1,722	(14)	**4,646**	4,753	(2)
Net income	**$ 848**	$1,043	(19)	**$ 2,660**	$ 2,876	(8)
Overhead ratio	**63%**	58%		**61%**	58%	
Overhead ratio excluding core deposit intangibles[(a)]	**61**	56		**59**	56	

(a) Retail Banking uses the overhead ratio (excluding the amortization of CDI), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation would result in a higher overhead ratio in the earlier years and a lower overhead ratio in later years. This method would therefore result in an improving overhead ratio over time, all things remaining equal. The non-GAAP ratio excludes Retail Banking s CDI amortization expense related to prior business combination transactions of $69 million and $83 million for the quarters ended September 30, 2010 and 2009, respectively, and $208 million and $248 million for the nine months ended September 30, 2010 and 2009, respectively.

Quarterly results

Retail Banking reported net income of $848 million, a decrease of $195 million, or 19%, compared with the prior year.

Net revenue was $4.4 billion, down 3% compared with the prior year. The decrease was driven by declining deposit-related fees, largely offset by a shift to wider-spread deposit products and higher debit card income.

The provision for credit losses was $175 million, down $33 million compared with the prior year. Retail Banking net charge-offs were $175 million (4.18% net charge-off rate), compared with $208 million (4.66% net charge-off rate) in the prior year.

Noninterest expense was $2.8 billion, up 5% compared with the prior year, resulting from sales force increases in Business Banking and bank branches.

Year-to-date results

Retail Banking reported net income of $2.7 million, a decrease of $216 million, or 8%, compared with the prior year.

Net revenue was $13.2 billion, down 2% compared with the prior year. The decrease was driven by declining deposit-related fees and a decline in deposit balances, largely offset by a shift to wider-spread deposit products and higher debit card income.

The provision for credit losses was $534 million, down $360 million compared with the prior year. Retail Banking net charge-offs were $534 million (4.28% net charge-off rate), compared with $594 million (4.41% net charge-off rate) in the prior year.

Noninterest expense was $8.0 billion, up 3% compared with the prior year, resulting from sales force increases in Business Banking and bank branches.

Table of Contents

Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended September 30, 2010	2009	Change	Nine months ended September 30, 2010	2009	Change
Business metrics						
Business banking origination volume	**$ 1.2**	$ 0.5	91%	**$ 3.3**	$ 1.6	99%
End-of-period loans owned	**16.6**	17.4	(5)	**16.6**	17.4	(5)
End-of-period deposits:						
Checking	**$ 124.2**	$ 115.5	8	**$ 124.2**	$ 115.5	8
Savings	**162.4**	151.6	7	**162.4**	151.6	7
Time and other	**48.9**	66.6	(27)	**48.9**	66.6	(27)
Total end-of-period deposits	**335.5**	333.7	1	**335.5**	333.7	1
Average loans owned	**$ 16.6**	$ 17.7	(6)	**$ 16.7**	$ 18.0	(7)
Average deposits:						
Checking	**$ 123.5**	$ 114.0	8	**$ 122.3**	$ 112.6	9
Savings	**162.2**	151.2	7	**161.2**	150.1	7
Time and other	**49.8**	74.4	(33)	**52.2**	81.8	(36)
Total average deposits	**335.5**	339.6	(1)	**335.7**	344.5	(3)
Deposit margin	**3.08%**	2.99%		**3.05%**	2.92%	
Average assets	**$ 27.7**	$ 28.1	(1)	**$ 28.3**	$ 29.1	(3)
Credit data and quality statistics (in millions, except ratio)						
Net charge-offs	**$ 175**	$ 208	(16)	**$ 534**	$ 594	(10)
Net charge-off rate	**4.18%**	4.66%		**4.28%**	4.41%	
Nonperforming assets	**$ 913**	$ 816	12	**$ 913**	$ 816	12
Retail branch business metrics						
Investment sales volume (in millions)	**$ 5,798**	$ 6,243	(7)	**$17,510**	$15,933	10
Number of:						
Branches	**5,192**	5,126	1	**5,192**	5,126	1
ATMs	**15,815**	15,038	5	**15,815**	15,038	5
Personal bankers	**21,438**	16,941	27	**21,438**	16,941	27
Sales specialists	**7,123**	5,530	29	**7,123**	5,530	29
Active online customers (in thousands)	**17,167**	13,852	24	**17,167**	13,852	24
Checking accounts (in thousands)	**27,014**	25,546	6	**27,014**	25,546	6

MORTGAGE BANKING & OTHER CONSUMER LENDING

Selected income statement data (in millions, except ratio)	Three months ended September 30, 2010	2009	Change	Nine months ended September 30, 2010	2009	Change

Noninterest revenue[(a)]	**$1,076**	$1,201	(10)%	**$3,350**	$4,256	(21)%
Net interest income	**809**	834	(3)	**2,494**	2,363	6
Total net revenue	**1,885**	2,035	(7)	**5,844**	6,619	(12)
Provision for credit losses	**176**	222	(21)	**568**	993	(43)
Noninterest expense	**1,348**	1,139	18	**3,837**	3,381	13
Income before income tax expense	**361**	674	(46)	**1,439**	2,245	(36)
Net income[(a)]	**$ 207**	$ 412	(50)	**$ 828**	$1,377	(40)
Overhead ratio	**72%**	56%		**66%**	51%	

(a) *Losses related to the repurchase of previously-sold loans are recorded as a reduction of production revenue. These losses totaled $1.5 billion and $465 million for the quarters ended September 30, 2010 and 2009, respectively, and $2.6 billion and $940 million for the nine months ended September 30, 2010 and 2009, respectively. The losses resulted in a negative impact on net income of $853 million and $286 million for the quarters ended September 30, 2010 and 2009, respectively, and $1.5 billion and $578 million for the nine months ended September 30, 2010 and 2009, respectively. For further discussion, see Repurchase liability on pages 58 61 and Note 22 on pages 174 178 of this Form 10-Q, and Note 31 on pages 230 234 of JPMorgan Chase s 2009 Annual Report.*

Table of Contents

Quarterly results

Mortgage Banking & Other Consumer Lending reported net income of $207 million, a decrease of $205 million, or 50%, from the prior year.

Net revenue was $1.9 billion, down by $150 million, or 7%, from the prior year. Mortgage Banking net revenue was $1.1 billion, down by $219 million. Other Consumer Lending net revenue, comprising Auto and Student Lending, was $832 million, up by $69 million, predominantly as a result of higher auto loan and lease balances.

Mortgage Banking net revenue included $232 million of net interest income and $821 million of noninterest revenue, comprising production, servicing and other noninterest revenue. Total production revenue was a net loss of $231 million, a decrease of $161 million compared with the prior year. Production revenue, excluding repurchase losses, was $1.2 billion, an increase of $838 million, reflecting higher mortgage origination volumes and wider margins. Total production revenue was reduced by $1.5 billion of repurchase losses, compared with $465 million in the prior year, and included a $1.0 billion increase in the repurchase reserve during the current quarter, reflecting higher estimated future repurchase demands. Net mortgage servicing revenue, which comprises operating revenue and MSR risk management, was $936 million, a decrease of $7 million. Operating revenue was $549 million, an increase of $41 million, reflecting an improvement in other changes in MSR asset fair value driven by lower runoff of the MSR asset due to time decay, largely offset by lower loan servicing revenue as a result of lower third-party loans serviced. MSR risk management revenue was $387 million, a decrease of $48 million.

The provision for credit losses, predominantly related to the student and auto loan portfolios, was $176 million, compared with $222 million in the prior year. Student loan and other net charge-offs were $82 million (2.21% net charge-off rate), compared with $60 million (1.66% net charge-off rate) in the prior year. Auto loan net charge-offs were $67 million (0.56% net charge-off rate), compared with $159 million (1.46% net charge-off rate) in the prior year.

Noninterest expense was $1.3 billion, up by $209 million, or 18%, from the prior year, driven by an increase in default-related expense for the serviced portfolio.

Year-to-date results

Mortgage Banking & Other Consumer Lending reported net income of $828 million, a decrease of $549 million, or 40%, from the prior year.

Net revenue was $5.8 billion, down by $775 million, or 12%, from the prior year. Mortgage Banking net revenue was $3.2 billion, down by $1.2 billion. Other Consumer Lending net revenue, comprising Auto and Student Lending, was $2.6 billion, up by $400 million, predominantly as a result of higher auto loan and lease balances.

