Management's report on internal control over financial reporting

Management of JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Firm's principal executive and principal financial officers, or persons performing similar functions, and effected by JPMorgan Chase's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

JPMorgan Chase's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Firm's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Firm are being made only in accordance with authorizations of JPMorgan Chase's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Firm's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has completed an assessment of the effectiveness of the Firm's internal control over financial reporting as of December 31, 2009. In making the assessment, management used the framework in "Internal Control – Integrated Framework" promulgated by the Committee of Sponsoring Organizations of the Treadway Commission, commonly referred to as the "COSO" criteria.

Based upon the assessment performed, management concluded that as of December 31, 2009, JPMorgan Chase's internal control over financial reporting was effective based upon the COSO criteria. Additionally, based upon management's assessment, the Firm determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2009.

The effectiveness of the Firm's internal control over financial reporting as of December 31, 2009, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

James Dimon
Chairman and Chief Executive Officer

Michael J. Cavanagh
Executive Vice President and Chief Financial Officer

February 24, 2010

Report of independent registered public accounting firm

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP • 300 Madison Avenue • New York, NY 10017

Report of Independent Registered Public Accounting Firm
To the Board of Directors and Stockholders of JPMorgan Chase & Co.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in stockholders' equity and comprehensive income and cash flows present fairly, in all material respects, the financial position of JPMorgan Chase & Co. and its subsidiaries (the "Firm") at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Firm maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Firm's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's report on internal control over financial reporting." Our responsibility is to express opinions on these financial statements and on the Firm's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

February 24, 2010

Consolidated statements of income

Year ended December 31, (in millions, except per share data)	**2009**	2008	2007
Revenue			
Investment banking fees	**$ 7,087**	$ 5,526	$ 6,635
Principal transactions	**9,796**	(10,699)	9,015
Lending- and deposit-related fees	**7,045**	5,088	3,938
Asset management, administration and commissions	**12,540**	13,943	14,356
Securities gains[a]	**1,110**	1,560	164
Mortgage fees and related income	**3,678**	3,467	2,118
Credit card income	**7,110**	7,419	6,911
Other income	**916**	2,169	1,829
Noninterest revenue	**49,282**	28,473	44,966
Interest income	**66,350**	73,018	71,387
Interest expense	**15,198**	34,239	44,981
Net interest income	**51,152**	38,779	26,406
Total net revenue	**100,434**	67,252	71,372
Provision for credit losses	**32,015**	20,979	6,864
Noninterest expense			
Compensation expense	**26,928**	22,746	22,689
Occupancy expense	**3,666**	3,038	2,608
Technology, communications and equipment expense	**4,624**	4,315	3,779
Professional and outside services	**6,232**	6,053	5,140
Marketing	**1,777**	1,913	2,070
Other expense	**7,594**	3,740	3,814
Amortization of intangibles	**1,050**	1,263	1,394
Merger costs	**481**	432	209
Total noninterest expense	**52,352**	43,500	41,703
Income before income tax expense/(benefit) and extraordinary gain	**16,067**	2,773	22,805
Income tax expense/(benefit)	**4,415**	(926)	7,440
Income before extraordinary gain	**11,652**	3,699	15,365
Extraordinary gain	**76**	1,906	—
Net income	**$ 11,728**	$ 5,605	$ 15,365
Net income applicable to common stockholders	**$ 8,774**	$ 4,742	$ 14,927
Per common share data			
Basic earnings per share			
Income before extraordinary gain	**$ 2.25**	$ 0.81	$ 4.38
Net income	**2.27**	1.35	4.38
Diluted earnings per share			
Income before extraordinary gain	**2.24**	0.81	4.33
Net income	**2.26**	1.35	4.33
Weighted-average basic shares	**3,863**	3,501	3,404
Weighted-average diluted shares	**3,880**	3,522	3,445
Cash dividends declared per common share	**$ 0.20**	$ 1.52	$ 1.48

(a) Securities gains for the year ended December 31, 2009, included credit losses of $578 million, consisting of $946 million of total other-than-temporary impairment losses, net of $368 million of other-than-temporary impairment losses recorded in other comprehensive income.

The Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated balance sheets

December 31, (in millions, except share data)	2009	2008
Assets		
Cash and due from banks	**$ 26,206**	$ 26,895
Deposits with banks	**63,230**	138,139
Federal funds sold and securities purchased under resale agreements (included $20,536 and $20,843 at fair value at December 31, 2009 and 2008, respectively)	**195,404**	203,115
Securities borrowed (included $7,032 and $3,381 at fair value at December 31, 2009 and 2008, respectively)	**119,630**	124,000
Trading assets (included assets pledged of $38,315 and $75,063 at December 31, 2009 and 2008, respectively)	**411,128**	509,983
Securities (included $360,365 and $205,909 at fair value at December 31, 2009 and 2008, respectively, and assets pledged of $100,931 and $25,942 at December 31, 2009 and 2008, respectively)	**360,390**	205,943
Loans (included $1,364 and $7,696 at fair value at December 31, 2009 and 2008, respectively)	**633,458**	744,898
Allowance for loan losses	**(31,602)**	(23,164)
Loans, net of allowance for loan losses	**601,856**	721,734
Accrued interest and accounts receivable (included $5,012 and $3,099 at fair value at December 31, 2009 and 2008, respectively)	**67,427**	60,987
Premises and equipment	**11,118**	10,045
Goodwill	**48,357**	48,027
Mortgage servicing rights	**15,531**	9,403
Other intangible assets	**4,621**	5,581
Other assets (included $19,165 and $29,199 at fair value at December 31, 2009 and 2008, respectively)	**107,091**	111,200
Total assets	**$ 2,031,989**	$ 2,175,052
Liabilities		
Deposits (included $4,455 and $5,605 at fair value at December 31, 2009 and 2008, respectively)	**$ 938,367**	$ 1,009,277
Federal funds purchased and securities loaned or sold under repurchase agreements (included $3,396 and $2,993 at fair value at December 31, 2009 and 2008, respectively)	**261,413**	192,546
Commercial paper	**41,794**	37,845
Other borrowed funds (included $5,637 and $14,713 at fair value at December 31, 2009 and 2008, respectively)	**55,740**	132,400
Trading liabilities	**125,071**	166,878
Accounts payable and other liabilities (included the allowance for lending-related commitments of $939 and $659 at December 31, 2009 and 2008, respectively, and $357 and zero at fair value at December 31, 2009 and 2008, respectively)	**162,696**	187,978
Beneficial interests issued by consolidated variable interest entities (included $1,410 and $1,735 at fair value at December 31, 2009 and 2008, respectively)	**15,225**	10,561
Long-term debt (included $48,972 and $58,214 at fair value at December 31, 2009 and 2008, respectively)	**266,318**	270,683
Total liabilities	**1,866,624**	2,008,168
Commitments and contingencies (see Note 30 on page 238 of this Annual Report)		
Stockholders' equity		
Preferred stock ($1 par value; authorized 200,000,000 shares at December 31, 2009 and 2008; issued 2,538,107 and 5,038,107 shares at December 31, 2009 and 2008, respectively)	**8,152**	31,939
Common stock ($1 par value; authorized 9,000,000,000 shares at December 31, 2009 and 2008; issued 4,104,933,895 shares and 3,941,633,895 shares at December 31, 2009 and 2008, respectively)	**4,105**	3,942
Capital surplus	**97,982**	92,143
Retained earnings	**62,481**	54,013
Accumulated other comprehensive income/(loss)	**(91)**	(5,687)
Shares held in RSU Trust, at cost (1,526,944 shares and 4,794,723 shares at December 31, 2009 and 2008, respectively)	**(68)**	(217)
Treasury stock, at cost (162,974,783 shares and 208,833,260 shares at December 31, 2009 and 2008, respectively)	**(7,196)**	(9,249)
Total stockholders' equity	**165,365**	166,884
Total liabilities and stockholders' equity	**$ 2,031,989**	$ 2,175,052

The Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated statements of changes in stockholders' equity and comprehensive income

Year ended December 31, (in millions, except per share data)	2009	2008	2007
Preferred stock			
Balance at January 1	**$ 31,939**	$ —	$ —
Issuance of preferred stock	**—**	31,550	—
Issuance of preferred stock – conversion of the Bear Stearns preferred stock	**—**	352	—
Accretion of preferred stock discount on issuance to the U.S. Treasury	**1,213**	37	—
Redemption of preferred stock issued to the U.S. Treasury	**(25,000)**	—	—
Balance at December 31	**8,152**	31,939	—
Common stock			
Balance at January 1	**3,942**	3,658	3,658
Issuance of common stock	**163**	284	—
Balance at December 31	**4,105**	3,942	3,658
Capital surplus			
Balance at January 1	**92,143**	78,597	77,807
Issuance of common stock	**5,593**	11,201	—
Warrant issued to U.S. Treasury in connection with issuance of preferred stock	**—**	1,250	—
Preferred stock issue cost	**—**	(54)	—
Shares issued and commitments to issue common stock for employee stock-based compensation awards and related tax effects	**474**	859	790
Net change from the Bear Stearns merger:			
Reissuance of treasury stock and the Share Exchange agreement	**—**	48	—
Employee stock awards	**—**	242	—
Other	**(228)**	—	—
Balance at December 31	**97,982**	92,143	78,597
Retained earnings			
Balance at January 1	**54,013**	54,715	43,600
Cumulative effect of change in accounting principles	**—**	—	915
Balance at January 1, adjusted	**54,013**	54,715	44,515
Net income	**11,728**	5,605	15,365
Dividends declared:			
Preferred stock	**(1,328)**	(674)	—
Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	**(1,112)**	—	—
Common stock ($0.20, $1.52 and $1.48 per share for 2009, 2008 and 2007, respectively)	**(820)**	(5,633)	(5,165)
Balance at December 31	**62,481**	54,013	54,715
Accumulated other comprehensive income/(loss)			
Balance at January 1	**(5,687)**	(917)	(1,557)
Cumulative effect of change in accounting principles	**—**	—	(1)
Balance at January 1, adjusted	**(5,687)**	(917)	(1,558)
Other comprehensive income/(loss)	**5,596**	(4,770)	641
Balance at December 31	**(91)**	(5,687)	(917)
Shares held in RSU Trust			
Balance at January 1	**(217)**	—	—
Resulting from the Bear Stearns merger	**—**	(269)	—
Reissuance from RSU Trust	**149**	52	—
Balance at December 31	**(68)**	(217)	—
Treasury stock, at cost			
Balance at January 1	**(9,249)**	(12,832)	(7,718)
Purchase of treasury stock	**—**	—	(8,178)
Reissuance from treasury stock	**2,079**	2,454	3,199
Share repurchases related to employee stock-based compensation awards	**(26)**	(21)	(135)
Net change from the Bear Stearns merger as a result of the reissuance of treasury stock and the Share Exchange agreement	**—**	1,150	—
Balance at December 31	**(7,196)**	(9,249)	(12,832)
Total stockholders' equity	**$ 165,365**	$ 166,884	$ 123,221
Comprehensive income			
Net income	**$ 11,728**	$ 5,605	$ 15,365
Other comprehensive income/(loss)	**5,596**	(4,770)	641
Comprehensive income	**$ 17,324**	$ 835	$ 16,006

The Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated statements of cash flows

Year ended December 31, (in millions)	**2009**	2008	2007
Operating activities			
Net income	**$ 11,728**	$ 5,605	$ 15,365
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for credit losses	**32,015**	20,979	6,864
Depreciation and amortization	**2,783**	3,143	2,427
Amortization of intangibles	**1,050**	1,263	1,394
Deferred tax (benefit) expense	**(3,622)**	(2,637)	1,307
Investment securities gains	**(1,110)**	(1,560)	(164)
Proceeds on sale of investment	**—**	(1,540)	—
Stock-based compensation	**3,355**	2,637	2,025
Originations and purchases of loans held-for-sale	**(22,417)**	(34,902)	(116,471)
Proceeds from sales, securitizations and paydowns of loans held-for-sale	**33,902**	38,036	107,350
Net change in:			
Trading assets	**133,488**	(12,787)	(121,240)
Securities borrowed	**4,452**	15,408	(10,496)
Accrued interest and accounts receivable	**(6,312)**	10,221	(1,932)
Other assets	**32,182**	(33,629)	(21,628)
Trading liabilities	**(79,314)**	24,061	12,681
Accounts payable and other liabilities	**(26,450)**	1,012	4,284
Other operating adjustments	**6,167**	(12,212)	7,674
Net cash provided by (used in) operating activities	**121,897**	23,098	(110,560)
Investing activities			
Net change in:			
Deposits with banks	**74,829**	(118,929)	2,081
Federal funds sold and securities purchased under resale agreements	**7,082**	(44,597)	(29,814)
Held-to-maturity securities:			
Proceeds	**9**	10	14
Available-for-sale securities:			
Proceeds from maturities	**87,712**	44,414	31,143
Proceeds from sales	**114,041**	96,806	98,450
Purchases	**(346,372)**	(248,599)	(122,507)
Proceeds from sales and securitizations of loans held-for-investment	**30,434**	27,531	34,925
Other changes in loans, net	**51,251**	(59,123)	(83,437)
Net cash received (used) in business acquisitions or dispositions	**(97)**	2,128	(70)
Proceeds from assets sale to the FRBNY	**—**	28,850	—
Net maturities (purchases) of asset-backed commercial paper guaranteed by the FRBB	**11,228**	(11,228)	—
All other investing activities, net	**(762)**	(934)	(4,973)
Net cash provided by (used in) investing activities	**29,355**	(283,671)	(74,188)
Financing activities			
Net change in:			
Deposits	**(107,700)**	177,331	113,512
Federal funds purchased and securities loaned or sold under repurchase agreements	**67,785**	15,250	(7,833)
Commercial paper and other borrowed funds	**(76,727)**	9,186	41,412
Beneficial interests issued by consolidated variable interest entities	**(7,275)**	(2,675)	1,070
Proceeds from issuance of long-term debt and trust preferred capital debt securities	**51,324**	72,407	95,141
Repayments of long-term debt and trust preferred capital debt securities	**(55,713)**	(62,691)	(49,410)
Proceeds from issuance of common stock	**5,756**	11,500	—
Excess tax benefits related to stock-based compensation	**17**	148	365
Proceeds from issuance of preferred stock and Warrant to the U.S. Treasury	**—**	25,000	—
Proceeds from issuance of preferred stock	**—**	7,746	—
Redemption of preferred stock issued to the U.S. Treasury	**(25,000)**	—	—
Repurchases of treasury stock	**—**	—	(8,178)
Dividends paid	**(3,422)**	(5,911)	(5,051)
All other financing activities, net	**(1,224)**	540	3,028
Net cash (used in) provided by financing activities	**(152,179)**	247,831	184,056
Effect of exchange rate changes on cash and due from banks	**238**	(507)	424
Net decrease in cash and due from banks	**(689)**	(13,249)	(268)
Cash and due from banks at the beginning of the year	**26,895**	40,144	40,412
Cash and due from banks at the end of the year	**$ 26,206**	$ 26,895	$ 40,144
Cash interest paid	**$ 16,875**	$ 37,267	$ 43,472
Cash income taxes paid	**5,434**	2,280	7,472

Note: In 2008, the fair values of noncash assets acquired and liabilities assumed in: (1) the merger with Bear Stearns were $288.2 billion and $287.7 billion, respectively (approximately 26 million shares of common stock valued at approximately $1.2 billion were issued in connection with the Bear Stearns merger); and (2) the Washington Mutual transaction were $260.3 billion and $260.1 billion, respectively.

The Notes to Consolidated Financial Statements are an integral part of these statements.

Note 1 – Basis of presentation

JPMorgan Chase & Co. ("JPMorgan Chase" or the "Firm"), a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States of America ("U.S."), with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing and asset management. For a discussion of the Firm's business segment information, see Note 34 on pages 245–247 of this Annual Report.

The accounting and financial reporting policies of JPMorgan Chase and its subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by bank regulatory authorities.

Certain amounts in prior periods have been reclassified to conform to the current presentation.

Consolidation

The Consolidated Financial Statements include the accounts of JPMorgan Chase and other entities in which the Firm has a controlling financial interest. All material intercompany balances and transactions have been eliminated.

The usual condition for a controlling financial interest is ownership of a majority of the voting interests of the entity. However, a controlling financial interest also may be deemed to exist with respect to entities, such as special purpose entities ("SPEs"), through arrangements that do not involve controlling voting interests.

SPEs are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks. For example, they are critical to the functioning of the mortgage- and asset-backed securities and commercial paper markets. SPEs may be organized as trusts, partnerships or corporations and are typically established for a single, discrete purpose. SPEs are not typically operating entities and usually have a limited life and no employees. The basic SPE structure involves a company selling assets to the SPE. The SPE funds the purchase of those assets by issuing securities to investors. The legal documents that govern the transaction specify how the cash earned on the assets must be allocated to the SPE's investors and other parties that have rights to those cash flows. SPEs are generally structured to insulate investors from claims on the SPE's assets by creditors of other entities, including the creditors of the seller of the assets.

There are two different accounting frameworks applicable to SPEs: the qualifying SPE ("QSPE") framework and the variable interest entity ("VIE") framework. The applicable framework depends on the nature of the entity and the Firm's relation to that entity. The QSPE framework is applicable when an entity transfers (sells) financial assets to an SPE meeting certain defined criteria. These criteria are designed to ensure that the activities of the entity are essentially predetermined at the inception of the vehicle and that the transferor of the financial assets cannot exercise control over the entity and the assets therein. Entities meeting these criteria are not consolidated by the transferor or other counterparties as long as they do not have the unilateral ability to liquidate or to cause the entity to no longer meet the QSPE criteria. The Firm primarily follows the QSPE model for securitizations of its residential and commercial mortgages, and credit card, automobile and student loans. For further details, see Note 15 on pages 206–213 of this Annual Report.

When an SPE does not meet the QSPE criteria, consolidation is assessed pursuant to the VIE framework. A VIE is defined as an entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional subordinated financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity's operations; and/or (3) has equity owners that do not have an obligation to absorb the entity's losses or the right to receive the entity's returns.

U.S. GAAP requires a variable interest holder (i.e., a counterparty to a VIE) to consolidate the VIE if that party will absorb a majority of the expected losses of the VIE, receive the majority of the expected residual returns of the VIE, or both. This party is considered the primary beneficiary. In making this determination, the Firm thoroughly evaluates the VIE's design, capital structure and relationships among the variable interest holders. When the primary beneficiary cannot be identified through a qualitative analysis, the Firm performs a quantitative analysis, which computes and allocates expected losses or residual returns to variable interest holders. The allocation of expected cash flows in this analysis is based on the relative rights and preferences of each variable interest holder in the VIE's capital structure. The Firm reconsiders whether it is the primary beneficiary of a VIE when certain events occur. For further details, see Note 16 on pages 214–222 of this Annual Report.

All retained interests and significant transactions between the Firm, QSPEs and nonconsolidated VIEs are reflected on JPMorgan Chase's Consolidated Balance Sheets and in the Notes to consolidated financial statements.

Investments in companies that are considered to be voting-interest entities in which the Firm has significant influence over operating and financing decisions are either accounted for in accordance with the equity method of accounting or at fair value if elected under fair value option. These investments are generally included in other assets, with income or loss included in other income.

Generally, Firm-sponsored asset management funds are considered voting entities as the funds do not meet the conditions to be VIEs. In instances where the Firm is the general partner or managing member of limited partnerships or limited liability companies, the non-affiliated partners or members have the substantive ability to remove the Firm as the general partner or managing member without cause (i.e., kick-out rights), based on a simple unaffiliated majority vote, or have substantive participating rights. Accordingly, the Firm does not consolidate these funds. In limited cases where the non-affiliated partners or members do not have substantive kick-outs or participating right, the Firm consolidates the funds.

Private equity investments, which are recorded in other assets on the Consolidated Balance Sheets, include investments in buyouts, growth equity and venture opportunities. These investments are accounted for under investment company guidelines. Accordingly, these investments, irrespective of the percentage of equity ownership interest held, are carried on the Consolidated Balance Sheets at fair value.

Assets held for clients in an agency or fiduciary capacity by the Firm are not assets of JPMorgan Chase and are not included in the Consolidated Balance Sheets.

Use of estimates in the preparation of consolidated financial statements

The preparation of Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expense, and disclosures of contingent assets and liabilities. Actual results could be different from these estimates.

Foreign currency translation

JPMorgan Chase revalues assets, liabilities, revenue and expense denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates.

Gains and losses relating to translating functional currency financial statements for U.S. reporting are included in other comprehensive income/(loss) within stockholders' equity. Gains and losses relating to nonfunctional currency transactions, including non-U.S. operations where the functional currency is the U.S. dollar, are reported in the Consolidated Statements of Income.

Statements of cash flows

For JPMorgan Chase's Consolidated Statements of Cash Flows, cash is defined as those amounts included in cash and due from banks.

Significant accounting policies

The following table identifies JPMorgan Chase's other significant accounting policies and the Note and page where a detailed description of each policy can be found.

Fair value measurement	Note 3	Page 156
Fair value option	Note 4	Page 173
Derivative instruments	Note 5	Page 175
Noninterest revenue	Note 6	Page 183
Pension and other postretirement employee benefit plans	Note 8	Page 184
Employee stock-based incentives	Note 9	Page 192
Noninterest expense	Note 10	Page 194
Securities	Note 11	Page 195
Securities financing activities	Note 12	Page 200
Loans	Note 13	Page 200
Allowance for credit losses	Note 14	Page 204
Loan securitizations	Note 15	Page 206
Variable interest entities	Note 16	Page 214
Goodwill and other intangible assets	Note 17	Page 222
Premises and equipment	Note 18	Page 226
Other borrowed funds	Note 20	Page 227
Accounts payable and other liabilities	Note 21	Page 227
Income taxes	Note 27	Page 234
Commitments and contingencies	Note 30	Page 238
Off–balance sheet lending-related financial instruments and guarantees	Note 31	Page 238

Note 2 – Business changes and developments

Decrease in Common Stock Dividend

On February 23, 2009, the Board of Directors reduced the Firm's quarterly common stock dividend from $0.38 to $0.05 per share, effective for the dividend payable April 30, 2009, to shareholders of record on April 6, 2009.

Acquisition of the banking operations of Washington Mutual Bank

On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual Bank ("Washington Mutual") from the Federal Deposit Insurance Corporation ("FDIC") for $1.9 billion. The acquisition expanded JPMorgan Chase's consumer branch network into several states, including California, Florida Washington, Georgia, Idaho, Nevada and Oregon and created the third largest branch network in the U.S. The acquisition also extends the reach of the Firm's business banking, commercial banking, credit card, consumer lending and wealth management businesses. The acquisition was accounted for under the purchase method of accounting, which requires that the assets and liabilities of Washington Mutual be initially reported at fair value.

In 2008, the $1.9 billion purchase price was preliminarily allocated to the Washington Mutual assets acquired and liabilities assumed, which resulted in negative goodwill. In accordance with U.S. GAAP for business combinations, that was in effect at the time of this acquisition, noncurrent nonfinancial assets that were not held-for-sale, such as the premises and equipment and other intangibles, acquired in the Washington Mutual transaction were written down against the negative goodwill. The negative goodwill that remained after writing down the nonfinancial assets was recognized as an extraordinary gain of $1.9 billion at December 31, 2008. The final total extraordinary gain that resulted from the Washington Mutual transaction was $2.0 billion.

The final summary computation of the purchase price and the allocation of the final total purchase price of $1.9 billion to the net assets acquired of Washington Mutual – based on their respective fair values as of September 25, 2008, and the resulting final negative goodwill of $2.0 billion are presented below.

(in millions)		
Purchase price		
Purchase price		$ 1,938
Direct acquisition costs		3
Total purchase price		1,941
Net assets acquired		
Washington Mutual's net assets before fair value adjustments	$ 39,186	
Washington Mutual's goodwill and other intangible assets	(7,566)	
Subtotal	31,620	
Adjustments to reflect assets acquired at fair value:		
Securities	(16)	
Trading assets	(591)	
Loans	(30,998)	
Allowance for loan losses	8,216	
Premises and equipment	680	
Accrued interest and accounts receivable	(243)	
Other assets	4,010	
Adjustments to reflect liabilities assumed at fair value:		
Deposits	(686)	
Other borrowed funds	68	
Accounts payable, accrued expense and other liabilities	(1,124)	
Long-term debt	1,063	
Fair value of net assets acquired		11,999
Negative goodwill before allocation to nonfinancial assets		(10,058)
Negative goodwill allocated to nonfinancial assets[(a)]		8,076
Negative goodwill resulting from the acquisition[(b)]		$ (1,982)

(a) The acquisition was accounted for as a purchase business combination, which requires the assets (including identifiable intangible assets) and liabilities (including executory contracts and other commitments) of an acquired business to be recorded at their respective fair values as of the effective date of the acquisition and consolidated with those of JPMorgan Chase. The fair value of the net assets of Washington Mutual's banking operations exceeded the $1.9 billion purchase price, resulting in negative goodwill. Noncurrent, nonfinancial assets not held-for-sale, such as premises and equipment and other intangibles, were written down against the negative goodwill. The negative goodwill that remained after writing down transaction-related core deposit intangibles of approximately $4.9 billion and premises and equipment of approximately $3.2 billion was recognized as an extraordinary gain of $2.0 billion.

(b) The extraordinary gain was recorded net of tax expense in Corporate/Private Equity.

Condensed statement of net assets acquired

The following condensed statement of net assets acquired reflects the final value assigned to the Washington Mutual net assets as of September 25, 2008.

(in millions)	September 25, 2008
Assets	
Cash and due from banks	**$ 3,680**
Deposits with banks	**3,517**
Federal funds sold and securities purchased under resale agreements	**1,700**
Trading assets	**5,691**
Securities	**17,224**
Loans (net of allowance for loan losses)	**206,456**
Accrued interest and accounts receivable	**3,253**
Mortgage servicing rights	**5,874**
All other assets	**16,596**
Total assets	**$ 263,991**
Liabilities	
Deposits	**$ 159,872**
Federal funds purchased and securities loaned or sold under repurchase agreements	**4,549**
Other borrowed funds	**81,636**
Trading liabilities	**585**
Accounts payable, accrued expense and other liabilities	**6,708**
Long-term debt	**6,718**
Total liabilities	**260,068**
Washington Mutual net assets acquired	**$ 3,923**

Merger with The Bear Stearns Companies Inc.

Effective May 30, 2008, BSC Merger Corporation, a wholly owned subsidiary of JPMorgan Chase, merged with The Bear Stearns Companies Inc. ("Bear Stearns") pursuant to the Agreement and Plan of Merger, dated as of March 16, 2008, as amended March 24, 2008, and Bear Stearns became a wholly owned subsidiary of JPMorgan Chase. The merger provided the Firm with a leading global prime brokerage platform; strengthened the Firm's equities and asset management businesses; enhanced capabilities in mortgage origination, securitization and servicing; and expanded the platform of the Firm's energy business. The merger was accounted for under the purchase method of accounting, which requires that the assets and liabilities of Bear Stearns be fair valued. The final total purchase price to complete the merger was $1.5 billion.

The merger with Bear Stearns was accomplished through a series of transactions that were reflected as step acquisitions. On April 8, 2008, pursuant to the share exchange agreement, JPMorgan Chase acquired 95 million newly issued shares of Bear Stearns common stock (or 39.5% of Bear Stearns common stock after giving effect to the issuance) for 21 million shares of JPMorgan Chase common stock. Further, between March 24, 2008, and May 12, 2008, JPMorgan Chase acquired approximately 24 million shares of Bear Stearns common stock in the open market at an average purchase price of $12.37 per share. The share exchange and cash purchase transactions resulted in JPMorgan Chase owning approximately 49.4% of Bear Stearns common stock immediately prior to consummation of the merger. Finally, on May 30, 2008, JPMorgan Chase completed the merger. As a result of the merger, each outstanding share of Bear Stearns common stock (other than shares then held by JPMorgan Chase) was converted into the right to receive 0.21753 shares of common stock of JPMorgan Chase. Also, on May 30, 2008, the shares of common stock that JPMorgan Chase and Bear Stearns acquired from each other in the share exchange transaction were cancelled. From April 8, 2008, through May 30, 2008, JPMorgan Chase accounted for the investment in Bear Stearns under the equity method of accounting. During this period, JPMorgan Chase recorded reductions to its investment in Bear Stearns representing its share of Bear Stearns net losses, which was recorded in other income and accumulated other comprehensive income.

In conjunction with the Bear Stearns merger, in June 2008, the Federal Reserve Bank of New York (the "FRBNY") took control, through a limited liability company ("LLC") formed for this purpose, of a portfolio of $30 billion in assets acquired from Bear Stearns, based on the value of the portfolio as of March 14, 2008. The assets of the LLC were funded by a $28.85 billion term loan from the FRBNY, and a $1.15 billion subordinated loan from JPMorgan Chase. The JPMorgan Chase note is subordinated to the FRBNY loan and will bear the first $1.15 billion of any losses of the portfolio. Any remaining assets in the portfolio after repayment of the FRBNY loan, the JPMorgan Chase note and the expense of the LLC will be for the account of the FRBNY.

As a result of step acquisition accounting, the final total purchase price of $1.5 billion was allocated to the Bear Stearns assets acquired and liabilities assumed using their fair values as of April 8, 2008, and May 30, 2008, respectively. The final summary computation of the purchase price and the allocation of the final total purchase price of $1.5 billion to the net assets acquired of Bear Stearns are presented below.

(in millions, except for shares (in thousands), per share amounts and where otherwise noted)		
Purchase price		
Shares exchanged in the Share Exchange transaction (April 8, 2008)	95,000	
Other Bear Stearns shares outstanding	145,759	
Total Bear Stearns stock outstanding	240,759	
Cancellation of shares issued in the Share Exchange transaction	(95,000)	
Cancellation of shares acquired by JPMorgan Chase for cash in the open market	(24,061)	
Bear Stearns common stock exchanged as of May 30, 2008	121,698	
Exchange ratio	0.21753	
JPMorgan Chase common stock issued	26,473	
Average purchase price per JPMorgan Chase common share[a]	$ 45.26	
Total fair value of JPMorgan Chase common stock issued		$ 1,198
Bear Stearns common stock acquired for cash in the open market (24 million shares at an average share price of $12.37 per share)		298
Fair value of employee stock awards (largely to be settled by shares held in the RSU Trust[b])		242
Direct acquisition costs		27
Less: Fair value of Bear Stearns common stock held in the RSU Trust and included in the exchange of common stock		(269)[b]
Total purchase price		1,496
Net assets acquired		
Bear Stearns common stockholders' equity	$ 6,052	
Adjustments to reflect assets acquired at fair value:		
Trading assets	(3,877)	
Premises and equipment	509	
Other assets	(288)	
Adjustments to reflect liabilities assumed at fair value:		
Long-term debt	504	
Other liabilities	(2,289)	
Fair value of net assets acquired excluding goodwill		611
Goodwill resulting from the merger[c]		$ 885

[a] The value of JPMorgan Chase common stock was determined by averaging the closing prices of JPMorgan Chase's common stock for the four trading days during the period March 19 through 25, 2008.

[b] Represents shares of Bear Stearns common stock held in an irrevocable grantor trust (the "RSU Trust"), to be used to settle stock awards granted to selected employees and certain key executives under certain heritage Bear Stearns employee stock plans. Shares in the RSU Trust were exchanged for 6 million shares of JPMorgan Chase common stock at the merger exchange ratio of 0.21753. For further discussion of the RSU Trust, see Note 9 on pages 192–194 of this Annual Report.

[c] The goodwill was recorded in Investment Bank ("IB") and is not tax-deductible.

Condensed statement of net assets acquired

The following condensed statement of net assets acquired reflects the final values assigned to the Bear Stearns net assets as of May 30, 2008.

(in millions)	May 30, 2008
Assets	
Cash and due from banks	**$ 534**
Federal funds sold and securities purchased under resale agreements	**21,204**
Securities borrowed	**55,195**
Trading assets	**136,489**
Loans	**4,407**
Accrued interest and accounts receivable	**34,677**
Goodwill	**885**
All other assets	**35,377**
Total assets	**$ 288,768**
Liabilities	
Federal funds purchased and securities loaned or sold under repurchase agreements	**$ 54,643**
Other borrowings	**16,166**
Trading liabilities	**24,267**
Beneficial interests issued by consolidated VIEs	**47,042**
Long-term debt	**67,015**
Accounts payable and other liabilities	**78,569**
Total liabilities	**287,702**
Bear Stearns net assets[a]	**$ 1,066**

[a] Reflects the fair value assigned to 49.4% of the Bear Stearns net assets acquired on April 8, 2008 (net of related amortization), and the fair value assigned to the remaining 50.6% of the Bear Stearns net assets acquired on May 30, 2008. The difference between the net assets acquired, as presented above, and the fair value of the net assets acquired (including goodwill), presented in the previous table, represents JPMorgan Chase's net losses recorded under the equity method of accounting.

Unaudited pro forma condensed combined financial information reflecting the Bear Stearns merger and Washington Mutual transaction

The following unaudited pro forma condensed combined financial information presents the 2008 and 2007 results of operations of the Firm as they may have appeared, if the Bear Stearns merger and the Washington Mutual transaction had been completed on January 1, 2008, and January 1, 2007.

Year ended December 31, (in millions, except per share data)	2008	2007
Total net revenue	$ 68,149	$ 92,052
Income/(loss) before extraordinary gain	(14,090)	17,733
Net income/(loss)	(12,184)	17,733
Net income per common share data:		
Basic earnings per share[(a)]		
Income/(loss) before extraordinary gain	$ (4.26)	$ 5.02
Net income/(loss)	(3.72)	5.02
Diluted earnings per share[(a)(b)]		
Income/(loss) before extraordinary gain	(4.26)	4.96
Net income/(loss)	(3.72)	4.96
Average common shares issued and outstanding		
Basic	3,510.5	3,429.6
Diluted	3,510.5	3,471.3

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

(b) Common equivalent shares have been excluded from the pro forma computation of diluted loss per share for the year ended December 31, 2008, as the effect would be antidilutive.

The unaudited pro forma combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined company had the companies actually been combined as of January 1, 2008, and as of January 1, 2007, nor is it indicative of the results of operations in future periods. Included in the unaudited pro forma combined financial information for the years ended December 31, 2008 and 2007, were pro forma adjustments to reflect the results of operations of Bear Stearns and Washington Mutual's banking operations, considering the purchase accounting, valuation and accounting conformity adjustments related to each transaction. For the Washington Mutual transaction, the amortization of purchase accounting adjustments to report interest-earning assets acquired and interest-bearing liabilities assumed at current interest rates is reflected for the years ended December 31, 2008 and 2007. Valuation adjustments and the adjustment to conform allowance methodologies in the Washington Mutual transaction, and valuation and accounting conformity adjustments related to the Bear Stearns merger are reflected in the results for the years ended December 31, 2008 and 2007.

Internal reorganization related to the Bear Stearns merger

On June 30, 2008, JPMorgan Chase fully and unconditionally guaranteed each series of outstanding preferred stock of Bear Stearns, as well as all of Bear Stearns' outstanding U.S. Securities and Exchange Commission ("SEC") registered U.S. debt securities and obligations relating to trust preferred capital debt securities. Subsequently, on July 15, 2008, JPMorgan Chase completed an internal merger transaction, which resulted in each series of outstanding preferred stock of Bear Stearns being automatically exchanged into newly-issued shares of JPMorgan Chase preferred stock having substantially identical terms. Depositary shares, which formerly had represented a one-fourth interest in a share of Bear Stearns preferred stock, continue to trade on the New York Stock Exchange but following completion of this internal merger transaction, represent a one-fourth interest in a share of JPMorgan Chase preferred stock. In addition, pursuant to internal transactions in July 2008 and the first quarter 2009, JPMorgan Chase assumed or guaranteed the remaining outstanding securities of Bear Stearns and its subsidiaries, in each case in accordance with the indentures and other agreements governing those securities.

Other business events

Purchase of remaining interest in J.P. Morgan Cazenove

On January 4, 2010, JPMorgan Chase purchased the remaining interest in J.P. Morgan Cazenove, an investment banking business partnership formed in 2005, which will result in an adjustment to the Firm's capital surplus.

Termination of Chase Paymentech Solutions joint venture

The dissolution of Chase Paymentech Solutions joint venture, a global payments and merchant acquiring joint venture between JPMorgan Chase and First Data Corporation, was completed on November 1, 2008. JPMorgan Chase retained approximately 51% of the business, which it operates under the name Chase Paymentech Solutions. The dissolution of the Chase Paymentech Solutions joint venture was accounted for as a step acquisition in accordance with U.S. GAAP for business combinations, and the Firm recognized an after-tax gain of $627 million in the fourth quarter of 2008 as a result of the dissolution. The gain represents the amount by which the fair value of the net assets acquired (predominantly intangible assets and goodwill) exceeded JPMorgan Chase's carrying value in the net assets transferred to First

Data Corporation. Upon dissolution, the Firm consolidated the retained Chase Paymentech Solutions business.