Mortgage Banking net revenue included $660 million of net interest income and $2.6 billion of noninterest revenue, comprising production, servicing and other noninterest revenue. Total production revenue was a net loss of $221 million, compared with income of $695 million in the prior year. Production revenue, excluding repurchase losses, was $2.3 billion, an increase of $707 million, reflecting wider mortgage margins. Total production revenue was reduced by $2.6 billion of repurchase losses, compared with $940 million in the prior year, and included a $1.6 billion increase in the repurchase reserve during the current year, reflecting higher estimated future repurchase demands. Net mortgage servicing revenue, which comprises operating revenue and MSR risk management, was $2.5 billion, a decrease of $151 million. Operating revenue was $1.6 billion, an increase of $518 million, reflecting an improvement in other changes in MSR asset fair value driven by lower runoff of the MSR asset due to time decay, partially offset by lower loan servicing revenue as a result of lower third-party loans serviced. MSR risk management revenue was $850 million, a decrease of $669 million.

The provision for credit losses, predominantly related to the student and auto loan portfolios, was $568 million, compared with $993 million in the prior year. Student loan and other net charge-offs were $296 million (2.62% net charge-off rate), compared with $195 million (1.80% net charge-off rate) in the prior year. Auto loan net charge-offs were $227 million (0.64% net charge-off rate), compared with $479 million (1.49% net charge-off rate) in the prior year.

Noninterest expense was $3.8 billion, up by $456 million, or 13%, from the prior year, driven by an increase in default-related expense for the serviced portfolio.

Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended September 30, **2010**	2009	Change	Nine months ended September 30, **2010**	2009	Change
Business metrics						
End-of-period loans owned:						
Auto loans	**$ 48.2**	$44.3	9%	**$ 48.2**	$ 44.3	9%
Mortgage[(a)]	**13.8**	10.1	37	**13.8**	10.1	37
Student loans and other	**14.6**	15.6	(6)	**14.6**	15.6	(6)
Total end-of-period loans owned	**76.6**	70.0	9	**76.6**	70.0	9
Average loans owned:						
Auto loans	**$ 47.7**	$43.3	10	**$ 47.4**	$ 43.0	10
Mortgage[(a)]	**13.6**	8.9	53	**13.3**	8.3	60
Student loans and other	**14.8**	15.3	(3)	**16.6**	16.5	1
Total average loans owned[(b)]	**76.1**	67.5	13	**77.3**	67.8	14
Credit data and quality statistics (in millions, except ratios)						
Net charge-offs:						
Auto loans	**$ 67**	$ 159	(58)	**$ 227**	$ 479	(53)
Mortgage	**10**	7	43	**29**	14	107
Student loans and other	**82**	60	37	**296**	195	52
Total net charge-offs	**159**	226	(30)	**552**	688	(20)
Net charge-off rate:						
Auto loans	**0.56%**	1.46%		**0.64%**	1.49%	
Mortgage	**0.30**	0.32		**0.30**	0.24	
Student loans and other	**2.21**	1.66		**2.62**	1.80	
Total net charge-off rate[(b)]	**0.83**	1.35		**0.98**	1.41	
30+ day delinquency rate[(c)(d)]	**1.54%**	1.76%		**1.54%**	1.76%	
Nonperforming assets (in millions)[(e)]	**$1,052**	$ 872	21	**$1,052**	$ 872	21
Origination volume:						
Mortgage origination volume by channel						
Retail	**$ 19.2**	$13.3	44	**$ 45.9**	$ 41.6	10
Wholesale[(f)]	**0.2**	0.7	(71)	**1.0**	3.0	(67)
Correspondent[(f)]	**19.1**	21.1	(9)	**49.8**	61.0	(18)
CNT (negotiated transactions)	**2.4**	2.0	20	**8.1**	10.3	(21)
Total mortgage origination volume	**40.9**	37.1	10	**104.8**	115.9	(10)

Student loans	**$ 0.2**	$ 1.5	(87)	**$ 1.9**	$ 3.6	(47)
Auto	**6.1**	6.9	(12)	**18.2**	17.8	2

Table of Contents

Selected metrics (in billions, except ratios and where otherwise noted)	Three months ended September 30, **2010**	2009	Change	Nine months ended September 30, **2010**	2009	Change
Application volume:						
Mortgage application volume by channel						
Retail	**$ 34.6**	$ 17.8	94%	**$ 82.7**	$ 73.5	13%
Wholesale[(f)]	**0.6**	1.1	(45)	**2.0**	4.2	(52)
Correspondent[(f)]	**30.7**	26.6	15	**72.4**	85.5	(15)
Total mortgage application volume	**$ 65.9**	$ 45.5	45	**$ 157.1**	$ 163.2	(4)
Average mortgage loans held-for-sale and loans at fair value[(g)]	**$ 15.6**	$ 18.0	(13)	**$ 14.2**	$ 16.2	(12)
Average assets	**125.8**	115.2	9	**124.6**	113.4	10
Repurchase reserve (ending)	**3.0**	0.9	233	**3.0**	0.9	233
Third-party mortgage loans serviced (ending)	**1,012.7**	1,098.9	(8)	**1,012.7**	1,098.9	(8)
Third-party mortgage loans serviced (average)	**1,028.6**	1,104.4	(7)	**1,056.3**	1,129.2	(6)
MSR net carrying value (ending)	**10.3**	13.6	(24)	**10.3**	13.6	(24)
Ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending)	**1.02%**	1.24%		**1.02%**	1.24%	
Ratio of annualized loan servicing revenue to third-party mortgage loans serviced (average)	**0.44**	0.44		**0.44**	0.44	
MSR revenue multiple[(h)]	**2.32x**	2.82x		**2.32x**	2.82x	

Supplemental mortgage fees and related income details (in millions)						
Net production revenue:						
Production revenue	**$ 1,233**	$ 395	212	**$ 2,342**	$ 1,635	43
Repurchase losses	**(1,464)**	(465)	(215)	**(2,563)**	(940)	(173)
Net production revenue	**(231)**	(70)	(230)	**(221)**	695	NM
Net mortgage servicing revenue:						
Operating revenue:						
Loan servicing revenue	**1,153**	1,220	(5)	**3,446**	3,721	(7)
Other changes in MSR asset fair value	**(604)**	(712)	15	**(1,829)**	(2,622)	30
Total operating revenue	**549**	508	8	**1,617**	1,099	47
Risk management:						
Changes in MSR asset fair value due to inputs or assumptions in model	**(1,497)**	(1,099)	(36)	**(5,177)**	4,042	NM
Derivative valuation adjustments and other	**1,884**	1,534	23	**6,027**	(2,523)	NM
Total risk management	**387**	435	(11)	**850**	1,519	(44)

Total net mortgage servicing revenue		**936**		943	(1)	**2,467**	2,618	(6)
Mortgage fees and related income	**$**	**705**	$	873	(19)	**$ 2,246**	$ 3,313	(32)

(a) Predominantly represents prime loans repurchased from Government National Mortgage Association (Ginnie Mae) pools, which are insured by U.S. government agencies. See further discussion of loans repurchased from Ginnie Mae pools in Repurchase liability on pages 58 61 of this Form 10-Q.

(b) Total average loans owned includes loans held-for-sale of $338 million and $1.3 billion for the quarters ended September 30, 2010 and 2009, respectively, and $1.7 billion and $2.4 billion for the nine months ended September 30, 2010 and 2009, respectively. These amounts are excluded when calculating the net charge-off rate.

(c) Excludes mortgage loans that are insured by U.S. government agencies of $11.1 billion and $7.7 billion at September 30, 2010 and 2009, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

(d) Excludes loans that are 30 days past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $1.0 billion and $903 million at September 30, 2010 and 2009, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

(e) At September 30, 2010 and 2009, nonperforming loans and assets exclude: (1) mortgage loans insured by U.S. government agencies of $10.2 billion and $7.0 billion, respectively, that are 90 days past due and accruing at the guaranteed reimbursement rate; (2) real estate owned insured by U.S. government agencies of $1.7 billion and $579 million, respectively; and (3) student loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the FFELP, of $572 million and $511 million, respectively. These amounts are excluded as reimbursement of insured amounts is proceeding normally.

(f) Includes rural housing loans sourced through brokers and correspondents, which are underwritten under U.S. Department of Agriculture guidelines. Prior period amounts have been revised to conform with the current period presentation.

(g) Loans at fair value consist of prime mortgages originated with the intent to sell that are accounted for at fair value and classified as trading assets on the Consolidated Balance Sheets. Average balances of these loans totaled $15.3 billion and $17.7 billion for the quarters ended September 30, 2010 and 2009, respectively, and $14.0 billion and $15.8 billion for the nine months ended September 30, 2010 and 2009, respectively.

(h) Represents the ratio of MSR net carrying value (ending) to third-party mortgage loans serviced (ending) divided by the ratio of annualized loan servicing revenue to third-party mortgage loans serviced (average).