Proceeds from Visa Inc. shares

On March 19, 2008, Visa Inc. ("Visa") completed its initial public offering ("IPO"). Prior to the IPO, JPMorgan Chase held approximately a 13% equity interest in Visa. On March 28, 2008, Visa used a portion of the proceeds from the offering to redeem a portion of the Firm's equity interest, which resulted in the recognition of a pretax gain of $1.5 billion (recorded in other income). In conjunction with the IPO, Visa placed $3.0 billion in escrow to cover liabilities related to certain litigation matters. The escrow was increased by $1.1 billion in 2008 and by $700 million in 2009. JPMorgan Chase's interest in the escrow was recorded as a reduction of other expense and reported net to the extent of established litigation reserves.

Purchase of remaining interest in Highbridge Capital Management

In January 2008, JPMorgan Chase purchased an additional equity interest in Highbridge Capital Management, LLC ("Highbridge"), which resulted in the Firm owning 77.5% of Highbridge. In July 2009, JPMorgan Chase completed its purchase of the remaining interest in Highbridge, which resulted in a $228 million adjustment to capital surplus.

Subsequent events

The Firm has performed an evaluation of events that have occurred subsequent to December 31, 2009, and through February 24, 2010 (the date of the filing of this Annual Report). There have been no material subsequent events that occurred during such period that would require disclosure in this Annual Report, or would be required to be recognized in the Consolidated Financial Statements, as of or for the year ended December 31, 2009.

Note 3 – Fair value measurement

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

The Firm has an established and well-documented process for determining fair values. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on quoted market prices, where available. If listed prices or quotes are not available, fair value is based on internally developed models that primarily use, as inputs, market-based or independently sourced market parameters, including but not limited to yield curves, interest rates, volatilities, equity or debt prices, foreign exchange rates and credit curves. In addition to market information, models also incorporate transaction details, such as maturity of the instrument. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, the Firm's creditworthiness, constraints on liquidity and unobservable parameters. Valuation adjustments are applied consistently over time.

- Credit valuation adjustments ("CVA") are necessary when the market price (or parameter) is not indicative of the credit quality of the counterparty. As few classes of derivative contracts are listed on an exchange, the majority of derivative positions are valued using internally developed models that use as their basis observable market parameters. Market practice is to quote parameters equivalent to an "AA" credit rating whereby all counterparties are assumed to have the same credit quality. Therefore, an adjustment is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value. The adjustment also takes into account contractual factors designed to reduce the Firm's credit exposure to each counterparty, such as collateral and legal rights of offset.
- Debit valuation adjustments ("DVA") are necessary to reflect the credit quality of the Firm in the valuation of liabilities measured at fair value. The methodology to determine the adjustment is consistent with CVA and incorporates JPMorgan Chase's credit spread as observed through the credit default swap market.
- Liquidity valuation adjustments are necessary when the Firm may not be able to observe a recent market price for a financial instrument that trades in inactive (or less active) markets or to reflect the cost of exiting larger-than-normal market-size risk positions (liquidity adjustments are not taken for positions classified within level 1 of the fair value hierarchy). The Firm tries to ascertain the amount of uncertainty in the initial valuation based on the degree of liquidity in the market in which the financial instrument trades and makes liquidity adjustments to the carrying value of the financial instrument. The Firm measures the liquidity adjustment based on the following factors: (1) the amount of time since the last relevant pricing point; (2) whether there was an actual trade or relevant external quote; and (3) the volatility of the principal risk component of the financial instrument. Costs to exit larger-than-normal market-size risk positions are determined based on the size of the adverse market move that is likely to occur during the period required to bring a position down to a nonconcentrated level.
- Unobservable parameter valuation adjustments are necessary when positions are valued using internally developed models that use as their basis unobservable parameters – that is, parameters that must be estimated and are, therefore, subject to management judgment. These positions are normally traded less actively. Examples include certain credit products where parameters such as correlation and recovery rates are unobservable. Unobservable parameter valuation adjustments are applied to mitigate the possibility of error and revision in the estimate of the market price provided by the model.

The Firm has numerous controls in place intended to ensure that its fair valuations are appropriate. An independent model review group reviews the Firm's valuation models and approves them for use for specific products. All valuation models within the Firm are subject to this review process. A price verification group, independent from the risk-taking function, ensures observable market prices and market-based parameters are used for valuation wherever possible. For those products with material parameter risk for which observable market levels do not exist, an independent review of the assumptions made on pricing is performed. Additional review includes deconstruction of the model valuations for certain structured instruments into their components, and benchmarking valuations, where possible, to similar products; validating valuation estimates through actual cash settlement; and detailed review and explanation of recorded gains and losses, which are analyzed daily and over time. Valuation adjustments, which are also determined by the independent price verification group, are based on established policies and are applied consistently over time. Any changes to the valuation methodology are reviewed by management to confirm that the changes are justified. As markets and products develop and the pricing for certain products becomes more or less transparent, the Firm continues to refine its valuation methodologies. During 2009, no changes were made to the Firm's valuation models that had, or are expected to have, a material impact on the Firm's Consolidated Balance Sheets or results of operations.

The methods described above to estimate fair value may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Firm believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Valuation Hierarchy

A three-level valuation hierarchy has been established under U.S. GAAP for disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – one or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Following is a description of the valuation methodologies used by the Firm to measure instruments at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Assets

Securities purchased under resale agreements ("resale agreements") and securities borrowed

To estimate the fair value of resale agreements and securities borrowed transactions, cash flows are evaluated taking into consideration any derivative features of the resale agreement and are then discounted using the appropriate market rates for the applicable maturity. As the inputs into the valuation are primarily based on readily observable pricing information, such resale agreements are classified within level 2 of the valuation hierarchy.

Loans and unfunded lending-related commitments

The majority of the Firm's loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The fair value of such loans and lending-related commitments is included in the additional disclosures of fair value of certain financial instruments required by U.S. GAAP on pages 171–172 of this Note. Loans carried at fair value on a recurring and nonrecurring basis are included in the applicable tables that follow.

Wholesale

There is no liquid secondary market for most loans and lending-related commitments in the Firm's wholesale portfolio. In the limited circumstances where direct secondary market information, including pricing of actual market transactions, broker quotations or quoted market prices for similar instruments, is available (principally for loans in the Firm's secondary trading portfolio), such information is used in the determination of fair value. For the remainder of the portfolio, fair value is estimated using a discounted cash flow ("DCF") model. In addition to the characteristics of the underlying loans (including principal, customer rate and contractual fees), key inputs to the model include interest rates, prepayment rates, and credit spreads. The credit spread input is derived from the cost of credit default swaps ("CDS") and, as a result, also incorporates the effects of secondary market liquidity. As many of the Firm's clients do not have bonds traded with sufficient liquidity in the public markets to have observable CDS spreads, the Firm principally develops benchmark credit curves by industry and credit rating to estimate fair value. Additional adjustments to account for the difference in recovery rates between bonds, on which the cost of credit derivatives is based, and loans as well as loan equivalents (which represent the portion of an unused commitment expected, based on the Firm's average portfolio historical experience, to become outstanding prior to an obligor default) are also incorporated into the valuation process.

For a discussion of the valuation of mortgage loans carried at fair value, see the "Mortgage-related exposures carried at fair value" section of this Note on pages 169–170.

The Firm's loans carried at fair value are classified within level 2 or 3 of the valuation hierarchy depending on the level of liquidity and activity in the markets for a particular product.

Consumer
The only products in the Firm’s consumer loan portfolio with a meaningful level of secondary market activity in the current economic environment are certain conforming residential mortgages. These loans are classified as trading assets and carried at fair value on the Consolidated Balance Sheets. They are predominantly classified within level 2 of the valuation hierarchy based on the level of market liquidity and activity. For further discussion of the valuation of mortgage loans carried at fair value see the “Mortgage-related exposures carried at fair value” section on pages 169–170 of this Note.

The fair value of the Firm’s other consumer loans (except for credit card receivables) is generally determined by discounting the loan principal and interest cash flows expected to be collected at a market observable discount rate, when available. Portfolio-specific factors that a market participant would consider in determining fair value (e.g., expected lifetime credit losses, estimated prepayments, servicing costs and market liquidity) are either modeled into the cash flow projections or incorporated as an adjustment to the discount rate. For products that continue to be offered in the market, discount rates are derived from market-observable primary origination spreads. Where primary origination spreads are not available (i.e., subprime mortgages, subprime home equity and option adjustable-rate mortgages (“option ARMs”), the valuation is based on the Firm’s estimate of a market participant’s required return on equity for similar products (i.e., a hypothetical origination spread). Estimated lifetime credit losses consider expected and current default rates for existing portfolios, collateral prices (where applicable) and expectations about changes in the economic environment (e.g., unemployment rates).

The fair value of credit card receivables is determined using a discounted expected cash flow methodology. Key estimates and assumptions include: projected interest income and late fee revenue, funding, servicing, credit costs, and loan payment rates. The projected loan payment rates are used to determine the estimated life of the credit card loan receivables, which are then discounted using a risk-appropriate discount rate. The discount rate is derived from the Firm's estimate of a market participant's expected return on credit card receivables. As the credit card receivables have a short-term life, an amount equal to the allowance for credit losses is considered to be a reasonable proxy for the credit cost component.

Loans that are not carried on the Consolidated Balance Sheets at fair value are not classified within the fair value hierarchy.

Securities
Where quoted prices for identical securities are available in an active market, securities are classified in level 1 of the valuation hierarchy. Level 1 securities include highly liquid government bonds, mortgage products for which there are quoted prices in active markets such as U.S. government agency or U.S. government-sponsored enterprise (collectively, “U.S. government agencies”), pass-through mortgage-backed securities (“MBS”), and exchange-traded equities (e.g., common and preferred stocks).

If quoted market prices are not available for the specific security, the Firm may estimate the value of such instruments using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services. The Firm may also use pricing models or discounted cash flows. The majority of such instruments are classified within level 2 of the valuation hierarchy; however, in cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy.

For certain collateralized mortgage and debt obligations, asset-backed securities (“ABS”) and high-yield debt securities, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. For “cash” collateralized debt obligations (“CDOs”), external price information is not available. Therefore, cash CDOs are valued using market-standard models, such as Intex, to model the specific collateral composition and cash flow structure of each deal; key inputs to the model are market spread data for each credit rating, collateral type and other relevant contractual features. ABS are valued based on external prices or market spread data, using current market assumptions on prepayments and defaults. For those ABS where the external price data is not observable or the limited available data is opaque, the collateral performance is monitored and the value of the security is assessed. To benchmark its valuations, the Firm looks to transactions for similar instruments and utilizes independent prices provided by third-party vendors, broker quotes and relevant market indices, such as the ABX index, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of the Firm’s estimates. The majority of collateralized mortgage and debt obligations, high-yield debt securities and ABS are currently classified in level 3 of the valuation hierarchy. For further discussion of the valuation of mortgage securities carried at fair value see the “Mortgage-related exposures carried at fair value” section of this Note on pages 169–170.

Commodities
Commodities inventory are carried at the lower of cost or fair value. The fair value of commodities inventory is determined primarily using pricing and data derived from the markets on which the underlying commodities are traded. The majority of commodities inventory is classified within level 1 of the valuation hierarchy.

The Firm also has positions in commodities-based derivatives that can be traded on an exchange or over-the-counter ("OTC") and carried at fair value. The pricing inputs to these derivatives include forward curves of underlying commodities, basis curves, volatilities, correlations, and occasionally other model parameters. The valuation of these derivatives is based on calibrating to market transactions, as well as to independent pricing information from sources such as brokers and dealer consensus pricing services. Where inputs are unobservable, they are benchmarked to observable market data based on historic and implied correlations, then adjusted for uncertainty where appropriate. The majority of commodities-based derivatives are classified within level 2 of the valuation hierarchy.

Derivatives

Exchange-traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; thus, the majority of the Firm's derivative positions are valued using internally developed models that use as their basis readily observable market parameters – that is, parameters that are actively quoted and can be validated to external sources, including industry pricing services. Depending on the types and contractual terms of derivatives, fair value can be modeled using a series of techniques, such as the Black-Scholes option pricing model, simulation models or a combination of various models, which are consistently applied. Where derivative products have been established for some time, the Firm uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Further, many of these models do not contain a high level of subjectivity, as the methodologies used in the models do not require significant judgment, and inputs to the models are readily observable from actively quoted markets, as is the case for "plain vanilla" interest rate swaps, option contracts and CDS. Such instruments are generally classified within level 2 of the valuation hierarchy.

Derivatives that are valued based on models with significant unobservable market parameters and that are normally traded less actively, have trade activity that is one way, and/or are traded in less-developed markets are classified within level 3 of the valuation hierarchy. Level 3 derivatives include, for example, CDS referenced to certain MBS, certain types of CDO transactions, options on baskets of single-name stocks, and callable exotic interest rate options.

Other complex products, such as those sensitive to correlation between two or more underlying parameters, also fall within level 3 of the valuation hierarchy. Such instruments include complex credit derivative products which are illiquid and non-standard in nature, including CDOs and CDO-squared. A CDO is a debt instrument collateralized by a variety of debt obligations, including CDS, bonds and loans of different maturities and credit qualities. The repackaging of such securities and loans within a CDO results in the creation of tranches, which are instruments with different risk profiles. In a CDO-squared transaction, the instrument is a CDO where the underlying debt instruments are also CDOs. For most CDO and CDO-squared transactions, while inputs such as CDS spreads and recovery rates may be observable, the correlation between the underlying debt instruments is unobservable. The correlation levels are not only modeled on a portfolio basis but are also calibrated at a transaction level to liquid benchmark tranches. For all complex credit derivative products, actual transactions, where available, are used to regularly recalibrate all unobservable parameters.

Correlation sensitivity is also material to the overall valuation of options on baskets of single-name stocks; the valuation of these baskets is typically not observable due to their non-standardized structuring. Correlation for products such as these is typically estimated based on an observable basket of stocks and then adjusted to reflect the differences between the underlying equities.

For callable exotic interest rate options, while most of the assumptions in the valuation can be observed in active markets (e.g. interest rates and volatility), the callable option transaction flow is essentially one-way, and as such, price observability is limited. As pricing information is limited, assumptions are based on the dynamics of the underlying markets (e.g., the interest rate markets) including the range and possible outcomes of the applicable inputs. In addition, the models used are calibrated, as relevant, to liquid benchmarks, and valuation is tested against monthly independent pricing services and actual transactions.

Mortgage servicing rights and certain retained interests in securitizations

Mortgage servicing rights ("MSRs") and certain retained interests from securitization activities do not trade in an active, open market with readily observable prices. Accordingly, the Firm estimates the fair value of MSRs and certain other retained interests in securitizations using DCF models.

- For MSRs, the Firm uses an option-adjusted spread ("OAS") valuation model in conjunction with the Firm's proprietary prepayment model to project MSR cash flows over multiple interest rate scenarios, which are then discounted at risk-adjusted rates to estimate the fair value of the MSRs. The OAS model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The Firm reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. Due to the nature of the valuation inputs, MSRs are classified within level 3 of the valuation hierarchy.
- For certain retained interests in securitizations, the Firm estimates the fair value for those retained interests by calculating the present value of future expected cash flows using modeling techniques. Such models incorporate management's best estimates of key variables, such as expected credit losses, prepayment speeds and the discount rates appropriate for the risks involved. Changes in the assumptions used may have a significant impact on the Firm's valuation of retained interests,

and such interests are therefore typically classified within level 3 of the valuation hierarchy.

For both MSRs and certain other retained interests in securitizations, the Firm compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience. For further discussion of the most significant assumptions used to value retained interests and MSRs, as well as the applicable stress tests for those assumptions, see Note 17 on pages 222–225 of this Annual Report.

Private equity investments

The valuation of nonpublic private equity investments, which are held primarily by the Private Equity business within the Corporate/Private Equity line of business, requires significant management judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. As such, private equity investments are valued initially based on cost. Each quarter, valuations are reviewed utilizing available and relevant market data to determine if the carrying value of these investments should be adjusted. Such market data primarily include observations of the trading multiples of public companies considered comparable to the private companies being valued and the operating performance of the underlying portfolio company, including its historical and projected net income and earnings before interest, taxes, depreciation and amortization ("EBITDA"). Valuations are adjusted to account for company-specific issues, the lack of liquidity inherent in a nonpublic investment and the fact that comparable public companies are not identical to the companies being valued. In addition, a variety of additional factors are reviewed by management, including, but not limited to, financing and sales transactions with third parties, future expectations of the particular investment, changes in market outlook and the third-party financing environment. Nonpublic private equity investments are included in level 3 of the valuation hierarchy.

Private equity investments also include publicly held equity investments, generally obtained through the initial public offering of privately held equity investments. Publicly held investments in liquid markets are marked to market at the quoted public value less adjustments for regulatory or contractual sales restrictions. Discounts for restrictions are quantified by analyzing the length of the restriction period and the volatility of the equity security. Publicly held investments are largely classified in level 2 of the valuation hierarchy.

Other fund investments

The Firm holds investments in mutual/collective investment funds, private equity funds, hedge funds and real estate funds. Where the funds produce a daily net asset value ("NAV") that is validated by a sufficient level of observable activity (purchases and sales at NAV), the NAV is used to value the fund investment and it is classified in level 1 of the valuation hierarchy. Where adjustments to the NAV are required, for example, with respect to interests in funds subject to restrictions on redemption (such as lock-up periods or withdrawal limitations) and/or observable activity for the fund investment is limited, investments are classified within level 2 or 3 of the valuation hierarchy.

Liabilities

Securities sold under repurchase agreements ("repurchase agreements")

To estimate the fair value of repurchase agreements, cash flows are evaluated taking into consideration any derivative features of the repurchase agreements and are then discounted using the appropriate market rates for the applicable maturity. Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to, or in excess of, the principal amount loaned; as a result, there would be no adjustment, or an immaterial adjustment, to reflect the credit quality of the Firm (i.e., DVA) related to these agreements. As the inputs into the valuation are primarily based on observable pricing information, repurchase agreements are classified within level 2 of the valuation hierarchy.

Beneficial interests issued by consolidated VIEs

The fair value of beneficial interests issued by consolidated VIEs ("beneficial interests") is estimated based on the fair value of the underlying assets held by the VIEs. The valuation of beneficial interests does not include an adjustment to reflect the credit quality of the Firm, as the holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. Where the inputs into the valuation are based on observable market pricing information, the beneficial interests are classified within level 2 of the valuation hierarchy. Where significant inputs into the valuation are unobservable, the beneficial interests are classified within level 3 of the valuation hierarchy.

Deposits, other borrowed funds and long-term debt

Included within deposits, other borrowed funds and long-term debt are structured notes issued by the Firm that are financial instruments containing embedded derivatives. To estimate the fair value of structured notes, cash flows are evaluated taking into consideration any derivative features and are then discounted using the appropriate market rates for the applicable maturities. In addition, the valuation of structured notes includes an adjustment to reflect the credit quality of the Firm (i.e., the DVA). Where the inputs into the valuation are primarily based on observable market prices, the structured notes are classified within level 2 of the valuation hierarchy. Where significant inputs are unobservable, the structured notes are classified within level 3 of the valuation hierarchy.

The following tables present financial instruments measured at fair value as of December 31, 2009 and 2008, by major product category on the Consolidated Balance Sheets and by the fair value hierarchy (as described above).

Assets and liabilities measured at fair value on a recurring basis

	Fair value hierarchy				
December 31, 2009 (in millions)	Level 1	Level 2	Level 3	Netting adjustments	Total fair value
Federal funds sold and securities purchased under resale agreements	$ —	$ 20,536	$ —	$ —	$ 20,536
Securities borrowed	—	7,032	—	—	7,032
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. government agencies[a]	33,092	8,373	260	—	41,725
Residential – nonagency[b]	—	2,284	1,115	—	3,399
Commercial – nonagency[b]	—	537	1,770	—	2,307
Total mortgage-backed securities	33,092	11,194	3,145	—	47,431
U.S. Treasury and government agencies[a]	23,033	227	—	—	23,260
Obligations of U.S. states and municipalities	—	5,681	1,971	—	7,652
Certificates of deposit, bankers' acceptances and commercial paper	—	5,419	—	—	5,419
Non-U.S. government debt securities	25,684	32,487	734	—	58,905
Corporate debt securities	—	48,754	5,241	—	53,995
Loans[c]	—	18,330	13,218	—	31,548
Asset-backed securities	—	1,428	7,975	—	9,403
Total debt instruments	81,809	123,520	32,284	—	237,613
Equity securities	75,053	3,450	1,956	—	80,459
Physical commodities[d]	9,450	586	—	—	10,036
Other	—	1,884	926	—	2,810
Total debt and equity instruments	166,312	129,440	35,166	—	330,918
Derivative receivables[e]	2,344	1,516,490	46,684	(1,485,308)	80,210
Total trading assets	168,656	1,645,930	81,850	(1,485,308)	411,128
Available-for-sale securities:					
Mortgage-backed securities:					
U.S. government agencies[a]	158,957	8,941	—	—	167,898
Residential – nonagency[b]	—	14,773	25	—	14,798
Commercial – nonagency[b]	—	4,590	—	—	4,590
Total mortgage-backed securities	158,957	28,304	25	—	187,286
U.S. Treasury and government agencies[a]	405	29,592	—	—	29,997
Obligations of U.S. states and municipalities	—	6,188	349	—	6,537
Certificates of deposit	—	2,650	—	—	2,650
Non-U.S. government debt securities	5,506	18,997	—	—	24,503
Corporate debt securities	1	62,007	—	—	62,008
Asset-backed securities:					
Credit card receivables	—	25,742	—	—	25,742
Collateralized debt and loan obligations	—	5	12,144	—	12,149
Other	—	6,206	588	—	6,794
Equity securities	2,466	146	87	—	2,699
Total available-for-sale securities	167,335	179,837	13,193	—	360,365
Loans	—	374	990	—	1,364
Mortgage servicing rights	—	—	15,531	—	15,531
Other assets:					
Private equity investments[f]	165	597	6,563	—	7,325
All other[g]	7,241	90	9,521	—	16,852
Total other assets	7,406	687	16,084	—	24,177
Total assets measured at fair value on a recurring basis[h]	$ 343,397	$ 1,854,396	$ 127,648	$ (1,485,308)	$ 840,133
Less: Level 3 assets for which the Firm does not bear economic exposure[i]			2,118		
Total recurring level 3 assets for which the Firm bears economic exposure			$ 125,530		

	Fair value hierarchy				
December 31, 2009 (in millions)	Level 1	Level 2	Level 3	Netting adjustments	Total fair value
Deposits	$ —	$ 3,979	$ 476	$ —	$ 4,455
Federal funds purchased and securities loaned or sold under repurchase agreements	—	3,396	—	—	3,396
Other borrowed funds	—	5,095	542	—	5,637
Trading liabilities:					
Debt and equity instruments	54,077	10,859	10	—	64,946
Derivative payables[e]	2,038	1,481,813	35,332	(1,459,058)	60,125
Total trading liabilities	56,115	1,492,672	35,342	(1,459,058)	125,071
Accounts payable and other liabilities	—	2	355	—	357
Beneficial interests issued by consolidated VIEs	—	785	625	—	1,410
Long-term debt	—	30,685	18,287	—	48,972
Total liabilities measured at fair value on a recurring basis	$ 56,115	$ 1,536,614	$ 55,627	$ (1,459,058)	$ 189,298

	Fair value hierarchy				
December 31, 2008 (in millions)	Level 1	Level 2	Level 3	Netting adjustments	Total fair value
Federal funds sold and securities purchased under resale agreements	$ —	$ 20,843	$ —	$ —	$ 20,843
Securities borrowed	—	3,381	—	—	3,381
Trading assets:					
Debt instruments:					
Mortgage-backed securities:					
U.S. government agencies[a]	48,761	9,984	163	—	58,908
Residential – nonagency[b]	—	658	3,339	—	3,997
Commercial – nonagency[b]	—	329	2,487	—	2,816
Total mortgage-backed securities	48,761	10,971	5,989	—	65,721
U.S. Treasury and government agencies[a]	29,646	1,659	—	—	31,305
Obligations of U.S. states and municipalities	—	10,361	2,641	—	13,002
Certificates of deposit, bankers' acceptances and commercial paper	1,180	6,312	—	—	7,492
Non-U.S. government debt securities	19,986	17,954	707	—	38,647
Corporate debt securities	1	55,042	5,280	—	60,323
Loans[c]	—	14,711	17,091	—	31,802
Asset-backed securities	—	2,414	7,106	—	9,520
Total debt instruments	99,574	119,424	38,814	—	257,812
Equity securities	73,174	3,992	1,380	—	78,546
Physical commodities[d]	3,455	126	—	—	3,581
Other	4	6,188	1,226	—	7,418
Total debt and equity instruments	176,207	129,730	41,420	—	347,357
Derivative receivables[e]	3,630	2,685,101	52,991	(2,579,096)	162,626
Total trading assets	179,837	2,814,831	94,411	(2,579,096)	509,983
Available-for-sale securities :					
Mortgage-backed securities:					
U.S. government agencies[a]	109,009	8,376	—	—	117,385
Residential – nonagency[b]	—	9,115	49	—	9,164
Commercial – nonagency[b]	—	3,939	—	—	3,939
Total mortgage-backed securities	109,009	21,430	49	—	130,488
U.S. Treasury and government agencies[a]	615	9,742	—	—	10,357
Obligations of U.S. states and municipalities	34	2,463	838	—	3,335
Certificates of deposit	—	17,282	—	—	17,282
Non-U.S. government debt securities	6,112	2,232	—	—	8,344
Corporate debt securities	—	9,497	57	—	9,554
Asset-backed securities:					
Credit card receivables	—	11,391	—	—	11,391
Collateralized debt and loan obligations	—	—	11,195	—	11,195
Other	—	643	252	—	895
Equity securities	3,053	15	—	—	3,068
Total available-for-sale securities	118,823	74,695	12,391	—	205,909
Loans	—	5,029	2,667	—	7,696
Mortgage servicing rights	—	—	9,403	—	9,403
Other assets:					
Private equity investments[f]	151	332	6,369	—	6,852
All other[g]	5,977	11,355	8,114	—	25,446
Total other assets	6,128	11,687	14,483	—	32,298
Total assets measured at fair value on a recurring basis	$ 304,788	$ 2,930,466	$ 133,355	$ (2,579,096)	$ 789,513
Less: Level 3 assets for which the Firm does not bear economic exposure[i]			21,169		
Total recurring level 3 assets for which the Firm bears economic exposure			$ 112,186		

	Fair value hierarchy				
December 31, 2008 (in millions)	Level 1	Level 2	Level 3	Netting adjustments	Total fair value
Deposits	$ —	$ 4,370	$ 1,235	$ —	$ 5,605
Federal funds purchased and securities loaned or sold under repurchase agreements	—	2,993	—	—	2,993
Other borrowed funds	—	14,612	101	—	14,713
Trading liabilities:					
Debt and equity instruments	34,568	10,418	288	—	45,274
Derivative payables[e]	3,630	2,622,371	43,484	(2,547,881)	121,604
Total trading liabilities	38,198	2,632,789	43,772	(2,547,881)	166,878
Accounts payable and other liabilities	—	—	—	—	—
Beneficial interests issued by consolidated VIEs	—	1,735	—	—	1,735
Long-term debt	—	41,666	16,548	—	58,214
Total liabilities measured at fair value on a recurring basis	$ 38,198	$ 2,698,165	$ 61,656	$ (2,547,881)	$ 250,138

(a) Includes total U.S. government-sponsored enterprise obligations of $195.8 billion and $182.1 billion at December 31, 2009 and 2008, respectively, which were predominantly mortgage-related.

(b) For further discussion of residential and commercial MBS, see the "Mortgage-related exposure carried at fair value" section of this Note on pages 169–170.

(c) Included within trading loans at December 31, 2009 and 2008, respectively, are $15.7 billion and $12.1 billion of residential first-lien mortgages and $2.7 billion and $4.3 billion of commercial first-lien mortgages. For further discussion of residential and commercial loans carried at fair value or the lower of cost or fair value, see the "Mortgage-related exposure carried at fair value" section of this Note on pages 169–170.

(d) Physical commodities inventories are accounted for at the lower of cost or fair value.

(e) As permitted under U.S. GAAP, the Firm has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. For purposes of the tables above, the Firm does not reduce derivative receivables and derivative payables balances for this netting adjustment, either within or across the levels of the fair value hierarchy, as such netting is not relevant to a presentation based on the transparency of inputs to the valuation of an asset or liability. Therefore, the balances reported in the fair value hierarchy table are gross of any counterparty netting adjustments. However, if the Firm were to net such balances, the reduction in the level 3 derivative receivable and derivative payable balances would be $16.0 billion at December 31, 2009.

(f) Private equity instruments represent investments within the Corporate/Private Equity line of business. The cost basis of the private equity investment portfolio was $8.8 billion and $8.3 billion at December 31, 2009 and 2008, respectively.

(g) Includes assets within accrued interest receivable and other assets at December 31, 2009 and 2008.

(h) Balances include investments valued at NAV at December 31, 2009, of $16.8 billion, of which $9.0 billion is classified in level 1, $3.2 billion in level 2 and $4.6 billion in level 3.

(i) Includes assets for which the Firm serves as an intermediary between two parties and does not bear market risk. The assets are predominantly reflected within derivative receivables.

Changes in level 3 recurring fair value measurements

The following tables include a rollforward of the activity for financial instruments classified by the Firm within level 3 of the fair value hierarchy for the years ended December 31, 2009, 2008 and 2007 (including changes in fair value). Level 3 financial instruments typically include, in addition to the unobservable or level 3 components, observable components (that is, components that are actively quoted and can be validated to external sources); accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the valuation methodology. Also, the Firm risk manages the observable components of level 3 financial instruments using securities and derivative positions that are classified within level 1 or 2 of the fair value hierarchy; as these level 1 and level 2 risk management instruments are not included below, the gains or losses in the following tables do not reflect the effect of the Firm's risk management activities related to such level 3 instruments.

	Fair value measurements using significant unobservable inputs					
Year ended December 31, 2009 (in millions)	Fair value, January 1, 2009	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3[g]	Fair value, December 31, 2009	Change in unrealized gains/(losses) related to financial instruments held at December 31, 2009
Assets:						
Trading assets:						
Debt instruments:						
Mortgage-backed securities:						
U.S. government agencies	$ 163	$ (38)	$ 62	$ 73	$ 260	$ (38)
Residential – nonagency[a]	3,339	(782)	(245)	(1,197)	1,115	(871)
Commercial – nonagency[a]	2,487	(242)	(325)	(150)	1,770	(313)
Total mortgage-backed securities	5,989	(1,062)	(508)	(1,274)	3,145	(1,222)
Obligations of U.S. states and municipalities	2,641	(22)	(648)	—	1,971	(123)
Non-U.S. government debt securities	707	38	(75)	64	734	34
Corporate debt securities	5,280	38	(3,416)	3,339	5,241	(72)
Loans	17,091	(871)	(3,497)	495	13,218	(1,167)
Asset-backed securities	7,106	1,436	(378)	(189)	7,975	734
Total debt instruments	38,814	(443)	(8,522)	2,435	32,284	(1,816)
Equity securities	1,380	(149)	(512)	1,237	1,956	(51)
Other	1,226	(79)	(253)	32	926	(119)
Total debt and equity instruments	41,420	(671)[c]	(9,287)	3,704	35,166	(1,986)[c]
Net derivative receivables	9,507	(11,406)[c]	(3,448)	16,699	11,352	(10,835)[c]
Available-for-sale securities:						
Asset-backed securities	11,447	(2)	1,112	175	12,732	(48)
Other	944	(269)	302	(516)	461	43
Total available-for-sale securities	12,391	(271)[d]	1,414	(341)	13,193	(5)[d]
Loans	2,667	(448)[c]	(1,906)	677	990	(488)[c]
Mortgage servicing rights	9,403	5,807[e]	321	—	15,531	5,807[e]
Other assets:						
Private equity investments	6,369	(407)[c]	582	19	6,563	(369)[c]
All other[b]	8,114	(676)[f]	2,439	(356)	9,521	(612)[f]

	Fair value measurements using significant unobservable inputs					
Year ended December 31, 2009 (in millions)	Fair value, January 1, 2009	Total realized/ unrealized (gains)/losses	Purchases, issuances settlements, net	Transfers into and/or out of level 3[g]	Fair value, December 31, 2009	Change in unrealized (gains)/losses related to financial instruments held at December 31, 2009
Liabilities[h]:						
Deposits	$ 1,235	$ 47[c]	$ (870)	$ 64	$ 476	$ (36)[c]
Other borrowed funds	101	(73)[c]	621	(107)	542	9[c]
Trading liabilities:						
Debt and equity instruments	288	64[c]	(339)	(3)	10	12[c]
Accounts payable and other liabilities	—	(55)[c]	410	—	355	(29)[c]
Beneficial interests issued by consolidated VIEs	—	344[c]	(598)	879	625	327[c]
Long-term debt	16,548	1,367[c]	(2,738)	3,110	18,287	1,728[c]

	Fair value measurements using significant unobservable inputs					
Year ended December 31, 2008 (in millions)	Fair value, January 1, 2008	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3[g]	Fair value, December 31, 2008	Change in unrealized gains/(losses) related to financial instruments held at December 31, 2008
Assets:						
Trading assets:						
Debt and equity instruments	$ 24,066	$ (12,805)[c]	$ 6,201	$ 23,958	$ 41,420	$ (9,860)[c]
Net derivative receivables	633	4,556[c]	2,290	2,028	9,507	1,814[c]
Available-for-sale securities	101	(1,232)[d]	3,772	9,750	12,391	(422)[d]
Loans	8,380	(1,547)[c]	12	(4,178)	2,667	(1,324)[c]
Mortgage servicing rights	8,632	(6,933)[e]	7,704	—	9,403	(6,933)[e]
Other assets:						
Private equity investments	6,763	(638)[c]	320	(76)	6,369	(1,089)[c]
All other[b]	5,978	(940)[f]	2,787	289	8,114	(753)[f]

	Fair value measurements using significant unobservable inputs					
Year ended December 31, 2008 (in millions)	Fair value, January 1, 2008	Total realized/ unrealized (gains)/losses	Purchases, issuances settlements, net	Transfers into and/or out of level 3[g]	Fair value, December 31, 2008	Change in unrealized (gains)/losses related to financial instruments held at December 31, 2008
Liabilities[h]:						
Deposits	$ 1,161	$ (57)[c]	$ 79	$ 52	$ 1,235	$ (69)[c]
Other borrowed funds	105	(7)[c]	53	(50)	101	(24)[c]
Trading liabilities:						
Debt and equity instruments	480	(73)[c]	(33)	(86)	288	(125)[c]
Accounts payable and other liabilities	25	(25)[c]	—	—	—	—
Beneficial interests issued by consolidated VIEs	82	(24)[c]	(603)	545	—	—
Long-term debt	21,938	(4,502)[c]	(1,717)	829	16,548	(3,682)[c]

	Fair value measurements using significant unobservable inputs					
Year ended December 31, 2007 (in millions)	Fair value, January 1, 2007	Total realized/ unrealized gains/(losses)	Purchases, issuances settlements, net	Transfers into and/or out of level 3	Fair value, December 31, 2007	Change in unrealized gains/(losses) related to financial instruments held at December 31, 2007
Assets:						
Trading assets:						
Debt and equity instruments	$ 9,320	$ (916)[c]	$ 5,902	$ 9,760	$ 24,066	$ (912)[c]
Net derivative receivables	(2,800)	1,674[c]	257	1,502	633	1,979[c]
Available-for-sale securities	177	38[d]	(21)	(93)	101	(5)[d]
Loans	643	(346)[c]	8,013	70	8,380	(36)[c]
Mortgage servicing rights	7,546	(516)[e]	1,602	—	8,632	(516)[e]
Other assets:						
Private equity investments	5,493	4,051[c]	(2,764)	(17)	6,763	1,711[c]
All other[b]	4,274	35[f]	1,196	473	5,978	(21)[f]

	Fair value measurements using significant unobservable inputs					
Year ended December 31, 2007 (in millions)	Fair value, January 1, 2007	Total realized/ unrealized (gains)/losses	Purchases, issuances settlements, net	Transfers into and/or out of level 3	Fair value, December 31, 2007	Change in unrealized (gains)/losses related to financial instruments held at December 31, 2007
Liabilities[h]:						
Deposits	$ 385	$ 42[c]	$ 667	$ 67	$ 1,161	$ 38[c]
Other borrowed funds	—	67[c]	34	4	105	135[c]
Trading liabilities:						
Debt and equity instruments	32	(383)[c]	125	706	480	734[c]
Accounts payable and other liabilities	—	460[c]	(435)	—	25	25[c]
Beneficial interests issued by consolidated VIEs	8	(6)[c]	(1)	81	82	—
Long-term debt	11,386	1,142[c]	6,633	2,777	21,938	468[c]

(a) For further discussion of residential and commercial MBS, see the "Mortgage-related exposures carried at fair value" section of this Note on pages 169–170.
(b) Includes assets within accrued interest receivable and other assets at December 31, 2009, 2008 and 2007.
(c) Reported in principal transactions revenue, except for changes in fair value for Retail Financial Services ("RFS") mortgage loans originated with the intent to sell, which are reported in mortgage fees and related income.
(d) Realized gains and losses on available-for-sale securities, as well as other-than-temporary impairment losses that are recorded in earnings, are reported in securities gains. Unrealized gains and losses are reported in other comprehensive income.
(e) Changes in fair value for RFS mortgage servicing rights are measured at fair value and reported in mortgage fees and related income.
(f) Predominantly reported in other income.
(g) Beginning January 1, 2008, all transfers into and/or out of level 3 are assumed to occur at the beginning of the reporting period.
(h) Level 3 liabilities as a percentage of total Firm liabilities accounted for at fair value (including liabilities carried at fair value on a nonrecurring basis) were 29%, 25% and 17% at December 31, 2009, 2008 and 2007, respectively.

Assets and liabilities measured at fair value on a nonrecurring basis

Certain assets, liabilities and unfunded lending-related commitments are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The following tables present the financial instruments carried on the Consolidated Balance Sheets by caption and level within the valuation hierarchy (as described above) as of December 31, 2009 and 2008, for which a nonrecurring change in fair value has been recorded during the reporting period.

	Fair value hierarchy			
December 31, 2009 (in millions)	Level 1	Level 2	Level 3	Total fair value
Loans retained[a]	$ —	**$ 4,544**	**$ 1,137**	**$ 5,681**
Loans held-for-sale[b]	—	**601**	**1,029**	**1,630**
Total loans	—	**5,145**	**2,166**	**7,311**
Other real estate owned	—	**307**	**387**	**694**
Other assets	—	**—**	**184**	**184**
Total other assets	—	**307**	**571**	**878**
Total assets at fair value on a nonrecurring basis	**$ —**	**$ 5,452**	**$ 2,737**	**$ 8,189**
Accounts payable and other liabilities[c]	**$ —**	**$ 87**	**$ 39**	**$ 126**
Total liabilities at fair value on a nonrecurring basis	**$ —**	**$ 87**	**$ 39**	**$ 126**

	Fair value hierarchy			
December 31, 2008 (in millions)	Level 1	Level 2	Level 3	Total fair value
Loans retained[a]	$ —	$ 2,344	$ 345	$ 2,689
Loans held-for-sale[b]	—	2,647	3,654	6,301
Total loans	—	4,991	3,999	8,990
Other real estate owned	—	706	103	809
Other assets	—	1,057	188	1,245
Total other assets	—	1,763	291	2,054
Total assets at fair value on a nonrecurring basis	$ —	$ 6,754	$ 4,290	$ 11,044
Accounts payable and other liabilities[c]	$ —	$ 212	$ 98	$ 310
Total liabilities at fair value on a nonrecurring basis	$ —	$ 212	$ 98	$ 310

(a) Reflects delinquent mortgage and home equity loans where the carrying value is based on the fair value of the underlying collateral.
(b) Predominantly includes leveraged lending loans carried on the Consolidated Balance Sheets at the lower of cost or fair value.
(c) Represents, at December 31, 2009 and 2008, the fair value adjustment associated with $648 million and $1.5 billion, respectively, of unfunded held-for-sale lending-related commitments within the leveraged lending portfolio.

Nonrecurring fair value changes

The following table presents the total change in value of financial instruments for which a fair value adjustment has been included in the Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007, related to financial instruments held at these dates.

Year ended December 31, (in millions)	**2009**	2008	2007
Loans retained	**$ (3,550)**	$ (1,159)	$ (218)
Loans held-for-sale	**(389)**	(2,728)	(502)
Total loans	**(3,939)**	(3,887)	(720)
Other assets	**(104)**	(685)	(161)
Accounts payable and other liabilities	**31**	(285)	2
Total nonrecurring fair value gains/(losses)	**$ (4,012)**	$ (4,857)	$ (879)

In the above table, loans predominantly include: (1) write-downs of delinquent mortgage and home equity loans where impairment is based on the fair value of the underlying collateral; and (2) the change in fair value for leveraged lending loans carried on the Consolidated Balance Sheets at the lower of cost or fair value. Accounts payable and other liabilities predominantly include the change in fair value for unfunded lending-related commitments within the leveraged lending portfolio.

Level 3 analysis

Level 3 assets (including assets measured at fair value on a nonrecurring basis) were 6% of total Firm assets at both December 31, 2009 and 2008. Level 3 assets were $130.4 billion at December 31, 2009, reflecting a decrease of $7.3 billion in 2009, due to the following:

- A net decrease of $6.3 billion in gross derivative receivables, predominantly driven by the tightening of credit spreads. Offsetting a portion of the decrease were net transfers into level 3 during the year, most notably a transfer into level 3 of $41.3 billion of structured credit derivative receivables, and a transfer out of level 3 of $17.7 billion of single-name CDS on ABS. The fair value of the receivables transferred into level 3 during the year was $22.1 billion at December 31, 2009. The fair value of structured credit derivative payables with a similar underlying risk profile to the previously noted receivables, that are also classified in level 3, was $12.5 billion at December 31, 2009. These derivatives payables offset the receivables, as they are modeled and valued the same way with the same parameters and inputs as the assets.
- A net decrease of $3.5 billion in loans, predominantly driven by sales of leveraged loans and transfers of similar loans to level 2, due to increased price transparency for such assets. Leveraged loans are typically classified as held-for-sale and measured at the lower of cost or fair value and, therefore, included in the nonrecurring fair value assets.
- A net decrease of $6.3 billion in trading assets – debt and equity instruments, primarily in loans and residential- and commercial-MBS, principally driven by sales and markdowns, and by sales and unwinds of structured transactions with hedge funds. The declines were partially offset by a transfer from level 2 to level 3 of certain structured notes reflecting lower liquidity and less pricing observability, and also increases in the fair value of other ABS.
- A net increase of $6.1 billion in MSRs, due to increases in the fair value of the asset, related primarily to market interest rate and other changes affecting the Firm's estimate of future prepayments, as well as sales in RFS of originated loans for which servicing rights were retained. These increases were offset partially by servicing portfolio runoff.
- A net increase of $1.9 billion in accrued interest and accounts receivable related to increases in subordinated retained interests from the Firm's credit card securitization activities.

Gains and Losses

Gains and losses included in the tables for 2009 and 2008 included:

2009

- $11.4 billion of net losses on derivatives, primarily related to the tightening of credit spreads.
- Net losses on trading–debt and equity instruments of $671 million, consisting of $2.1 billion of losses, primarily related to residential and commercial loans and MBS, principally driven by markdowns and sales, partially offset by gains of $1.4 billion, reflecting increases in the fair value of other ABS. (For a further discussion of the gains and losses on mortgage-related exposures, inclusive of risk management activities, see the "Mortgage-related exposures carried at fair value" discussion below.)
- $5.8 billion of gains on MSRs.
- $1.4 billion of losses related to structured note liabilities, predominantly due to volatility in the equity markets.

2008

- Losses on trading-debt and equity instruments of approximately $12.8 billion, principally from mortgage-related transactions and auction-rate securities.
- Losses of $6.9 billion on MSRs.
- Losses of approximately $3.9 billion on leveraged loans.
- Net gains of $4.6 billion related to derivatives, principally due to changes in credit spreads and rate curves.
- Gains of $4.5 billion related to structured notes, principally due to significant volatility in the fixed income, commodities and equity markets.
- Private equity losses of $638 million.

For further information on changes in the fair value of the MSRs, see Note 17 on pages 223–224 of this Annual Report.

Mortgage-related exposures carried at fair value

The following table provides a summary of the Firm's mortgage-related exposures, including the impact of risk management activities. These exposures include all mortgage-related securities and loans carried at fair value regardless of their classification within the fair value hierarchy, and that are carried at fair value through earnings or at the lower of cost or fair value. The table excludes securities held in the available-for-sale portfolio, which are reported on page 170 of this Note.

	Exposure as of **December 31, 2009**		Exposure as of December 31, 2008		Net gains/(losses)(e)	
(in millions)	Gross	Net of risk management activities(d)	Gross	Net of risk management activities(d)	Reported in income – year ended **December 31, 2009**	Reported in income – year ended December 31, 2008
U.S. Residential Mortgage: (a)(b)(c)						
Prime	**$ 3,482**	**$ 3,482**	$ 4,612	$ 4,612		
Alt-A	**3,030**	**3,030**	3,934	3,917		
	6,512	**6,512**	8,546	8,529	**$ 537**	$ (4,093)
Subprime	**569**	**137**	941	(28)	**(76)**	(369)
Non-U.S. Residential(c)	**1,702**	**1,321**	1,591	951	**86**	(292)
Commercial Mortgage:						
Securities	**2,337**	**1,898**	2,836	1,438	**257**	(792)
Loans	**2,699**	**2,035**	4,338	2,179	**(333)**	(752)

(a) Excluded at December 31, 2009 and 2008, are certain mortgages and mortgage-related assets that are carried at fair value and recorded in trading assets, such as: (i) U.S. government agency securities that are liquid and of high credit quality of $41.7 billion and $58.9 billion, respectively; (ii) conforming mortgage loans originated with the intent to sell to U.S. government agencies of $11.1 billion and $6.2 billion, respectively; and (iii) reverse mortgages of $4.5 billion and $4.3 billion, respectively, for which the principal risk is mortality risk. Also excluded are MSRs, which are reported in Note 17 on pages 222–225 of this Annual Report.

(b) Excluded certain mortgage-related financing transactions, which are collateralized by mortgage-related assets, of $4.1 billion and $5.7 billion at December 31, 2009 and 2008, respectively. These financing transactions are excluded from the table, as they are accounted for on an accrual basis of accounting. For certain financings deemed to be impaired, impairment is measured and recognized based on the fair value of the collateral. Of these financing transactions, $136 million and $1.2 billion were considered impaired at December 31, 2009 and 2008, respectively.

(c) Total residential mortgage exposures at December 31, 2009 and 2008, include: (i) securities of $3.4 billion and $4.0 billion, respectively; (ii) loans carried at fair value or the lower of cost or fair value of $5.0 billion and $5.9 billion, respectively; and (iii) forward purchase commitments included in derivative receivables of $358 million and $1.2 billion, respectively.

(d) Amounts reflect the effects of derivatives used to manage the credit risk of the gross exposures arising from cash-based instruments. The amounts are presented on a bond- or loan-equivalent (notional) basis. Derivatives are excluded from the gross exposure, as they are principally used for risk management purposes.

(e) Net gains and losses include all revenue related to the positions (i.e., interest income, changes in fair value of the assets, changes in fair value of the related risk management positions, and interest expense related to the liabilities funding those positions).

Residential mortgages

Classification and Valuation – Residential mortgage loans and MBS are classified within level 2 or level 3 of the valuation hierarchy, depending on the level of liquidity and activity in the markets for a particular product. Level 3 assets include nonagency residential whole loans and subordinated nonagency residential MBS. Products that continue to have reliable price transparency as evidenced by consistent market transactions, such as senior nonagency securities, as well as agency securities, are classified in level 2.

For those products classified within level 2 of the valuation hierarchy, the Firm estimates the value of such instruments using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from independent pricing services.

When relevant market activity is not occurring or is limited, the fair value is estimated as follows:

Residential mortgage loans – Fair value of residential mortgage loans is estimated by projecting the expected cash flows and discounting those cash flows at a rate reflective of current market liquidity. To estimate the projected cash flows (inclusive of assumptions of prepayment, default rates and loss severity), specific consideration is given to both borrower-specific and other market factors, including, but not limited to: the borrower's FICO score; the type of collateral supporting the loan; an estimate of the current value of the collateral supporting the loan; the level of documentation for the loan; and market-derived expectations for home price appreciation or depreciation in the respective geography of the borrower.

Residential mortgage-backed securities – Fair value of residential MBS is estimated considering the value of the collateral and the specific attributes of the securities held by the Firm. The value of the collateral pool supporting the securities is analyzed using the same techniques and factors described above for residential mortgage loans, albeit in a more aggregated manner across the pool. For example, average FICO scores, average delinquency rates, average loss severities and prepayment rates, among other metrics, may be evaluated. In addition, as each securitization vehicle distributes cash in a manner or order that is predetermined at the inception of the vehicle, the priority in which each particular MBS is allocated cash flows, and the level of credit enhancement that is in place to support those cash flows, are key considerations in deriving the value of residential MBS. Finally, the risk premium that investors demand for securitized products in the current market is factored into the valuation. To benchmark its valuations, the Firm looks to transactions for similar instruments and utilizes independent pricing provided by third-party vendors, broker quotes and relevant market indices, such as the ABX index, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of the Firm's estimates.

Commercial mortgages

Commercial mortgages are loans to companies backed by commercial real estate. Commercial MBS are securities collateralized by a pool of commercial mortgages. Typically, commercial mortgages have lock-out periods where the borrower is restricted from prepaying the loan for a specified timeframe, or periods where there are disincentives for the borrower to prepay the loan due to prepayment penalties. These features reduce prepayment risk for commercial mortgages relative to that of residential mortgages.

Classification and Valuation

While commercial mortgages and commercial MBS are classified within level 2 or level 3 of the valuation hierarchy, depending on the level of liquidity and activity in the markets, the majority of these mortgages, including both loans and lower-rated securities, are currently classified in level 3. Level 2 assets include fixed-rate commercial MBS.

Commercial mortgage loans – Fair value of commercial mortgage loans is estimated by projecting the expected cash flows and discounting those cash flows at a rate reflective of current market liquidity. To estimate the projected cash flows, consideration is given to both borrower-specific and other market factors, including, but not limited to: the borrower's debt-to-service coverage ratio; the type of commercial property (e.g., retail, office, lodging, multi-family, etc.); an estimate of the current loan-to-value ratio; and market-derived expectations for property price appreciation or depreciation in the respective geographic location.

Commercial mortgage-backed securities – When relevant market activity is not present or is limited, the value of commercial MBS is estimated considering the value of the collateral and the specific attributes of the securities held by the Firm. The value of the collateral pool supporting the securities is analyzed using the same techniques and factors described above for the valuation of commercial mortgage loans, albeit in a more aggregated manner across the pool. For example, average delinquencies, loan or geographic concentrations, and average debt-service coverage ratios, among other metrics, may be evaluated. In addition, as each securitization vehicle distributes cash in a manner or order that is predetermined at the inception of the vehicle, the priority in which each particular MBS security is allocated cash flows, and the level of credit enhancement that is in place to support those cash flows, are key considerations in deriving the value of commercial MBS. Finally, the risk premium that investors demand for securitized products in the current market is factored into the valuation. To benchmark its valuations, the Firm utilizes independent pricing provided by third-party vendors, and broker quotes, as applicable. While none of those sources are solely indicative of fair value, they serve as directional indicators for the appropriateness of the Firm's estimates.

The following table presents mortgage-related activities within the available-for-sale securities portfolio.

As of or for the year ended December 31,	Exposures		Net gains/(losses) reported in income during the year[b]		Unrealized gains/(losses) included in other comprehensive income (pretax) during the year	
(in millions)	**2009**	2008	**2009**	2008	**2009**	2008
Mortgage-backed securities:						
U.S. government agencies	**$ 167,898**	$ 117,385	**$ 1,232**	$ 476	**$ 849**	$ 2,076
Residential:						
Prime and Alt-A	**4,523**	6,895	**(364)**	(32)	**856**	(1,965)
Subprime	**17**	194	**(49)**	(89)	**19**	(32)
Non-U.S.	**10,258**	2,075	**(1)**	2	**412**	(156)
Commercial	**4,590**	3,939	**(9)**	—	**744**	(684)
Total mortgage-backed securities	**$ 187,286**	$ 130,488	**$ 809**	$ 357	**$ 2,880**	$ (761)
U.S. government agencies[a]	**29,562**	9,657	**5**	11	**(55)**	(54)

(a) Represents direct mortgage-related obligations of government-sponsored enterprises.
(b) Excludes related net interest income.

Exposures in the table above include $216.8 billion and $140.1 billion of MBS classified as available-for-sale in the Firm's Consolidated Balance Sheets at December 31, 2009 and 2008, respectively. These investments are primarily used as part of the Firm's centralized risk management of structural interest rate risk (the sensitivity of the Firm's Consolidated Balance Sheets to changes in interest rates). Changes in the Firm's structural interest rate position, as well as changes in the overall interest rate environment, are continually monitored, resulting in periodic repositioning of securities classified as available-for-sale. Given that this portfolio is primarily used to manage the Firm's structural interest rate risk, nearly all of these securities are either backed by U.S. government agencies or are rated "AAA."

For additional information on investment securities in the available-for-sale portfolio, see Note 11 on pages 195–199 of this Annual Report.

Credit adjustments

When determining the fair value of an instrument, it may be necessary to record a valuation adjustment to arrive at an exit price under U.S. GAAP. Valuation adjustments include, but are not limited to, amounts to reflect counterparty credit quality and the Firm's own creditworthiness. The market's view of the Firm's credit quality is reflected in credit spreads observed in the CDS market. For a detailed discussion of the valuation adjustments the Firm considers, see the valuation discussion at the beginning of this Note.

The following table provides the credit adjustments, excluding the effect of any hedging activity, as reflected within the Consolidated Balance Sheets of the Firm as of the dates indicated.

December 31, (in millions)	2009	2008
Derivative receivables balance	**$ 80,210**	$ 162,626
Derivatives CVA[(a)]	**(3,697)**	(9,566)
Derivative payables balance	**60,125**	121,604
Derivatives DVA	**(629)**	(1,389)
Structured notes balance[(b)(c)]	**59,064**	67,340
Structured notes DVA	**(840)**	(2,413)

(a) Derivatives CVA, gross of hedges, includes results managed by credit portfolio and other lines of business within IB.

(b) Structured notes are recorded within long-term debt, other borrowed funds, or deposits on the Consolidated Balance Sheets, based on the tenor and legal form of the note.

(c) Structured notes are carried at fair value based on the Firm's election under the fair value option. For further information on these elections, see Note 4 on pages 173–175 of this Annual Report

The following table provides the impact of credit adjustments on earnings in the respective periods, excluding the effect of any hedging activity.

Year ended December 31, (in millions)	2009	2008	2007
Credit adjustments:			
Derivatives CVA[(a)]	**$ 5,869**	$ (7,561)	$ (803)
Derivatives DVA	**(760)**	789	514
Structured notes DVA[(b)]	**(1,573)**	1,211	806

(a) Derivatives CVA, gross of hedges, includes results managed by credit portfolio and other lines of business within IB.

(b) Structured notes are carried at fair value based on the Firm's election under the fair value option. For further information on these elections, see Note 4 on pages 173–175 of this Annual Report.

Fair value measurement transition

In connection with the initial adoption of FASB guidance on fair value measurement, the Firm recorded the following on January 1, 2007:

- a cumulative effect increase to retained earnings of $287 million, primarily related to the release of profit previously deferred in accordance with previous FASB guidance for certain derivative contracts;
- an increase to pretax income of $166 million ($103 million after-tax) related to the incorporation of the Firm's creditworthiness in the valuation of liabilities recorded at fair value; and
- an increase to pretax income of $464 million ($288 million after-tax) related to valuations of nonpublic private equity investments.

Additional disclosures about the fair value of financial instruments (including financial instruments not carried at fair value)

U.S. GAAP requires disclosure of the estimated fair value of certain financial instruments, and the methods and significant assumptions used to estimate their fair value. Financial instruments within the scope of these disclosure requirements are included in the following table; other financial instruments and all nonfinancial instruments are excluded from the scope. Accordingly, the fair value disclosures required provide only a partial estimate of the fair value of JPMorgan Chase. For example, the Firm has developed long-term relationships with its customers through its deposit base and credit card accounts, commonly referred to as core deposit intangibles and credit card relationships. In the opinion of management, these items, in the aggregate, add significant value to JPMorgan Chase, but their fair value is not disclosed in this Note.

Financial instruments for which carrying value approximates fair value

Certain financial instruments that are not carried at fair value on the Consolidated Balance Sheets are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include: cash and due from banks; deposits with banks, federal funds sold, securities purchased under resale agreements and securities borrowed with short-dated maturities; short-term receivables and accrued interest receivable; commercial paper; federal funds purchased, and securities loaned or sold under repurchase agreements with short-dated maturities; other borrowed funds (excluding advances from Federal Home Loan Banks); accounts payable; and accrued liabilities. In addition, U.S. GAAP requires that the fair value of deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value; recognition of the inherent funding value of these instruments is not allowed.

The following table presents the carrying value and estimated fair value of financial assets and liabilities.

	2009			2008		
December 31, (in billions)	Carrying value	Estimated fair value	Appreciation/ (depreciation)	Carrying value	Estimated fair value	Appreciation/ (depreciation)
Financial assets						
Assets for which fair value approximates carrying value	**$ 89.4**	**$ 89.4**	**$ —**	$ 165.0	$ 165.0	$ —
Accrued interest and accounts receivable (included $5.0 and $3.1 at fair value at December 31, 2009 and 2008, respectively)	**67.4**	**67.4**	**—**	61.0	61.0	—
Federal funds sold and securities purchased under resale agreements (included $20.5 and $20.8 at fair value at December 31, 2009 and 2008, respectively)	**195.4**	**195.4**	**—**	203.1	203.1	—
Securities borrowed (included $7.0 and $3.4 at fair value at December 31, 2009 and 2008, respectively)	**119.6**	**119.6**	**—**	124.0	124.0	—
Trading assets	**411.1**	**411.1**	**—**	510.0	510.0	—
Securities (included $360.4 and $205.9 at fair value at December 31, 2009 and 2008, respectively)	**360.4**	**360.4**	**—**	205.9	205.9	—
Loans (included $1.4 and $7.7 at fair value at December 31, 2009 and 2008, respectively)	**601.9**	**598.3**	**(3.6)**	721.7	700.0	(21.7)
Mortgage servicing rights at fair value	**15.5**	**15.5**	**—**	9.4	9.4	—
Other (included $19.2 and $29.2 at fair value at December 31, 2009 and 2008, respectively)	**73.4**	**73.2**	**(0.2)**	83.0	83.1	0.1
Total financial assets	**$ 1,934.1**	**$ 1,930.3**	**$ (3.8)**	$ 2,083.1	$ 2,061.5	$ (21.6)
Financial liabilities						
Deposits (included $4.5 and $5.6 at fair value at December 31, 2009 and 2008, respectively)	**$ 938.4**	**$ 939.5**	**$ (1.1)**	$ 1,009.3	$ 1,010.2	$ (0.9)
Federal funds purchased and securities loaned or sold under repurchase agreements (included $3.4 and $3.0 at fair value at December 31, 2009 and 2008, respectively)	**261.4**	**261.4**	**—**	192.5	192.5	—
Commercial paper	**41.8**	**41.8**	**—**	37.8	37.8	—
Other borrowed funds (included $5.6 and $14.7 at fair value at December 31, 2009 and 2008, respectively)	**55.7**	**55.9**	**(0.2)**	132.4	134.1	(1.7)
Trading liabilities	**125.1**	**125.1**	**—**	166.9	166.9	—
Accounts payable and other liabilities (included $0.4 and zero at fair value at December 31, 2009 and 2008, respectively)	**136.8**	**136.8**	**—**	167.2	167.2	—
Beneficial interests issued by consolidated VIEs (included $1.4 and $1.7 at fair value at December 31, 2009 and 2008, respectively)	**15.2**	**15.2**	**—**	10.6	10.5	0.1
Long-term debt and junior subordinated deferrable interest debentures (included $49.0 and $58.2 at fair value at December 31, 2009 and 2008, respectively)	**266.3**	**268.4**	**(2.1)**	270.7	262.1	8.6
Total financial liabilities	**$ 1,840.7**	**$ 1,844.1**	**$ (3.4)**	$ 1,987.4	$ 1,981.3	$ 6.1
Net (depreciation)/appreciation			**$ (7.2)**			$ (15.5)

The majority of the Firm's unfunded lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded. The estimated fair values of the Firm's wholesale lending-related commitments at December 31, 2009 and 2008, were liabilities of $1.3 billion and $7.5 billion, respectively. The Firm does not estimate the fair value of consumer lending-related commitments. In many cases, the Firm can reduce or cancel these commitments by providing the borrower prior notice or, in some cases, without notice as permitted by law.

Trading assets and liabilities

Trading assets include debt and equity instruments held for trading purposes that JPMorgan Chase owns ("long" positions), certain loans for which the Firm manages on a fair value basis and has elected the fair value option, and physical commodities inventories that are accounted for at the lower of cost or fair value. Trading liabilities include debt and equity instruments that the Firm has sold to other parties but does not own ("short" positions). The Firm is obligated to purchase instruments at a future date to cover the short positions. Included in trading assets and trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. Trading assets and liabilities are carried at fair value on the Consolidated Balance Sheets. For a discussion of the valuation and a summary of trading assets and trading liabilities, including derivative receivables and payables, see Note 4 on pages 173–175 and Note 5 on pages 175–183 of this Annual Report.

Trading assets and liabilities average balances

Average trading assets and liabilities were as follows for the periods indicated.

Year ended December 31, (in millions)	**2009**	2008	2007
Trading assets – debt and equity instruments	**$ 318,063**	$ 384,102	$ 381,415
Trading assets – derivative receivables	**110,457**	121,417	65,439
Trading liabilities – debt and equity instruments[a]	**$ 60,224**	$ 78,841	$ 94,737
Trading liabilities – derivative payables	**77,901**	93,200	65,198

(a) Primarily represent securities sold, not yet purchased.

Note 4 – Fair value option

The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments not previously carried at fair value.

Elections

Elections were made by the Firm to:

- mitigate income statement volatility caused by the differences in the measurement basis of elected instruments (for example, certain instruments elected were previously accounted for on an accrual basis) while the associated risk management arrangements are accounted for on a fair value basis;
- eliminate the complexities of applying certain accounting models (e.g., hedge accounting or bifurcation accounting for hybrid instruments); and
- better reflect those instruments that are managed on a fair value basis.

Elections include:

- Securities financing arrangements with an embedded derivative and/or a maturity of greater than one year.
- Loans purchased or originated as part of securitization warehousing activity, subject to bifurcation accounting, or managed on a fair value basis.
- Structured notes issued as part of IB's client-driven activities. (Structured notes are financial instruments that contain embedded derivatives.)
- Certain tax credits and other equity investments acquired as part of the Washington Mutual transaction.

The cumulative effect on retained earnings of the adoption of the fair value option on January 1, 2007, was $199 million.

Changes in fair value under the fair value option election

The following table presents the changes in fair value included in the Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007, for items for which the fair value option was elected. Profit and loss information for related risk management instruments, which are required to be measured at fair value, are not included in the table.

	2009			2008			2007		
December 31, (in millions)	Principal transactions	Other income	Total changes in fair value recorded	Principal transactions	Other income	Total changes in fair value recorded	Principal transactions	Other income	Total changes in fair value recorded
Federal funds sold and securities purchased under resale agreements	**$ (553)**	**$ —**	**$ (553)**	$ 1,139	$ —	$ 1,139	$ 580	$ —	$ 580
Securities borrowed	**82**	**—**	**82**	29	—	29	—	—	—
Trading assets:									
Debt and equity instruments, excluding loans	**619**	**25**[c]	**644**	(870)	(58)[c]	(928)	421	(1)[c]	420
Loans reported as trading assets:									
Changes in instrument-specific credit risk	**(300)**	**(177)**[c]	**(477)**	(9,802)	(283)[c]	(10,085)	(517)	(157)[c]	(674)
Other changes in fair value	**1,132**	**3,119**[c]	**4,251**	696	1,178[c]	1,874	188	1,033[c]	1,221
Loans:									
Changes in instrument-specific credit risk	**(78)**	**—**	**(78)**	(1,991)	—	(1,991)	102	—	102
Other changes in fair value	**(343)**	**—**	**(343)**	(42)	—	(42)	40	—	40
Other assets	**—**	**(731)**[d]	**(731)**	—	(660)[d]	(660)	—	30[d]	30
Deposits[a]	**(766)**	**—**	**(766)**	(132)	—	(132)	(906)	—	(906)
Federal funds purchased and securities loaned or sold under repurchase agreements	**116**	**—**	**116**	(127)	—	(127)	(78)	—	(78)
Other borrowed funds[a]	**(1,277)**	**—**	**(1,277)**	1,888	—	1,888	(412)	—	(412)
Trading liabilities	**(3)**	**—**	**(3)**	35	—	35	(17)	—	(17)
Accounts payable and other liabilities	**64**	**—**	**64**	—	—	—	(460)	—	(460)
Beneficial interests issued by consolidated VIEs	**(351)**	**—**	**(351)**	355	—	355	(228)	—	(228)
Long-term debt:									
Changes in instrument-specific credit risk[a]	**(1,543)**	**—**	**(1,543)**	1,174	—	1,174	771	—	771
Other changes in fair value[b]	**(2,393)**	**—**	**(2,393)**	16,202	—	16,202	(2,985)	—	(2,985)

(a) Total changes in instrument-specific credit risk related to structured notes were $(1.6) billion, $1.2 billion and $806 million for the years ended December 31, 2009, 2008 and 2007, respectively. These totals include adjustments for structured notes classified within deposits and other borrowed funds, as well as long-term debt.

(b) Structured notes are debt instruments with embedded derivatives that are tailored to meet a client's need for derivative risk in funded form. The embedded derivative is the primary driver of risk. The 2008 gain included in "Other changes in fair value" results from a significant decline in the value of certain structured notes where the embedded derivative is principally linked to either equity indices or commodity prices, both of which declined sharply during the third quarter of 2008. Although the risk associated with the structured notes is actively managed, the gains reported in this table do not include the income statement impact of such risk management instruments.

(c) Reported in mortgage fees and related income.

(d) Reported in other income.

Determination of instrument-specific credit risk for items for which a fair value election was made

The following describes how the gains and losses included in earnings during 2009, 2008 and 2007, which were attributable to changes in instrument-specific credit risk, were determined.

- Loans and lending-related commitments: For floating-rate instruments, all changes in value are attributed to instrument-specific credit risk. For fixed-rate instruments, an allocation of the changes in value for the period is made between those changes in value that are interest rate-related and changes in value that are credit-related. Allocations are generally based on an analysis of borrower-specific credit spread and recovery information, where available, or benchmarking to similar entities or industries.
- Long-term debt: Changes in value attributable to instrument-specific credit risk were derived principally from observable changes in the Firm's credit spread.
- Resale and repurchase agreements, securities borrowed agreements and securities lending agreements: Generally, for these types of agreements, there is a requirement that collateral be maintained with a market value equal to or in excess of the principal amount loaned; as a result, there would be no adjustment or an immaterial adjustment for instrument-specific credit risk related to these agreements.

Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of December 31, 2009 and 2008, for loans and long-term debt for which the fair value option has been elected. The loans were classified in trading assets – loans or in loans.

	2009			2008		
December 31, (in millions)	Contractual principal outstanding	Fair value	Fair value over/(under) contractual principal outstanding	Contractual principal outstanding	Fair value	Fair value over/(under) contractual principal outstanding
Loans						
Performing loans 90 days or more past due						
Loans reported as trading assets	**$ —**	**$ —**	**$ —**	$ —	$ —	$ —
Loans	**—**	**—**	**—**	—	—	—
Nonaccrual loans						
Loans reported as trading assets	**7,264**	**2,207**	**(5,057)**	5,156	1,460	(3,696)
Loans	**1,126**	**151**	**(975)**	189	51	(138)
Subtotal	**8,390**	**2,358**	**(6,032)**	5,345	1,511	(3,834)
All other performing loans						
Loans reported as trading assets	**35,095**	**29,341**	**(5,754)**	36,336	30,342	(5,994)
Loans	**2,147**	**1,000**	**(1,147)**	10,206	7,441	(2,765)
Total loans	**$ 45,632**	**$32,699**	**$ (12,933)**	$ 51,887	$ 39,294	$(12,593)
Long-term debt						
Principal protected debt	**$ 26,765**[b]	**$26,378**	**$ (387)**	$ 27,043[b]	$ 26,241	$ (802)
Nonprincipal protected debt[a]	**NA**	**22,594**	**NA**	NA	31,973	NA
Total long-term debt	**NA**	**48,972**	**NA**	NA	58,214	NA
Long-term beneficial interests						
Principal protected debt	**$ 90**	**$ 90**	**$ —**	$ —	$ —	$ —
Nonprincipal protected debt[a]	**NA**	**1,320**	**NA**	NA	1,735	NA
Total long-term beneficial interests	**NA**	**$ 1,410**	**NA**	NA	$ 1,735	NA

(a) Remaining contractual principal is not applicable to nonprincipal-protected notes. Unlike principal-protected notes, for which the Firm is obligated to return a stated amount of principal at the maturity of the note, nonprincipal-protected notes do not obligate the Firm to return a stated amount of principal at maturity, but to return an amount based on the performance of an underlying variable or derivative feature embedded in the note.

(b) Where the Firm issues principal-protected zero-coupon or discount notes, the balance reflected as the remaining contractual principal is the final principal payment at maturity.

Note 5 – Derivative instruments

Derivative instruments enable end-users to modify or mitigate exposure to credit or market risks. Counterparties to a derivative contract seek to obtain risks and rewards similar to those that could be obtained from purchasing or selling a related cash instrument without having to exchange the full purchase or sales price upfront. JPMorgan Chase makes markets in derivatives for customers and also uses derivatives to hedge or manage risks of market exposures. The majority of the Firm's derivatives are entered into for market-making purposes.

Trading derivatives

The Firm transacts in a variety of derivatives in its trading portfolios to meet the needs of customers (both dealers and clients) and to generate revenue through this trading activity. The Firm makes markets in derivatives for its customers (collectively, "client derivatives"), seeking to mitigate or modify interest rate, credit, foreign exchange, equity and commodity risks. The Firm actively manages the risks from its exposure to these derivatives by entering into other derivative transactions or by purchasing or selling other financial instruments that partially or fully offset the exposure from client derivatives. The Firm also seeks to earn a spread between the client derivatives and offsetting positions, and from the remaining open risk positions.

Risk management derivatives

The Firm manages its market exposures using various derivative instruments.

Interest rate contracts are used to minimize fluctuations in earnings that are caused by changes in interest rates. Fixed-rate assets and liabilities appreciate or depreciate in market value as interest rates change. Similarly, interest income and expense increase or decrease as a result of variable-rate assets and liabilities resetting to current market rates, and as a result of the repayment and subsequent origination or issuance of fixed-rate assets and liabilities at current market rates. Gains or losses on the derivative instruments that are related to such assets and liabilities are expected to substantially offset this variability in earnings. The Firm generally uses interest rate swaps, forwards and futures to manage the impact of interest rate fluctuations on earnings.

Foreign currency forward contracts are used to manage the foreign exchange risk associated with certain foreign currency–denominated (i.e., non-U.S.) assets and liabilities and forecasted transactions, as well as the Firm's net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. As a result of fluctuations in foreign currencies, the U.S. dollar–equivalent values of the foreign currency–denominated assets and liabilities or forecasted revenue or expense increase or decrease. Gains or losses on the derivative instruments related to these foreign currency–denominated assets or liabilities, or forecasted transactions, are expected to substantially offset this variability.

Commodities based forward and futures contracts are used to manage the price risk of certain inventory, including gold and base metals, in the Firm's commodities portfolio. Gains or losses on the forwards and futures are expected to substantially offset the depreciation or appreciation of the related inventory. Also in the commodities portfolio, electricity and natural gas futures and forwards contracts are used to manage price risk associated with energy-related tolling and load-serving contracts and investments.

The Firm uses credit derivatives to manage the counterparty credit risk associated with loans and lending-related commitments. Credit derivatives compensate the purchaser when the entity referenced in the contract experiences a credit event, such as bankruptcy or a failure to pay an obligation when due. For a further discussion of credit derivatives, see the discussion in the Credit derivatives section on pages 181–183 of this Annual Report.

For more information about risk management derivatives, see the risk management derivatives gains and losses table on page 180 of this Annual Report.

Notional amount of derivative contracts

The following table summarizes the notional amount of derivative contracts outstanding as of December 31, 2009 and 2008.

	Notional amounts[c]	
December 31, (in billions)	**2009**	2008
Interest rate contracts		
Swaps[a]	**$ 47,663**	$ 54,524
Futures and forwards	**6,986**	6,277
Written options	**4,553**	4,803
Purchased options	**4,584**	4,656
Total interest rate contracts	**63,786**	70,260
Credit derivatives[b]	**5,994**	8,388
Foreign exchange contracts		
Cross-currency swaps[a]	**2,217**	1,681
Spot, futures and forwards	**3,578**	3,744
Written options	**685**	972
Purchased options	**699**	959
Total foreign exchange contracts	**7,179**	7,356
Equity contracts		
Swaps	**81**	77
Futures and forwards	**45**	56
Written options	**502**	628
Purchased options	**449**	652
Total equity contracts	**1,077**	1,413
Commodity contracts		
Swaps	**178**	234
Spot, futures and forwards	**113**	115
Written options	**201**	206
Purchased options	**205**	198
Total commodity contracts	**697**	753
Total derivative notional amounts	**$ 78,733**	$ 88,170

(a) In 2009, cross-currency interest rate swaps previously reported in interest rate contracts were reclassified to foreign exchange contracts to be more consistent with industry practice. The effect of this change resulted in a reclassification of $1.7 trillion in notional amount of cross-currency swaps from interest rate contracts to foreign exchange contracts as of December 31, 2008.