Table of Contents

REAL ESTATE PORTFOLIOS

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Noninterest revenue	**$ 21**	$ 19	11%	**$ 105**	$ (20)	NM
Net interest income	**1,304**	1,588	(18)	**4,113**	4,994	(18)%
Total net revenue	**1,325**	1,607	(18)	**4,218**	4,974	(15)
Provision for credit losses	**1,197**	3,558	(66)	**5,894**	9,824	(40)
Noninterest expense	**390**	411	(5)	**1,214**	1,282	(5)
Income/(loss) before income tax expense/(benefit)	**(262)**	(2,362)	89	**(2,890)**	(6,132)	53
Net income/(loss)	**$ (148)**	$(1,448)	90	**$(1,670)**	$(3,757)	56
Overhead ratio	**29%**	26%		**29%**	26%	

Quarterly results

Real Estate Portfolios reported a net loss of $148 million, compared with a net loss of $1.4 billion in the prior year. The improvement was driven by a lower provision for credit losses, partially offset by lower net interest income.

Net revenue was $1.3 billion, down by $282 million, or 18%, from the prior year. The decrease was driven by a decline in net interest income as a result of lower loan balances, reflecting net portfolio runoff, and a decline in mortgage loan yields.

The provision for credit losses was $1.2 billion, compared with $3.6 billion in the prior year. The current-quarter provision reflected improved delinquency trends and a $902 million reduction in net charge-offs. Additionally, the prior-year provision included an addition to the allowance for loan losses of $1.4 billion in the home equity and mortgage loan portfolios. (For further detail, see RFS discussion of the provision for credit losses.)

Noninterest expense was $390 million, down by $21 million, or 5%, from the prior year.

Year-to-date results

Real Estate Portfolios reported a net loss of $1.7 billion, compared with a net loss of $3.8 billion in the prior year. The improvement was driven by a lower provision for credit losses, partially offset by lower net interest income.

Net revenue was $4.2 billion, down by $756 million, or 15%, from the prior year. The decrease was driven by a decline in net interest income as a result of lower loan balances, reflecting net portfolio runoff.

The provision for credit losses was $5.9 billion, compared with $9.8 billion in the prior year. The current-year provision reflected improved delinquency trends and a $1.4 billion reduction in net charge-offs. Additionally, the current-year provision reflects an addition to the allowance for loan losses of $1.2 billion for the purchased credit-impaired portfolio, compared with prior year additions of $2.6 billion for the home equity and mortgage portfolios and $1.1 billion for the purchased credit-impaired portfolio. (For further detail, see RFS discussion of the provision for credit losses.)

Noninterest expense was $1.2 billion, down by $68 million, or 5%, from the prior year.

Table of Contents

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in billions)	**2010**	2009	Change	**2010**	2009	Change
Loans excluding purchased credit-impaired loans[a]						
End-of-period loans owned:						
Home equity	**$ 91.7**	$104.8	(13)%	**$ 91.7**	$104.8	(13)%
Prime mortgage	**42.9**	50.0	(14)	**42.9**	50.0	(14)
Subprime mortgage	**12.0**	13.3	(10)	**12.0**	13.3	(10)
Option ARMs	**8.4**	8.9	(6)	**8.4**	8.9	(6)
Other	**0.9**	0.7	29	**0.9**	0.7	29
Total end-of-period loans owned	**$155.9**	$177.7	(12)	**$155.9**	$177.7	(12)
Average loans owned:						
Home equity	**$ 93.3**	$106.6	(12)	**$ 96.4**	$110.0	(12)
Prime mortgage	**43.8**	51.7	(15)	**45.8**	54.8	(16)
Subprime mortgage	**12.3**	13.6	(10)	**13.0**	14.3	(9)
Option ARMs	**8.4**	8.9	(6)	**8.5**	8.9	(4)
Other	**1.0**	0.8	25	**1.0**	0.9	11
Total average loans owned	**$158.8**	$181.6	(13)	**$164.7**	$188.9	(13)
Purchased credit-impaired loans[a]						
End-of-period loans owned:						
Home equity	**$ 25.0**	$ 27.1	(8)	**$ 25.0**	$ 27.1	(8)
Prime mortgage	**17.9**	20.2	(11)	**17.9**	20.2	(11)
Subprime mortgage	**5.5**	6.1	(10)	**5.5**	6.1	(10)
Option ARMs	**26.4**	29.8	(11)	**26.4**	29.8	(11)
Total end-of-period loans owned	**$ 74.8**	$ 83.2	(10)	**$ 74.8**	$ 83.2	(10)
Average loans owned:						
Home equity	**$ 25.2**	$ 27.4	(8)	**$ 25.7**	$ 27.9	(8)
Prime mortgage	**18.2**	20.5	(11)	**18.8**	21.1	(11)
Subprime mortgage	**5.6**	6.2	(10)	**5.8**	6.5	(11)
Option ARMs	**26.7**	30.2	(12)	**27.7**	30.8	(10)
Total average loans owned	**$ 75.7**	$ 84.3	(10)	**$ 78.0**	$ 86.3	(10)

Total Real Estate Portfolios						
End-of-period loans owned:						
Home equity	**$116.7**	$131.9	(12)	**$116.7**	$131.9	(12)
Prime mortgage	**60.8**	70.2	(13)	**60.8**	70.2	(13)
Subprime mortgage	**17.5**	19.4	(10)	**17.5**	19.4	(10)
Option ARMs	**34.8**	38.7	(10)	**34.8**	38.7	(10)
Other	**0.9**	0.7	29	**0.9**	0.7	29
Total end-of-period loans owned	**$230.7**	$260.9	(12)	**$230.7**	$260.9	(12)
Average loans owned:						
Home equity	**$118.5**	$134.0	(12)	**$122.1**	$137.9	(11)
Prime mortgage	**62.0**	72.2	(14)	**64.6**	75.9	(15)
Subprime mortgage	**17.9**	19.8	(10)	**18.8**	20.8	(10)
Option ARMs	**35.1**	39.1	(10)	**36.2**	39.7	(9)
Other	**1.0**	0.8	25	**1.0**	0.9	11
Total average loans owned	**$234.5**	$265.9	(12)	**$242.7**	$275.2	(12)
Average assets	**$222.5**	$258.3	(14)	**$230.9**	$269.2	(14)
Home equity origination volume	**0.3**	0.5	(40)	**0.9**	2.0	(55)

(a) PCI loans represent loans acquired in the Washington Mutual transaction for which a deterioration in credit quality occurred between the origination date and JPMorgan Chase s acquisition date. These loans were initially recorded at fair value and accrete interest income over the estimated lives of the underlying loans as long as cash flows are reasonably estimable, even if the underlying loans are contractually past due.

Included within Real Estate Portfolios are PCI loans that the Firm acquired in the Washington Mutual transaction. For PCI loans, the excess of the undiscounted gross cash flows initially expected to be collected over the fair value of the loans at the acquisition date is accreted into interest income at a level rate of return over the expected life of the loans. This is commonly referred to as the accretable yield. The estimate of gross cash flows expected to be collected is updated each reporting period based on updated assumptions. Probable decreases in expected loan principal cash flows would trigger the recognition of impairment through the provision for loan losses; probable and significant increases in expected cash flows (e.g., decreased principal credit losses, the net benefit of modifications) would first reverse any previously recorded allowance for loan losses with any remaining increases recognized prospectively in interest income over the remaining estimated lives of the underlying loans.

Table of Contents

The net spread between the PCI loans and the related liabilities should be relatively constant over time, except for any basis risk or other residual interest rate risk that remains and changes in the accretable yield percentage (e.g., extended loan liquidation periods). As of September 30, 2010, the remaining weighted-average life of the PCI loan portfolio is expected to be 7.2 years. For further information, see Note 13, PCI loans, on pages 153-154 of this Form 10-Q. The loan balances are expected to decline more rapidly in the earlier years as the most troubled loans are liquidated, and more slowly thereafter as the remaining troubled borrowers have limited refinancing opportunities. Similarly, default and servicing expense are expected to be higher in the earlier years and decline over time as liquidations slow down. To date the impact of the PCI loans on Real Estate Portfolios net income has been modestly negative. This is due to the current net spread of the portfolio, the provision for loan losses recognized subsequent to its acquisition, and the higher level of default and servicing expense associated with the portfolio. Over time, the Firm expects that this portfolio will contribute positively to net income.