(b) Primarily consists of credit default swaps. For more information on volumes and types of credit derivative contracts, see the Credit derivatives discussion on pages 181–183 of this Note.

(c) Represents the sum of gross long and gross short third-party notional derivative contracts.

While the notional amounts disclosed above give an indication of the volume of the Firm's derivative activity, the notional amounts significantly exceed, in the Firm's view, the possible losses that could arise from such transactions. For most derivative transactions, the notional amount does not change hands; it is used simply as a reference to calculate payments.

Accounting for derivatives

All free-standing derivatives are required to be recorded on the Consolidated Balance Sheets at fair value. The accounting for changes in value of a derivative depends on whether or not the contract has been designated and qualifies for hedge accounting. Derivatives that are not designated as hedges are marked to market through earnings. The tabular disclosures on pages 177–183 of this Note provide additional information on the amount of, and reporting for, derivative assets, liabilities, gains and losses. For further discussion of derivatives embedded in structured notes, see Notes 3 and 4 on pages 156–173 and 173–175, respectively, of this Annual Report.

Derivatives designated as hedges

The Firm applies hedge accounting to certain derivatives executed for risk management purposes – typically interest rate, foreign exchange and gold and base metal derivatives, as described above. JPMorgan Chase does not seek to apply hedge accounting to all of the derivatives involved in the Firm's risk management activities. For example, the Firm does not apply hedge accounting to purchased credit default swaps used to manage the credit risk of loans and commitments, because of the difficulties in qualifying such contracts as hedges. For the same reason, the Firm does not apply hedge accounting to certain interest rate derivatives used for risk management purposes, or to commodity derivatives used to manage the price risk of tolling and load-serving contracts.

To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, for a derivative to be designated as a hedge, the risk management objective and strategy must be documented. Hedge documentation must identify the derivative hedging instrument, the asset or liability and type of risk to be hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. To assess effectiveness, the Firm uses statistical methods such as regression analysis, as well as nonstatistical methods including dollar-value comparisons of the change in the fair value of the derivative to the change in the fair value or cash flows of the hedged item. The extent to which a derivative has been, and is expected to continue to be, effective at offsetting changes in the fair value or cash flows of the hedged item must be assessed and documented at least quarterly. Any hedge ineffectiveness (i.e., the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk) must be reported in current-period earnings. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued.

There are three types of hedge accounting designations: fair value hedges, cash flow hedges and net investment hedges. JPMorgan Chase uses fair value hedges primarily to hedge fixed-rate long-term debt, available-for-sale ("AFS") securities and gold and base metal inventory. For qualifying fair value hedges, the changes in the fair value of the derivative, and in the value of the hedged item, for the risk being hedged, are recognized in earnings. If the hedge relationship is terminated, then the fair value adjustment to the hedged item continues to be reported as part of the basis of the hedged item and for interest-bearing instruments is amortized to earnings as a yield adjustment. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item – primarily net interest income and principal transactions revenue.

JPMorgan Chase uses cash flow hedges to hedge the exposure to variability in cash flows from floating-rate financial instruments and forecasted transactions, primarily the rollover of short-term assets and liabilities, and foreign currency–denominated revenue and expense. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income/(loss) ("OCI") and recognized in the Consolidated Statements of Income when the hedged cash flows affect earnings. Derivative amounts affecting earnings are recognized consistent with the classification of the hedged item – primarily interest income, interest expense, noninterest revenue and compensation expense. The ineffective portions of cash flow hedges are immediately recognized in earnings. If the hedge relationship is terminated, then the value of the derivative recorded in accumulated other comprehensive income/(loss) ("AOCI") is recognized in earnings when the cash flows that were hedged affect earnings. For hedge relationships that are discontinued because a forecasted transaction is not expected to occur according to the original hedge forecast, any related derivative values recorded in AOCI are immediately recognized in earnings.

JPMorgan Chase uses foreign currency hedges to protect the value of the Firm's net investments in certain non-U.S. subsidiaries or branches whose functional currencies are not the U.S. dollar. For qualifying net investment hedges, changes in the fair value of the derivatives are recorded in the translation adjustments account within AOCI.

Impact of derivatives on the Consolidated Balance Sheets

The following table summarizes information on derivative fair values that are reflected on the Firm's Consolidated Balance Sheets as of December 31, 2009, by accounting designation (e.g., whether the derivatives were designated as hedges or not) and contract type.

Free-standing derivatives[a]

	Derivative receivables			Derivative payables		
December 31, 2009 (in millions)	Not designated as hedges	Designated as hedges	Total derivative receivables	Not designated as hedges	Designated as hedges	Total derivative payables
Trading assets and liabilities						
Interest rate	$ 1,148,901	$ 6,568	$ 1,155,469	$ 1,121,978	$ 427	$ 1,122,405
Credit	170,864	—	170,864	164,790	—	164,790
Foreign exchange	141,790	2,497	144,287	137,865	353	138,218
Equity	57,871	—	57,871	58,494	—	58,494
Commodity	36,988	39	37,027	35,082	194[c]	35,276
Gross fair value of trading assets and liabilities	$ 1,556,414	$ 9,104	$ 1,565,518	$ 1,518,209	$ 974	$ 1,519,183
Netting adjustment[b]			(1,485,308)			(1,459,058)
Carrying value of derivative trading assets and trading liabilities on the Consolidated Balance Sheets			$ 80,210			$ 60,125

(a) Excludes structured notes for which the fair value option has been elected. See Note 4 on pages 173–175 of this Annual Report for further information.

(b) U.S. GAAP permits the netting of derivative receivables and payables, and the related cash collateral received and paid when a legally enforceable master netting agreement exists between the Firm and a derivative counterparty.

(c) Excludes $1.3 billion related to separated commodity derivatives used as fair value hedging instruments that are recorded in the line item of the host contract (i.e., other borrowed funds).

Derivative receivables and payables mark-to-market

The following table summarizes the fair values of derivative receivables and payables by contract type after netting adjustments as of December 31, 2009 and 2008.

December 31, (in millions)	**2009**	2008
Derivative receivables:		
Interest rate[a]	**$ 26,777**	$ 49,996
Credit	**18,815**	44,695
Foreign exchange[a]	**21,984**	38,820
Equity	**6,635**	14,285
Commodity	**5,999**	14,830
Total derivative receivables	**$ 80,210**	$ 162,626
Trading liabilities		
Derivative payables:		
Interest rate[a]	**$ 15,220**	$ 27,645
Credit	**10,504**	23,566
Foreign exchange[a]	**19,818**	41,156
Equity	**11,554**	17,316
Commodity	**3,029**	11,921
Total derivative payables	**$ 60,125**	$ 121,604

(a) In 2009, cross-currency interest rate swaps previously reported in interest rate contracts were reclassified to foreign exchange contracts to be more consistent with industry practice. The effect of this change resulted in reclassifications of $14.1 billion of derivative receivables and $20.8 billion of derivative payables, between cross-currency interest rate swaps and foreign exchange contracts, as of December 31, 2008.

Impact of derivatives and hedged items on the income statement and on other comprehensive income

The following table summarizes the total pretax impact of JPMorgan Chase's derivative-related activities on the Firm's Consolidated Statements of Income and Other Comprehensive Income for the year ended December 31, 2009, by accounting designation.

	Derivative-related gains/(losses)					
Consolidated Statements of Income (in millions)	Fair value hedges[a]	Cash flow hedges	Net investment hedges	Risk management activities	Trading activities[a]	Total
Year ended December 31, 2009	**$ 801**	**$ 62**	**$ (112)**	**$ (6,590)**	**$ 16,254**	**$ 10,415**

	Derivative-related net changes in other comprehensive income					
Other Comprehensive Income/(loss)	Fair value hedges	Cash flow hedges	Net investment hedges	Risk management activities	Trading activities	Total
Year ended December 31, 2009	**$ —**	**$ 643**	**$ (259)**	**$ —**	**$ —**	**$ 384**

(a) Includes the hedge accounting impact of the hedged item for fair value hedges, and includes cash instruments within trading activities.

The tables that follow reflect more detailed information regarding the derivative-related income statement impact by accounting designation for the year ended December 31, 2009.

Fair value hedge gains and losses

The following table presents derivative instruments, by contract type, used in fair value hedge accounting relationships, as well as pretax gains/(losses) recorded on such derivatives and the related hedged items for the year ended December 31, 2009. The Firm includes gains/(losses) on the hedging derivative and the related hedged item in the same line item in the Consolidated Statements of Income.

	Gains/(losses) recorded in income			Income statement impact due to:	
Year ended December 31, 2009 (in millions)	Derivatives	Hedged items	Total income statement impact[d]	Hedge ineffectiveness[e]	Excluded components[f]
Contract type					
Interest rate[a]	$ (3,830)	$ 4,638	$ 808	$ (466)	$ 1,274
Foreign exchange[b]	(1,421)	1,445	24	—	24
Commodity[c]	(430)	399	(31)	—	(31)
Total	$ (5,681)	$ 6,482	$ 801	$ (466)	$ 1,267

(a) Primarily consists of hedges of the benchmark (e.g., LIBOR) interest rate risk of fixed-rate long-term debt. Gains and losses were recorded in net interest income.

(b) Primarily consists of hedges of the foreign currency risk of long-term debt and AFS securities for changes in spot foreign currency rates. Gains and losses related to the derivatives and the hedged items, due to changes in spot foreign currency rates, were recorded in principal transactions revenue.

(c) Consists of overall fair value hedges of physical gold and base metal inventory. Gains and losses were recorded in principal transactions revenue.

(d) Total income statement impact for fair value hedges consists of hedge ineffectiveness and any components excluded from the assessment of hedge effectiveness. The related amounts for the years ended December 31, 2008 and 2007 were net gains of $434 million and $111 million, respectively.

(e) Hedge ineffectiveness is the amount by which the gain or loss on the designated derivative instrument does not exactly offset the gain or loss on the hedged item attributable to the hedged risk.

(f) Certain components of hedging derivatives and hedged items are permitted to be excluded from the assessment of hedge effectiveness. Amounts related to excluded components are recorded in current-period income and primarily consist of the impact of the passage of time on the fair value of the hedging derivative and hedged item.

Cash flow hedge gains and losses

The following table presents derivative instruments, by contract type, used in cash flow hedge accounting relationships, and the pretax gains/(losses) recorded on such derivatives, for the year ended December 31, 2009. The Firm includes the gain/(loss) on the hedging derivative in the same line item as the offsetting change in cash flows on the hedged item in the Consolidated Statements of Income.

	Gains/(losses) recorded in income and other comprehensive income/(loss) [c]				
Year ended December 31, 2009 (in millions)	Derivatives – effective portion reclassified from AOCI to income	Hedge ineffectiveness recorded directly in income[d]	Total income statement impact	Derivatives – effective portion recorded in OCI	Total change in OCI for period
Contract type					
Interest rate[a]	$ (158)	$ (62)	$ (220)	$ 61	$ 219
Foreign exchange[b]	282	—	282	706	424
Total	$ 124	$ (62)	$ 62	$ 767	$ 643

(a) Primarily consists of benchmark interest rate hedges of LIBOR-indexed floating-rate assets and floating-rate liabilities. Gains and losses were recorded in net interest income.

(b) Primarily consists of hedges of the foreign currency risk of non–U.S. dollar–denominated revenue and expense. The income statement classification of gains and losses follows the hedged item – primarily net interest income, compensation expense and other expense.

(c) The Firm incurred $15 million of cash flow hedging net gains/(losses) on forecasted transactions that failed to occur for the year-ended December 31, 2007. The Firm did not experience forecasted transactions that failed to occur for the years ended December 31, 2009 and 2008, respectively.

(d) Hedge ineffectiveness is the amount by which the cumulative gain or loss on the designated derivative instrument exceeds the present value of the cumulative expected change in cash flows on the hedged item attributable to the hedged risk. Hedge ineffectiveness recorded directly in income for cash flow hedges were net gains of $18 million and $29 million for the years ended December 31, 2008 and 2007, respectively.

Over the next 12 months, the Firm expects that $245 million (after-tax) of net losses recorded in AOCI at December 31, 2009, related to cash flow hedges will be recognized in income. The maximum length of time over which forecasted transactions are hedged is 10 years, and such transactions primarily relate to core lending and borrowing activities.

Net investment hedge gains and losses

The following table presents hedging instruments, by contract type, that were used in net investment hedge accounting relationships, and the pretax gains/(losses) recorded on such derivatives for the year ended December 31, 2009.

	Gains/(losses) recorded in income and other comprehensive income/(loss)	
Year ended December 31, 2009 (in millions)	Derivatives – excluded components recorded directly in income[(a)]	Derivatives – effective portion recorded in OCI
Contract type		
Foreign exchange	$ (112)	$ (259)
Total	$ (112)	$ (259)

(a) Certain components of derivatives used as hedging instruments are permitted to be excluded from the assessment of hedge effectiveness, such as forward points on a futures or forwards contract. Amounts related to excluded components are recorded in current-period income. There was no ineffectiveness for net investment hedge accounting relationships during 2009.

Risk management derivatives gains and losses (not designated as hedging instruments)

The following table presents nontrading derivatives, by contract type, that were not designated in hedge relationships, and the pretax gains/(losses) recorded on such derivatives for the year ended December 31, 2009. These derivatives are risk management instruments used to mitigate or transform the risk of market exposures arising from banking activities other than trading activities, which are discussed separately below.

Year ended December 31, 2009 (in millions)	Derivatives gains/(losses) recorded in income
Contract type	
Interest rate[(a)]	$ (3,113)
Credit[(b)]	(3,222)
Foreign exchange[(c)]	(197)
Equity[(b)]	(8)
Commodity[(b)]	(50)
Total	$ (6,590)

(a) Gains and losses were recorded in principal transactions revenue, mortgage fees and related income, and net interest income.
(b) Gains and losses were recorded in principal transactions revenue.
(c) Gains and losses were recorded in principal transactions revenue and net interest income.

Trading derivative gains and losses

The Firm has elected to present derivative gains and losses related to its trading activities together with the cash instruments with which they are risk managed. All amounts are recorded in principal transactions revenue in the Consolidated Statements of Income for the year ended December 31, 2009.

Year ended December 31, 2009 (in millions)	Gains/(losses) recorded in principal transactions revenue
Type of instrument	
Interest rate	$ 4,375
Credit	5,022
Foreign exchange	4,053
Equity	1,475
Commodity	1,329
Total	$ 16,254

Credit risk, liquidity risk and credit-related contingent features

In addition to the specific market risks introduced by each derivative contract type, derivatives expose JPMorgan Chase to credit risk – the risk that derivative counterparties may fail to meet their payment obligations under the derivative contracts and the collateral, if any, held by the Firm proves to be of insufficient value to cover the payment obligation. It is the policy of JPMorgan Chase to enter into legally enforceable master netting agreements as well as to actively pursue the use of collateral agreements to mitigate derivative counterparty credit risk. The amount of derivative receivables reported on the Consolidated Balance Sheets is the fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by the Firm. These amounts represent the cost to the Firm to replace the contracts at then-current market rates should the counterparty default.

While derivative receivables expose the Firm to credit risk, derivative payables expose the Firm to liquidity risk, as the derivative contracts typically require the Firm to post cash or securities collateral with counterparties as the mark-to-market ("MTM") moves in the counterparties' favor, or upon specified downgrades in the Firm's and its subsidiaries' respective credit ratings. At December 31, 2009, the impact of a single-notch and six-notch ratings downgrade to JPMorgan Chase & Co. and its subsidiaries, primarily JPMorgan Chase Bank, N.A., would have required $1.2 billion and $3.6 billion, respectively, of additional collateral to be posted by the Firm. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Firm or the counterparty, at the fair value of the derivative contracts. At December 31, 2009, the impact of single-notch and six-notch ratings downgrades to JPMorgan Chase & Co. and its subsidiaries, primarily JPMorgan Chase Bank, N.A., related to contracts with termination triggers would have required the Firm to settle trades with a fair value of $260 million and $4.7 billion, respectively. The aggregate fair value of net derivative payables that contain contingent collateral or termination features triggered upon a downgrade was $22.6 billion at December 31, 2009, for which the Firm has posted collateral of $22.3 billion in the normal course of business.

The following table shows the current credit risk of derivative receivables after netting adjustments, and the current liquidity risk of derivative payables after netting adjustments, as of December 31, 2009.

December 31, 2009 (in millions)	Derivative receivables	Derivative payables
Gross derivative fair value	$ 1,565,518	$ 1,519,183
Netting adjustment – offsetting receivables/payables	(1,419,840)	(1,419,840)
Netting adjustment – cash collateral received/paid	(65,468)	(39,218)
Carrying value on Consolidated Balance Sheets	$ 80,210	$ 60,125

In addition to the collateral amounts reflected in the table above, at December 31, 2009, the Firm had received and posted liquid securities collateral in the amount of $15.5 billion and $11.7 billion, respectively. The Firm also receives and delivers collateral at the initiation of derivative transactions, which is available as security against potential exposure that could arise should the fair value of the transactions move in the Firm's or client's favor, respectively. Furthermore, the Firm and its counterparties hold collateral related to contracts that have a non-daily call frequency for collateral to be posted, and collateral that the Firm or a counterparty has agreed to return but has not yet settled as of the reporting date. At December 31, 2009, the Firm had received $16.9 billion and delivered $5.8 billion of such additional collateral. These amounts were not netted against the derivative receivables and payables in the table above, because, at an individual counterparty level, the collateral exceeded the fair value exposure at December 31, 2009.

Credit derivatives

Credit derivatives are financial instruments whose value is derived from the credit risk associated with the debt of a third-party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Credit derivatives expose the protection purchaser to the creditworthiness of the protection seller, as the protection seller is required to make payments under the contract when the reference entity experiences a credit event, such as a bankruptcy, a failure to pay its obligation or a restructuring. The seller of credit protection receives a premium for providing protection but has the risk that the underlying instrument referenced in the contract will be subject to a credit event.

The Firm is both a purchaser and seller of protection in the credit derivatives market and uses these derivatives for two primary purposes. First, in its capacity as a market-maker in the dealer/client business, the Firm actively risk manages a portfolio of credit derivatives by purchasing and selling credit protection, predominantly on corporate debt obligations, to meet the needs of customers. As a seller of protection, the Firm's exposure to a given reference entity may be offset partially, or entirely, with a contract to purchase protection from another counterparty on the same or similar reference entity. Second, the Firm uses credit derivatives to mitigate credit risk associated with its overall derivative receivables and traditional commercial credit lending exposures (loans and unfunded commitments) as well as to manage its exposure to residential and commercial mortgages. See Note 3 on pages 156–173 of this Annual Report for further information on the Firm's mortgage-related exposures. In accomplishing the above, the Firm uses different types of credit derivatives. Following is a summary of various types of credit derivatives.

Credit default swaps

Credit derivatives may reference the credit of either a single reference entity ("single-name") or a broad-based index, as described further below. The Firm purchases and sells protection on both single- name and index-reference obligations. Single-name CDS and index CDS contracts are both OTC derivative contracts. Single-name CDS are used to manage the default risk of a single reference entity, while CDS index are used to manage credit risk associated with the broader credit markets or credit market segments. Like the S&P 500 and other market indices, a CDS index is comprised of a portfolio of CDS across many reference entities. New series of CDS indices are established approximately every six months with a new underlying portfolio of reference entities to reflect changes in the credit markets. If one of the reference entities in the index experiences a credit event, then the reference entity that defaulted is removed from the index. CDS can also be referenced against specific portfolios of reference names or against customized exposure levels based on specific client demands: for example, to provide protection against the first $1 million of realized credit losses in a $10 million portfolio of exposure. Such structures are commonly known as tranche CDS.

For both single-name CDS contracts and index CDS, upon the occurrence of a credit event, under the terms of a CDS contract neither party to the CDS contract has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the reference obligation at the time of settling the credit derivative contract, also known as the recovery value. The protection purchaser does not need to hold the debt instrument of the underlying reference entity in order to receive amounts due under the CDS contract when a credit event occurs.

Credit-linked notes

A credit linked note ("CLN") is a funded credit derivative where the issuer of the CLN purchases credit protection on a referenced entity from the note investor. Under the contract, the investor pays the issuer par value of the note at the inception of the transaction, and in return, the issuer pays periodic payments to the investor, based on the credit risk of the referenced entity. The issuer also repays the investor the par value of the note at maturity unless the reference entity experiences a specified credit event. In that event, the issuer is not obligated to repay the par value of the note, but rather, the issuer pays the investor the difference between the par value of the note and the fair value of the defaulted reference obligation at the time of settlement. Neither party to the CLN has recourse to the defaulting reference entity. For a further discussion of CLNs, see Note 16 on pages 214–222 of this Annual Report.

The following table presents a summary of the notional amounts of credit derivatives and credit-linked notes the Firm sold and purchased as of December 31, 2009 and 2008. Upon a credit event, the Firm as seller of protection would typically pay out only a percentage of the full notional amount of net protection sold, as the amount actually required to be paid on the contracts takes into account the recovery value of the reference obligation at the time of settlement. The Firm manages the credit risk on contracts to sell protection by purchasing protection with identical or similar underlying reference entities. As such, other purchased protection referenced in the following table includes credit derivatives bought on related, but not identical, reference positions; these include indices, and portfolio coverage. The Firm does not use notional amounts as the primary measure of risk management for credit derivatives, because notional amounts do not take into account the probability of the occurrence of a credit event, recovery value of the reference obligation, or related cash instruments and economic hedges.

Total credit derivatives and credit-linked notes

	Maximum payout/Notional amount			
December 31, 2009 (in millions)	Protection sold	Protection purchased with identical underlyings[b]	Net protection (sold)/purchased[c]	Other protection purchased[d]
Credit derivatives				
Credit default swaps	$ (2,937,442)	$ 2,978,044	$ 40,602	$ 28,064
Other credit derivatives[a]	(10,575)	9,290	(1,285)	30,473
Total credit derivatives	(2,948,017)	2,987,334	39,317	58,537
Credit-linked notes	(4,031)	—	(4,031)	1,728
Total	$ (2,952,048)	$ 2,987,334	$ 35,286	$ 60,265

	Maximum payout/Notional amount			
December 31, 2008 (in millions)	Protection sold	Protection purchased with identical underlyings[b]	Net protection (sold)/purchased[c]	Other protection purchased[d]
Credit derivatives				
Credit default swaps	$ (4,099,141)	$ 3,973,616	$ (125,525)	$ 288,751
Other credit derivatives[a]	(4,026)	—	(4,026)	22,344
Total credit derivatives	(4,103,167)	3,973,616	(129,551)	311,095
Credit-linked notes	(4,080)	—	(4,080)	2,373
Total	$ (4,107,247)	$ 3,973,616	$ (133,631)	$ 313,468

(a) Primarily consists of total return swaps and credit default swap options.

(b) Represents the total notional amount of protection purchased where the underlying reference instrument is identical to the reference instrument on protection sold; the notional amount of protection purchased for each individual identical underlying reference instrument may be greater or lower than the notional amount of protection sold.

(c) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.

(d) Represents single-name and index CDS protection the Firm purchased.

The following table summarizes the notional and fair value amounts of credit derivatives and credit-linked notes as of December 31, 2009, and 2008, where JPMorgan Chase is the seller of protection. The maturity profile is based on the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of protection purchased are comparable to the profile reflected below.

Protection sold – credit derivatives and credit-linked notes ratings[a]/maturity profile

December 31, 2009 (in millions)	<1 year	1–5 years	>5 years	Total notional amount	Fair value[b]
Risk rating of reference entity					
Investment-grade (AAA/Aaa to BBB-/Baa3)	**$ (215,580)**	**$ (1,140,133)**	**$ (367,015)**	**$ (1,722,728)**	**$ (16,607)**
Noninvestment-grade (BB+/Ba1 and below)	**(150,122)**	**(806,139)**	**(273,059)**	**(1,229,320)**	**(90,410)**
Total	**$ (365,702)**	**$ (1,946,272)**	**$ (640,074)**	**$ (2,952,048)**	**$ (107,017)**

December 31, 2008 (in millions)	<1 year	1–5 years	>5 years	Total notional amount	Fair value[b]
Risk rating of reference entity					
Investment-grade (AAA/Aaa to BBB-/Baa3)	$ (179,379)	$ (1,743,283)	$ (701,775)	$ (2,624,437)	$ (222,318)
Noninvestment-grade (BB+/Ba1 and below)	(118,734)	(950,619)	(413,457)	(1,482,810)	(253,326)
Total	$ (298,113)	$ (2,693,902)	$ (1,115,232)	$ (4,107,247)	$ (475,644)

(a) Ratings scale is based on the Firm's internal ratings, which generally correspond to ratings defined by S&P and Moody's.
(b) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements and cash collateral held by the Firm.

Note 6 – Noninterest revenue

Investment banking fees

This revenue category includes advisory and equity and debt underwriting fees. Advisory fees are recognized as revenue when the related services have been performed. Underwriting fees are recognized as revenue when the Firm has rendered all services to the issuer and is entitled to collect the fee from the issuer, as long as there are no other contingencies associated with the fee (e.g., the fee is not contingent upon the customer obtaining financing). Underwriting fees are net of syndicate expense; the Firm recognizes credit arrangement and syndication fees as revenue after satisfying certain retention, timing and yield criteria.

The following table presents the components of investment banking fees.

Year ended December 31, (in millions)	2009	2008	2007
Underwriting:			
Equity	**$ 2,487**	$ 1,477	$ 1,713
Debt	**2,739**	2,094	2,650
Total underwriting	**5,226**	3,571	4,363
Advisory	**1,861**	1,955	2,272
Total investment banking fees	**$ 7,087**	$ 5,526	$ 6,635

Principal transactions

Principal transactions revenue consists of realized and unrealized gains and losses from trading activities (including physical commodities inventories that are accounted for at the lower of cost or fair value), changes in fair value associated with financial instruments held by IB for which the fair value option was elected, and loans held-for-sale within the wholesale lines of business. For loans measured at fair value under the fair value option, origination costs are recognized in the associated expense category as incurred. Principal transactions revenue also includes private equity gains and losses.

The following table presents principal transactions revenue.

Year ended December 31, (in millions)	2009	2008	2007
Trading revenue	**$ 9,870**	$ (9,791)	$ 4,736
Private equity gains/(losses)[a]	**(74)**	(908)	4,279
Principal transactions	**$ 9,796**	$ (10,699)	$ 9,015

(a) Includes revenue on private equity investments held in the Private Equity business within Corporate/Private Equity, and those held in other business segments.

Lending- and deposit-related fees

This revenue category includes fees from loan commitments, standby letters of credit, financial guarantees, deposit-related fees in lieu of compensating balances, cash management-related activities or transactions, deposit accounts and other loan-servicing activities. These fees are recognized over the period in which the related service is provided.

Asset management, administration and commissions

This revenue category includes fees from investment management and related services, custody, brokerage services, insurance premiums and commissions, and other products. These fees are recognized over the period in which the related service is provided. Performance-based fees, which are earned based on exceeding certain benchmarks or other performance targets, are accrued and recognized at the end of the performance period in which the target is met.

The following table presents the components of asset management, administration and commissions.

Year ended December 31, (in millions)	2009	2008	2007
Asset management:			
Investment management fees	**$ 4,997**	$ 5,562	$ 6,364
All other asset management fees	**356**	432	639
Total asset management fees	**5,353**	5,994	7,003
Total administration fees[a]	**1,927**	2,452	2,401
Commission and other fees:			
Brokerage commissions	**2,904**	3,141	2,702
All other commissions and fees	**2,356**	2,356	2,250
Total commissions and fees	**5,260**	5,497	4,952
Total asset management, administration and commissions	**$12,540**	$ 13,943	$ 14,356

(a) Includes fees for custody, securities lending, funds services and securities clearance.

Mortgage fees and related income

This revenue category primarily reflects RFS's mortgage banking revenue, including: fees and income derived from mortgages originated with the intent to sell; mortgage sales and servicing including losses related to the repurchase of previously sold loans; the impact of risk management activities associated with the mortgage pipeline, warehouse loans and MSRs; and revenue related to any residual interests held from mortgage securitizations. This revenue category also includes gains and losses on sales and lower of cost or fair value adjustments for mortgage loans held-for-sale, as well as changes in fair value for mortgage loans originated with the intent to sell and measured at fair value under the fair value option. For loans measured at fair value under the fair value option, origination costs are recognized in the associated expense category as incurred. Costs to originate loans held-for-sale and accounted for at the lower of cost or fair value are deferred and recognized as a component of the gain or loss on sale. Net interest income from mortgage loans, and securities gains and losses on AFS securities used in mortgage-related risk management activities, are recorded in interest income and securities gains/(losses), respectively. For a further discussion of MSRs, see Note 17 on pages 222–225 of this Annual Report.

Credit card income

This revenue category includes interchange income from credit and debit cards and servicing fees earned in connection with securitization activities. Volume-related payments to partners and expense for rewards programs are netted against interchange income; expense related to rewards programs are recorded when the rewards are earned by the customer. Other fee revenue is recognized as earned, except for annual fees, which are deferred and recognized on a straight-line basis over the 12-month period to which they pertain. Direct loan origination costs are also deferred and recognized over a 12-month period. In addition, due to the consolidation of Chase Paymentech Solutions in the fourth quarter of 2008, this category now includes net fees earned for processing card transactions for merchants.

Credit card revenue sharing agreements

The Firm has contractual agreements with numerous affinity organizations and co-brand partners, which grant the Firm exclusive rights to market to the members or customers of such organizations and partners. These organizations and partners endorse the credit card programs and provide their mailing lists to the Firm, and they may also conduct marketing activities and provide awards under the various credit card programs. The terms of these agreements generally range from three to ten years. The economic incentives the Firm pays to the endorsing organizations and partners typically include payments based on new account originations, charge volumes, and the cost of the endorsing organizations' or partners' marketing activities and awards.

The Firm recognizes the payments made to the affinity organizations and co-brand partners based on new account originations as direct loan origination costs. Payments based on charge volumes are considered by the Firm as revenue sharing with the affinity organizations and co-brand partners, which are deducted from interchange income as the related revenue is earned. Payments based on marketing efforts undertaken by the endorsing organization or partner are expensed by the Firm as incurred. These costs are recorded within noninterest expense.

Note 7 – Interest income and Interest expense

Details of interest income and interest expense were as follows.

Year ended December 31, (in millions)	**2009**	2008	2007
Interest income[a]			
Loans	**$ 38,704**	$ 38,347	$ 36,660
Securities	**12,377**	6,344	5,232
Trading assets	**12,098**	17,236	17,041
Federal funds sold and securities purchased under resale agreements	**1,750**	5,983	6,497
Securities borrowed	**4**	2,297	4,539
Deposits with banks	**938**	1,916	1,418
Other assets[b]	**479**	895	—
Total interest income	**66,350**	73,018	71,387
Interest expense[a]			
Interest-bearing deposits	**4,826**	14,546	21,653
Short-term and other liabilities[c]	**3,845**	10,933	16,142
Long-term debt	**6,309**	8,355	6,606
Beneficial interests issued by consolidated VIEs	**218**	405	580
Total interest expense	**15,198**	34,239	44,981
Net interest income	**$ 51,152**	$ 38,779	$ 26,406
Provision for credit losses	**32,015**	19,445	6,864
Provision for credit losses – accounting conformity[d]	**—**	1,534	—
Total provision for credit losses	**$ 32,015**	$ 20,979	$ 6,864
Net interest income after provision for credit losses	**$ 19,137**	$ 17,800	$ 19,542

(a) Interest income and interest expense include the current-period interest accruals for financial instruments measured at fair value, except for financial instruments containing embedded derivatives that would be separately accounted for in accordance with U.S. GAAP absent the fair value option election; for those instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue.

(b) Predominantly margin loans.

(c) Includes brokerage customer payables.

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

Note 8 – Pension and other postretirement employee benefit plans

The Firm's defined benefit pension plans and its other postretirement employee benefit ("OPEB") plans are accounted for in accordance with U.S. GAAP for retirement benefits.

Defined benefit pension plans

The Firm has a qualified noncontributory U.S. defined benefit pension plan that provides benefits to substantially all U.S. employees. The U.S. plan employs a cash balance formula in the form of pay and interest credits to determine the benefits to be provided at retirement, based on eligible compensation and years of service. Employees begin to accrue plan benefits after completing one year of service, and benefits generally vest after three years of service. In November 2009, the Firm announced certain changes to the pay credit schedule and amount of eligible compensation recognized under the U.S. plan effective February 1, 2010. The Firm also offers benefits through defined benefit pension plans to qualifying employees in certain non-U.S. locations based on factors such as eligible compensation, age and/or years of service.

It is the Firm's policy to fund the pension plans in amounts sufficient to meet the requirements under applicable employee benefit and local tax laws. On January 15, 2009, and August 28, 2009, the Firm made discretionary deductible cash contributions to its U.S. defined benefit pension plan of $1.3 billion and $1.5 billion, respectively. The amount of potential 2010 contributions to the U.S. defined benefit pension plans, if any, is not reasonably estimable at this time. The expected amount of 2010 contributions to the non-U.S. defined benefit pension plans is $171 million of which $148 million is contractually required.

JPMorgan Chase also has a number of defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act. The most significant of these plans is the Excess Retirement Plan, pursuant to which certain employees earn pay and interest credits on compensation amounts above the maximum stipulated by law under a qualified plan. The Firm announced that, effective May 1, 2009, pay credits would no longer be provided on compensation amounts above the maximum stipulated by law. The Excess Retirement Plan had an unfunded projected benefit obligation in the amount of $267 million and $273 million, at December 31, 2009 and 2008, respectively.

Defined contribution plans

JPMorgan Chase offers several defined contribution plans in the U.S. and in certain non-U.S. locations, all of which are administered in accordance with applicable local laws and regulations. The most significant of these plans is The JPMorgan Chase 401(k) Savings Plan (the "401(k) Savings Plan"), which covers substantially all U.S. employees. The 401(k) Savings Plan allows employees to make pretax and Roth 401(k) contributions to tax-deferred investment portfolios. The JPMorgan Chase Common Stock Fund, which is an investment option under the 401(k) Savings Plan, is a nonleveraged employee stock ownership plan. The Firm matches eligible employee contributions up to a certain percentage of benefits-eligible compensation per pay period, subject to plan and legal limits. Employees begin to receive matching contributions after completing a one-year-of-service requirement and are immediately vested in the Firm's contributions when made. Employees with total annual cash compensation of $250,000 or more are not eligible for matching contributions. The 401(k) Savings Plan also permits discretionary profit-sharing contributions by participating companies for certain employees, subject to a specified vesting schedule.

The Firm announced that, effective May 1, 2009, for employees earning $50,000 or more per year, matching contributions to the 401(k) Savings Plan will be made at the discretion of the Firm's management, depending on the Firm's earnings for the year. Additionally, the Firm amended the matching contribution feature to provide that: (i) matching contributions, if any, will be calculated and credited on an annual basis following the end of the calendar year; and (ii) matching contributions will vest after three years of service for employees hired on or after May 1, 2009. The Firm announced in November 2009 that, for 2009, it will contribute the full matching contributions for all eligible employees earning less than $250,000 based on their contributions to the 401(k) Savings Plan, but not to exceed 5% of their eligible compensation (e.g., base pay).

Effective August 10, 2009, JPMorgan Chase Bank, N.A. became the sponsor of the WaMu Savings Plan.

OPEB plans

JPMorgan Chase offers postretirement medical and life insurance benefits to certain retirees and postretirement medical benefits to qualifying U.S. employees. These benefits vary with length of service and date of hire and provide for limits on the Firm's share of covered medical benefits. The medical and life insurance benefits are both contributory. Postretirement medical benefits also are offered to qualifying U.K. employees.

JPMorgan Chase's U.S. OPEB obligation is funded with corporate-owned life insurance ("COLI") purchased on the lives of eligible employees and retirees. While the Firm owns the COLI policies, COLI proceeds (death benefits, withdrawals and other distributions) may be used only to reimburse the Firm for its net postretirement benefit claim payments and related administrative expense. The U.K. OPEB plan is unfunded.

The following table presents the changes in benefit obligations and plan assets and funded status amounts reported on the Consolidated Balance Sheets for the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans.