Credit data and quality statistics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Net charge-offs excluding purchased credit-impaired loans[a]:						
Home equity	**$ 730**	$ 1,142	(36)%	**$ 2,652**	$ 3,505	(24)%
Prime mortgage	**255**	518	(51)	**959**	1,304	(26)
Subprime mortgage	**206**	422	(51)	**945**	1,196	(21)
Option ARMs	**11**	15	(27)	**56**	34	65
Other	**12**	19	(37)	**49**	54	(9)
Total net charge-offs	**$ 1,214**	$ 2,116	(43)	**$ 4,661**	$ 6,093	(24)
Net charge-off rate excluding purchased credit-impaired loans[a]:						
Home equity	**3.10%**	4.25%		**3.68%**	4.26%	
Prime mortgage	**2.31**	3.98		**2.80**	3.18	
Subprime mortgage	**6.64**	12.31		**9.72**	11.18	
Option ARMs	**0.52**	0.67		**0.88**	0.51	
Other	**4.76**	9.42		**6.55**	8.02	
Total net charge-off rate excluding purchased credit-impaired loans	**3.03**	4.62		**3.78**	4.31	
Net charge-off rate reported:						
Home equity	**2.44%**	3.38%		**2.90%**	3.40%	
Prime mortgage	**1.63**	2.85		**1.98**	2.30	
Subprime mortgage	**4.57**	8.46		**6.72**	7.69	
Option ARMs	**0.12**	0.15		**0.21**	0.11	
Other	**4.76**	9.42		**6.55**	8.02	
Total net charge-off rate reported	**2.05**	3.16		**2.57**	2.96	
30+ day delinquency rate excluding purchased credit-impaired loans[b]	**6.77%**	7.46%		**6.77%**	7.46%	
Allowance for loan losses	**$14,111**	$11,261	25	**$14,111**	$11,261	25
Nonperforming assets[c]	**9,456**	10,196	(7)	**9,456**	10,196	(7)

Allowance for loan losses to ending loans retained	**6.12%**	4.32%	**6.12%**	4.32%
Allowance for loan losses to ending loans retained excluding purchased credit-impaired loans[(a)]	**7.25**	5.72	**7.25**	5.72

(a) *Excludes the impact of PCI loans that were acquired as part of the Washington Mutual transaction. These loans were accounted for at fair value on the acquisition date, which incorporated management s estimate, as of that date, of credit losses over the remaining life of the portfolio. An allowance for loan losses of $2.8 billion and $1.1 billion was recorded for these loans at September 30, 2010 and 2009, respectively, which has also been excluded from the applicable ratios. To date, no charge-offs have been recorded for these loans.*

(b) *The delinquency rate for PCI loans was 28.07% and 25.56% at September 30, 2010 and 2009, respectively.*

(c) *Excludes PCI loans that were acquired as part of the Washington Mutual transaction. These loans are accounted for on a pool basis, and the pools are considered to be performing.*

Table of Contents

CARD SERVICES

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

Effective January 1, 2010, the Firm adopted new consolidation guidance related to VIEs. Prior to the adoption of the new guidance, JPMorgan Chase used the concept of managed basis to evaluate the credit performance of its credit card loans, both loans on the balance sheet and loans that had been securitized. Managed results excluded the impact of credit card securitizations on total net revenue, the provision for credit losses, net charge-offs and loan receivables. Securitization did not change reported net income; however, it did affect the classification of items on the Consolidated Statements of Income and Consolidated Balance Sheets. As a result of the consolidation of the securitization trusts, reported and managed basis are equivalent for periods beginning after January 1, 2010. For further information, see Explanation and Reconciliation of the Firm s Use of Non-GAAP Financial Measures on pages 15-19 of this Form 10-Q.

Selected income statement data - managed basis[(a)]	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue						
Credit card income	**$ 864**	$ 916	(6)%	**$ 2,585**	$ 2,681	(4)%
All other income[(b)]	**(58)**	(85)	32	**(160)**	(646)	75
Noninterest revenue	**806**	831	(3)	**2,425**	2,035	19
Net interest income	**3,447**	4,328	(20)	**10,492**	13,121	(20)
Total net revenue	**4,253**	5,159	(18)	**12,917**	15,156	(15)
Provision for credit losses	**1,633**	4,967	(67)	**7,366**	14,223	(48)
Noninterest expense						
Compensation expense	**316**	354	(11)	**973**	1,040	(6)
Noncompensation expense	**1,023**	829	23	**2,958**	2,552	16
Amortization of intangibles	**106**	123	(14)	**352**	393	(10)
Total noninterest expense	**1,445**	1,306	11	**4,283**	3,985	7
Income/(loss) before income tax expense/(benefit)	**1,175**	(1,114)	NM	**1,268**	(3,052)	NM
Income tax expense/(benefit)	**440**	(414)	NM	**493**	(1,133)	NM
Net income/(loss)	**$ 735**	$ (700)	NM	**$ 775**	$ (1,919)	NM
Memo: Net securitization income/(loss)	**NA**	$ (43)	NM	**NA**	$ (491)	NM
Financial ratios						
Return on common equity	**19%**	(19)%		**7%**	(17)%	
Overhead ratio	**34**	25		**33**	26	

(a)

Effective January 1, 2010, the Firm adopted new accounting guidance related to VIEs. For further details regarding the Firm s application and impact of the new guidance, see Note 15 on pages 155-167 *of this Form 10-Q.*

(b) *Includes the impact of revenue sharing agreements with other JPMorgan Chase business segments. For periods prior to January 1, 2010, net securitization income/(loss) is also included.*

NA: Not applicable

Quarterly results

Net income was $735 million, compared with a net loss of $700 million in the prior year. The improved results were driven by a lower provision for credit losses, partially offset by lower net revenue.

End-of-period loans were $136.4 billion, a decrease of $28.8 billion, or 17%, from the prior year. Average loans were $140.1 billion, a decrease of $29.1 billion, or 17%, from the prior year. The declines in both end-of-period and average loans were consistent with expected portfolio runoff.

Net revenue was $4.3 billion, a decrease of $906 million, or 18%, from the prior year. Net interest income was $3.4 billion, down by $881 million, or 20%. The decrease was driven by lower average loan balances, the impact of legislative changes and a decreased level of fees. These decreases were offset partially by lower revenue reversals associated with lower charge-offs. Noninterest revenue was $806 million, a decrease of $25 million, or 3%, due to lower revenue from fee-based products.

Table of Contents

The provision for credit losses was $1.6 billion, compared with $5.0 billion in the prior year. The current-quarter provision reflected lower net charge-offs and a reduction of $1.5 billion to the allowance for loan losses due to lower estimated losses. The prior year provision included an addition of $575 million to the allowance for loan losses. The net charge-off rate was 8.87%, down from 10.30% in the prior year. The 30-day delinquency rate was 4.57%, down from 5.99% in the prior year. Excluding the Washington Mutual portfolio, the net charge-off rate was 8.06%, down from 9.41% in the prior year; and the 30-day delinquency rate was 4.13%, down from 5.38% in the prior year.
Noninterest expense was $1.4 billion, an increase of $139 million, or 11%, due to higher marketing expense.

Year-to-date results

Net income was $775 million, compared with a net loss of $1.9 billion in the prior year. The improved results were driven by a lower provision for credit losses, partially offset by lower net revenue.

Average loans were $147.3 billion, a decrease of $28.2 billion, or 16%, from the prior year, consistent with expected portfolio runoff.

Net revenue was $12.9 billion, a decrease of $2.2 billion, or 15%, from the prior year. Net interest income was $10.5 billion, down by $2.6 billion, or 20%. The decrease was driven by lower average loan balances, a decreased level of fees, and the impact of legislative changes. These decreases were offset partially by lower revenue reversals associated with lower charge-offs. Noninterest revenue was $2.4 billion, an increase of $390 million, or 19%, driven by a prior-year write-down of securitization interests, offset partially by lower revenue from fee-based products.

The provision for credit losses was $7.4 billion, compared with $14.2 billion in the prior year. The current-year provision reflected lower net charge-offs and a reduction of $4.0 billion to the allowance for loan losses due to lower estimated losses. The prior-year provision included an addition of $2.0 billion to the allowance for loan losses. The net charge-off rate was 10.31%, up from 9.32% in the prior year. Excluding the Washington Mutual portfolio, the net charge-off rate was 9.24%, up from 8.39% in the prior year.

Noninterest expense was $4.3 billion, an increase of $298 million, or 7%, due to higher marketing expense.

Credit Card Legislation

In May 2009, the CARD Act was enacted. Management estimates that the total annualized reduction in net income from the CARD Act, including regulatory guidance that defines reasonable and proportional fees, is approximately $750 million. Results in the third quarter of 2010 reflect approximately 65% of the estimated quarterly impact of this reduction in net income, with expectations of full run-rate impact in the fourth quarter of 2010.

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

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

Table of Contents

Selected metrics

(in millions, except headcount, ratios and where otherwise noted)	Three months ended September 30, 2010	2009	Change	Nine months ended September 30, 2010	2009	Change
Financial ratios[(a)]						
Percentage of average outstandings:						
Net interest income	**9.76%**	10.15%		**9.52%**	10.00%	
Provision for credit losses	**4.63**	11.65		**6.68**	10.84	
Noninterest revenue	**2.28**	1.95		**2.20**	1.55	
Risk adjusted margin[(b)]	**7.42**	0.45		**5.04**	0.71	
Noninterest expense	**4.09**	3.06		**3.89**	3.04	
Pretax income/(loss) (ROO)[(c)]	**3.33**	(2.61)		**1.15**	(2.32)	
Net income/(loss)	**2.08**	(1.64)		**0.70**	(1.46)	
Business metrics						
Sales volume (in billions)	**$ 79.6**	$ 74.7	7%	**$ 227.1**	$ 215.3	5%
New accounts opened (in millions)	**2.7**	2.4	13	**7.9**	7.0	13
Open accounts (in millions)	**89.0**	93.6	(5)	**89.0**	93.6	(5)
Merchant acquiring business						
Bank card volume (in billions)	**$ 117.0**	$ 103.5	13	**$ 342.1**	$ 299.3	14
Total transactions (in billions)	**5.2**	4.5	16	**14.9**	13.1	14
Selected balance sheet data (period-end)						
Loans:						
Loans on balance sheets	**$136,436**	$ 78,215	74	**$136,436**	$ 78,215	74
Securitized loans[(a)]	**NA**	87,028	NM	**NA**	87,028	NM
Total loans	**$136,436**	$165,243	(17)	**$136,436**	$165,243	(17)
Equity	**$ 15,000**	$ 15,000		**$ 15,000**	$ 15,000	
Selected balance sheet data (average)						
Managed assets	**$141,029**	$192,141	(27)	**$148,212**	$195,517	(24)
Loans:						
Loans on balance sheets	**$140,059**	$ 83,146	68	**$147,326**	$ 90,154	63
Securitized loans[(a)]	**NA**	86,017	NM	**NA**	85,352	NM
Total average loans	**$140,059**	$169,163	(17)	**$147,326**	$175,506	(16)
Equity	**$ 15,000**	$ 15,000		**$ 15,000**	$ 15,000	
Headcount	**21,398**	22,850	(6)	**21,398**	22,850	(6)

Table of Contents

Selected metrics	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Credit quality statistics[a]						
Net charge-offs	**$ 3,133**	$ 4,392	(29)%	**$ 11,366**	$ 12,238	(7)%
Net charge-off rate[d]	**8.87%**	10.30%		**10.31%**	9.32%	
Delinquency rates[a][d]						
30+ day	**4.57%**	5.99%		**4.57%**	5.99%	
90+ day	**2.41**	2.76		**2.41**	2.76	
Allowance for loan losses[a][e]	**$ 13,029**	$ 9,297	40	**$ 13,029**	$ 9,297	40
Allowance for loan losses to period-end loans[a][e][f]	**9.55%**	11.89%		**9.55%**	11.89%	
Key stats Washington Mutual only						
Loans	**$ 14,504**	$ 21,163	(31)	**$ 14,504**	$ 21,163	(31)
Average loans	**15,126**	22,287	(32)	**16,716**	24,742	(32)
Net interest income[g]	**16.27%**	17.04%		**15.40%**	17.11%	
Risk adjusted margin[b][g]	**12.90**	(4.45)		**9.91**	(1.01)	
Net charge-off rate[h]	**15.58**	21.94		**20.02**	18.32	
30+ day delinquency rate[h]	**8.29**	12.44		**8.29**	12.44	
90+ day delinquency rate[h]	**4.54**	6.21		**4.54**	6.21	
Key stats excluding Washington Mutual						
Loans	**$121,932**	$144,080	(15)	**$121,932**	$144,080	(15)
Average loans	**124,933**	146,876	(15)	**130,610**	150,764	(13)
Net interest income[g]	**8.98%**	9.10%		**8.77%**	8.83%	
Risk adjusted margin[b][g]	**6.76**	1.19		**4.41**	0.99	
Net charge-off rate	**8.06**	9.41		**9.24**	8.39	
30+ day delinquency rate	**4.13**	5.38		**4.13**	5.38	
90+ day delinquency rate	**2.16**	2.48		**2.16**	2.48	

(a) *Effective January 1, 2010, the Firm adopted new accounting guidance related to VIEs. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For further details regarding the Firm s application and impact of the new guidance, see Note 15 on pages 155-167 of this Form 10-Q.*

(b) *Represents total net revenue less provision for credit losses.*

(c) *Pretax return on average managed outstandings.*

(d) *Results reflect the impact of purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the WMMT in the second quarter of 2009. The net charge-off rate for the three months ended September 30, 2010, and delinquency rates as of September 30, 2010, were not affected.*

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

(f) Includes $3.0 billion of loans at September 30, 2009, held by the WMMT, which were consolidated onto the CS balance sheet at fair value during the second quarter of 2009. No allowance for loan losses was recorded for these loans as of September 30, 2009. Excluding these loans, the allowance for loan losses to period-end loans would have been 12.36%.

(g) As a percentage of average managed outstandings.

(h) Excludes the impact of purchase accounting adjustments related to the Washington Mutual transaction and the consolidation of the WMMT in the second quarter of 2009.

NA: Not applicable

Table of Contents

Reconciliation from reported basis to managed basis

The financial information presented below reconciles reported basis and managed basis to disclose the effect of securitizations reported in 2009. Effective January 1, 2010, the Firm adopted new accounting guidance that amended the accounting for the transfer of financial assets and the consolidation of VIEs. As a result of the consolidation of the credit card securitization trusts, reported and managed basis relating to credit card securitizations are equivalent for periods beginning after January 1, 2010. For further details regarding the Firm s application and impact of the new guidance, see Note 15 on pages 155-167 of this Form 10-Q.

	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Income statement data						
Credit card income						
Reported	**$ 864**	$ 1,201	(28)%	**$ 2,585**	$ 3,800	(32)%
Securitization adjustments	**NA**	(285)	NM	**NA**	(1,119)	NM
Managed credit card income	**$ 864**	$ 916	(6)	**$ 2,585**	$ 2,681	(4)
Net interest income						
Reported	**$ 3,447**	$ 2,345	47	**$ 10,492**	$ 7,176	46
Securitization adjustments	**NA**	1,983	NM	**NA**	5,945	NM
Managed net interest income	**$ 3,447**	$ 4,328	(20)	**$ 10,492**	$ 13,121	(20)
Total net revenue						
Reported	**$ 4,253**	$ 3,461	23	**$ 12,917**	$ 10,330	25
Securitization adjustments	**NA**	1,698	NM	**NA**	4,826	NM
Managed total net revenue	**$ 4,253**	$ 5,159	(18)	**$ 12,917**	$ 15,156	(15)
Provision for credit losses						
Reported	**$ 1,633**	$ 3,269	(50)	**$ 7,366**	$ 9,397	(22)
Securitization adjustments	**NA**	1,698	NM	**NA**	4,826	NM
Managed provision for credit losses	**$ 1,633**	$ 4,967	(67)	**$ 7,366**	$ 14,223	(48)
Balance sheets average balances						
Total average assets						
Reported	**$141,029**	$109,362	29	**$148,212**	$113,134	31
Securitization adjustments	**NA**	82,779	NM	**NA**	82,383	NM
Managed average assets	**$141,029**	$192,141	(27)	**$148,212**	$195,517	(24)

Credit quality statistics								
Net charge-offs								
Reported	**$**	**3,133**	$	2,694	16	**$**	**11,366**	$	7,412	53
Securitization adjustments		**NA**		1,698	NM		**NA**		4,826	NM
Managed net charge-offs	**$**	**3,133**	$	4,392	(29)	**$**	**11,366**	$	12,238	(7)
Net charge-off rates										
Reported		**8.87%**		12.85%			**10.31%**		10.99%	
Securitized		**NA**		7.83			**NA**		7.56	
Managed net charge-off rate		**8.87**		10.30			**10.31**		9.32	

NA: Not applicable

Table of Contents

COMMERCIAL BANKING

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

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue						
Lending- and deposit-related fees	**$ 269**	$ 269	%	**$ 826**	$ 802	3%
Asset management, administration and commissions	**36**	35	3	**109**	105	4
All other income[(a)]	**242**	170	42	**658**	447	47
Noninterest revenue	**547**	474	15	**1,593**	1,354	18
Net interest income	**980**	985	(1)	**2,836**	2,960	(4)
Total net revenue[(b)]	**1,527**	1,459	5	**4,429**	4,314	3
Provision for credit losses	**166**	355	(53)	**145**	960	(85)
Noninterest expense						
Compensation expense	**210**	196	7	**612**	593	3
Noncompensation expense	**341**	339	1	**1,002**	1,008	(1)
Amortization of intangibles	**9**	10	(10)	**27**	32	(16)
Total noninterest expense	**560**	545	3	**1,641**	1,633	
Income before income tax expense	**801**	559	43	**2,643**	1,721	54
Income tax expense	**330**	218	51	**1,089**	674	62
Net income	**$ 471**	$ 341	38	**$1,554**	$1,047	48
Revenue by product						
Lending	**$ 693**	$ 675	3	**$2,000**	$2,024	(1)
Treasury services	**670**	672		**1,973**	1,997	(1)
Investment banking	**120**	99	21	**340**	286	19
Other	**44**	13	238	**116**	7	NM
Total Commercial Banking revenue	**$1,527**	$1,459	5	**$4,429**	$4,314	3
IB revenue, gross	**$ 344**	$ 301	14	**$ 988**	$ 835	18
Revenue by client segment						
Middle Market Banking	**$ 766**	$ 771	(1)	**$2,279**	$2,295	(1)
Commercial Term Lending	**256**	232	10	**722**	684	6
Mid-Corporate Banking	**304**	278	9	**852**	825	3