	Defined benefit pension plans					
As of or for the year ended December 31,	U.S.		Non-U.S.		OPEB plans[f]	
(in millions)	**2009**	2008	**2009**	2008	**2009**	2008
Change in benefit obligation						
Benefit obligation, beginning of year	**$ (7,796)**	$ (7,556)	**$(2,007)**	$ (2,743)	**$(1,095)**	$(1,204)
Benefits earned during the year	**(313)**	(278)	**(30)**	(29)	**(3)**	(5)
Interest cost on benefit obligations	**(514)**	(488)	**(122)**	(142)	**(64)**	(74)
Plan amendments	**384**	—	**1**	—	**—**	—
Business combinations	**(4)**[b]	—	**—**	—	**(40)**[b]	(1)[b]
Employee contributions	**NA**	NA	**(3)**	(3)	**(64)**	(61)
Net gain/(loss)	**(408)**	(147)	**(287)**	214	**101**	99
Benefits paid	**674**	673	**95**	105	**160**	154
Expected Medicare Part D subsidy receipts	**NA**	NA	**NA**	NA	**(9)**	(10)
Curtailments	**—**	—	**1**	—	**(7)**	(6)
Settlements	**—**	—	**4**	—	**—**	—
Special termination benefits	**—**	—	**(1)**	(3)	**—**	—
Foreign exchange impact and other	**—**	—	**(187)**	594	**(4)**	13
Benefit obligation, end of year	**$ (7,977)**	$ (7,796)	**$ (2,536)**	$ (2,007)	**$ (1,025)**	$ (1,095)
Change in plan assets						
Fair value of plan assets, beginning of year	**$ 6,948**	$ 9,960	**$ 2,008**	$ 2,933	**$ 1,126**	$ 1,406
Actual return on plan assets	**1,145**	(2,377)	**218**	(298)	**172**	(246)
Firm contributions	**2,799**	38	**115**	88	**2**	3
Employee contributions	**—**	—	**3**	3	**—**	—
Benefits paid	**(674)**	(673)	**(95)**	(105)	**(31)**	(37)
Settlements	**—**	—	**(4)**	—	**—**	—
Foreign exchange impact and other	**—**	—	**187**	(613)	**—**	—
Fair value of plan assets, end of year	**$ 10,218**[c][d]	$ 6,948[c]	**$ 2,432**[d]	$ 2,008	**$ 1,269**	$ 1,126
Funded/(unfunded) status[a]	**$ 2,241**[e]	$ (848)[e]	**$ (104)**	$ 1	**$ 244**	$ 31
Accumulated benefit obligation, end of year	**$ (7,964)**	$ (7,413)	**$ (2,510)**	$ (1,977)	**NA**	NA

(a) Represents overfunded plans with an aggregate balance of $3.0 billion and $122 million at December 31, 2009 and 2008, respectively, and underfunded plans with an aggregate balance of $623 million and $938 million at December 31, 2009 and 2008, respectively.

(b) Represents change resulting from the Washington Mutual plan in 2009 and the Bear Stearns plan in 2008.

(c) At December 31, 2009 and 2008, approximately $332 million and $313 million, respectively, of U.S. plan assets included participation rights under participating annuity contracts.

(d) At December 31, 2009, includes accrued receivables of $82 million and $8 million for U.S. plans and non-U.S. plans, respectively, and accrued liabilities of $265 million and $30 million for U.S. plans and non-U.S. plans, respectively, which are not measured at fair value.

(e) Does not include any amounts attributable to the Washington Mutual Qualified Pension plan in 2009 and the Washington Mutual Pension and OPEB plans in 2008. The disposition of those plans was not determinable.

(f) Includes an unfunded accumulated postretirement benefit obligation of $29 million and $32 million at December 31, 2009 and 2008, respectively, for the U.K. plan.

Gains and losses

For the Firm's defined benefit pension plans, fair value is used to determine the expected return on plan assets. For the Firm's OPEB plans, a calculated value that recognizes changes in fair value over a five-year period is used to determine the expected return on plan assets. Amortization of net gains and losses is included in annual net periodic benefit cost if, as of the beginning of the year, the net gain or loss exceeds 10% of the greater of the projected benefit obligation or the fair value of the plan assets. Any excess, as well as prior service costs, are amortized over the average future service period of defined benefit pension plan participants, which for the U.S. defined benefit pension plan is currently nine years. For OPEB plans, any excess net gains and losses also are amortized over the average future service period, which is currently five years; however, prior service costs are amortized over the average years of service remaining to full eligibility age, which is currently four years.

The following table presents pretax pension and OPEB amounts recorded in AOCI.

	Defined benefit pension plans					
December 31,	U.S.		Non-U.S.		OPEB plans	
(in millions)	**2009**	2008	**2009**	2008	**2009**	2008
Net gain/(loss)	**$ (3,039)**	$ (3,493)	**$ (666)**	$ (492)	**$ (171)**	$ (349)
Prior service credit/(cost)	**364**	(26)	**3**	2	**22**	40
Accumulated other comprehensive income/ (loss), pretax, end of year	**$ (2,675)**	$ (3,519)	**$ (663)**	$ (490)	**$ (149)**	$ (309)

The following table presents the components of net periodic benefit costs reported in the Consolidated Statements of Income and other comprehensive income for the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans.

	Defined benefit pension plans								
	U.S.			Non-U.S.			OPEB plans		
Year ended December 31, (in millions)	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Components of net periodic benefit cost									
Benefits earned during the year	**$ 313**	$ 278	$ 270	**$ 28**	$ 29	$ 36	**$ 3**	$ 5	$ 7
Interest cost on benefit obligations	**514**	488	468	**122**	142	144	**65**	74	74
Expected return on plan assets	**(585)**	(719)	(714)	**(115)**	(152)	(153)	**(97)**	(98)	(93)
Amortization:									
Net loss	**304**	—	—	**44**	25	55	**—**	—	14
Prior service cost/(credit)	**4**	4	5	**—**	—	—	**(14)**	(16)	(16)
Curtailment (gain)/loss	**1**	1	—	**—**	—	—	**5**	4	2
Settlement (gain)/loss	**—**	—	—	**1**	—	(1)	**—**	—	—
Special termination benefits	**—**	—	—	**1**	3	1	**—**	—	1
Net periodic benefit cost	**551**	52	29	**81**	47	82	**(38)**	(31)	(11)
Other defined benefit pension plans[a]	**15**	11	4	**12**	14	27	**NA**	NA	NA
Total defined benefit plans	**566**	63	33	**93**	61	109	**(38)**	(31)	(11)
Total defined contribution plans	**359**	263	268	**226**	286	219	**NA**	NA	NA
Total pension and OPEB cost included in compensation expense	**$ 925**	$ 326	$ 301	**$ 319**	$ 347	$ 328	**$ (38)**	$ (31)	$ (11)
Changes in plan assets and benefit obligations recognized in other comprehensive income									
Net (gain)/loss arising during the year	**$ (168)**	$3,243	$ (533)	**$ 183**	$ 235	$ (176)	**$ (176)**	$ 248	$ (223)
Prior service credit arising during the year	**(384)**	—	—	**(1)**	—	(2)	**—**	—	—
Amortization of net loss	**(304)**	—	—	**(44)**	(27)	(55)	**—**	—	(14)
Amortization of prior service (cost)/credit	**(6)**	(5)	(5)	**—**	—	—	**15**	15	16
Curtailment (gain)/loss	**—**	—	—	**—**	—	(5)	**2**	3	3
Settlement loss/(gain)	**—**	—	—	**(1)**	—	1	**—**	—	—
Foreign exchange impact and other	**18**	—	—	**36**	(150)	—	**(1)**	3	—
Total recognized in other comprehensive income	**(844)**	3,238	(538)	**173**	58	(237)	**(160)**	269	(218)
Total recognized in net periodic benefit cost and other comprehensive income	**$ (293)**	$3,290	$ (509)	**$ 254**	$ 105	$ (155)	**$ (198)**	$ 238	$ (229)

[a] Includes various defined benefit pension plans, which are individually immaterial.

The estimated pretax amounts that will be amortized from AOCI into net periodic benefit cost in 2010 are as follows.

	Defined benefit pension plans		OPEB plans	
Year ended December 31, 2010 (in millions)	U.S.	Non-U.S.	U.S.	Non-U.S.
Net loss	$ 226	$ 58	$ —	$ (1)
Prior service cost/(credit)	(43)	—	(13)	—
Total	$ 183	$ 58	$ (13)	$ (1)

The following table presents the actual rate of return on plan assets for the U.S. and non-U.S. defined benefit pension and OPEB plans.

	U.S.			Non-U.S.		
December 31,	**2009**	2008	2007	**2009**	2008	2007
Actual rate of return:						
Defined benefit pension plans	**13.78%**	(25.17)%	7.96%	**3.17-22.43%**	(21.58)-5.06%	0.06-7.51%
OPEB plans	**15.93**	(17.89)	6.51	**NA**	NA	NA

Plan assumptions

JPMorgan Chase's expected long-term rate of return for U.S. defined benefit pension and OPEB plan assets is a blended average of the investment advisor's projected long-term (10 years or more) returns for the various asset classes, weighted by the asset allocation. Returns on asset classes are developed using a forward-looking building-block approach and are not strictly based on historical returns. Equity returns are generally developed as the sum of inflation, expected real earnings growth and expected long-term dividend yield. Bond returns are generally developed as the sum of inflation, real bond yield and risk spread (as appropriate), adjusted for the expected effect on returns from changing yields. Other asset-class returns are derived from their relationship to the equity and bond markets. Consideration is also given to current market conditions and the short-term portfolio mix of each plan; as a result, in 2009 the Firm generally maintained the same expected return on assets as in the prior year.

For the U.K. defined benefit pension plans, which represent the most significant of the non-U.S. defined benefit pension plans, procedures similar to those in the U.S. are used to develop the expected long-term rate of return on defined benefit pension plan assets, taking into consideration local market conditions and the specific allocation of plan assets. The expected long-term rate of return on U.K. plan assets is an average of projected long-term returns for each asset class. The return on equities has been selected by reference to the yield on long-term U.K. government bonds plus an equity risk premium above the risk-free rate. The return on "AA"-rated long-term corporate bonds has been taken as the average yield on such bonds.

The discount rate used in determining the benefit obligation under the U.S. defined benefit pension and OPEB plans was selected by reference to the yields on portfolios of bonds with maturity dates and coupons that closely match each of the plan's projected cash flows; such portfolios are derived from a broad-based universe of high-quality corporate bonds as of the measurement date. In years in which these hypothetical bond portfolios generate excess cash, such excess is assumed to be reinvested at the one-year forward rates implied by the Citigroup Pension Discount Curve published as of the measurement date. The discount rate for the U.K. defined benefit pension and OPEB plans represents a rate implied from the yield curve of the year-end iBoxx £ corporate "AA" 15-year-plus bond index.

The following tables present the weighted-average annualized actuarial assumptions for the projected and accumulated postretirement benefit obligations, and the components of net periodic benefit costs, for the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans, as of and for the periods indicated.

Weighted-average assumptions used to determine benefit obligations

	U.S.		Non-U.S	
December 31,	**2009**	2008	**2009**	2008
Discount rate:				
Defined benefit pension plans	**6.00%**	6.65%	**2.00-5.70%**	2.00-6.20%
OPEB plans	**6.00**	6.70	**5.70**	6.20
Rate of compensation increase	**4.00**	4.00	**3.00-4.50**	3.00-4.00
Health care cost trend rate:				
Assumed for next year	**7.75**	8.50	**5.40**	7.00
Ultimate	**5.00**	5.00	**4.50**	5.50
Year when rate will reach ultimate	**2014**	2014	**2014**	2012

Weighted-average assumptions used to determine net periodic benefit costs

	U.S.			Non-U.S.		
Year ended December 31,	**2009**	2008	2007	**2009**	2008	2007
Discount rate:						
Defined benefit pension plans	**6.65%**	6.60%	5.95%	**2.00-6.20%**	2.25-5.80%	2.25-5.10%
OPEB plans	**6.70**	6.60	5.90	**6.20**	5.80	5.10
Expected long-term rate of return on plan assets:						
Defined benefit pension plans	**7.50**	7.50	7.50	**2.50-6.90**	3.25-5.75	3.25-5.60
OPEB plans	**7.00**	7.00	7.00	**NA**	NA	NA
Rate of compensation increase	**4.00**	4.00	4.00	**3.00-4.00**	3.00-4.25	3.00-4.00
Health care cost trend rate:						
Assumed for next year	**8.50**	9.25	10.00	**7.00**	5.75	6.63
Ultimate	**5.00**	5.00	5.00	**5.50**	4.00	4.00
Year when rate will reach ultimate	**2014**	2014	2014	**2012**	2010	2010

The following table presents the effect of a one-percentage-point change in the assumed health care cost trend rate on JPMorgan Chase's total service and interest cost and accumulated postretirement benefit obligation.

Year ended December 31, 2009 (in millions)	1-Percentage-point increase	1-Percentage-point decrease
Effect on total service and interest cost	$ 2	$ (2)
Effect on accumulated postretirement benefit obligation	36	(31)

At December 31, 2009, the Firm decreased the discount rates used to determine its benefit obligations for the U.S. defined benefit pension and OPEB plans in light of current market interest rates, which will result in an increase in expense of approximately $31 million for 2010. The 2010 expected long-term rate of return on U.S. pension plan assets and U.S. OPEB plan assets remained at 7.5% and 7.0%, respectively. The health care benefit obligation trend assumption declined from 8.5% in 2009 to 7.75% in 2010, declining to a rate of 5% in 2014. As of December 31, 2009, the interest crediting rate assumption and the assumed rate of compensation increase remained at 5.25% and 4.0%, respectively.

JPMorgan Chase's U.S. defined benefit pension and OPEB plan expense is sensitive to the expected long-term rate of return on plan assets and the discount rate. With all other assumptions held constant, a 25-basis point decline in the expected long-term rate of return on U.S. plan assets would result in an increase of approximately $28 million in 2010 U.S. defined benefit pension and OPEB plan expense. A 25-basis point decline in the discount rate for the U.S. plans would result in an increase in 2010 U.S. defined benefit pension and OPEB plan expense of approximately $12 million and an increase in the related benefit obligations of approximately $170 million. A 25-basis point decline in the discount rates for the non-U.S. plans would result in an increase in the 2010 non-U.S. defined benefit pension and OPEB plan expense of approximately $10 million. A 25-basis point increase in the interest crediting rate for the U.S. defined benefit pension plan would result in an increase in 2010 U.S. defined benefit pension expense of approximately $16 million and an increase in the related projected benefit obligations of approximately $67 million.

Investment strategy and asset allocation

The Firm's U.S. defined benefit pension plan assets are held in trust and are invested in a well-diversified portfolio of equities (including U.S. large and small capitalization and international equities), fixed income (e.g., corporate and government bonds, including U.S. Treasury inflation-indexed and high-yield securities), real estate, cash and cash equivalents, and alternative investments (e.g., hedge funds, private equity funds, and real estate funds). Non-U.S. defined benefit pension plan assets are held in various trusts and are also invested in well-diversified portfolios of equity, fixed income and other securities. Assets of the Firm's COLI policies, which are used to fund partially the U.S. OPEB plan, are held in separate accounts with an insurance company and are invested in equity and fixed income index funds. As of December 31, 2009, assets held by the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans do not include JPMorgan Chase common stock, except in connection with investments in third-party stock-index funds. In addition, the plans hold investments in funds that are sponsored or managed by affiliates of JPMorgan Chase in the amount of $1.6 billion and $1.1 billion for U.S. plans and $474 million and $354 million for non-U.S. plans, as of December 31, 2009 and 2008, respectively.

The investment policy for the Firm's U.S. postretirement employee benefit plan assets is to optimize the risk-return relationship as appropriate to the plan's needs and goals using a global portfolio of various asset classes diversified by market segment, economic sector, and issuer. Periodically the Firm performs a comprehensive analysis on the plan's asset allocations, incorporating projected asset and liability data, which focuses on the short-and long-term impact of the plan's asset allocation on cumulative pension expense, economic cost, present value of contributions and funded status. Currently, approved asset allocation ranges are: U.S. equity 15 – 35%, international equity 15 – 25%, debt securities 10 – 30%, hedge funds 10 – 30%, real estate 5 – 20%, and private equity 5 – 20%. The plan does not manage to a specific target asset allocation, but seeks to shift asset class allocations within these stated ranges. Plan assets are managed by a combination of internal and external investment managers. Asset allocation decisions also incorporate the economic outlook and anticipated implications of the macroeconomic environment on the plan's various asset classes and managers. Maintaining an appropriate level of liquidity, which takes into consideration forecasted requirements for cash is a major consideration in the asset allocation process. The Firm regularly reviews the asset allocations and all factors that continuously impact portfolio changes to ensure the plan stays within these asset allocation ranges. The asset allocations are rebalanced when deemed necessary.

The plan's investments include financial instruments which are exposed to various risks such as interest rate, market and credit risks. The plan's exposure to a concentration of credit risk is mitigated by the broad diversification of both U.S. and non-U.S. investment instruments. Additionally, the investments in each of the common/collective trust funds and registered investment companies are further diversified into various financial instruments.

For the U.K. defined benefit pension plans, which represent the most significant of the non-U.S. defined benefit pension plans, the assets are invested to maximize returns subject to an appropriate level of risk relative to the plan's liabilities. In order to reduce the volatility in returns relative to the plan's liability profiles, the U.K. defined benefit pension plan's largest asset allocations are to debt securities of appropriate durations. Other assets are then invested for capital appreciation, mainly equity securities, to provide long-term investment growth. The plan's asset allocations are reviewed on a regular basis.

The following table presents the weighted-average asset allocation of the fair values of total plan assets at December 31 for the years indicated, as well as the respective approved range/target allocation by asset category, for the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans.

	Defined benefit pension plans								
	U.S.			Non-U.S.			OPEB plans[c]		
	Target	% of plan assets		Target	% of plan assets		Target	% of plan assets	
December 31,	Allocation	**2009**	2008	Allocation	**2009**	2008	Allocation	**2009**	2008
Asset category									
Debt securities[a]	10-30%	**29%**	25%	72%	**75%**	73%	50%	**50%**	50%
Equity securities	25-60	**40**	36	26	**23**	21	50	**50**	50
Real estate	5-20	**4**	7	1	**1**	1	—	**—**	—
Alternatives[b]	15-50	**27**	32	1	**1**	5	—	**—**	—
Total	100%	**100%**	100%	100%	**100%**	100%	100%	**100%**	100%

(a) Debt securities primarily include corporate debt, U.S. federal, state, local and non-U.S. government, and mortgage-backed securities.
(b) Alternatives primarily include limited partnerships.
(c) Represents the U.S. OPEB plan only, as the U.K. OPEB plan is unfunded.

Fair value measurement of the plans' assets and liabilities
The following details the instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy, as described in Note 3 on pages 156–173 of this Annual Report.

Cash and cash equivalents
Cash and cash equivalents includes currency on hand, demand deposits with banks or other financial institutions, and any short-term, highly liquid investments readily convertible into cash (i.e., investments with original maturities of three months or less). Due to the highly liquid nature of these assets they are classified within level 1 of the valuation hierarchy.

Equity securities
Common and preferred stocks are valued at the closing price reported on the major stock exchange on which the individual securities are traded and are generally classified within level 1 of the valuation hierarchy.

Common/collective trust funds
These investments are public investment fund vehicles valued based on the quoted NAV, and they are generally classified within level 2 of the valuation hierarchy.

Limited partnerships
Limited partnerships include investments in hedge funds, private equity funds and real estate funds. Hedge funds are valued based on quoted NAV and are classified within level 2 or 3 of the valuation hierarchy depending on the level of liquidity and activity in the markets for each investment. Certain of these investments are subject to restrictions on redemption (such as initial lock-up periods, withdrawal limitations and illiquid assets) and are therefore classified within level 3 of the valuation hierarchy. The valuation of private equity investments and real estate funds require significant management judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets and therefore, they are generally classified within level 3 of the valuation hierarchy.

Corporate debt securities and U.S. federal, state, local and non-government debt securities
A limited number of these investments are valued at the closing price reported on the major exchange on which the individual securities are traded. Where quoted prices are available in an active market, the investments are classified within level 1 of the valuation hierarchy. If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Such securities are generally classified within level 2 of the valuation hierarchy.

Mortgage-backed securities
Mortgage-backed securities include both U.S. government agency and nonagency securities. U.S. government agency securities are valued based on quoted prices in active markets and are therefore classified in level 1 of the valuation hierarchy. Nonagency securities are primarily "AAA" rated residential and commercial mortgage-based securities valued using a combination of observed transaction prices, independent pricing services and relevant broker quotes. Consideration is given to the nature of the quotes and the relationships of recently evidenced market activity to the prices provided from independent pricing services. Such securities are generally classified within level 2 of the valuation hierarchy.

Derivative receivables and derivative payables
In the normal course of business, foreign exchange, credit derivative, interest rate and equity derivative contracts are used by the plans to minimize fluctuations in the value of plan assets caused by foreign exchange, credit, interest rate, and equity risks. These instruments may also be used in lieu of investing in cash instruments. These derivative instruments are primarily valued using internally developed models that use as their basis readily observable market parameters and are therefore classified within level 2 of the valuation hierarchy.

Other
Other consists of exchange traded funds ("ETFs"), mutual fund investments, and participating and non-participating annuity contracts (the "Annuity Contracts"). ETFs and mutual fund investments are valued using NAV. Those fund investments with a daily NAV that are validated by a sufficient level of observable activity (purchases and sales at NAV) are classified in level 1 of the valuation hierarchy. Where adjustments to the NAV are required, for example, for fund investments subject to restrictions on redemption (such as lock-up periods or withdrawal limitations), and/or observable activity for the fund investment is limited, fund investments are classified in level 2 or 3 of the valuation hierarchy. Annuity Contracts are valued at the amount by which the fair value of the assets held in the separate account exceeds the actuarially determined guaranteed benefit obligation covered under the Annuity Contracts. Annuity Contracts lack market mechanisms for transferring each individual policy and generally include restrictions on the timing of surrender; therefore, these investments are classified within level 3 of the valuation hierarchy.

Pension and OPEB plan assets and liabilities measured at fair value

	U.S. defined benefit pension plans				Non-U.S. defined benefit pension plans			
December 31, 2009 (in millions)	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash and cash equivalents	$ 71	$ —	$ —	$ 71	$ 27	$ —	$ —	$ 27
Equity securities[a]	2,772	14	—	2,786	493	75	—	568
Common/collective trust funds[b]	—	2,478	—	2,478	23	185	—	208
Limited partnerships[c]	—	912	1,697	2,609	—	—	—	—
Corporate debt securities[d]	—	941	—	941	—	685	—	685
U.S. federal, state, local and non-U.S. government debt securities	—	406	—	406	—	841	—	841
Mortgage-backed securities[e]	169	54	—	223	—	—	—	—
Derivative receivables[f]	—	90	—	90	—	5	—	5
Other	348	115	334	797	18	89	13	120
Total assets at fair value	$ 3,360	$ 5,010	$ 2,031	$ 10,401[g]	$ 561	$ 1,880	$ 13	$ 2,454[g]
Derivative payables	—	(76)	—	(76)	—	(30)	—	(30)
Total liabilities at fair value	$ —	$ (76)	$ —	$ (76)[h]	$ —	$ (30)	$ —	$ (30)

(a) This class is generally invested in 84% large cap funds and 16% small/mid cap funds.

(b) This class generally includes commingled funds that are issued for investment by qualified pension plans. They primarily include 39% short-term investment funds, 24% equity (index) and 15% international investments.

(c) This class includes U.S. and non-U.S. assets, which are invested as follows: 59% in hedge funds, 34% in private equity funds, and 7% in real estate funds.

(d) This class includes debt securities of U.S. and non-U.S. corporations.

(e) This class is generally invested in 72% debt securities issued by U.S. government agencies.

(f) This class primarily includes 80% foreign exchange contracts and 16% equity warrants.

(g) Excludes receivables for investments sold and dividends and interest receivables of $82 million and $8 million for U.S. and non-U.S., respectively.

(h) Excludes payables for investments purchased of $177 million and other liabilities of $12 million.

The Firm's OPEB plan is funded with COLI policies of $1.3 billion, which are classified in level 3 of the valuation hierarchy.

Changes in level 3 fair value measurements using significant unobservable inputs

	Fair value, January 1, 2009	Total realized/ (unrealized) gains/(losses)[a]	Purchases, sales and settlements	Transfers into and/or out of level 3	Fair value, December 31, 2009
U.S. defined benefit pension plans					
Limited partnerships	$ 1,537	$ 4	$ 171	$ (15)	$ 1,697
Other	315	19	—	—	334
Total U.S. plans	1,852	23	171	(15)	2,031
Non-U.S. defined benefit pension plans					
Other	14	(1)	—	—	13
Total non-U.S. plans	$ 14	$ (1)	$ —	$ —	$ 13
OPEB plans					
COLI	1,126	172	(29)	—	1,269
Total OPEB plans	$ 1,126	$ 172	$ (29)	$ —	$ 1,269

(a) Total realized (unrealized) gains/(losses) is the change in unrealized gains or losses relating to assets held at December 31, 2009.

Estimated future benefit payments

The following table presents benefit payments expected to be paid, which include the effect of expected future service, for the years indicated. The OPEB medical and life insurance payments are net of expected retiree contributions.

Year ended December 31, (in millions)	U.S. defined benefit pension plans	Non-U.S. defined benefit pension plans	OPEB before Medicare Part D subsidy	Medicare Part D subsidy
2010	$ 974	$ 90	$ 103	$ 10
2011	979	83	103	11
2012	576	93	101	12
2013	579	100	99	13
2014	584	103	97	14
Years 2015–2019	2,939	627	443	66

Note 9 – Employee stock-based incentives

Employee stock-based awards

In 2009, 2008, and 2007, JPMorgan Chase granted long-term stock-based awards to certain key employees under the 2005 Long-Term Incentive Plan (the "2005 Plan"). The 2005 Plan, plus prior Firm plans and plans assumed as the result of acquisitions, constitute the Firm's stock-based incentive plans (collectively,"LTI Plan"). The 2005 Plan became effective on May 17, 2005, and was amended in May 2008. Under the terms of the amended 2005 plan, as of December 31, 2009, 199 million shares of common stock are available for issuance through May 2013. The amended 2005 Plan is the only active plan under which the Firm is currently granting stock-based incentive awards.

Restricted stock units ("RSUs") are awarded at no cost to the recipient upon their grant. RSUs are generally granted annually and generally vest at a rate of 50% after two years and 50% after three years and convert into shares of common stock at the vesting date. In addition, RSUs typically include full-career eligibility provisions, which allow employees to continue to vest upon voluntary termination, subject to post-employment and other restrictions based on age or service-related requirements. All of these awards are subject to forfeiture until the vesting date. An RSU entitles the recipient to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding and, as such, are considered participating securities as discussed in Note 25 on page 232 of this Annual Report.

Under the LTI Plan, stock options and stock appreciation rights ("SARs") have been granted with an exercise price equal to the fair value of JPMorgan Chase's common stock on the grant date. The Firm typically awards SARs to certain key employees once per year, and it also periodically grants discretionary stock-based incentive awards to individual employees, primarily in the form of both employee stock options and SARs. The 2009, 2008 and 2007 grants of SARs to key employees vest ratably over 5 years (i.e., 20% per year) and do not include any full-career eligibility provisions. These awards generally expire 10 years after the grant date.

The Firm separately recognizes compensation expense for each tranche of each award as if it were a separate award with its own vesting date. Generally, for each tranche granted, compensation expense is recognized on a straight-line basis from the grant date until the vesting date of the respective tranche, provided that the employees will not become full-career eligible during the vesting period. For awards with full-career eligibility provisions, the Firm accrues the estimated value of awards expected to be awarded to employees who will be retirement-eligible as of the grant date without giving consideration to the impact of post-employment restrictions. For each tranche granted to employees who will become full-career eligible during the vesting period, compensation expense is recognized on a straight-line basis from the grant date until the earlier of the employee's full-career eligibility date or the vesting date of the respective tranche.

The Firm's policy for issuing shares upon settlement of employee stock-based incentive awards is to issue either new shares of common stock or treasury shares. During 2009, 2008 and 2007, the Firm settled all of its employee stock-based awards by issuing treasury shares.

In January 2008, the Firm awarded to its Chairman and Chief Executive Officer up to 2 million SARs. The terms of this award are distinct from, and more restrictive than, other equity grants regularly awarded by the Firm. The SARs, which have a 10-year term, will become exercisable no earlier than January 22, 2013, and have an exercise price of $39.83. The number of SARs that will become exercisable (ranging from none to the full 2 million) and their exercise date or dates may be determined by the Board of Directors based on an annual assessment of the performance of both the CEO and JPMorgan Chase. The Firm recognizes this award ratably over an assumed five-year service period, subject to a requirement to recognize changes in the fair value of the award through the grant date. The Firm recognized $9 million and $1 million in compensation expense in 2009 and 2008, respectively, for this award.

In connection with the Bear Stearns merger, 46 million Bear Stearns employee stock awards, principally RSUs, capital appreciation plan units and stock options, were exchanged for equivalent JPMorgan Chase awards using the merger exchange ratio of 0.21753. The fair value of these employee stock awards was included in the Bear Stearns purchase price, since substantially all of the awards were fully vested immediately after the merger date under provisions that provided for accelerated vesting upon a change of control of Bear Stearns. However, Bear Stearns vested employee stock options had no impact on the purchase price; since the employee stock options were significantly out of the money at the merger date, the fair value of these awards was equal to zero upon their conversion into JPMorgan Chase options.

The Firm also exchanged 6 million shares of its common stock for 27 million shares of Bear Stearns common stock held in an irrevocable grantor trust (the "RSU Trust"), using the merger exchange ratio of 0.21753. The RSU Trust was established to hold common stock underlying awards granted to selected employees and key executives under certain Bear Stearns employee stock plans. The RSU Trust was consolidated on JPMorgan Chase's Consolidated Balance Sheets as of June 30, 2008, and the shares held in the RSU Trust were recorded in "Shares held in RSU Trust," which reduced stockholders' equity, similar to the treatment for treasury stock. A related obligation to issue stock under these employee stock plans is reported in capital surplus. The issuance of shares held in the RSU Trust to employees has no effect on the Firm's total stockholders' equity, net income or earnings per share. Shares held in the RSU Trust were distributed in 2008 and 2009, with a majority of the shares in the RSU Trust distributed through December 2009. There were 2 million shares in the RSU Trust as of December 31, 2009. The remaining shares are expected to be distributed over the next three years.

RSU activity

Compensation expense for RSUs is measured based on the number of shares granted multiplied by the stock price at the grant date and is recognized in income as previously described. The following table summarizes JPMorgan Chase's RSU activity for 2009.

Year ended December 31, 2009 (in thousands, except weighted average data)	Number of shares	Weighted-average grant date fair value
Outstanding, January 1	148,044	$ 42.53
Granted	131,145	19.68
Vested	(49,822)	43.34
Forfeited	(8,102)	29.58
Outstanding, December 31	221,265	$ 29.32

The total fair value of shares that vested during the years ended December 31, 2009, 2008 and 2007, was $1.3 billion, $1.6 billion and $1.5 billion, respectively.

Employee stock option and SARs activity

Compensation expense, which is measured at the grant date as the fair value of employee stock options and SARs, is recognized in net income as described above.

The following table summarizes JPMorgan Chase's employee stock option and SARs activity for the year ended December 31, 2009, including awards granted to key employees and awards granted in prior years under broad-based plans.

Year ended December 31, 2009 (in thousands, except weighted-average data)	Number of options/SARs	Weighted-average exercise price	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding, January 1	283,369	$ 47.21		
Granted	24,821	20.83		
Exercised	(17,406)	30.81		
Forfeited	(1,913)	39.85		
Canceled	(22,303)	47.88		
Outstanding, December 31	266,568	$ 45.83	3.4	$ 1,311,897
Exercisable, December 31	214,443	48.94	2.2	765,276

The weighted-average grant date per share fair value of stock options and SARs granted during the years ended December 31, 2009, 2008 and 2007, was $8.24, $10.36 and $13.38, respectively. The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007, was $154 million, $391 million and $937 million, respectively.

Compensation expense

The Firm recognized noncash compensation expense related to its various employee stock-based incentive awards of $3.4 billion, $2.6 billion and $2.0 billion for the years ended December 31, 2009, 2008 and 2007, respectively, in its Consolidated Statements of Income. These amounts included an accrual for the estimated cost of stock awards to be granted to full-career eligible employees of $845 million, $409 million and $500 million for the years ended December 31, 2009, 2008 and 2007, respectively. At December 31, 2009, approximately $1.6 billion (pretax) of compensation cost related to unvested awards had not yet been charged to net income. That cost is expected to be amortized into compensation expense over a weighted-average period of 1.2 years. The Firm does not capitalize any compensation cost related to share-based compensation awards to employees.

Cash flows and tax benefits

Income tax benefits related to stock-based incentive arrangements recognized in the Firm's Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007, were $1.3 billion, $1.1 billion and $810 million, respectively.

The following table sets forth the cash received from the exercise of stock options under all stock-based incentive arrangements, and the actual income tax benefit realized related to tax deductions from the exercise of the stock options.

Year ended December 31, (in millions)	**2009**	2008	2007
Cash received for options exercised	**$ 437**	$1,026	$2,023
Tax benefit realized	**11**	72	238

In June 2007, the FASB ratified guidance which requires that realized tax benefits from dividends or dividend equivalents paid on equity-classified share-based payment awards that are charged to retained earnings be recorded as an increase to additional paid-in capital and included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. Prior to the issuance of this guidance, the Firm did not include these tax benefits as part of this pool of excess tax benefits. The Firm adopted this guidance on January 1, 2008, and it did not have an impact on the Firm's Consolidated Balance Sheets or results of operations.

The following table presents the assumptions used to value employee stock options and SARs granted during the years ended December 31, 2009, 2008 and 2007, under the Black-Scholes valuation model.

Valuation assumptions

Year ended December 31,	**2009**	2008	2007
Weighted-average annualized valuation assumptions			
Risk-free interest rate	**2.33%**	3.90%	4.78%
Expected dividend yield[a]	**3.40**	3.57	3.18
Expected common stock price volatility	**56**	34	33
Expected life (in years)	**6.6**	6.8	6.8

[a] In 2009, the expected dividend yield was determined using historical dividend yields.

The expected volatility assumption is derived from the implied volatility of JPMorgan Chase's publicly traded stock options. The expected life assumption is an estimate of the length of time that an employee might hold an option or SAR before it is exercised or canceled, and the assumption is based on the Firm's historic experience.

Note 10 – Noninterest expense

The following table presents the components of noninterest expense.

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

[a] Includes a $675 million FDIC special assessment in 2009.

[b] Included foreclosed property expense of $1.4 billion, $213 million and $56 million for 2009, 2008 and 2007, respectively. For additional information regarding foreclosed property, see Note 13 on pages 200–204 of this Annual Report.

Merger costs

Costs associated with the Bear Stearns merger and the Washington Mutual transaction in 2008, the 2004 merger with Bank One Corporation and The Bank of New York, Inc. ("The Bank of New York") transaction in 2006 are reflected in the merger costs caption of the Consolidated Statements of Income. For a further discussion of the Bear Stearns merger and the Washington Mutual transaction, see Note 2 on pages 151–156 of this Annual Report. A summary of merger-related costs is shown in the following table.

	2009			2008			
Year ended December 31, (in millions)	Bear Stearns	Washington Mutual	Total	Bear Stearns	Washington Mutual	Total	2007[b]
Expense category							
Compensation	**$ (9)**	**$ 256**	**$ 247**	$ 181	$ 113	$ 294	$ (19)
Occupancy	**(3)**	**15**	**12**	42	—	42	17
Technology and communications and other	**38**	**184**	**222**	85	11	96	188
The Bank of New York transaction	**—**	**—**	**—**	—	—	—	23
Total[a]	**$ 26**	**$ 455**	**$ 481**	$ 308	$ 124	$ 432	$ 209

[a] With the exception of occupancy- and technology-related write-offs, all of the costs in the table required the expenditure of cash.

[b] The 2007 activity reflects the 2004 merger with Bank One Corporation and the transaction with The Bank of New York.

The table below shows changes in the merger reserve balance related to costs associated with the above transactions.

	2009			2008			
Year ended December 31, (in millions)	Bear Stearns	Washington Mutual	Total	Bear Stearns	Washington Mutual	Total	2007[a]
Merger reserve balance, beginning of period	**$ 327**	**$ 441**	**$ 768**	$ —	$ —	$ —	$ 155
Recorded as merger costs	**26**	**455**	**481**	308	124	432	186
Recorded as goodwill	**(5)**	**—**	**(5)**	1,112	435	1,547	(60)
Utilization of merger reserve	**(316)**	**(839)**	**(1,155)**	(1,093)	(118)	(1,211)	(281)
Merger reserve balance, end of period	**$ 32**	**$ 57**	**$ 89**	$ 327	$ 441	$ 768	$ —[b]

[a] The 2007 activity reflects the 2004 merger with Bank One Corporation.

[b] Excludes $10 million at December 31, 2007, related to the Bank of New York transaction.

Note 11 – Securities

Securities are classified as AFS, held-to-maturity ("HTM") or trading. Trading securities are discussed in Note 3 on pages 156–173 of this Annual Report. Securities are classified primarily as AFS when used to manage the Firm's exposure to interest rate movements, as well as to make strategic longer-term investments. AFS securities are carried at fair value on the Consolidated Balance Sheets. Unrealized gains and losses, after any applicable hedge accounting adjustments, are reported as net increases or decreases to accumulated other comprehensive income/(loss). The specific identification method is used to determine realized gains and losses on AFS securities, which are included in securities gains/(losses) on the Consolidated Statements of Income. Securities that the Firm has the positive intent and ability to hold to maturity are classified as HTM and are carried at amortized cost on the Consolidated Balance Sheets. The Firm has not classified new purchases of securities as HTM for the past several years.

The following table presents realized gains and losses from AFS securities.