Real Estate Banking	**118**	121	(2)	**343**	361	(5)
Other[c]	**83**	57	46	**233**	149	56
Total Commercial Banking revenue	**$1,527**	$1,459	5	**$4,429**	$4,314	3
Financial ratios						
Return on common equity	**23%**	17%		**26%**	17%	
Overhead ratio	**37**	37		**37**	38	

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

(b) *Total net revenue included tax-equivalent adjustments from income tax credits related to equity investments in designated community development entities that provide loans to qualified businesses in low-income communities as well as tax-exempt income from municipal bond activity of $59 million and $43 million for the quarters ended September 30, 2010 and 2009, respectively, and $153 million and $117 million for year-to-date 2010 and 2009, respectively.*

(c) *Other primarily includes revenue related to the Community Development and Chase Capital segments.*

Table of Contents

Quarterly results

Net income was $471 million, an increase of $130 million, or 38%, from the prior year. The increase was driven by a reduction in the provision for credit losses. Results included the impact of the purchase of a $3.5 billion loan portfolio during the current quarter.

Net revenue was a record $1.5 billion, up by $68 million, or 5%, compared with the prior year. Net interest income was $980 million, down by $5 million, or 1%, driven by spread compression on liability products and lower loan balances, offset by growth in liability balances and wider loan spreads. Noninterest revenue was $547 million, an increase of $73 million, or 15%, driven by changes in the valuation of investments held at fair value, higher investment banking fees, higher lending-related fees, gains on sales of loans, and higher other fees.

Revenue from Middle Market Banking was $766 million, a decrease of $5 million, or 1%, from the prior year. Revenue from Commercial Term Lending was $256 million, an increase of $24 million, or 10%, and included the impact of the loan portfolio purchased during the quarter. Revenue from Mid-Corporate Banking was $304 million, an increase of $26 million, or 9%. Revenue from Real Estate Banking was $118 million, a decrease of $3 million, or 2%.

The provision for credit losses was $166 million, compared with $355 million in the prior year. Net charge-offs were $218 million (0.89% net charge-off rate) and were largely related to commercial real estate, compared with $291 million (1.11% net charge-off rate) in the prior year. The allowance for loan losses to end-of-period loans retained was 2.72%, down from 3.01% in the prior year. Nonperforming loans were $2.9 billion, up by $644 million from the prior year, reflecting increases in commercial real estate.

Noninterest expense was $560 million, an increase of $15 million, or 3%, compared with the prior year, reflecting higher headcount-related expense.

Year-to-date results

Net income was $1.6 billion, an increase of $507 million, or 48%, from the prior year. The increase was driven by a reduction in the provision for credit losses.

Net revenue was $4.4 billion, up by $115 million, or 3%, compared with the prior year. Net interest income was $2.8 billion, down by $124 million, or 4%, driven by spread compression on liability products and lower loan balances, largely offset by growth in liability balances and wider loan spreads. Noninterest revenue was $1.6 billion, an increase of $239 million, or 18%, from the prior year, reflecting higher lending- related fees, changes in the valuation of investments held at fair value, and higher investment banking fees.

Revenue from Middle Market Banking was $2.3 billion, relatively flat compared with the prior year. Revenue from Commercial Term Lending was $722 million, an increase of $38 million, or 6%, and included the impact of the loan portfolio purchased during the third quarter. Mid-Corporate Banking revenue was $852 million, an increase of $27 million, or 3%. Real Estate Banking revenue was $343 million, a decrease of $18 million, or 5%.

The provision for credit losses was $145 million, compared with $960 million in the prior year, and reflected a reduction in the allowance for credit losses, primarily due to refinements to credit loss estimates and improvements in the credit quality of the commercial and industrial portfolio. Net charge-offs were $623 million (0.87% net charge-off rate), compared with $606 million (0.75% net charge-off rate) in the prior year.

Noninterest expense was $1.6 billion, flat compared with the prior year.

Table of Contents

Selected metrics (in millions, except headcount and ratios)	Three months ended September 30, **2010**	2009	Change	Nine months ended September 30, **2010**	2009	Change
Selected balance sheet data (period-end):						
Loans:						
Loans retained	**$ 97,738**	$ 101,608	(4)%	**$ 97,738**	$ 101,608	(4)%
Loans held-for-sale and loans at fair value	**399**	288	39	**399**	288	39
Total loans	**98,137**	101,896	(4)	**98,137**	101,896	(4)
Equity	**8,000**	8,000		**8,000**	8,000	
Selected balance sheet data (average):						
Total assets	**$ 130,237**	$ 130,316		**$ 132,176**	$ 137,248	(4)
Loans:						
Loans retained	**96,657**	103,752	(7)	**96,166**	108,654	(11)
Loans held-for-sale and loans at fair value	**384**	297	29	**358**	294	22
Total loans	**97,041**	104,049	(7)	**96,524**	108,948	(11)
Liability balances	**137,853**	109,293	26	**135,939**	110,012	24
Equity	**8,000**	8,000		**8,000**	8,000	
Average loans by client segment:						
Middle Market Banking	**$ 35,299**	$ 36,200	(2)	**$ 34,552**	$ 38,357	(10)
Commercial Term Lending	**37,509**	36,943	2	**36,513**	36,907	(1)
Mid-Corporate Banking	**11,807**	14,933	(21)	**11,978**	16,774	(29)
Real Estate Banking	**8,983**	11,547	(22)	**9,740**	12,380	(21)
Other[(a)]	**3,443**	4,426	(22)	**3,741**	4,530	(17)
Total Commercial Banking loans	**$ 97,041**	$ 104,049	(7)	**$ 96,524**	$ 108,948	(11)
Headcount	**4,805**	4,177	15	**4,805**	4,177	15
Credit data and quality statistics:						
Net charge-offs	**$ 218**	$ 291	(25)	**$ 623**	$ 606	3
Nonperforming loans:						
Nonperforming loans retained[(b)]	**2,898**	2,284	27	**2,898**	2,284	27
Nonperforming loans held-for-sale and loans at fair value	**48**	18	167	**48**	18	167
Total nonperforming loans	**2,946**	2,302	28	**2,946**	2,302	28
Nonperforming assets	**3,227**	2,461	31	**3,227**	2,461	31
Allowance for credit losses:						
Allowance for loan losses	**2,661**	3,063	(13)	**2,661**	3,063	(13)
Allowance for lending-related commitments	**241**	300	(20)	**241**	300	(20)
Total allowance for credit losses	**2,902**	3,363	(14)	**2,902**	3,363	(14)
Net charge-off rate	**0.89%**	1.11%		**0.87%**	0.75%	
	2.72	3.01		**2.72**	3.01	

Allowance for loan losses to period-end loans retained				
Allowance for loan losses to average loans retained	**2.75**	2.95	**2.77**	2.82
Allowance for loan losses to nonperforming loans retained	**92**	134	**92**	134
Nonperforming loans to total period-end loans	**3.00**	2.26	**3.00**	2.26
Nonperforming loans to total average loans	**3.04**	2.21	**3.05**	2.11

(a) *Other primarily includes loans related to the Community Development and Chase Capital segments.*

(b) *Allowance for loan losses of $535 million and $496 million were held against nonperforming loans retained at September 30, 2010 and 2009, respectively.*

TREASURY & SECURITIES SERVICES

For a discussion of the business profile of TSS, see pages 56 57 of JPMorgan Chase s 2009 Annual Report and Introduction on page 6 of this Form 10-Q.

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except headcount and ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue						
Lending- and deposit-related fees	**$ 318**	$ 316	1%	**$ 942**	$ 955	(1)%
Asset management, administration and commissions	**644**	620	4	**2,008**	1,956	3
All other income	**210**	201	4	**595**	619	(4)
Noninterest revenue	**1,172**	1,137	3	**3,545**	3,530	
Net interest income	**659**	651	1	**1,923**	1,979	(3)
Total net revenue	**1,831**	1,788	2	**5,468**	5,509	(1)
Provision for credit losses	**(2)**	13	NM	**(57)**	2	NM
Credit reimbursement to IB[(a)]	**(31)**	(31)		**(91)**	(91)	
Noninterest expense						
Compensation expense	**701**	629	11	**2,055**	1,876	10
Noncompensation expense	**693**	633	9	**2,027**	1,954	4
Amortization of intangibles	**16**	18	(11)	**52**	57	(9)
Total noninterest expense	**1,410**	1,280	10	**4,134**	3,887	6
Income before income tax expense	**392**	464	(16)	**1,300**	1,529	(15)
Income tax expense	**141**	162	(13)	**478**	540	(11)
Net income	**$ 251**	$ 302	(17)	**$ 822**	$ 989	(17)
Revenue by business						
Treasury Services	**$ 937**	$ 919	2	**$ 2,745**	$ 2,784	(1)
Worldwide Securities Services	**894**	869	3	**2,723**	2,725	
Total net revenue	**$ 1,831**	$ 1,788	2	**$ 5,468**	$ 5,509	(1)
Financial ratios						
Return on common equity	**15%**	24%		**17%**	26%	
Overhead ratio	**77**	72		**76**	71	
Pretax margin ratio	**21**	26		**24**	28	
Selected balance sheet data (period-end)						
Loans[(b)]	**$ 26,899**	$ 19,693	37	**$ 26,899**	$ 19,693	37
Equity	**6,500**	5,000	30	**6,500**	5,000	30

Selected balance sheet data (average)						
Total assets	**$ 42,445**	$ 33,117	28	**$ 41,211**	$ 35,753	15
Loans[(b)]	**24,337**	17,062	43	**22,035**	18,231	21
Liability balances	**242,517**	231,502	5	**245,684**	247,219	(1)
Equity	**6,500**	5,000	30	**6,500**	5,000	30
Headcount	**28,544**	26,389	8	**28,544**	26,389	8

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

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

44

Table of Contents

Quarterly results

Net income was $251 million, a decrease of $51 million, or 17%, from the prior year. These results reflected higher noninterest expense, partially offset by higher net revenue.

Net revenue was $1.8 billion, an increase of $43 million, or 2%, from the prior year. Treasury Services net revenue was $937 million, an increase of $18 million, or 2%. The increase was driven by higher trade loan and card product volumes, partially offset by lower spreads on liability products. Worldwide Securities Services net revenue was $894 million, an increase of $25 million, or 3%. The increase was driven by higher market levels and net inflows of assets under custody, partially offset by lower spreads on liability products and securities lending.

TSS generated firmwide net revenue of $2.6 billion, including $1.7 billion by Treasury Services; of that amount, $937 million was recorded in Treasury Services, $670 million in Commercial Banking and $64 million in other lines of business. The remaining $894 million of firmwide net revenue was recorded in Worldwide Securities Services.

Noninterest expense was $1.4 billion, an increase of $130 million, or 10%, from the prior year. The increase was driven by continued investment in new product platforms, primarily related to international expansion, and higher performance-based compensation.

Year-to-date results

Net income was $822 million, a decrease of $167 million, or 17%, from the prior year. These results reflected higher noninterest expense and lower net revenue.

Net revenue was $5.5 billion, a decrease of $41 million, or 1%, from the prior year. Treasury Services net revenue was $2.7 billion, relatively flat compared with the prior year as lower spreads on liability products were offset by higher trade loan and card product volumes. Similarly, Worldwide Securities Services net revenue was $2.7 billion, relatively flat compared with the prior year as lower spreads in securities lending, lower volatility on foreign exchange, and lower balances on liability products were offset by higher market levels and net inflows of assets under custody.

TSS generated firmwide net revenue of $7.6 billion, including $4.9 billion by Treasury Services; of that amount, $2.7 billion was recorded in Treasury Services, $2.0 billion in Commercial Banking and $182 million in other lines of business. The remaining $2.7 billion of firmwide net revenue was recorded in Worldwide Securities Services.

Noninterest expense was $4.1 billion, up $247 million, or 6%, from the prior year. The increase was driven by continued investment in new product platforms, primarily related to international expansion, and higher performance-based compensation.

Table of Contents

Selected metrics (in millions, except ratios and where otherwise noted)	Three months ended September 30, **2010**	2009	Change	Nine months ended September 30, **2010**	2009	Change
TSS firmwide disclosures						
Treasury Services revenue reported	**$ 937**	$ 919	2%	**$ 2,745**	$ 2,784	(1)%
Treasury Services revenue reported in CB	**670**	672		**1,973**	1,997	(1)
Treasury Services revenue reported in other lines of business	**64**	63	2	**182**	188	(3)
Treasury Services firmwide revenue[a]	**1,671**	1,654	1	**4,900**	4,969	(1)
Worldwide Securities Services revenue	**894**	869	3	**2,723**	2,725	
Treasury & Securities Services firmwide revenue[a]	**$ 2,565**	$ 2,523	2	**$ 7,623**	$ 7,694	(1)
Treasury Services firmwide liability balances (average)[b]	**$ 302,921**	$ 261,059	16	**$ 303,742**	$ 269,568	13
Treasury & Securities Services firmwide liability balances (average)[b]	**380,370**	340,795	12	**381,623**	357,231	7
TSS firmwide financial ratios						
Treasury Services firmwide overhead ratio[c]	**55%**	52%		**55%**	52%	
Treasury & Securities Services firmwide overhead ratio[c]	**65**	62		**65**	61	
Firmwide business metrics						
Assets under custody (in billions)	**$ 15,863**	$ 14,887	7	**$ 15,863**	$ 14,887	7
Number of:						
U.S.$ ACH transactions originated (in millions)	**978**	965	1	**2,897**	2,921	(1)
Total U.S.$ clearing volume (in thousands)	**30,779**	28,604	8	**89,979**	83,983	7
International electronic funds transfer volume (in thousands)[d]	**57,333**	48,533	18	**171,571**	139,994	23
Wholesale check volume (in millions)	**531**	530		**1,535**	1,670	(8)
Wholesale cards issued (in thousands)[e]	**28,404**	26,977	5	**28,404**	26,977	5
Credit data and quality statistics						
Net charge-offs	**$ 1**	$	NM	**$ 1**	$ 19	(95)
Nonperforming loans	**14**	14		**14**	14	
Allowance for credit losses:						
Allowance for loan losses	**54**	15	260	**54**	15	260
Allowance for lending-related commitments	**52**	104	(50)	**52**	104	(50)
Total allowance for credit losses	**106**	119	(11)	**106**	119	(11)
Net charge-off rate	**0.02%**	%		**0.01%**	0.14%	
Allowance for loan losses to period-end loans	**0.20**	0.08		**0.20**	0.08	

Allowance for loan losses to average loans	**0.22**	0.09	**0.25**	0.08
Allowance for loan losses to nonperforming loans	**386**	107	**386**	107
Nonperforming loans to period-end loans	**0.05**	0.07	**0.05**	0.07
Nonperforming loans to average loans	**0.06**	0.08	**0.06**	0.08

(a) TSS firmwide revenue includes foreign exchange (FX) revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of IB. However, some of the FX revenue associated with TSS customers who are FX customers of IB is not included in TS and TSS firmwide revenue. The total FX revenue generated was $143 million and $154 million for the three months ended September 30, 2010 and 2009, respectively, and $455 million and $499 million for the nine months ended September 30, 2010 and 2009, respectively.

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

(c) Overhead ratios have been calculated based on firmwide revenue and TSS and TS expense, respectively, including those allocated to certain other lines of business. FX revenue and expense recorded in IB for TSS-related FX activity are not included in this ratio.

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

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

Table of Contents

ASSET MANAGEMENT

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

Selected income statement data	Three months ended September 30,			Nine months ended September 30,		
(in millions, except ratios)	**2010**	2009	Change	**2010**	2009	Change
Revenue:						
Asset management, administration and commissions	**$ 1,498**	$ 1,443	4%	**$ 4,528**	$ 3,989	14%
All other income	**282**	238	18	**725**	560	29
Noninterest revenue	**1,780**	1,681	6	**5,253**	4,549	15
Net interest income	**392**	404	(3)	**1,118**	1,221	(8)
Total net revenue	**2,172**	2,085	4	**6,371**	5,770	10
Provision for credit losses	**23**	38	(39)	**63**	130	(52)
Noninterest expense:						
Compensation expense	**914**	858	7	**2,685**	2,468	9
Noncompensation expense	**557**	474	18	**1,598**	1,478	8
Amortization of intangibles	**17**	19	(11)	**52**	57	(9)
Total noninterest expense	**1,488**	1,351	10	**4,335**	4,003	8
Income before income tax expense	**661**	696	(5)	**1,973**	1,637	21
Income tax expense	**241**	266	(9)	**770**	631	22
Net income	**$ 420**	$ 430	(2)	**$ 1,203**	$ 1,006	20
Revenue by client segment						
Private Banking[(a)]	**$ 1,181**	$ 1,080	9	**$ 3,484**	$ 3,154	10
Institutional	**506**	534	(5)	**1,505**	1,481	2
Retail	**485**	471	3	**1,382**	1,135	22
Total net revenue	**$ 2,172**	$ 2,085	4	**$ 6,371**	$ 5,770	10
Financial ratios						
Return on common equity	**26%**	24%		**25%**	19%	
Overhead ratio	**69**	65		**68**	69	
Pretax margin ratio	**30**	33		**31**	28	

(a) Private Banking is a combination of the previously disclosed client segments: Private Bank, Private Wealth Management and JPMorgan Securities.