Year ended December 31, (in millions)	**2009**	2008	2007
Realized gains	**$ 2,268**	$ 1,890	$ 667
Realized losses	**(580)**	(254)	(503)
Net realized gains(a)	**1,688**	1,636	164
Credit losses included in securities gains(b)	**(578)**	(76)	—
Net securities gains	**$ 1,110**	$ 1,560	$ 164

(a) Proceeds from securities sold were within approximately 3% of amortized cost in 2009 and approximately 2% of amortized cost in 2008 and 2007.

(b) Includes other-than-temporary impairment losses recognized in income on certain prime and subprime mortgage-backed securities and obligations of U.S. states and municipalities.

The amortized costs and estimated fair values of AFS and HTM securities were as follows for the dates indicated.

	2009				2008			
December 31, (in millions)	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale debt securities								
Mortgage-backed securities(a):								
U.S. government agencies(b)	**$ 166,094**	**$ 2,412**	**$ 608**	**$ 167,898**	$ 115,198	$ 2,414	$ 227	$ 117,385
Residential:								
Prime and Alt-A	**5,234**	**96**	**807(d)**	**4,523**	8,826	4	1,935	6,895
Subprime	**17**	**—**	**—**	**17**	213	—	19	194
Non-U.S.	**10,003**	**320**	**65**	**10,258**	2,233	24	182	2,075
Commercial	**4,521**	**132**	**63**	**4,590**	4,623	—	684	3,939
Total mortgage-backed securities	**$ 185,869**	**$ 2,960**	**$ 1,543**	**$ 187,286**	$ 131,093	$ 2,442	$ 3,047	$ 130,488
U.S. Treasury and government agencies(b)	**30,044**	**88**	**135**	**29,997**	10,402	52	97	10,357
Obligations of U.S. states and municipalities	**6,270**	**292**	**25**	**6,537**	3,479	94	238	3,335
Certificates of deposit	**2,649**	**1**	**—**	**2,650**	17,226	64	8	17,282
Non-U.S. government debt securities	**24,320**	**234**	**51**	**24,503**	8,173	173	2	8,344
Corporate debt securities	**61,226**	**812**	**30**	**62,008**	9,358	257	61	9,554
Asset-backed securities(a):								
Credit card receivables	**25,266**	**502**	**26**	**25,742**	13,651	8	2,268	11,391
Collateralized debt and loan obligations	**12,172**	**413**	**436**	**12,149**	11,847	168	820	11,195
Other	**6,719**	**129**	**54**	**6,794**	1,026	4	135	895
Total available-for-sale debt securities	**$ 354,535**	**$ 5,431**	**$ 2,300(d)**	**$ 357,666**	$ 206,255	$ 3,262	$ 6,676	$ 202,841
Available-for-sale equity securities	**2,518**	**185**	**4**	**2,699**	3,073	2	7	3,068
Total available-for-sale securities	**$ 357,053**	**$ 5,616**	**$ 2,304(d)**	**$ 360,365**	$ 209,328	$ 3,264	$ 6,683	$ 205,909
Total held-to-maturity securities(c)	**$ 25**	**$ 2**	**$ —**	**$ 27**	$ 34	$ 1	$ —	$ 35

(a) Prior periods have been revised to conform to the current presentation.

(b) Includes total U.S. government-sponsored enterprise obligations with fair values of $153.0 billion and $120.1 billion at December 31, 2009 and 2008, respectively, which were predominantly mortgage-related.

(c) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored enterprises.

(d) Includes a total of $368 million (before tax) of unrealized losses related to prime mortgage-backed securities reported in accumulated comprehensive income not related to credit on debt securities for which credit losses have been recognized in income.

Securities impairment

The following table presents the fair value and gross unrealized losses for AFS securities by aging category at December 31.

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			
December 31, 2009 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total fair value	Total gross unrealized losses
Available-for-sale debt securities						
Mortgage-backed securities:						
U.S. government agencies	**$ 43,235**	**$ 603**	**$ 644**	**$ 5**	**$ 43,879**	**$ 608**
Residential:						
Prime and Alt-A	**183**	**27**	**3,032**	**780**	**3,215**	**807**
Subprime	**—**	**—**	**—**	**—**	**—**	**—**
Non-U.S.	**391**	**1**	**1,773**	**64**	**2,164**	**65**
Commercial	**679**	**34**	**229**	**29**	**908**	**63**
Total mortgage-backed securities	**44,488**	**665**	**5,678**	**878**	**50,166**	**1,543**
U.S. Treasury and government agencies	**8,433**	**135**	**—**	**—**	**8,433**	**135**
Obligations of U.S. states and municipalities	**472**	**11**	**389**	**14**	**861**	**25**
Certificates of deposit	**—**	**—**	**—**	**—**	**—**	**—**
Non-U.S. government debt securities	**2,471**	**46**	**835**	**5**	**3,306**	**51**
Corporate debt securities	**1,831**	**12**	**4,634**	**18**	**6,465**	**30**
Asset-backed securities:						
Credit card receivables	**—**	**—**	**745**	**26**	**745**	**26**
Collateralized debt and loan obligations	**42**	**1**	**7,883**	**435**	**7,925**	**436**
Other	**767**	**8**	**1,767**	**46**	**2,534**	**54**
Total available-for-sale debt securities	**58,504**	**878**	**21,931**	**1,422**	**80,435**	**2,300**
Available-for-sale equity securities	**1**	**1**	**3**	**3**	**4**	**4**
Total securities with gross unrealized losses	**$ 58,505**	**$ 879**	**$ 21,934**	**$ 1,425**	**$ 80,439**	**$ 2,304**

	Securities with gross unrealized losses					
	Less than 12 months		12 months or more			
December 31, 2008 (in millions)	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses	Total fair value	Total gross unrealized losses
Available-for-sale debt securities						
Mortgage-backed securities[(a)]:						
U.S. government agencies	$ 6,016	$ 224	$ 469	$ 3	$ 6,485	$ 227
Residential:						
Prime and Alt-A	6,254	1,838	333	97	6,587	1,935
Subprime	—	—	151	19	151	19
Non-U.S.	1,908	182	—	—	1,908	182
Commercial	3,939	684	—	—	3,939	684
Total mortgage-backed securities	18,117	2,928	953	119	19,070	3,047
U.S. Treasury and government agencies[(a)]	7,659	97	—	—	7,659	97
Obligations of U.S. states and municipalities	1,129	232	16	6	1,145	238
Certificates of deposit	382	8	—	—	382	8
Non-U.S. government debt securities	308	1	74	1	382	2
Corporate debt securities	558	54	30	7	588	61
Asset-backed securities[(a)]:						
Credit card receivables	10,267	1,964	472	304	10,739	2,268
Collateralized debt and loan obligations	9,059	820	—	—	9,059	820
Other	813	134	17	1	830	135
Total available-for-sale debt securities	48,292	6,238	1,562	438	49,854	6,676
Available-for-sale equity securities	19	7	—	—	19	7
Total securities with gross unrealized losses	$ 48,311	$ 6,245	$1,562	$ 438	$ 49,873	$ 6,683

(a) Prior periods have been revised to conform to the current presentation.

Other-than-temporary impairment

In April 2009, the FASB amended the other-than-temporary impairment ("OTTI") model for debt securities. The impairment model for equity securities was not affected. Under the new guidance, OTTI losses must be recognized in earnings if an investor has the intent to sell the debt security, or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost basis. However, even if an investor does not expect to sell a debt security, it must evaluate expected cash flows to be received and determine if a credit loss exists. In the event of a credit loss, only the amount of impairment associated with the credit loss is recognized in income. Amounts relating to factors other than credit losses are recorded in OCI. The guidance also requires additional disclosures regarding the calculation of credit losses, as well as factors considered in reaching a conclusion that an investment is not other-than-temporarily impaired. JPMorgan Chase early adopted the new guidance effective for the period ending March 31, 2009. The Firm did not record a transition adjustment for securities held at March 31, 2009, which were previously considered other-than-temporarily impaired, as the Firm intended to sell the securities for which it had previously recognized other-than-temporary impairments.

AFS securities in unrealized loss positions are analyzed as part of the Firm's ongoing assessment of OTTI. When the Firm intends to sell AFS securities, it recognizes an impairment loss equal to the full difference between the amortized cost basis and the fair value of those securities.

When the Firm does not intend to sell AFS equity or debt securities in an unrealized loss position, potential OTTI is considered using a variety of factors, including the length of time and extent to which the market value has been less than cost; adverse conditions specifically related to the industry, geographic area or financial condition of the issuer or underlying collateral of a security; payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. For debt securities, the Firm estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist and, where applicable for purchased or retained beneficial interests in securitized assets, to determine if any adverse changes in cash flows have occurred. The Firm's cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period – including, for example, for securities issued in a securitization, underlying loan-level data, and structural features of the securitization, such as subordination, excess spread, overcollateralization or other forms of credit enhancement. The Firm compares the losses projected for the underlying collateral ("pool losses") against the level of credit enhancement in the securitization structure to determine whether these features are sufficient to absorb the pool losses, or whether a credit loss on the AFS debt security exists. The Firm also performs other analyses to support its cash flow projections, such as first-loss analyses or stress scenarios. For debt securities, the Firm considers a decline in fair value to be other-than-temporary when the Firm does not expect to recover the entire amortized cost basis of the security. The Firm also considers an OTTI to have occurred when there is an adverse change in cash flows to beneficial interests in securitizations that are rated below "AA" at acquisition, or that can be contractually prepaid or otherwise settled in such a way that the Firm would not recover substantially all of its recorded investment. For equity securities, the Firm considers the above factors, as well as the Firm's intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value, and whether evidence exists to support a realizable value equal to or greater than the carrying value. The Firm considers a decline in fair value of AFS equity securities to be other-than-temporary if it is probable that the Firm will not recover its amortized cost basis.

The following table presents credit losses that are included in the securities gains and losses table above.

Year ended December 31, (in millions)	2009
Debt securities the Firm does not intend to sell that have credit losses	
Total losses[(a)]	$ (946)
Losses recorded in/(reclassified from) other comprehensive income	368
Credit losses recognized in income[(b)(c)]	$ (578)

(a) For initial other-than-temporary impairments, represents the excess of the amortized cost over the fair value of AFS debt securities. For subsequent impairments of the same security, represents additional declines in fair value subsequent to the previously recorded other-than-temporary impairment(s), if applicable.

(b) Represents the credit loss component of certain prime and subprime mortgage-backed securities and obligations of U.S. states and municipalities that the Firm does not intend to sell. Subsequent credit losses may be recorded on securities without a corresponding further decline in fair value if there has been a decline in expected cash flows.

(c) Excluded from this table are OTTI losses of $7 million that were recognized in income in 2009, related to subprime mortgage-backed debt securities the Firm intended to sell. These securities were sold in 2009, resulting in the recognition of a recovery of $1 million.

Changes in the credit loss component of credit-impaired debt securities

The following table presents a rollforward of the credit loss component of OTTI losses that were recognized in income in 2009, related to debt securities that the Firm does not intend to sell.

Year ended December 31, (in millions)	2009
Balance, beginning of period	$ —
Additions:	
Newly credit-impaired securities	578
Increase in losses on previously credit-impaired securities reclassified from other comprehensive income	—
Balance, end of period	$ 578

During 2009, the Firm continued to increase the size of its AFS securities portfolio. Unrealized losses have decreased since December 31, 2008, due primarily to overall market spread and market liquidity improvements, which resulted in increased pricing across asset classes. As of December 31, 2009, the Firm does not intend to sell the securities with a loss position in AOCI, and it is not likely that the Firm will be required to sell these securities before recovery of their amortized cost basis. Except for the securities reported in the table above for which credit losses have been recognized in income, the Firm believes that the securities with an unrealized loss in AOCI are not other-than-temporarily impaired as of December 31, 2009.

Following is a description of the Firm's primary security investments and the key assumptions used in its estimate of the present value of the cash flows most likely to be collected from these investments.

Mortgage-backed securities – U.S. government agencies
As of December 31, 2009, gross unrealized losses on mortgage-backed securities related to U.S. agencies were $608 million, of which $5 million related to securities that have been in an unrealized loss position for longer than 12 months. These mortgage-backed securities do not have any credit losses, given the explicit and implicit guarantees provided by the U.S. federal government.

Mortgage-backed securities – Prime and Alt-A nonagency
As of December 31, 2009, gross unrealized losses related to prime and Alt-A residential mortgage-backed securities issued by private issuers were $807 million, of which $780 million related to securities that have been in an unrealized loss position for longer than 12 months. Overall losses have decreased since December 31, 2008, due to increased market stabilization, resulting from increased demand for higher-yielding asset classes and new U.S. government programs. Approximately one-third of these positions (by amortized cost) are currently rated "AAA." The remaining two-thirds have experienced downgrades since purchase, and approximately half of the positions are currently rated below investment-grade. In analyzing prime and Alt-A residential mortgage-backed securities for potential credit losses, the Firm utilizes a methodology that focuses on loan-level detail to estimate future cash flows, which are then applied to the various tranches of issued securities based on their respective contractual provisions of the securitization trust. The loan-level analysis considers prepayment, home price, default rate and loss severity assumptions. Given this level of granularity, the underlying assumptions vary significantly taking into consideration such factors as the financial condition of the borrower, loan to value ratio, loan type and geographical location of the underlying property. The weighted average underlying default rate on the positions was 19% and the related weighted average loss severity was 51%. Based on this analysis, the Firm has recognized $138 million of OTTI losses in earnings in 2009, related to securities that have experienced increased delinquency rates associated to specific collateral types and origination dates. The unrealized loss of $807 million on the remaining securities is considered temporary, based on management's assessment that the credit enhancement levels for those securities remain sufficient to support the Firm's investment.

Mortgage-backed securities – Commercial
As of December 31, 2009, gross unrealized losses related to commercial mortgage-backed securities were $63 million, of which $29 million related to securities that have been in an unrealized loss position for longer than 12 months. The Firm's commercial mortgage-backed securities are rated "AAA," "AA," "A" and "BBB" and possess, on average, 29% subordination (a form of credit enhancement for the benefit of senior securities, expressed here as the percentage of pool losses that can occur before a senior asset-backed security will incur its first dollar of principal loss). In considering whether potential credit-related losses exist, the Firm conducted a scenario analysis, using high levels of delinquencies and losses over the near term, followed by lower levels over the longer term. Specific assumptions included: (i) default of all loans more than 60 days delinquent; (ii) additional default rates for the remaining portfolio forecasted to be up to 8% in the near term and 2% in the longer term; and (iii) loss severity assumptions ranging from 45% in the near term to 40% in later years.

Asset-backed securities – Credit card receivables
As of December 31, 2009, gross unrealized losses related to credit card receivables asset-backed securities were $26 million, which relate to securities that were in an unrealized loss position for longer than 12 months. One of the key metrics the Firm reviews for credit card–related asset-backed securities is each trust's excess spread, which is the credit enhancement resulting from cash that remains each month after payments are made to investors for principal and interest and to servicers for servicing fees, and after credit losses are allocated. The average excess spread for the issuing trusts in which the Firm holds interests ranges from 3.8% to 13.8% with a weighted average of 6.9%.

Asset-backed securities – Collateralized debt and loan obligations
As of December 31, 2009, gross unrealized losses related to collateralized debt and loan obligations were $436 million, of which $435 million related to securities that were in an unrealized loss position for longer than 12 months. Overall losses have decreased since December 31, 2008, mainly as a result of, lower default forecasts and spread tightening across various asset classes. Substantially all of these securities are rated "AAA" and "AA" and have an average credit enhancement of 29%. Credit enhancement in CLOs is primarily in the form of overcollateralization, which is the excess of the par amount of collateral over the par amount of securities. The key assumptions considered in analyzing potential credit losses were underlying loan and debt security defaults and loss severity. Based on current default trends, the Firm assumed collateral default rates of 5% for 2009 and thereafter. Further, loss severities were assumed to be 50% for loans and 80% for debt securities. Losses on collateral were estimated to occur approximately 18 months after default.

Contractual maturities and yields

The following table presents the amortized cost and estimated fair value at December 31, 2009, of JPMorgan Chase's AFS and HTM securities by contractual maturity.

	2009				
By remaining maturity December 31, (in millions)	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years[c]	Total
Available-for-sale debt securities					
Mortgage-backed securities[b]					
Amortized cost	$ 1	$ 321	$ 6,707	$ 178,840	$ 185,869
Fair value	1	335	6,804	180,146	187,286
Average yield[a]	3.40%	5.17%	4.75%	4.54%	4.54 %
U.S. Treasury and government agencies[b]					
Amortized cost	$ 307	$ 23,985	$ 5,527	$ 225	$ 30,044
Fair value	307	24,044	5,423	223	29,997
Average yield[a]	0.34%	2.34%	3.34%	5.38%	2.53 %
Obligations of U.S. states and municipalities					
Amortized cost	$ 14	$ 249	$ 353	$ 5,654	$ 6,270
Fair value	14	260	364	5,899	6,537
Average yield[a]	0.25%	4.80%	5.13%	4.75%	4.75 %
Certificates of deposit					
Amortized cost	$ 2,649	—	—	—	$ 2,649
Fair value	2,650	—	—	—	2,650
Average yield[a]	3.12%	—	—	—	3.12 %
Non-U.S. government debt securities					
Amortized cost	$ 10,726	$ 12,830	$ 616	$ 148	$ 24,320
Fair value	10,732	12,994	627	150	24,503
Average yield[a]	0.95%	2.13%	3.21%	1.71%	1.64 %
Corporate debt securities					
Amortized cost	$ 6,694	$ 53,081	$ 1,253	$ 198	$ 61,226
Fair value	6,786	53,706	1,308	208	62,008
Average yield[a]	1.78%	2.15%	5.88%	6.15%	2.19 %
Asset-backed securities					
Amortized cost	$ 13,826	$ 8,365	$ 10,386	$ 11,580	$ 44,157
Fair value	13,902	8,646	10,507	11,630	44,685
Average yield[a]	2.04%	1.70%	1.38%	1.43%	1.66 %
Total available-for-sale debt securities					
Amortized cost	$ 34,217	$ 98,831	$ 24,842	$ 196,645	$ 354,535
Fair value	34,392	99,985	25,033	198,256	357,666
Average yield[a]	1.72%	2.17%	3.05%	4.36%	3.40 %
Available-for-sale equity securities					
Amortized cost	—	—	—	$ 2,518	$ 2,518
Fair value	—	—	—	2,699	2,699
Average yield[a]	—	—	—	0.42%	0.42 %
Total available-for-sale securities					
Amortized cost	$ 34,217	$ 98,831	$ 24,842	$ 199,163	$ 357,053
Fair value	34,392	99,985	25,033	200,955	360,365
Average yield[a]	1.72%	2.17%	3.05%	4.31%	3.38 %
Total held-to-maturity securities					
Amortized cost	—	$ 3	$ 20	$ 2	$ 25
Fair value	—	3	22	2	27
Average yield[a]	—	6.96%	6.87%	6.49%	6.85 %

[a] Average yield was based on amortized cost balances at the end of the period and did not give effect to changes in fair value reflected in accumulated other comprehensive income/(loss). Yields are derived by dividing interest/dividend income (including the effect of related derivatives on available-for-sale securities and the amortization of premiums and accretion of discounts) by total amortized cost. Taxable-equivalent yields are used where applicable.

[b] U.S. government agencies and U.S. government-sponsored enterprises were the only issuers whose securities exceeded 10% of JPMorgan Chase's total stockholders' equity at December 31, 2009.

[c] Includes securities with no stated maturity. Substantially all of the Firm's mortgage-backed securities and collateralized mortgage obligations are due in 10 years or more, based on contractual maturity. The estimated duration, which reflects anticipated future prepayments based on a consensus of dealers in the market, is approximately five years for nonagency mortgage-backed securities and three years for collateralized mortgage obligations.

Note 12 – Securities financing activities

JPMorgan Chase enters into resale agreements, repurchase agreements, securities borrowed transactions and securities loaned transactions, primarily to finance the Firm's inventory positions, acquire securities to cover short positions, accommodate customers' financing needs, and settle other securities obligations.

Resale agreements and repurchase agreements are generally treated as collateralized financing transactions carried on the Consolidated Balance Sheets at the amounts at which the securities will be subsequently sold or repurchased, plus accrued interest. On January 1, 2007, pursuant to the adoption of the fair value option, the Firm elected fair value measurement for certain resale and repurchase agreements. In 2008, the Firm elected fair value measurement for certain newly transacted securities borrowed and securities lending agreements. For a further discussion of the fair value option, see Notes 4 and 20 on pages 173–175 and 227, respectively, of this Annual Report. The securities financing agreements for which the fair value option was elected are reported within securities purchased under resale agreements; securities loaned or sold under repurchase agreements; securities borrowed; and other borrowed funds on the Consolidated Balance Sheets. Generally, for agreements carried at fair value, current-period interest accruals are recorded within interest income and interest expense, with changes in fair value reported in principal transactions revenue. However, for financial instruments containing embedded derivatives that would be separately accounted for in accordance with FASB guidance for hybrid instruments, all changes in fair value, including any interest elements, are reported in principal transactions revenue. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis. JPMorgan Chase takes possession of securities purchased under resale agreements. On a daily basis, JPMorgan Chase monitors the market value of the underlying collateral, primarily U.S. and non-U.S. government and agency securities, that it has received from its counterparties, and requests additional collateral when necessary.

Transactions similar to financing activities that do not meet the definition of a repurchase agreement are accounted for as "buys" and "sells" rather than financing transactions. These transactions are accounted for as a purchase/(sale) of the underlying securities with a forward obligation to sell/(purchase) the securities. The forward purchase/(sale) obligation is a derivative that is recorded on the Consolidated Balance Sheets at fair value, with changes in fair value recorded in principal transactions revenue.

Securities borrowed and securities lent are recorded at the amount of cash collateral advanced or received. Securities borrowed consist primarily of government and equity securities. JPMorgan Chase monitors the market value of the securities borrowed and lent on a daily basis and calls for additional collateral when appropriate. Fees received or paid in connection with securities borrowed and lent are recorded in interest income or interest expense.

The following table details the components of collateralized financings.

December 31, (in millions)	2009	2008
Securities purchased under resale agreements[a]	**$ 195,328**	$ 200,265
Securities borrowed[b]	**119,630**	124,000
Securities sold under repurchase agreements[c]	**$ 245,692**	$ 174,456
Securities loaned	**7,835**	6,077

(a) Includes resale agreements of $20.5 billion and $20.8 billion accounted for at fair value at December 31, 2009 and 2008, respectively.
(b) Includes securities borrowed of $7.0 billion and $3.4 billion accounted for at fair value at December 31, 2009 and 2008, respectively.
(c) Includes repurchase agreements of $3.4 billion and $3.0 billion accounted for at fair value at December 31, 2009 and 2008, respectively.

JPMorgan Chase pledges certain financial instruments it owns to collateralize repurchase agreements and other securities financings. Pledged securities that can be sold or repledged by the secured party are identified as financial instruments owned (pledged to various parties) on the Consolidated Balance Sheets.

At December 31, 2009, the Firm received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately $614.4 billion. This collateral was generally obtained under resale agreements, securities borrowing agreements and customer margin loans. Of these securities, approximately $392.9 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

Note 13 – Loans

The accounting for a loan may differ based on whether it is originated or purchased and whether the loan is used in an investing or trading strategy. For purchased loans held-for-investment, the accounting also differs depending on whether a loan is credit-impaired at the date of acquisition. Purchased loans with evidence of credit deterioration since the origination date and for which it is probable, at acquisition, that all contractually required payments receivable will not be collected are considered to be credit-impaired. The measurement framework for loans in the Consolidated Financial Statements is one of the following:

- At the principal amount outstanding, net of the allowance for loan losses, unearned income, unamortized discounts and premiums, and any net deferred loan fees or costs, for loans held for investment (other than purchased credit-impaired loans);
- At the lower of cost or fair value, with valuation changes recorded in noninterest revenue, for loans that are classified as held-for-sale;
- At fair value, with changes in fair value recorded in noninterest revenue, for loans classified as trading assets or risk managed on a fair value basis; or
- Purchased credit-impaired loans held-for-investment are initially measured at fair value, which includes estimated future credit losses. Accordingly, an allowance for loan losses related to these loans is not recorded at the acquisition date.

See Note 4 on pages 173–175 of this Annual Report for further information on the Firm's elections of fair value accounting under the fair value option. See Note 3 and Note 4 on pages 156–173 and 173–175 of this Annual Report for further information on loans carried at fair value and classified as trading assets.

For loans held-for-investment, other than purchased credit-impaired loans, interest income is recognized using the interest method or on a basis approximating a level rate of return over the term of the loan.

Nonaccrual loans are those on which the accrual of interest has been suspended. Loans (other than credit card loans, certain consumer loans insured by U.S. government agencies and purchased credit-impaired loans, which are discussed below) are placed on nonaccrual status and considered nonperforming when full payment of principal and interest is in doubt, or when principal or interest is 90 days or more past due and collateral, if any, is insufficient to cover principal and interest. Interest accrued but not collected at the date a loan is placed on nonaccrual status is reversed against interest income. In addition, the amortization of net deferred loan fees is suspended. Interest income on nonaccrual loans may be recognized only to the extent it is received in cash. However, where there is doubt regarding the ultimate collectibility of loan principal, cash receipts are applied to reduce the carrying value of such loans (i.e., the cost recovery method). Interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full.

Loans may be returned to accrual status when repayment is reasonably assured and there has been demonstrated performance under the terms of the loan or, if applicable, the terms of the restructured loans.

Wholesale and business banking loans (which are risk-rated) are charged off to the allowance for loan losses when it is highly certain that a loss has been realized. This determination includes many factors, including the prioritization of the Firm’s claim in bankruptcy, expectations of the workout/restructuring of the loan and valuation of the borrower's equity.

Consumer loans, other than business banking and purchased credit-impaired loans, are generally charged off to the allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council policy. For example, credit card loans are charged off by the end of the month in which the account becomes 180 days past due or within 60 days from receiving notification about a specified event (e.g., bankruptcy of the borrower), which ever is earlier. Residential mortgage products are generally charged off to net realizable value no later than 180 days past due. Other consumer products, if collateralized, are generally charged off to net realizable value at 120 days past due.

In addition, any impaired loan that is determined to be collateral-dependent is charged-off to an amount equal to the fair value of the collateral less costs to sell. Loans are identified as collateral-dependent when management believes that collateral is the sole source of repayment.

A collateralized loan is reclassified to assets acquired in loan satisfactions, within other assets, at the lower of the recorded investment in the loan or the fair value of the collateral less estimated costs to sell, only when JPMorgan Chase has taken physical possession of the collateral, regardless of whether formal foreclosure proceedings have taken place.

Loans within the held-for-investment portfolio that management decides to sell are transferred to the held-for-sale portfolio. Transfers to held-for-sale are recorded at the lower of cost or fair value on the date of transfer. Credit-related losses are charged off to the allowance for loan losses and losses due to changes in interest rates or exchange rates are recognized in noninterest revenue.

Loans within the held-for-sale portfolio that management decides to retain are transferred to the held-for-investment portfolio at the lower of cost or fair value. These loans are subsequently assessed for impairment based on the Firm’s allowance methodology. For a further discussion of the methodologies used in establishing the Firm’s allowance for loan losses, see Note 14 on pages 204–206 of this Annual Report.

The composition of the Firm’s aggregate loan portfolio at each of the dates indicated was as follows.

December 31, (in millions)	**2009**	2008
U.S. wholesale loans:		
Commercial and industrial	**$ 49,103**	$ 70,208
Real estate	**54,968**	61,888
Financial institutions	**13,372**	20,615
Government agencies	**5,634**	5,918
Other	**23,383**	23,157
Loans held-for-sale and at fair value	**2,625**	4,990
Total U.S. wholesale loans	**149,085**	186,776
Non-U.S. wholesale loans:		
Commercial and industrial	**19,138**	27,977
Real estate	**2,227**	2,623
Financial institutions	**11,755**	16,381
Government agencies	**1,707**	603
Other	**18,790**	18,719
Loans held-for-sale and at fair value	**1,473**	8,965
Total non-U.S. wholesale loans	**55,090**	75,268
Total wholesale loans: (a)(b)		
Commercial and industrial	**68,241**	98,185
Real estate(c)	**57,195**	64,511
Financial institutions	**25,127**	36,996
Government agencies	**7,341**	6,521
Other	**42,173**	41,876
Loans held-for-sale and at fair value(d)	**4,098**	13,955
Total wholesale loans	**204,175**	262,044
Consumer loans:(e)		
Home equity – senior lien(f)	**27,376**	29,793
Home equity – junior lien(g)	**74,049**	84,542
Prime mortgage	**66,892**	72,266
Subprime mortgage	**12,526**	15,330
Option ARMs	**8,536**	9,018
Auto loans	**46,031**	42,603
Credit card(h)(i)	**78,786**	104,746
Other	**31,700**	33,715
Loans held-for-sale(j)	**2,142**	2,028
Total consumer loans – excluding purchased credit-impaired	**348,038**	394,041
Consumer loans – purchased credit-impaired	**81,245**	88,813
Total consumer loans	**429,283**	482,854
Total loans(k)	**$ 633,458**	$ 744,898

(a) Includes Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management.
(b) During the fourth quarter of 2009, certain industry classifications were modified to better reflect risk correlations and enhance the Firm's management of industry risk. Prior periods have been revised to reflect the current presentation.
(c) Represents credit extended for real estate-related purposes to borrowers who are primarily in the real estate development or investment businesses, and for which the repayment is predominantly from the sale, lease, management, operations or refinancing of the property.
(d) Includes loans for commercial and industrial, real estate, financial institutions and other of $3.1 billion, $44 million, $278 million and $715 million, respectively, at December 31, 2009, and $11.0 billion, $428 million, $1.5 billion and $995 million, respectively, at December 31, 2008.
(e) Includes Retail Financial Services, Card Services and the Corporate/Private Equity segment.
(f) Represents loans where JPMorgan Chase holds the first security interest on the property.
(g) Represents loans where JPMorgan Chase holds a security interest that is subordinate in rank to other liens.
(h) Includes billed finance charges and fees net of an allowance for uncollectible amounts.
(i) Includes $1.0 billion of loans at December 31, 2009, held by the Washington Mutual Master Trust, which were consolidated onto the Firm's balance sheet at fair value during the second quarter of 2009. See Note 15 on pages 206–213 of this Annual Report.
(j) Includes loans for prime mortgage and other (largely student loans) of $450 million and $1.7 billion at December 31, 2009, respectively, and $206 million and $1.8 billion at December 31, 2008, respectively.
(k) Loans (other than purchased credit-impaired loans and those for which the fair value option has been elected) are presented net of unearned income, unamortized discounts and premiums, and net deferred loan costs of $1.4 billion and $2.0 billion at December 31, 2009 and 2008, respectively. Prior periods have been revised to conform to the current presentation.

The following table reflects information about the Firm's loan sales.

Year ended December 31, (in millions)	2009	2008	2007
Net gains/(losses) on sales of loans (including lower of cost or fair value adjustments)[a]	**$ 439**	$ (2,508)	$ 99

(a) Excludes sales related to loans accounted for at fair value.

Impaired loans

Impaired loans include the following:

- Risk-rated loans that have been placed on nonaccrual status and/or that have been modified in a troubled debt restructuring.
- Consumer loans that have been modified in a troubled debt restructuring.

Loans with insignificant delays or insignificant short falls in the amount of payments expected to be collected are not considered to be impaired.

All impaired loans are evaluated for an asset-specific allowance as described in Note 14 on pages 204–206 of this Annual Report. Both wholesale and consumer loans are deemed impaired upon being contractually modified in a troubled debt restructuring. Troubled debt restructurings typically result from the Firm's loss mitigation activities and occur when JPMorgan Chase grants a concession to a borrower who is experiencing financial difficulty in order to minimize the Firm's economic loss and to avoid foreclosure or repossession of collateral. Once restructured in a troubled debt restructuring, a loan is generally considered impaired until its maturity, regardless of whether the borrower performs under the modified terms. Although such a loan may be returned to accrual status if the criteria set forth in the Firm's accounting policy are met, the loan would continue to be evaluated for an asset-specific allowance for loan losses and the Firm would continue to report the loan in the impaired loan table below.

The tables below set forth information about the Firm's impaired loans, excluding both purchased credit-impaired loans and modified credit card loans, which are separately discussed below.

December 31, (in millions)	2009	2008
Impaired loans with an allowance:		
Wholesale	**$ 6,216**	$ 2,026
Consumer[a]	**3,978**	2,252
Total impaired loans with an allowance	**10,194**	4,278
Impaired loans without an allowance:[b]		
Wholesale	**760**	62
Consumer[a]	**—**	—
Total impaired loans without an allowance	**760**	62
Total impaired loans	**$ 10,954**	$ 4,340
Allowance for impaired loans:		
Wholesale	**$ 2,046**	$ 712
Consumer[a]	**996**	379
Total allowance for impaired loans[c]	**$ 3,042**	$ 1,091

Year ended December 31, (in millions)	2009	2008	2007
Average balance of impaired loans :			
Wholesale	**$ 4,719**	$ 896	$ 316
Consumer[a]	**3,518**	1,211	317
Total average impaired loans	**$ 8,237**	$ 2,107	$ 633
Interest income recognized on impaired loans:			
Wholesale	**$ 15**	$ —	$ —
Consumer[a]	**138**	57	—
Total interest income recognized on impaired loans	**$ 153**	$ 57	$ —

(a) Excludes credit card loans.
(b) When the discounted cash flows, collateral value or market price equals or exceeds the carrying value of the loan, then the loan does not require an allowance.
(c) The allowance for impaired loans is included in JPMorgan Chase's allowance for loan losses.

As of December 31, 2009, wholesale loans restructured in troubled debt restructurings were approximately $1.1 billion.

During 2009, the Firm reviewed its residential real estate portfolio to identify homeowners most in need of assistance, opened new regional counseling centers, hired additional loan counselors, introduced new financing alternatives, proactively reached out to borrowers to offer prequalified modifications, and commenced a new process to independently review each loan before moving it into the foreclosure process. In addition, during the first quarter of 2009, the U.S. Treasury introduced the Making Home Affordable ("MHA") programs, which are designed to assist eligible homeowners in a number of ways, one of which is by modifying the terms of their mortgages. The Firm is participating in the MHA programs while continuing to expand its other loss mitigation efforts for financially distressed borrowers who do not qualify for the MHA programs. The MHA programs and the Firm's other loss-mitigation programs for financially troubled borrowers generally represent various concessions, such as term extensions, rate reductions and deferral of principal payments, that would have otherwise been required under the terms of the original agreement. When the Firm modifies home equity lines of credit in troubled debt restructurings, future lending commitments related to the modified loans are canceled as part of the terms of the modification. Under all of these programs, borrowers must make at least three payments under the revised contractual terms during a trial period and be successfully re-underwritten with income verification before their loan can be permanently modified. Upon contractual modification, retained residential real estate loans, other than purchased credit-impaired loans, are accounted for as troubled debt restructurings.

Consumer loans with balances of approximately $3.1 billion and $1.8 billion have been permanently modified and accounted for as troubled debt restructurings as of December 31, 2009 and 2008, respectively. Of these loans, $966 million and $853 million were classified as nonperforming at December 31, 2009 and 2008, respectively.

JPMorgan Chase has also modified the terms of credit card loan agreements with borrowers who have experienced financial difficulty. Such modifications may include reducing the interest rate on the card and/or placing the customer on a fixed payment plan not exceeding 60 months; in all cases, the Firm cancels the customer's available line of credit on the credit card. If the cardholder does not comply with the modified payment terms, then the credit card loan agreement will revert back to its original payment terms, with the amount of any loan outstanding reflected in the appropriate delinquency "bucket." The loan amount may then be charged-off in accordance with the Firm's standard charge-off policy. Under these modification programs, $5.1 billion and $2.4 billion of on-balance sheet credit card loans outstandings have been modified at December 31, 2009 and 2008, respectively. In accordance with the Firm's methodology for determining its consumer allowance for loan losses, the Firm had already recognized a provision for loan losses on these credit card loans; accordingly the modifications to these credit card loans had no incremental impact on the Firm's allowance for loan losses.

Purchased credit-impaired loans

In connection with the Washington Mutual transaction, JPMorgan Chase acquired certain loans that it deemed to be credit-impaired. Wholesale loans with a carrying amount of $135 million at December 31, 2009, down from $224 million at December 31, 2008, were determined to be credit-impaired at the date of acquisition. These wholesale loans are being accounted for individually (not on a pooled basis) and are reported as nonperforming loans since cash flows for each individual loan are not reasonably estimable. Such loans are excluded from the remainder of the following discussion, which relates solely to purchased credit-impaired consumer loans.

Purchased credit-impaired consumer loans were determined to be credit-impaired based on specific risk characteristics of the loan, including product type, loan-to-value ratios, FICO scores, and past due status. Purchasers are permitted to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. With respect to the Washington Mutual transaction, all of the consumer loans were aggregated into pools of loans with common risk characteristics.

The table below sets forth information about these purchased credit-impaired consumer loans at the acquisition date.

(in millions)	September 25, 2008[d]
Contractually required payments receivable (including interest)	$ 188,958
Less: Nonaccretable difference	(59,396)
Cash flows expected to be collected[a][b]	129,562
Less: Accretable yield[b][c]	(39,454)
Fair value of loans acquired	$ 90,108

(a) Represents undiscounted principal and interest cash flows expected at acquisition.
(b) During the first quarter of 2009, the Firm continued to refine its model to estimate future cash flows for its purchased credit-impaired consumer loans, which resulted in an adjustment of the initial estimate of cash flows expected to be collected. These refinements, which primarily affected the amount of the undiscounted interest cash flows expected to be received over the life of the loans, resulted in a $6.8 billion increase in the Firm's initial estimates of cash flows expected to be collected and the accretable yield.
(c) This amount is recognized into interest income over the estimated lives of the underlying pools of loans.
(d) Date of the Washington Mutual transaction.

The Firm determined the fair value of the purchased credit-impaired consumer loans at the acquisition date by discounting the cash flows expected to be collected at a market observable discount rate, when available, adjusted for factors that a market participant would consider in determining fair value. In determining the cash flows expected to be collected, management incorporated assumptions regarding default rates, loss severities and the amounts and timing of prepayments. Contractually required payments receivable represent the total undiscounted amount of all uncollected contractual principal and interest payments, both past due and due in the future, adjusted for the effect of estimated prepayments.

The accretable yield represents the excess of cash flows expected to be collected over the carrying value of the purchased credit-impaired loans. This amount is not reported on the Firm's Consolidated Balance Sheets but is accreted into interest income at a level rate of return over the expected lives of the underlying pools of loans. For variable rate loans, expected future cash flows were initially based on the rate in effect at acquisition; expected future cash flows are recalculated as rates change over the lives of the loans.

The table below sets forth the accretable yield activity for these loans for the years ended December 31, 2009 and 2008.

Accretable Yield Activity

(in millions)	**2009**	2008
Balance, January 1	**$ 32,619**	$ —
Washington Mutual acquisition[a]	**—**	39,454
Accretion into interest income	**(4,363)**	(1,292)
Changes in interest rates on variable rate loans	**(4,849)**	(5,543)
Other changes in expected cash flows[b]	**2,137**	—
Balance, December 31,	**$ 25,544**	$ 32,619
Accretable yield percentage	**5.14%**	5.81%

(a) During the first quarter of 2009, the Firm continued to refine its model to estimate future cash flows for its purchased credit-impaired consumer loans, which resulted in an adjustment of the initial estimate of cash flows expected to be collected. These refinements, which primarily affected the amount of undiscounted interest cash flows expected to be received over the life of the loans, resulted in a $6.8 billion increase in the Firm's initial estimate of cash flows expected to be collected and the accretable yield. However, on a discounted basis, these refinements did not have a material impact on the fair value of the purchased credit-impaired loans as of the September 25, 2008, acquisition date; nor did they have a material impact on the amount of interest income recognized in the Firm's Consolidated Statements of Income since that date.

(b) Other changes in expected cash flows include the net impact of changes in estimated prepayments and reclassifications to the nonaccretable difference.

On a quarterly basis, the Firm updates the amount of loan principal and interest cash flows expected to be collected, incorporating assumptions regarding default rates, loss severities, the amounts and timing of prepayments and other factors that are reflective of current market conditions. Probable decreases in expected loan principal cash flows trigger the recognition of impairment, which is then measured as the present value of the expected principal loss plus any related foregone interest cash flows discounted at the pool's effective interest rate. Impairments that occur after the acquisition date are recognized through the provision and allowance for loan losses. Probable and significant increases in expected principal cash flows would first reverse any previously recorded allowance for loan losses; any remaining increases are recognized prospectively as interest income. The impacts of (i) prepayments, (ii) changes in variable interest rates, and (iii) any other changes in the timing of expected cash flows are recognized prospectively as adjustments to interest income. Disposals of loans, which may include sales of loans, receipt of payments in full by the borrower, or foreclosure, result in removal of the loan from the purchased credit-impaired portfolio.

If the timing and/or amounts of expected cash flows on these purchased credit-impaired loans were determined not to be reasonably estimable, no interest would be accreted and the loans would be reported as nonperforming loans; however, since the timing and amounts of expected cash flows for these purchased credit-impaired loans are reasonably estimable, interest is being accreted and the loans are being reported as performing loans.

Charge-offs are not recorded on purchased credit-impaired loans until actual losses exceed the estimated losses that were recorded as purchase accounting adjustments at acquisition date. To date, no charge-offs have been recorded for these loans.

Purchased credit-impaired loans acquired in the Washington Mutual transaction are reported in loans on the Firm's Consolidated Balance Sheets. In 2009, an allowance for loan losses of $1.6 billion was recorded for the prime mortgage and option ARM pools of loans. The net aggregate carrying amount of the pools that have an allowance for loan losses was $47.2 billion at December 31, 2009. This allowance for loan losses is reported as a reduction of the carrying amount of the loans in the table below.

The table below provides additional information about these purchased credit-impaired consumer loans.

December 31, (in millions)	**2009**	2008
Outstanding balance[a]	**$ 103,369**	$ 118,180
Carrying amount	**79,664**	88,813

(a) Represents the sum of contractual principal, interest and fees earned at the reporting date.

Purchased credit-impaired loans are also being modified under the MHA programs and the Firm's other loss mitigation programs. For these loans, the impact of the modification is incorporated into the Firm's quarterly assessment of whether a probable and/or significant change in estimated future cash flows has occurred, and the loans continue to be accounted for as and reported as purchased credit-impaired loans.

Foreclosed property

The Firm acquires property from borrowers through loan restructurings, workouts, and foreclosures, which is recorded in other assets on the Consolidated Balance Sheets. Property acquired may include real property (e.g., land, buildings, and fixtures) and commercial and personal property (e.g., aircraft, railcars, and ships). Acquired property is valued at fair value less costs to sell at acquisition. Each quarter the fair value of the acquired property is reviewed and adjusted, if necessary. Any adjustments to fair value in the first 90 days are charged to the allowance for loan losses and thereafter adjustments are charged/credited to noninterest revenue–other. Operating expense, such as real estate taxes and maintenance, are charged to other expense.

Note 14 – Allowance for credit losses

The allowance for loan losses includes an asset-specific component, a formula-based component and a component related to purchased credit-impaired loans.

The asset-specific component relates to loans considered to be impaired, which includes any loans that have been modified in a troubled debt restructuring as well as risk-rated loans that have been placed on nonaccrual status. An asset-specific allowance for impaired loans is established when the loan's discounted cash flows (or, when available, the loan's observable market price) is lower than the recorded investment in the loan. To compute the asset-specific component of the allowance, larger loans are evaluated individually, while smaller loans are evaluated as pools using historical loss experience for the respective class of assets. Risk-rated loans (primarily wholesale loans) are pooled by risk rating, while scored loans (i.e., consumer loans) are pooled by product type.

The Firm generally measures the asset-specific allowance as the difference between the recorded investment in the loan and the present value of the cash flows expected to be collected, discounted at the loan's original effective interest rate. Subsequent changes in measured impairment due to the impact of discounting are reported as an adjustment to the provision for loan losses, not as an adjustment to interest income. An asset-specific allowance for an impaired loan with an observable market price is measured as the difference between the recorded investment in the loan and the loan's fair value.

Certain impaired loans that are determined to be collateral-dependent are charged-off to the fair value of the collateral less costs to sell. When collateral-dependent commercial real-estate loans are determined to be impaired, updated appraisals are typically obtained and updated every six to twelve months. The Firm also considers both borrower- and market-specific factors, which may result in obtaining appraisal updates at more frequent intervals or broker-price opinions in the interim.

The formula-based component is based on a statistical calculation and covers performing risk-rated loans and consumer loans, except for loans restructured in troubled debt restructurings and purchased credit-impaired loans. See Note 13 on pages 203–204 of this Annual Report for more information on purchased credit-impaired loans.

For risk-rated loans, the statistical calculation is the product of an estimated probability of default ("PD") and an estimated loss given default ("LGD"). These factors are differentiated by risk rating and expected maturity. In assessing the risk rating of a particular loan, among the factors considered are the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based on an evaluation of historical and current information, and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could impact the risk rating assigned by the Firm to that loan. PD estimates are based on observable external through-the-cycle data, using credit-rating agency default statistics. LGD estimates are based on a study of actual credit losses over more than one credit cycle.

For scored loans, the statistical calculation is performed on pools of loans with similar risk characteristics (e.g., product type) and generally computed as the product of actual outstandings, an expected-loss factor and an estimated-loss coverage period. Expected-loss factors are statistically derived and consider historical factors such as loss frequency and severity. In developing loss frequency and severity assumptions, the Firm considers known and anticipated changes in the economic environment, including changes in housing prices, unemployment rates and other risk indicators. A nationally recognized home price index measure is used to develop loss severity estimates on defaulted residential real estate loans at the metropolitan statistical areas ("MSA") level. These loss severity estimates are regularly validated by actual losses recognized on defaulted loans, market-specific real estate appraisals and property sales activity. Real estate appraisals are updated when the loan is charged-off, annually thereafter, and at the time of the final foreclosure sale. Forecasting methods are used to estimate expected-loss factors, including credit loss forecasting models and vintage-based loss forecasting.

The economic impact of potential modifications of residential real estate loans is not included in the formula-based allowance because of the uncertainty regarding the level and results of such modifications. As discussed in Note 13 on pages 200–204 of this Annual Report, modified residential real estate loans are generally accounted for as troubled debt restructurings upon contractual modification and are evaluated for an asset-specific allowance at and subsequent to modification. Assumptions regarding the loans' expected re-default rates are incorporated into the measurement of the asset-specific allowance.

Management applies judgment within an established framework to adjust the results of applying the statistical calculation described above. For the risk-rated portfolios, any adjustments made to the statistical calculation are based on management's quantitative and qualitative assessment of the quality of underwriting standards; relevant internal factors affecting the credit quality of the current portfolio; and external factors, such as current macroeconomic and political conditions that have occurred but are not yet reflected in the loss factors. Factors related to unemployment, housing prices, and both concentrated and deteriorating industries are also incorporated into the calculation, where relevant. For the scored loan portfolios, adjustments to the statistical calculation are accomplished in part by analyzing the historical loss experience for each major product segment. The determination of the appropriate adjustment is based on management's view of uncertainties that relate to current macroeconomic and political conditions, the quality of underwriting standards, and other relevant internal and external factors affecting the credit quality of the portfolio.

Management establishes an asset-specific allowance for lending-related commitments that are considered impaired and computes a formula-based allowance for performing wholesale lending-related commitments. These are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowances for loan losses and lending-related commitments in future periods.

At least quarterly, the allowance for credit losses is reviewed by the Chief Risk Officer, the Chief Financial Officer and the Controller of the Firm and discussed with the Risk Policy and Audit Committees of the Board of Directors of the Firm. As of December 31, 2009, JPMorgan Chase deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including those not yet identifiable).

The table below summarizes the changes in the allowance for loan losses.

Year ended December 31, (in millions)	**2009**	2008	2007
Allowance for loan losses at January 1	**$ 23,164**	$ 9,234	$ 7,279
Cumulative effect of change in accounting principles[a]	**—**	—	(56)
Allowance for loan losses at January 1, adjusted	**23,164**	9,234	7,223
Gross charge-offs	**24,018**	10,764	5,367
Gross/(recoveries)	**(1,053)**	(929)	(829)
Net charge-offs	**22,965**	9,835	4,538
Provision for loan losses:			
Provision excluding accounting conformity	**31,735**	19,660	6,538
Provision for loan losses – accounting conformity[b]	**—**	1,577	—
Total provision for loan losses	**31,735**	21,237	6,538
Addition resulting from Washington Mutual transaction	**—**	2,535	—
Other[c]	**(332)**	(7)	11
Allowance for loan losses at December 31	**$ 31,602**	$ 23,164	$ 9,234
Components:			
Asset-specific[d][e]	**$ 3,042**	$ 1,091	$ 188
Formula-based	**26,979**	22,073	9,046
Purchased credit-impaired	**1,581**	—	—
Total allowance for loan losses	**$ 31,602**	$ 23,164	$ 9,234

[a] Reflects the effect of the adoption of the fair value option at January 1, 2007. For a further discussion of the fair value option, see Note 4 on pages 173–175 of this Annual Report.

[b] Related to the Washington Mutual transaction in 2008.

[c] The 2009 amount predominantly represents a reclassification related to the issuance and retention of securities from the Chase Issuance Trust. See Note 15 on pages 206–213 of this Annual Report. The 2008 amount represents foreign exchange translation. The 2007 amount includes assets acquired of $5 million and $5 million of foreign exchange translation.

[d] Relates to risk-rated loans that have been placed on nonaccrual status and loans that have been modified in a troubled debt restructuring.

[e] The asset-specific consumer allowance for loan losses includes troubled debt restructuring reserves of $754 million and $258 million at December 31, 2009 and 2008, respectively and none at December 31, 2007. Prior period amounts have been reclassified to conform to the current presentation.

The table below summarizes the changes in the allowance for lending-related commitments.

Year ended December 31, (in millions)	**2009**	2008	2007
Allowance for lending-related commitments at January 1	**$ 659**	$ 850	$ 524
Provision for lending-related commitments			
Provision excluding accounting conformity	**280**	(215)	326
Provision for lending-related commitments accounting conformity[a]	**—**	(43)	—
Total provision for lending-related commitments	**280**	(258)	326
Addition resulting from Washington Mutual transaction	**—**	66	—
Other	**—**	1	—
Allowance for lending-related commitments at December 31	**$ 939**	$ 659	$ 850
Components:			
Asset-specific	**$ 297**	$ 29	$ 28
Formula-based	**642**	630	822
Total allowance for lending-related commitments	**$ 939**	$ 659	$ 850

[a] Related to the Washington Mutual transaction in 2008.

Note 15 – Loan securitizations

JPMorgan Chase securitizes and sells a variety of loans, including residential mortgage, credit card, automobile, student, and commercial loans (primarily related to real estate). JPMorgan Chase-sponsored securitizations utilize SPEs as part of the securitization process. These SPEs are structured to meet the definition of a QSPE (as discussed in Note 1 on page 150 of this Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected on the Firm's Consolidated Balance Sheets (except for retained interests, as described below). The primary purpose of these securitization vehicles is to meet investor needs and to generate liquidity for the Firm through the sale of loans to the QSPEs. These QSPEs are financed through the issuance of fixed- or floating-rate asset-backed securities. See Note 16 on pages 221–222 for further information on the new accounting guidance, effective January 1, 2010, which eliminates the concept of QSPEs and revises the criteria for the consolidation of VIEs.

The Firm records a loan securitization as a sale when the accounting criteria for a sale are met. Those criteria are: (1) the transferred assets are legally isolated from the Firm's creditors; (2) the entity can pledge or exchange the financial assets, or if the entity is a QSPE, its investors can pledge or exchange their interests; and (3) the Firm does not maintain effective control to repurchase the transferred assets before their maturity, or have the ability to unilaterally cause the holder to return the transferred assets.

For loan securitizations that meet the accounting sales criteria, the gains or losses recorded depend, in part, on the carrying amount of the loans sold except for servicing assets which are initially recorded at fair value. At the time of sale, any retained servicing asset is initially recognized at fair value. The remaining carrying amount of the loans sold is allocated between the loans sold and the other interests retained, based on their relative fair values on the date of sale. Gains on securitizations are reported in noninterest revenue.

When quoted market prices are not available, the Firm estimates the fair value for these retained interests by calculating the present value of future expected cash flows using modeling techniques. Such models incorporate management's best estimates of key variables, such as expected credit losses, prepayment speeds and the discount rates appropriate for the risks involved.

The Firm may retain interests in the securitized loans in the form of undivided seller's interest, senior or subordinated interest-only strips, debt and equity tranches, escrow accounts and servicing rights. The classification of retained interests is dependent upon several factors, including the type of interest, whether or not the retained interest is represented by a security certificate and when it was retained. Interests retained by IB are classified as trading assets. See credit card securitizations and mortgage securitizations sections of this Note for further information on the classification of their related retained interests. Retained interests classified as AFS that are rated below "AA" by an external rating agency are subject to impairment evaluations, as discussed in Note 11 on page 197 of this Annual Report.

The following table presents the total unpaid principal amount of assets held in JPMorgan Chase-sponsored securitization entities, for which sale accounting was achieved and to which the Firm has continuing involvement, at December 31, 2009 and 2008. Continuing involvement includes servicing the loans, holding senior or subordinated interests acquired at the time of securitization, recourse or guarantee arrangements and derivative transactions. In certain instances, the Firm's only continuing involvement is servicing the loans. In the table below, the amount of beneficial interests held by third parties and the total retained interests held by JPMorgan Chase will not equal the assets held in QSPEs because the beneficial interests held by third party are reflected at their current outstanding par amounts and a portion of the Firm's retained interests (trading assets, AFS securities and other assets) are reflected at their fair value.

	Principal amount outstanding		JPMorgan Chase interests in securitized assets[e][f][g][h]				
December 31, 2009 (in billions)	Total assets held by Firm-sponsored QSPEs	Assets held in QSPEs with continuing involvement	Trading assets	AFS securities	Loans	Other assets[i]	Total retained interests held by JPMorgan Chase
Securitization related:							
Credit card	**$ 109.6**	**$ 109.6**[d]	**$ 0.1**	**$ 15.5**	**$ 16.7**	**$ 11.6**	**$ 43.9**
Residential mortgage:							
Prime[a]	**183.3**	**171.5**	**0.9**	**0.2**	**—**	**—**	**1.1**
Subprime	**50.0**	**47.3**	**—**	**—**	**—**	**—**	**—**
Option ARMs	**42.0**	**42.0**	**—**	**0.1**	**—**	**—**	**0.1**
Commercial and other[b]	**155.3**	**24.8**	**1.6**	**0.8**	**—**	**—**	**2.4**
Student loans	**1.0**	**1.0**	**—**	**—**	**—**	**0.1**	**0.1**
Auto	**0.2**	**0.2**	**—**	**—**	**—**	**—**	**—**
Total[c]	**$ 541.4**	**$ 396.4**	**$ 2.6**	**$ 16.6**	**$ 16.7**	**$ 11.7**	**$ 47.6**

	Principal amount outstanding		JPMorgan Chase interests in securitized assets[e][f][g][h]				
December 31, 2008 (in billions)	Total assets held by Firm-sponsored QSPEs	Assets held in QSPEs with continuing involvement	Trading assets	AFS securities	Loans	Other assets[i]	Total retained interests held by JPMorgan Chase
Securitization related:							
Credit card	$ 121.6	$ 121.6[d]	$ 0.5	$ 5.6	$ 33.3	$ 5.6	$ 45.0
Residential mortgage:							
Prime[a]	233.9	212.3	1.7	0.7	—	—	2.4
Subprime	61.0	58.6	—	0.1	—	—	0.1
Option ARMs	48.3	48.3	0.1	0.3	—	—	0.4
Commercial and other[b]	174.1	45.7	2.0	0.5	—	—	2.5
Student loans	1.1	1.1	—	—	—	0.1	0.1
Auto	0.8	0.8	—	—	—	—	—
Total[c]	$ 640.8	$ 488.4	$ 4.3	$ 7.2	$ 33.3	$ 5.7	$ 50.5

(a) Includes Alt-A loans.

(b) Consists of securities backed by commercial loans (predominantly real estate) and non-mortgage-related consumer receivables purchased from third parties. The Firm generally does not retain a residual interest in its sponsored commercial mortgage securitization transactions. Also, includes co-sponsored commercial securitizations and, therefore, includes non–JPMorgan Chase–originated commercial mortgage loans.

(c) Includes securitized loans where the Firm owns less than a majority of the subordinated or residual interests in the securitizations.

(d) Includes credit card loans, accrued interest and fees, and cash amounts on deposit.

(e) Excludes retained servicing (for a discussion of MSRs, see Note 17 on pages 222–225 of this Annual Report).

(f) Excludes senior and subordinated securities of $875 million and $974 million at December 31, 2009 and 2008, respectively, which the Firm purchased in connection with IB's secondary market-making activities.

(g) Includes investments acquired in the secondary market, predominantly for held-for-investment purposes, of $2.0 billion and $1.8 billion as of December 31, 2009 and 2008, respectively. This is comprised of $1.8 billion and $1.4 billion of investments classified as available-for-sale, including $1.7 billion and $172 million in credit cards, zero and $693 million of residential mortgages, and $91 million and $495 million of commercial and other; and $152 million and $452 million of investments classified as trading, including $104 million and $112 million of credit cards, $47 million and $303 million of residential mortgages, and $1 million and $37 million of commercial and other, all at December 31, 2009 and 2008, respectively.

(h) Excludes interest rate and foreign exchange derivatives primarily used to manage the interest rate and foreign exchange risks of the securitization entities. See Note 5 on pages 175–183 of this Annual Report for further information on derivatives.

(i) Certain of the Firm's retained interests are reflected at their fair values.

Securitization activity by major product type

The following discussion describes the nature of the Firm's securitization activities by major product type.

Credit Card Securitizations

The Card Services ("CS") business securitizes originated and purchased credit card loans, primarily through the Chase Issuance Trust (the "Trust"). In connection with the Washington Mutual transaction, the Firm acquired the seller's interest in the Washington Mutual Master Trust (the "WMM Trust") and also became its sponsor. The Firm's primary continuing involvement in credit card securitizations includes servicing the receivables, retaining an undivided seller's interest in the receivables, retaining certain senior and subordinated securities and the maintenance of escrow accounts. CS maintains servicing responsibilities for all credit card securitizations that it sponsors. As servicer and transferor, the Firm receives contractual servicing fees based on the securitized loan balance plus excess servicing fees, which are recorded in credit card income as discussed in Note 6 on page 184 of this Annual Report.

Actions taken in the second quarter of 2009

During the quarter ended June 30, 2009, the overall performance of the Firm's credit card securitization trusts declined, primarily due to the increase in credit losses incurred on the underlying credit card receivables.

Chase Issuance Trust: The Chase Issuance Trust (the Firm's primary issuance trust), which holds prime quality credit card receivables, maintained positive excess spread, a key metric for evaluating the performance of a card trust, through the first six months of 2009. In spite of this positive excess spread, the Firm took certain actions, as permitted by the Trust agreements, in the second quarter of 2009 to enhance the performance of the Trust due to continuing market uncertainty concerning projected credit costs in the credit card industry, and to mitigate any further deterioration in the performance of the Trust. On May 12, 2009, the Firm increased the required credit enhancement level for each tranche of outstanding notes issued by the Trust, by increasing the minimum required amount of subordinated notes and the funding requirements for the Trust's cash escrow accounts. On June 1, 2009, the Firm began designating as "discount receivables" a percentage of new credit card receivables for inclusion in the Trust, thereby requiring collections of such discounted receivables to be applied as finance charge collections in the Trust, which increased the excess spread for the Trust. The Firm expects to discontinue designating a percentage of new receivables as discount receivables on July 1, 2010. Also, during the second quarter of 2009, the Firm exchanged $3.5 billion of its undivided seller's interest in the Trust for $3.5 billion par value of zero-coupon subordinated securities issued by the Trust and retained by the Firm. The issuance of the zero-coupon securities by the Trust also increased the excess spread for the Trust. These actions resulted in the addition of approximately $40 billion of risk-weighted assets for regulatory capital purposes, which decreased the Firm's Tier 1 capital ratio by approximately 40 basis points, but did not have a material impact on the Firm's Consolidated Balance Sheets or results of operations.

WMM Trust: At the time of the acquisition of the Washington Mutual banking operations, the assets of the WMM Trust were comprised of Washington Mutual subprime credit card receivables. The quality of the assets in the WMM Trust was much lower than the quality of the credit card receivables that JPMorgan Chase has historically securitized in the public markets.

In order to more closely conform the WMM Trust to the overall quality typical of a JPMorgan Chase–sponsored credit card securitization master trust, during the fourth quarter of 2008 the Firm randomly removed $6.2 billion of credit card loans held by the WMM Trust and replaced them with $5.8 billion of higher-quality receivables from the Firm's portfolio.

However, as a result of continued deterioration during 2009 in the credit quality of the remaining Washington Mutual–originated assets in the WMM Trust, the performance of the portfolio indicated that an early amortization event was likely to occur unless additional actions were taken. On May 15, 2009, JPMorgan Chase, as seller and servicer, and the Bank of New York Mellon, as trustee, amended the pooling and servicing agreement to permit nonrandom removals of credit card accounts. On May 19, 2009, the Firm removed all remaining credit card receivables originated by Washington Mutual. Following this removal, the WMM Trust collateral was entirely composed of receivables originated by JPMorgan Chase. As a result of the actions taken by the Firm, the assets and liabilities of the WMM Trust were consolidated on the balance sheet of JPMorgan Chase; as a result, during the second quarter of 2009, the Firm recorded additional assets with an initial fair value of $6.0 billion, liabilities with an initial fair value of $6.1 billion, and a pretax loss of approximately $64 million.

Retained interests in nonconsolidated credit card securitizations

The following is a description of the Firm's retained interests in credit card securitizations that were not consolidated at the dates presented. Accordingly, the Firm's retained interests in the WMM Trust are included in the amounts reported at December 31, 2008, but no longer included at December 31, 2009, due to the second quarter actions noted above. For further information regarding the WMM Trust assets and liabilities, see Note 16 on pages 214–222 of this Annual Report.

The agreements with the credit card securitization trusts require the Firm to maintain a minimum undivided interest in the trusts (which generally ranges from 4% to 12%). These undivided interests in the trusts represent the Firm's undivided interests in the receivables transferred to the trust that have not been securitized; these undivided interests are not represented by security certificates, are carried at historical cost, and are classified within loans. At December 31, 2009 and 2008, the Firm had $16.7 billion and $33.3 billion, respectively, related to its undivided interests in the trusts. The Firm maintained an average undivided interest in principal receivables in the trusts of approximately 16% and 22% for the years ended December 31, 2009 and 2008, respectively.

The Firm retained a subordinated interest in accrued interest and fees on the securitized receivables totaling $3.2 billion and $3.0 billion as of December 31, 2009 and 2008, respectively, which is reported at fair value in other assets.

The Firm retained subordinated securities in its credit card securitization trusts with aggregate fair values of $6.6 billion and $2.3 billion at December 31, 2009 and 2008, respectively, and senior securities with aggregate fair values of $7.2 billion and $3.5 billion at December 31, 2009 and 2008, respectively. Of the securities retained, $13.8 billion and $5.4 billion were classified as AFS securities at December 31, 2009 and 2008, respectively. The senior AFS securities were used by the Firm as collateral for a secured financing transaction. The retained subordinated interests that were acquired in the Washington Mutual transaction and classified as trading assets had a carrying value of $389 million on December 31, 2008. These retained subordinated interests were subsequently repaid or valued at zero before the Firm consolidated the WMM Trust in the second quarter of 2009, as discussed above.

The Firm also maintains escrow accounts up to predetermined limits for some credit card securitizations to cover deficiencies in cash flows owed to investors. The amounts available in such escrow accounts related to credit cards are recorded in other assets and amounted to $1.0 billion and $74 million as of December 31, 2009 and 2008, respectively. The increase in the balance of these escrow accounts primarily relates to the Trust actions described above that the Firm took on May 12, 2009. JPMorgan Chase has also recorded $854 million representing receivables that have been transferred to the Trust and designated as "discount receivables." All of these residual interests are reported at fair value in other assets.

Mortgage Securitizations
The Firm securitizes originated and purchased residential mortgages and originated commercial mortgages.

RFS securitizes residential mortgage loans that it originates and purchases and it generally retains servicing for all of its originated and purchased residential mortgage loans and certain commercial mortgage loans. Additionally, RFS may retain servicing for certain mortgage loans purchased by IB. As servicer, the Firm receives servicing fees based on the securitized loan balance plus ancillary fees. In a limited number of securitizations, RFS may retain an interest in addition to servicing rights. The amount of interest retained related to these securitizations totaled $537 million and $939 million at December 31, 2009 and 2008, respectively. These retained interests are accounted for as trading or AFS securities (if represented by a security certificate) or other assets (if not represented by a security certificate).

IB securitizes residential mortgage loans (including those that it purchased and certain mortgage loans originated by RFS), and commercial mortgage loans that it originated. Residential loans securitized by IB are often serviced by RFS. Upon securitization, IB may engage in underwriting and trading activities of the securities issued by the securitization trust. IB may retain unsold senior and/or subordinated interests (including residual interests) in both residential and commercial mortgage securitizations at the time of securitization. These retained interests are accounted for at fair value and classified as trading assets. The amount of residual interests retained was $24 million and $155 million at December 31, 2009 and 2008, respectively. Additionally, IB retained $2.3 billion and $2.8 billion of senior and subordinated interests as of December 31, 2009 and 2008, respectively.

In addition to the amounts reported in the securitization activity tables below, the Firm sold residential mortgage loans totaling $147.9 billion, $122.0 billion and $81.8 billion during the years ended December 31, 2009, 2008 and 2007, respectively. The majority of these loan sales were for securitization by Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac"). The Firm retains the right to service these loans and they are serviced in accordance with the agency's servicing guidelines and standards. These sales resulted in pretax gains of $92 million, $32 million and $47 million, respectively.

For a limited number of loan sales, the Firm is obligated to share up to 100% of the credit risk associated with the sold loans with the purchaser. See Note 31 on page 241 of this Annual Report for additional information on loans sold with recourse and other securitization related indemnifications.

Other Securitizations
The Firm also securitizes automobile and student loans originated by RFS and purchased consumer loans (including automobile and student loans). The Firm retains servicing responsibilities for all originated and certain purchased student and automobile loans. It may also hold a retained interest in these securitizations; such residual interests are classified as other assets. At December 31, 2009 and 2008, the Firm held $9 million and $37 million, respectively, of retained interests in securitized automobile loan securitizations and $49 million and $52 million, respectively, of residual interests in securitized student loans.

Securitization activity

The following tables provide information related to the Firm’s securitization activities for the years ended December 31, 2009, 2008 and 2007. For the periods presented, there were no cash flows from the Firm to the QSPEs related to recourse or guarantee arrangements.

Year ended December 31, 2009		Residential mortgage[g]					
(in millions, except for ratios and where otherwise noted)	Credit card	Prime[h]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	**$ 26,538**	**$ —**	**$ —**	**$ —**	**$ 500**	**$ —**	**$ —**
Pretax gains	**22**	**—**	**—**	**—**	**—**[i]	**—**	**—**
All cash flows during the period:							
Proceeds from new securitizations	**$ 26,538**[e][f]	**$ —**	**$ —**	**$ —**	**$ 542**[e]	**$ —**	**$ —**
Servicing fees collected	**1,251**	**432**	**185**	**494**	**11**	**3**	**4**
Other cash flows received[a]	**5,000**	**7**	**4**	**—**	**—**	**—**	**—**
Proceeds from collections reinvested in revolving securitizations	**161,428**	**—**	**—**	**—**	**—**	**—**	**—**
Purchases of previously transferred financial assets (or the underlying collateral)[b]	**—**	**136**	**—**	**29**	**—**	**—**	**249**
Cash flows received on the interests that continue to be held by the Firm[c]	**261**	**475**	**25**	**38**	**109**	**7**	**4**
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[d]	**16.7%** **PPR**				**100%**[j] **CPY**		
Weighted-average life (in years)	**0.5**				**9.0**		
Expected credit losses	**8.9%**				**—%**[j]		
Discount rate	**16.0%**				**10.7%**		

Year ended December 31, 2008		Residential mortgage[g]					
(in millions, except for ratios and where otherwise noted)	Credit card	Prime[h]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	$ 21,390	$ —	$ —	$ —	$ 1,023	$ —	$ —
Pretax gains	151	—	—	—	—	—	—
All cash flows during the period:							
Proceeds from new securitizations	$ 21,389[e]	$ —	$ —	$ —	$ 989[e]	$ —	$ —
Servicing fees collected	1,162	279	146	129	11	4	15
Other cash flows received[a]	4,985	23	16	—	—	—	—
Proceeds from collections reinvested in revolving securitizations	152,399	—	—	—	—	—	—
Purchases of previously transferred financial assets (or the underlying collateral)[b]	—	217	13	6	—	—	359
Cash flows received on the interests that continue to be held by the Firm[c]	117	267	23	53	455	—	43
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[d]	19.1% PPR				1.5% CPR		
Weighted-average life (in years)	0.4				2.1		
Expected credit losses	4.6%				1.5%[k]		
Discount rate	12.5%				25.0%		

Year ended December 31, 2007 (in millions, except for ratios and where otherwise noted)		Residential mortgage					
	Credit card	Prime[h]	Subprime	Option ARMs	Commercial and other	Student loans	Auto
Principal securitized	$ 21,160	$ 32,084	$ 6,763	$ —	$ 12,797	$ 1,168	$ —
Pretax gains	177	28[i]	43	—	—	51	—
All cash flows during the period:							
Proceeds from new securitizations	$ 21,160	$ 31,791	$ 6,844	$ —	$ 13,038	$ 1,168	$ —
Servicing fees collected	1,005	124	246	—	7	2	36
Other cash flows received[a]	4,963	—	—	—	—	—	—
Proceeds from collections reinvested in revolving securitizations	148,946	—	—	—	—	—	—
Purchases of previously transferred financial assets (or the underlying collateral)[b]	—	58	598	—	—	—	431
Cash flows received on the interests that continue to be held by the Firm[c]	18	140	278	—	256	—	89
Key assumptions used to measure retained interests originated during the year (rates per annum):							
Prepayment rate[d]	20.4% PPR	13.7-37.2% CPR	30.0-48.0% CPR		0.0-8.0% CPR	1.0-8.0% CPR	
Weighted-average life (in years)	0.4	1.3-5.4	2.3-2.8		1.3-10.2	9.3	
Expected credit losses	3.7%	0.0-1.6%[k]	1.2-2.2%		0.0-1.0%[k]	—%[k]	
Discount rate	12.0%	5.8-20.0%	12.1-26.7%		10.0-14.0%	9.0%	

[a] Includes excess servicing fees and other ancillary fees received.

[b] Includes cash paid by the Firm to reacquire assets from the QSPEs – for example, servicer clean-up calls.

[c] Includes cash flows received on retained interests including – for example, principal repayments, and interest payments.

[d] PPR: principal payment rate; CPR: constant prepayment rate; CPY: constant prepayment yield.

[e] Includes $12.8 billion and $5.5 billion of securities in credit cards; and $47 million and zero of securities in commercial and other; retained by the Firm for the years ended December 31, 2009 and 2008, respectively.

[f] As required under the terms of the transaction documents, $1.6 billion of proceeds from new securitizations were deposited to cash escrow accounts during the year ended December 31, 2009.

[g] Includes securitizations sponsored by Bear Stearns and Washington Mutual as of their respective acquisition dates.

[h] Includes Alt-A loans.

[i] As of January 1, 2007, the Firm elected the fair value option for IB warehouse and the RFS prime mortgage warehouse. The carrying value of these loans accounted for at fair value approximates the proceeds received from securitization.

[j] Represents a senior interest-only security that is expected to prepay in full as soon as permitted, as such there is no expected credit loss on this security. Market convention is to utilize a 100% prepayment rate for this type of interest.

[k] Expected credit losses for consumer prime residential mortgage, and student and certain other securitizations are incorporated into other assumptions.

JPMorgan Chase's interest in securitized assets held at fair value

The following table summarizes the Firm's retained securitization interests, which are carried at fair value on the Firm's Consolidated Balance Sheets. The risk ratings are periodically reassessed as information becomes available. As of December 31, 2009 and 2008, 59% and 55%, respectively, of the Firm's retained securitization interests, which are carried at fair value, were risk rated "A" or better.

	Ratings profile of interests held [c][d][e]					
	2009			2008		
December 31, (in billions)	Investment grade	Noninvestment grade	Retained interests	Investment grade	Noninvestment grade	Retained interests
Asset types:						
Credit card[a]	**$ 15.6**	**$ 5.0**	**$ 20.6**	$ 5.8	$ 3.8	$ 9.6
Residential mortgage:						
Prime[b]	**0.7**	**0.4**	**1.1**	2.0	0.4	2.4
Subprime	**—**	**—**	**—**	—	0.1	0.1
Option ARMs	**0.1**	**—**	**0.1**	0.4	—	0.4
Commercial and other	**2.2**	**0.2**	**2.4**	2.2	0.3	2.5
Student loans	**—**	**0.1**	**0.1**	—	0.1	0.1
Auto	**—**	**—**	**—**	—	—	—
Total	**$ 18.6**	**$ 5.7**	**$ 24.3**	$ 10.4	$ 4.7	$ 15.1

[a] Includes retained subordinated interests carried at fair value, including CS's accrued interests and fees, escrow accounts, and other residual interests. Excludes at December 31, 2009 and 2008, undivided seller interest in the trusts of $16.7 billion and $33.3 billion, respectively, and unencumbered cash amounts and deposits of $6.6 billion and $2.1 billion, respectively, which are carried at historical cost.

[b] Includes Alt-A loans.

[c] The ratings scale is presented on an S&P-equivalent basis.

[d] Includes $2.0 billion and $1.8 billion of investments acquired in the secondary market, but predominantly held for investment purposes, as of December 31, 2009 and 2008, respectively. Of these amounts, $2.0 billion and $1.7 billion were classified as investment-grade as of December 31, 2009 and 2008, respectively.