Table of Contents

Quarterly results

Net income was $420 million, a decrease of $10 million, or 2%, from the prior year. These results reflected higher noninterest expense, largely offset by higher net revenue and a lower provision for credit losses.

Net revenue was $2.2 billion, an increase of $87 million, or 4%, from the prior year. Noninterest revenue was $1.8 billion, up by $99 million, or 6%, due to higher loan originations, the effect of higher market levels and net inflows to products with higher margins, partially offset by lower brokerage revenue and lower quarterly valuations of seed capital investments. Net interest income was $392 million, down by $12 million, or 3%, due to narrower deposit and loan spreads, offset by higher deposit and loan balances.

Revenue from Private Banking was $1.2 billion, up 9% from the prior year. Revenue from Institutional was $506 million, down 5%. Revenue from Retail was $485 million, up 3%.

The provision for credit losses was $23 million, compared with $38 million in the prior year.

Noninterest expense was $1.5 billion, an increase of $137 million, or 10%, from the prior year, resulting from an increase in headcount.

Year-to-date results

Net income was $1.2 billion, an increase of $197 million, or 20%, from the prior year, due to higher net revenue and a lower provision for credit losses, partially offset by higher noninterest expense.

Net revenue was $6.4 billion, an increase of $601 million, or 10%, from the prior year. Noninterest revenue was $5.3 billion, an increase of $704 million, or 15%, due to the effect of higher market levels, net inflows to products with higher margins, higher loan originations and higher performance fees, partially offset by lower valuations of seed capital investments. Net interest income was $1.1 billion, down by $103 million, or 8%, from the prior year, due to narrower deposit spreads, partially offset by higher deposit balances.

Revenue from Private Banking was $3.5 billion, up 10% from the prior year. Revenue from Institutional was $1.5 billion, up 2%. Revenue from Retail was $1.4 billion, up 22%.

The provision for credit losses was $63 million, compared with $130 million in the prior year.

Noninterest expense was $4.3 billion, an increase of $332 million, or 8%, from the prior year due to higher headcount and higher performance-based compensation.

Table of Contents

Business metrics (in millions, except headcount, ratios, ranking data, and where otherwise noted)	Three months ended September 30, **2010**	2009	Change	Nine months ended September 30, **2010**	2009	Change
Number of:						
Client advisors	**2,209**	1,891	17%	**2,209**	1,891	17%
Retirement planning services participants (in thousands)	**1,665**	1,620	3	**1,665**	1,620	3
JPMorgan Securities brokers[a]	**419**	365	15	**419**	365	15
% of customer assets in 4 & 5 Star Funds[b]	**42%**	39%	8	**42%**	39%	8
% of AUM in 1st and 2nd quartiles:[c]						
1 year	**67%**	60%	12	**67%**	60%	12
3 years	**65%**	70%	(7)	**65%**	70%	(7)
5 years	**74%**	74%		**74%**	74%	
Selected balance sheet data (period-end)						
Loans	**$ 41,408**	$ 35,925	15	**$ 41,408**	$ 35,925	15
Equity	**6,500**	7,000	(7)	**6,500**	7,000	(7)
Selected balance sheet data (average)						
Total assets	**$ 64,911**	$ 60,345	8	**$ 63,629**	$ 59,309	7
Loans	**39,417**	34,822	13	**37,819**	34,567	9
Deposits	**87,841**	73,649	19	**85,012**	76,888	11
Equity	**6,500**	7,000	(7)	**6,500**	7,000	(7)
Headcount	**16,510**	14,919	11	**16,510**	14,919	11
Credit data and quality statistics						
Net charge-offs	**$ 13**	$ 17	(24)	**$ 68**	$ 82	(17)
Nonperforming loans	**294**	409	(28)	**294**	409	(28)
Allowance for credit losses:						
Allowance for loan losses	**257**	251	2	**257**	251	2
Allowance for lending-related commitments	**3**	5	(40)	**3**	5	(40)
Total allowance for credit losses	**260**	256	2	**260**	256	2
Net charge-off rate	**0.13%**	0.19%		**0.24%**	0.32%	
Allowance for loan losses to period-end loans	**0.62**	0.70		**0.62**	0.70	
Allowance for loan losses to average loans	**0.65**	0.72		**0.68**	0.73	
Allowance for loan losses to nonperforming loans	**87**	61		**87**	61	

Nonperforming loans to period-end loans	**0.71**	1.14	**0.71**	1.14
Nonperforming loans to average loans	**0.75**	1.17	**0.78**	1.18

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

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

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

Table of Contents

Assets under supervision

Assets under supervision were $1.8 trillion, an increase of $100 billion, or 6%, from the prior year. Assets under management were $1.3 trillion, flat from the prior year, due to net outflows in liquidity products, offset by net inflows of long-term products and the effect of higher market levels. Custody, brokerage, administration and deposit balances were $513 billion, up by $102 billion, or 25%, due to custody and brokerage inflows and the effect of higher market levels.

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

As of September 30,	**2010**	2009
Assets by asset class		
Liquidity	**$ 521**	$ 634
Fixed income	**277**	215
Equities and multi-asset	**362**	316
Alternatives	**97**	94
Total assets under management	**1,257**	1,259
Custody/brokerage/administration/deposits	**513**	411
Total assets under supervision	**$ 1,770**	$ 1,670
Assets by client segment		
Private Banking[(b)]	**$ 276**	$ 266
Institutional	**677**	737
Retail	**304**	256
Total assets under management	**$ 1,257**	$ 1,259
Private Banking[(b)]	**$ 698**	$ 594
Institutional	**678**	737
Retail	**394**	339
Total assets under supervision	**$ 1,770**	$ 1,670
Assets by geographic region		
U.S./Canada	**$ 852**	$ 862
International	**405**	397
Total assets under management	**$ 1,257**	$ 1,259
U.S./Canada	**$ 1,237**	$ 1,179
International	**533**	491
Total assets under supervision	**$ 1,770**	$ 1,670

Mutual fund assets by asset class		
Liquidity	**$ 466**	$ 576
Fixed income	**88**	57
Equities and multi-asset	**151**	133
Alternatives	**7**	10
Total mutual fund assets	**$ 712**	$ 776

(a) Excludes assets under management of American Century Companies, Inc., in which the Firm had a 41% and 42% ownership at September 30, 2010 and 2009, respectively.

(b) Private Banking is a combination of the previously disclosed client segments: Private Bank, Private Wealth Management and JPMorgan Securities.

Assets under management rollforward (in billions)	Three months ended September 30, **2010**	2009	Nine months ended September 30, **2010**	2009
Beginning balance	**$ 1,161**	$ 1,171	**$ 1,249**	$ 1,133
Net asset flows:				
Liquidity	**27**	9	**(64)**	21
Fixed income	**12**	13	**40**	22
Equities, multi-asset and alternatives	**(1)**	12	**6**	9
Market/performance/other impacts	**58**	54	**26**	74
Total assets under management	**$ 1,257**	$ 1,259	**$ 1,257**	$ 1,259
Assets under supervision rollforward				
Beginning balance	**$ 1,640**	$ 1,543	**$ 1,701**	$ 1,496
Net asset flows	**41**	45	**27**	61
Market/performance/other impacts	**89**	82	**42**	113
Total assets under supervision	**$ 1,770**	$ 1,670	**$ 1,770**	$ 1,670

CORPORATE / PRIVATE EQUITY

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

Selected income statement data (in millions, except headcount)	Three months ended September 30, **2010**	2009	Change	Nine months ended September 30, **2010**	2009	Change
Revenue						
Principal transactions	**$ 1,143**	$ 1,109	3%	**$ 1,621**	$ 859	89%
Securities gains	**99**	181	(45)	**1,699**	761	123
All other income	**(29)**	273	NM	**277**	45	NM
Noninterest revenue	**1,213**	1,563	(22)	**3,597**	1,665	116
Net interest income	**371**	1,031	(64)	**2,194**	2,885	(24)
Total net revenue[(a)]	**1,584**	2,594	(39)	**5,791**	4,550	27
Provision for credit losses	**(3)**	62	NM	**12**	71	(83)
Noninterest expense						
Compensation expense	**574**	768	(25)	**1,819**	2,064	(12)
Noncompensation expense[(b)]	**1,927**	875	120	**6,436**		