[e] Excludes senior and subordinated securities of $875 million and $1.0 billion at December 31, 2009 and 2008, respectively, which the Firm purchased in connection with IB's secondary market-making activities.

The table below outlines the key economic assumptions used to determine the fair value as of December 31, 2009 and 2008, respectively, of the Firm's retained interests, other than MSRs, that are valued using modeling techniques. The table below also outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in assumptions used to determine fair value. For a discussion of MSRs, see Note 17 on pages 223–224 of this Annual Report.

December 31, 2009 (in millions, except rates, and where otherwise noted)	Credit card	Residential mortgage Prime[d]	 Subprime	 Option ARMs	Commercial and other	Student	Auto
JPMorgan Chase interests in securitized assets[a]	**$ 4,016**[c]	**$ 1,143**	**$ 27**	**$ 113**	**$ 2,361**	**$ 51**	**$ 9**
Weighted-average life (in years)	**0.6**	**8.3**	**4.3**	**5.1**	**3.5**	**8.1**	**0.6**
Weighted-average prepayment rate[b]	**14.3%**	**4.9%**	**21.8%**	**15.7%**	**—%**	**5.0%**	**1.4 %**
	PPR	**CPR**	**CPR**	**CPR**	**CPR**	**CPR**	**ABS**
Impact of 10% adverse change	**$ (1)**	**$ (15)**	**$ (2)**	**$ —**	**$ —**	**$ (1)**	**$ —**
Impact of 20% adverse change	**(2)**	**(31)**	**(3)**	**(1)**	**—**	**(2)**	**(1)**
Weighted-average loss assumption	**6.8%**	**3.2%**	**2.7%**	**0.7%**	**1.4%**	**—%**[e]	**0.8 %**
Impact of 10% adverse change	**$ (1)**	**$ (15)**	**$ (4)**	**$ —**	**$ (41)**	**$ —**	**$ —**
Impact of 20% adverse change	**(3)**	**(29)**	**(7)**	**—**	**(100)**	**—**	**—**
Weighted-average discount rate	**12.0%**	**11.4%**	**23.2%**	**5.4%**	**12.5%**	**9.0%**	**2.8 %**
Impact of 10% adverse change	**$ (10)**	**$ (41)**	**$ (2)**	**$ (1)**	**$ (72)**	**$ (2)**	**$ —**
Impact of 20% adverse change	**(20)**	**(82)**	**(4)**	**(3)**	**(139)**	**(4)**	**—**

December 31, 2008 (in millions, except rates, and where otherwise noted)	Credit card	Residential mortgage Prime[d]	 Subprime	 Option ARMs	Commercial and other	Student	Auto
JPMorgan Chase interests in securitized assets[a]	$ 3,463[c]	$ 1,420	$ 77	$ 436	$ 1,966	$ 55	$ 40
Weighted-average life (in years)	0.5	5.3	1.5	7.3	3.5	8.2	0.7
Weighted-average prepayment rate[b]	16.6%	17.7%	25.1%	7.6%	0.7%	5.0%	1.3%
	PPR	CPR	CPR	CPR	CPR	CPR	ABS
Impact of 10% adverse change	$ (42)	$ (31)	$ (9)	$ (4)	$ (1)	$ (1)	$ —
Impact of 20% adverse change	(85)	(57)	(10)	(11)	(1)	(2)	(1)
Weighted-average loss assumption	7.0%	4.4%	3.4%	0.3%	0.3%[e]	—%[e]	0.5%
Impact of 10% adverse change	$ (235)	$ (25)	$ (11)	$ —	$ (12)	$ —	$ —
Impact of 20% adverse change	(426)	(49)	(17)	(1)	(24)	—	(1)
Weighted-average discount rate	18.0%	14.5%	21.5%	17.3%	12.4%	9.0%	4.1%
Impact of 10% adverse change	$ (10)	$ (52)	$ (7)	$ (16)	$ (26)	$ (2)	$ —
Impact of 20% adverse change	(20)	(102)	(9)	(28)	(49)	(4)	—

(a) As of December 31, 2008, certain investments acquired in the secondary market but predominantly held for investment purposes are included.
(b) PPR: principal payment rate; ABS: absolute prepayment speed; CPR: constant prepayment rate.
(c) Excludes the Firm's retained senior and subordinated AFS securities in its credit card securitization trusts, which are discussed in Note 11 on pages 195–199 of this Annual Report.
(d) Includes Alt-A loans.
(e) Expected losses for student loans and certain wholesale securitizations are minimal and are incorporated into other assumptions.

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated easily, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in the table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might counteract or magnify the sensitivities. The above sensitivities also do not reflect the Firm's risk management practices that may be undertaken to mitigate such risks.

Loan delinquencies and net charge-offs

The table below includes information about delinquencies, net charge-offs/(recoveries) and components of reported and securitized financial assets at December 31, 2009 and 2008.

Year ended December 31,	Credit exposure		Nonperforming loans[h][i]		90 days or more past due and still accruing[i]		Net loan charge-offs	
(in millions)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Consumer loans – excluding purchased credit-impaired loans and loans held-for-sale:								
Home equity – senior lien	**$ 27,376**	$ 29,793	**$ 477**	$ 291	**$ —**	$ —	**$ 234**	$ 86
Home equity – junior lien	**74,049**	84,542	**1,188**	1,103	**—**	—	**4,448**	2,305
Prime mortgage[a]	**66,892**	72,266	**4,355**	1,895	**—**	—	**1,894**	526
Subprime mortgage	**12,526**	15,330	**3,248**	2,690	**—**	—	**1,648**	933
Option ARMs	**8,536**	9,018	**312**	10	**—**	—	**63**	—
Auto loans	**46,031**	42,603	**177**	148	**—**	—	**627**	568
Credit card[b]	**78,786**	104,746	**3**	4	**3,481**	2,649	**9,634**	4,556
All other loans	**31,700**	33,715	**900**	430	**542**	463	**1,285**	459
Total consumer loans	**345,896**	392,013	**10,660**	6,571	**4,023**	3,112	**19,833**	9,433
Consumer loans – purchased credit-impaired[c]								
Home equity	**26,520**	28,555	**NA**	NA	**NA**	NA	**NA**	NA
Prime mortgage	**19,693**	21,855	**NA**	NA	**NA**	NA	**NA**	NA
Subprime mortgage	**5,993**	6,760	**NA**	NA	**NA**	NA	**NA**	NA
Option ARMs	**29,039**	31,643	**NA**	NA	**NA**	NA	**NA**	NA
Total consumer loans – purchased credit-impaired[c]	**81,245**	88,813	**NA**	NA	**NA**	NA	**NA**	NA
Total consumer loans – retained	**427,141**	480,826	**10,660**	6,571	**4,023**	3,112	**19,833**	9,433
Loans held-for-sale[d]	**2,142**	2,028	**—**	—	**—**	—	**—**	—
Total consumer loans – reported	**429,283**	482,854	**10,660**	6,571	**4,023**	3,112	**19,833**	9,433
Total wholesale loans	**204,175**	262,044	**6,904**[j]	2,382[j]	**332**	163	**3,132**	402
Total loans reported	**633,458**	744,898	**17,564**	8,953	**4,355**	3,275	**22,965**	9,835
Securitized loans:								
Residential mortgage:								
Prime mortgage[a]	**171,547**	212,274	**33,838**	21,130	**—**	—	**9,333**	5,645
Subprime mortgage	**47,261**	58,607	**19,505**	13,301	**—**	—	**7,123**	4,797
Option ARMs	**41,983**	48,328	**10,973**	6,440	**—**	—	**2,287**	270
Automobile	**218**	791	**1**	2	**—**	—	**4**	15
Credit card	**84,626**	85,571	**—**	—	**2,385**	1,802	**6,443**	3,612
Student	**1,008**	1,074	**—**	—	**64**	66	**1**	1
Commercial and other	**24,799**	45,677	**1,244**	166	**—**	28	**15**	8
Total loans securitized[e]	**371,442**	452,322	**65,561**	41,039	**2,449**	1,896	**25,206**	14,348
Total loans reported and securitized[f]	**$ 1,004,900**[g]	$ 1,197,220[g]	**$ 83,125**	$ 49,992	**$ 6,804**	$ 5,171	**$48,171**	$ 24,183

(a) Includes Alt-A loans.

(b) Includes billed finance charges and fees net of an allowance for uncollectible amounts, and $1.0 billion of loans at December 31, 2009, held by the Washington Mutual Master Trust, which were consolidated onto the Firm's Consolidated Balance Sheets at fair value during the second quarter of 2009.

(c) Purchased credit-impaired loans represent loans acquired in the Washington Mutual transaction for which a deterioration in credit quality occurred between the origination date and JPMorgan Chase's acquisition date. These loans were initially recorded at fair value and accrete interest income over the estimated life of the loan when cash flows are reasonably estimable, even if the underlying loans are contractually past due. For additional information, see Note 13 on pages 200–204 of this Annual Report.

(d) Includes loans for prime mortgages and other (largely student loans) of $450 million and $1.7 billion at December 31, 2009, respectively, and $206 million and $1.8 billion at December 31, 2008, respectively.

(e) Total assets held in securitization-related SPEs were $541.4 billion and $640.8 billion at December 31, 2009 and 2008, respectively. The $371.4 billion and $452.3 billion of loans securitized at December 31, 2009 and 2008, respectively, excludes: $145.0 billion and $152.4 billion of securitized loans, in which the Firm has no continuing involvement; $16.7 billion and $33.3 billion of seller's interests in credit card master trusts; and $8.3 billion and $2.8 billion of cash amounts on deposit and escrow accounts, all respectively.

(f) Represents both loans on the Consolidated Balance Sheets and loans that have been securitized.

(g) Includes securitized loans that were previously recorded at fair value and classified as trading assets.

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

(i) Excludes purchased credit-impaired loans that were acquired as part of the Washington Mutual transaction, which are accounted for on a pool basis. Since each pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows, the past due status of the pools, or that of individual loans within the pools, in not meaningful. Because the Firm is recognizing interest income on each pool of loans, they are all considered to be performing.

(j) Includes nonperforming loans held-for-sale and loans at fair value of $345 million and $32 million at December 31, 2009 and 2008, respectively.

Note 16 – Variable interest entities

Refer to Note 1 on page 150 of this Annual Report for a further description of JPMorgan Chase's policies regarding consolidation of variable interest entities.

JPMorgan Chase's principal involvement with VIEs occurs in the following business segments:

- Investment Bank: Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. IB is involved with VIEs through multi-seller conduits and for investor intermediation purposes, as discussed below. IB also securitizes loans through QSPEs, to create asset-backed securities, as further discussed in Note 15 on pages 206–213 of this Annual Report.
- Asset Management ("AM"): The legal entity structures for a limited number of funds sponsored and managed by asset management include certain entities within the structure which are deemed VIEs. As asset manager of the funds, AM earns a fee based on assets managed; the fee varies with each fund's investment objective and is competitively priced. For those limited number of funds that qualify as VIEs, AM's relationship with such funds are not considered significant variable interests under U.S. GAAP.
- Treasury & Securities Services: Provides services to a number of VIEs that are similar to those provided to non-VIEs. TSS earns market-based fees for the services it provides. The relationships resulting from TSS' services are not considered to be significant variable interests.
- Commercial Banking ("CB"): Utilizes VIEs to assist clients in accessing the financial markets in a cost-efficient manner. This is often accomplished through the use of products similar to those offered in IB. CB may assist in the structuring and/or ongoing administration of these VIEs and may provide liquidity, letters of credit and/or derivative instruments in support of the VIE. The relationships resulting from CB's services are not considered to be significant variable interests.
- Corporate/Private Equity: Corporate utilizes VIEs to issue guaranteed capital debt securities. See Note 22 on pages 228–229 for further information. The Private Equity business, within Corporate/Private Equity, may be involved with entities that could be deemed VIEs. Private equity entities are typically investment companies as defined in the investment company accounting guidance and, as such, are not required to utilize the accounting guidance for the consolidation of VIEs. Had the guidance for consolidation of VIEs been applied to these entities, the impact would have been immaterial to the Firm's Consolidated Financial Statements as of December 31, 2009.

As noted above, IB is predominantly involved with multi-seller conduits and VIEs associated with investor intermediation activities. These nonconsolidated VIEs that are sponsored by JPMorgan Chase are discussed below. The Firm considers a "sponsored" VIE to include any entity where: (1) JPMorgan Chase is the principal beneficiary of the structure; (2) the VIE is used by JPMorgan Chase to securitize Firm assets; (3) the VIE issues financial instruments associated with the JPMorgan Chase brand name; or (4) the entity is a JPMorgan Chase–administered asset-backed commercial paper ("ABCP") conduit.

Multi-seller conduits

Funding and liquidity

The Firm is an active participant in the asset-backed securities business, and it helps customers meet their financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. Multi-seller conduit entities are separate bankruptcy remote entities that purchase interests in, and make loans secured by, pools of receivables and other financial assets pursuant to agreements with customers of the Firm. The conduits fund their purchases and loans through the issuance of highly rated commercial paper to third-party investors. The primary source of repayment of the commercial paper is the cash flow from the pools of assets. In most instances, the assets are structured with deal-specific credit enhancements provided by the customers (i.e., sellers) to the conduits or other third parties. Deal-specific credit enhancements are generally structured to cover a multiple of historical losses expected on the pool of assets, and are typically in the form of overcollateralization provided by the seller, but also may include any combination of the following: recourse to the seller or originator, cash collateral accounts, letters of credit, excess spread, retention of subordinated interests or third-party guarantees. The deal-specific credit enhancements mitigate the Firm's potential losses on its agreements with the conduits.

JPMorgan Chase receives fees for structuring multi-seller conduit transactions and compensation from the multi-seller conduits for its role as administrative agent, liquidity provider, and provider of program-wide credit enhancement.

To ensure timely repayment of the commercial paper, each asset pool financed by the conduits has a minimum 100% deal-specific liquidity facility associated with it. Deal-specific liquidity facilities are the primary source of liquidity support for the conduits. The deal-specific liquidity facilities are typically in the form of asset purchase agreements and generally structured so the liquidity that will be provided by the Firm as liquidity provider will be affected by the Firm purchasing, or lending against, a pool of nondefaulted, performing assets. In limited circumstances, the Firm may provide unconditional liquidity.

The conduit's administrative agent can require the liquidity provider to perform under its asset purchase agreement with the conduit at any time. These agreements may cause the liquidity provider, including the Firm, to purchase an asset from the conduit at an amount above the asset's then current fair value – in effect, providing a guarantee of the initial value of the reference asset as of the date of the agreement.

The Firm also provides the multi-seller conduit vehicles with program-wide liquidity facilities in the form of uncommitted short-term revolving facilities that can be accessed by the conduits to handle funding increments too small to be funded by commercial paper and in the form of uncommitted liquidity facilities that can be accessed by the conduits only in the event of short-term disruptions in the commercial paper market.

Because the majority of the deal-specific liquidity facilities will only fund nondefaulted assets, program-wide credit enhancement is required to absorb losses on defaulted receivables in excess of losses absorbed by any deal-specific credit enhancement. Program-wide credit enhancement may be provided by JPMorgan Chase in the form of standby letters of credit or by third-party surety bond providers. The amount of program-wide credit enhancement required varies by conduit and ranges between 5% and 10% of the applicable commercial paper that is outstanding.

The following table summarizes Firm-administered multi-seller conduits. On May 31, 2009, the Firm consolidated one of these multi-seller conduits due to the redemption of the expected loss note ("ELN"). There were no consolidated Firm-administered multi-seller conduits as of December 31, 2008.

	2009		2008
December 31, (in billions)	Consolidated	Nonconsolidated	Nonconsolidated
Total assets funded by conduits	**$ 5.1**	**$ 17.8**	$ 42.9
Total commercial paper issued by conduits	**5.1**	**17.8**	43.1
Liquidity and credit enhancements			
Deal-specific liquidity facilities (primarily asset purchase agreements)	**8.0**	**24.2**[b]	55.4[b]
Program-wide liquidity facilities	**4.0**	**13.0**	17.0
Program-wide credit enhancements	**0.4**	**2.0**	3.0
Maximum exposure to loss[a]	**8.0**	**24.8**	56.9

(a) Maximum exposure to loss, calculated separately for each multi-seller conduit, includes the Firm's exposure to both deal-specific liquidity facilities and program-wide credit enhancements. For purposes of calculating maximum exposure to loss, the Firm-provided, program-wide credit enhancement is limited to deal-specific liquidity facilities provided by third parties.

(b) The accounting for the guarantees reflected in these agreements is further discussed in Note 31 on pages 238–242 of this Annual Report.

Assets funded by the multi-seller conduits

JPMorgan Chase's administered multi-seller conduits fund a variety of asset types for the Firm's clients. Asset types primarily include credit card receivables, auto loans, trade receivables, student loans, commercial loans, residential mortgages, capital commitments (e.g., loans to private equity, mezzanine and real estate funds, secured by capital commitments of highly rated institutional investors), and various other asset types. It is the Firm's intention that the assets funded by its administered multi-seller conduits be sourced only from the Firm's clients and not originated by, or transferred from, JPMorgan Chase.

The following table presents information on the commitments and assets held by JPMorgan Chase's administered nonconsolidated multi-seller conduits as of December 31, 2009 and 2008.

	2009				2008			
December 31, (in billions)	Unfunded commitments to the Firm's clients	Commercial paper funded assets	Liquidity provided by third parties	Liquidity provided by the Firm	Unfunded commitments to the Firm's clients	Commercial paper funded assets	Liquidity provided by third parties	Liquidity provided by the Firm
Asset types:								
Credit card	**$ 1.1**	**$ 5.2**	**$ —**	**$ 6.3**	$ 3.0	$ 8.9	$ 0.1	$ 11.8
Vehicle loans and leases	**1.8**	**5.0**	**—**	**6.8**	1.4	10.0	—	11.4
Trade receivables	**2.8**	**1.8**	**—**	**4.6**	3.8	5.5	—	9.3
Student loans	**0.3**	**1.3**	**—**	**1.6**	0.7	4.6	—	5.3
Commercial	**0.2**	**1.2**	**—**	**1.4**	1.5	4.0	0.4	5.1
Residential mortgage	**—**	**0.6**	**—**	**0.6**	—	0.7	—	0.7
Capital commitments	**0.2**	**1.7**	**0.6**	**1.3**	1.3	3.9	0.6	4.6
Rental car finance	**0.4**	**—**	**—**	**0.4**	0.2	0.4	—	0.6
Equipment loans and leases	**0.2**	**0.4**	**—**	**0.6**	0.7	1.6	—	2.3
Floorplan – vehicle	**—**	**—**	**—**	**—**	0.7	1.8	—	2.5
Consumer	**—**	**0.2**	**—**	**0.2**	0.1	0.7	0.1	0.7
Other	**—**	**0.4**	**—**	**0.4**	0.6	0.8	0.3	1.1
Total	**$ 7.0**	**$ 17.8**	**$ 0.6**	**$ 24.2**	$ 14.0	$ 42.9	$ 1.5	$ 55.4

	Ratings profile of VIE assets of the nonconsolidated multi-seller conduits[a]						
December 31, 2009	Investment-grade				Noninvestment-grade	Commercial paper funded	Wt. avg. expected life
(in billions)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below	assets	(years)[b]
Asset types:							
Credit card	**$ 3.1**	**$ 2.0**	**$ 0.1**	**$ —**	**$ —**	**$ 5.2**	**1.6**
Vehicle loans and leases	**2.9**	**2.1**	**—**	**—**	**—**	**5.0**	**2.3**
Trade receivables	**—**	**1.6**	**0.1**	**—**	**0.1**	**1.8**	**0.8**
Student loans	**1.3**	**—**	**—**	**—**	**—**	**1.3**	**0.8**
Commercial	**0.6**	**0.2**	**0.1**	**—**	**0.3**	**1.2**	**2.2**
Residential mortgage	**—**	**0.5**	**—**	**—**	**0.1**	**0.6**	**3.3**
Capital commitments	**—**	**—**	**1.7**	**—**	**—**	**1.7**	**2.0**
Rental car finance	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Equipment loans and leases	**0.2**	**0.2**	**—**	**—**	**—**	**0.4**	**2.0**
Floorplan – vehicle	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Consumer	**0.2**	**—**	**—**	**—**	**—**	**0.2**	**2.3**
Other	**—**	**0.4**	**—**	**—**	**—**	**0.4**	**4.9**
Total	**$ 8.3**	**$ 7.0**	**$ 2.0**	**$ —**	**$ 0.5**	**$ 17.8**	**1.9**

	Ratings profile of VIE assets of the nonconsolidated multi-seller conduits[a]						
December 31, 2008	Investment-grade				Noninvestment-grade	Commercial paper funded	Wt. avg. expected life
(in billions)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below	assets	(years)[b]
Asset types:							
Credit card	$ 4.8	$ 3.9	$ 0.1	$ 0.1	$ —	$ 8.9	1.5
Vehicle loans and leases	4.1	4.1	1.8	—	—	10.0	2.5
Trade receivables	—	4.0	1.5	—	—	5.5	1.0
Student loans	3.6	0.9	—	0.1	—	4.6	1.8
Commercial	1.1	2.0	0.6	0.3	—	4.0	2.7
Residential mortgage	—	0.6	—	0.1	—	0.7	4.0
Capital commitments	—	3.6	0.3	—	—	3.9	2.4
Rental car finance	—	—	0.4	—	—	0.4	1.5
Equipment loans and leases	0.4	1.2	—	—	—	1.6	2.2
Floorplan – vehicle	0.1	1.0	0.7	—	—	1.8	1.1
Consumer	0.1	0.4	0.2	—	—	0.7	1.6
Other	0.5	0.3	—	—	—	0.8	3.7
Total	$ 14.7	$ 22.0	$ 5.6	$ 0.6	$ —	$ 42.9	2.0

(a) The ratings scale is presented on an S&P equivalent basis.

(b) Weighted average expected life for each asset type is based on the remaining term of each conduit transaction's committed liquidity plus either the expected weighted average life of the assets should the committed liquidity expire without renewal or the expected time to sell the underlying assets.

The assets held by the multi-seller conduits are structured so that if they were rated, the Firm believes the majority of them would receive an "A" rating or better by external rating agencies. However, it is unusual for the assets held by the conduits to be explicitly rated by an external rating agency. Instead, the Firm's Credit Risk group assigns each asset purchase liquidity facility an internal risk rating based on its assessment of the probability of default for the transaction. The ratings provided in the above table reflect the S&P-equivalent ratings of the internal rating grades assigned by the Firm.

The risk ratings are periodically reassessed as information becomes available. As of December 31, 2009 and 2008, 95% and 90%, respectively, of the assets in the nonconsolidated conduits were risk-rated "A" or better.

Commercial paper issued by multi-seller conduits

The weighted-average life of commercial paper issued by nonconsolidated multi-seller conduits at December 31, 2009 and 2008, was 19 days and 27 days, respectively, and the average yield on the commercial paper was 0.2% and 0.6%, respectively. In the normal course of business, JPMorgan Chase trades and invests in commercial paper, including paper issued by the Firm-administered conduits. The percentage of commercial paper purchased by the Firm from all Firm-administered conduits during 2009 ranged from less than 1% to approximately 5.8% on any given day. The largest daily amount of commercial paper outstanding held by the Firm in any one multi-seller conduit during 2009 was approximately $852 million, or 11.6%, of the conduit's commercial paper outstanding. The Firm is not obligated under any agreement (contractual or noncontractual) to purchase the commercial paper issued by nonconsolidated JPMorgan Chase–administered conduits.

Consolidation analysis

Each nonconsolidated multi-seller conduit administered by the Firm at December 31, 2009 and 2008, had issued ELNs, the holders of which are committed to absorbing the majority of the expected loss of each respective conduit. The total amounts of ELNs outstanding for nonconsolidated conduits at December 31, 2009 and 2008, were $96 million and $136 million, respectively.

The Firm could fund purchases of assets from nonconsolidated, Firm-administered multi-seller conduits should it become necessary.

Implied support

The Firm did not have and continues not to have any intent to protect any ELN holders from potential losses on any of the conduits' holdings and has no plans to remove any assets from any conduit unless required to do so in its role as administrator. Should such a transfer occur, the Firm would allocate losses on such assets between itself and the ELN holders in accordance with the terms of the applicable ELN.

Expected loss modeling

In determining the primary beneficiary of the conduits the Firm uses a Monte Carlo–based model to estimate the expected losses of each of the conduits and considers the relative rights and obligations of each of the variable interest holders. The Firm's expected loss modeling treats all variable interests, other than the ELNs, as its own to determine consolidation. The variability to be considered in the modeling of expected losses is based on the design of the entity. The Firm's traditional multi-seller conduits are designed to pass credit risk, not liquidity risk, to its variable interest holders, as the assets are intended to be held in the conduit for the longer term.

The Firm is required to run the Monte Carlo–based expected loss model each time a reconsideration event occurs. In applying this guidance to the conduits, the following events are considered to be reconsideration events, as they could affect the determination of the primary beneficiary of the conduits:

- New deals, including the issuance of new or additional variable interests (credit support, liquidity facilities, etc.);
- Changes in usage, including the change in the level of outstanding variable interests (credit support, liquidity facilities, etc.);
- Modifications of asset purchase agreements; and
- Sales of interests held by the primary beneficiary.

From an operational perspective, the Firm does not run its Monte Carlo–based expected loss model every time there is a reconsideration event due to the frequency of their occurrence. Instead, the Firm runs its expected loss model each quarter and includes a growth assumption for each conduit to ensure that a sufficient amount of ELNs exists for each conduit at any point during the quarter.

As part of its normal quarterly modeling, the Firm updates, when applicable, the inputs and assumptions used in the expected loss model. Specifically, risk ratings and loss given default assumptions are continually updated. Management has concluded that the model assumptions used were reflective of market participants' assumptions and appropriately considered the probability of changes to risk ratings and loss given defaults.

Qualitative considerations

The multi-seller conduits are primarily designed to provide an efficient means for clients to access the commercial paper market. The Firm believes the conduits effectively disperse risk among all parties and that the preponderance of the economic risk in the Firm's multi-seller conduits is not held by JPMorgan Chase.

Investor intermediation

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

Municipal bond vehicles

The Firm has created a series of secondary market trusts that provide short-term investors with qualifying tax-exempt investments, and that allow investors in tax-exempt securities to finance their investments at short-term tax-exempt rates. In a typical transaction, the vehicle purchases fixed-rate longer-term highly rated municipal bonds and funds the purchase by issuing two types of securities: (1) putable floating-rate certificates and (2) inverse floating-rate residual interests ("residual interests"). The maturity of each of the putable floating-rate certificates and the residual interests is equal to the life of the vehicle, while the maturity of the underlying municipal bonds is longer. Holders of the putable floating-rate certificates may "put," or tender, the certificates if the remarketing agent cannot successfully remarket the floating-rate certificates to another investor. A liquidity facility conditionally obligates the liquidity provider to fund the purchase of the tendered floating-rate certificates. Upon termination of the vehicle, if the proceeds from the sale of the underlying municipal bonds are not sufficient to repay the liquidity facility, the liquidity provider has recourse either to excess collateralization in the vehicle or the residual interest holders for reimbursement.

The third-party holders of the residual interests in these vehicles could experience losses if the face amount of the putable floating-rate certificates exceeds the market value of the municipal bonds upon termination of the vehicle. Certain vehicles require a smaller initial investment by the residual interest holders and thus do not result in excess collateralization. For these vehicles there exists a reimbursement obligation which requires the residual interest holders to post, during the life of the vehicle, additional collateral to the vehicle on a daily basis as the market value of the municipal bonds declines.

JPMorgan Chase often serves as the sole liquidity provider and remarketing agent of the putable floating-rate certificates. The liquidity provider's obligation to perform is conditional and is limited by certain termination events; which include bankruptcy or failure to pay by the municipal bond issuer or credit enhancement provider, and the immediate downgrade of the municipal bond to below investment grade. A downgrade of JPMorgan Chase Bank, N.A.'s short-term rating does not affect the Firm's obligation under the liquidity facility. However, in the event of a downgrade in the Firm's credit ratings, holders of the putable floating-rate instruments supported by those liquidity facility commitments might choose to sell their instruments, which could increase the likelihood that the liquidity commitments could be drawn. In vehicles in which third-party investors own the residual interests, in addition to the termination events, the Firm's exposure as liquidity provider is further limited by the high credit quality of the underlying municipal bonds, the excess collateralization in the vehicle, or the reimbursement agreements with the residual interest holders. In the fourth quarter of 2008, a drawdown occurred on one liquidity facility as a result of a failure to remarket putable floating-rate certificates. The Firm was required to purchase $19 million of putable floating-rate certificates. Subsequently, the municipal bond vehicle was terminated and the proceeds from the sales of the municipal bonds, together with the collateral posted by the residual interest holder, were sufficient to repay the putable floating-rate certificates. In 2009, the Firm did not experience a drawdown on the liquidity facilities.

As remarketing agent, the Firm may hold putable floating-rate certificates of the municipal bond vehicles. At December 31, 2009 and 2008, respectively, the Firm held $72 million and $293 million of these certificates on its Consolidated Balance Sheets. The largest amount held by the Firm at any time during 2009 was $1.0 billion, or 6.7%, of the municipal bond vehicles' outstanding putable floating-rate certificates. The Firm did not have and continues not to have any intent to protect any residual interest holder from potential losses on any of the municipal bond holdings.

The long-term credit ratings of the putable floating-rate certificates are directly related to the credit ratings of the underlying municipal bonds, and to the credit rating of any insurer of the underlying municipal bond. A downgrade of a bond insurer would result in a downgrade of the insured municipal bonds, which would affect the rating of the putable floating-rate certificates. This could cause demand for these certificates by investors to decline or disappear, as putable floating-rate certificate holders typically require an "AA-" bond rating. At December 31, 2009 and 2008, 98% and 97%, respectively, of the municipal bonds held by vehicles to which the Firm served as liquidity provider were rated "AA-" or better, based on either the rating of the underlying municipal bond itself, or the rating including any credit enhancement. At December 31, 2009 and 2008, $2.3 billion and $2.6 billion, respectively, of the bonds were insured by monoline bond insurers.

The Firm sometimes invests in the residual interests of municipal bond vehicles. For VIEs in which the Firm owns the residual interests, the Firm consolidates the VIEs.

The likelihood is remote that the Firm would have to consolidate VIEs in which the Firm does not own the residual interests and that are currently off–balance sheet.

Exposure to nonconsolidated municipal bond VIEs at December 31, 2009 and 2008, including the ratings profile of the VIEs' assets, were as follows.

	2009				2008			
December 31, (in billions)	Fair value of assets held by VIEs	Liquidity facilities[c]	Excess/ (deficit)[d]	Maximum exposure	Fair value of assets held by VIEs	Liquidity facilities[c]	Excess/ (deficit)[d]	Maximum exposure
Nonconsolidated municipal bond vehicles[a][b]	**$ 13.2**	**$ 8.4**	**$ 4.8**	**$ 8.4**	$ 10.0	$ 6.9	$ 3.1	$ 6.9

	Ratings profile of VIE assets[e]						
	Investment-grade				Noninvestment-grade		
December 31, (in billions)	AAA to AAA-	AA+ to AA-	A+ to A-	BBB to BBB-	BB+ and below	Fair value of assets held by VIEs	Wt. avg. expected life of asset (years)
Nonconsolidated municipal bond vehicles[a]							
2009	**$ 1.6**	**$ 11.4**	**$ 0.2**	**$ —**	**$ —**	**$ 13.2**	**10.1**
2008	3.8	5.9	0.2	0.1	—	10.0	22.3

(a) Excluded $2.8 billion and $6.0 billion at December 31, 2009 and 2008, respectively, which were consolidated due to the Firm owning the residual interests.

(b) Certain of the municipal bond vehicles are structured to meet the definition of a QSPE (as discussed in Note 1 on page 150 of this Annual Report); accordingly, the assets and liabilities of QSPEs are not reflected on the Firm's Consolidated Balance Sheets (except for retained interests reported at fair value). At December 31, 2008, excluded collateral with a fair value of $603 million related to QSPE municipal bond vehicles in which the Firm owned the residual interests. The Firm did not own residual interests in QSPE municipal bond vehicles at December 31, 2009.

(c) The Firm may serve as credit enhancement provider for municipal bond vehicles for which it serves as liquidity provider. The Firm provided insurance on underlying municipal bonds, in the form of letters of credit, of $10 million at both December 31, 2009 and 2008, respectively.

(d) Represents the excess/(deficit) of the fair value of municipal bond assets available to repay the liquidity facilities, if drawn.

(e) The ratings scale is based on the Firm's internal risk ratings and presented on an S&P-equivalent basis.

Credit-linked note vehicles

The Firm structures transactions with credit-linked note vehicles in which the VIE purchases highly rated assets, such as asset-backed securities, and enters into a credit derivative contract with the Firm to obtain exposure to a referenced credit which the VIE otherwise does not hold. The VIE then issues CLNs with maturities predominantly ranging from one to ten years in order to transfer the risk of the referenced credit to the VIE's investors. Clients and investors often prefer using a CLN vehicle since the CLNs issued by the VIE generally carry a higher credit rating than such notes would if issued directly by JPMorgan Chase. The Firm's exposure to the CLN vehicles is generally limited to its rights and obligations under the credit derivative contract with the VIE, as the Firm does not provide any additional contractual financial support to the VIE. In addition, the Firm has not historically provided any financial support to the CLN vehicles over and above its contractual obligations. Accordingly, the Firm typically does not consolidate the CLN vehicles. As a derivative counterparty in a credit-linked note structure, the Firm has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. The collateral purchased by such VIEs is largely investment-grade, with a significant amount being rated "AAA." The Firm divides its credit-linked note structures broadly into two types: static and managed.

In a static credit-linked note structure, the CLNs and associated credit derivative contract either reference a single credit (e.g., a multi-national corporation), or all or part of a fixed portfolio of credits. The Firm generally buys protection from the VIE under the credit derivative. In a managed credit-linked note structure, the CLNs and associated credit derivative generally reference all or part of an actively managed portfolio of credits. An agreement exists between a portfolio manager and the VIE that gives the portfolio manager the ability to substitute each referenced credit in the portfolio for an alternative credit. By participating in a structure where a portfolio manager has the ability to substitute credits within pre-agreed terms, the investors who own the CLNs seek to reduce the risk that any single credit in the portfolio will default. The Firm does not act as portfolio manager; its involvement with the VIE is generally limited to being a derivative counterparty. As a net buyer of credit protection, in both static and managed credit-linked note structures, the Firm pays a premium to the VIE in return for the receipt of a payment (up to the notional of the derivative) if one or more of the credits within the portfolio defaults, or if the losses resulting from the default of reference credits exceed specified levels.

Exposure to nonconsolidated credit-linked note VIEs at December 31, 2009 and 2008, was as follows.

	2009				2008			
December 31, (in billions)	Derivative receivables	Trading assets(b)	Total exposure(c)	Par value of collateral held by VIEs(d)	Derivative receivables	Trading assets(b)	Total exposure(c)	Par value of collateral held by VIEs(d)
Credit-linked notes(a)								
Static structure	**$ 1.9**	**$ 0.7**	**$ 2.6**	**$ 10.8**	$ 3.6	$ 0.7	$ 4.3	$ 14.5
Managed structure	**5.0**	**0.6**	**5.6**	**15.2**	7.7	0.3	8.0	16.6
Total	**$ 6.9**	**$ 1.3**	**$ 8.2**	**$ 26.0**	$ 11.3	$ 1.0	$ 12.3	$ 31.1

(a) Excluded collateral with a fair value of $1.5 billion and $2.1 billion at December 31, 2009 and 2008, respectively, which was consolidated as the Firm, in its role as secondary market maker, held a majority of the issued credit-linked notes of certain vehicles.

(b) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.

(c) On–balance sheet exposure that includes derivative receivables and trading assets.

(d) The Firm's maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. The Firm relies on the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.

Asset Swap Vehicles

The Firm also structures and executes transactions with asset swap vehicles on behalf of investors. In such transactions, the VIE purchases a specific asset or assets and then enters into a derivative with the Firm in order to tailor the interest rate or currency risk, or both, of the assets according to investors' requirements. Generally, the assets are held by the VIE to maturity, and the tenor of the derivatives would match the maturity of the assets. Investors typically invest in the notes issued by such VIEs in order to obtain exposure to the credit risk of the specific assets, as well as exposure to foreign exchange and interest rate risk that is tailored to their specific needs. The derivative transaction between the Firm and the VIE may include currency swaps to hedge assets held by the VIE denominated in foreign currency into the investors' home or investment currency or interest rate swaps to hedge the interest rate risk of assets held by the VIE; to add additional interest rate exposure into the VIE in order to increase the return on the issued notes; or to convert an interest-bearing asset into a zero-coupon bond.

The Firm's exposure to the asset swap vehicles is generally limited to its rights and obligations under the interest rate and/or foreign exchange derivative contracts, as the Firm does not provide any contractual financial support to the VIE. In addition, the Firm historically has not provided any financial support to the asset swap vehicles over and above its contractual obligations. Accordingly, the Firm typically does not consolidate the asset swap vehicles. As a derivative counterparty, the Firm has a senior claim on the collateral of the VIE and reports such derivatives on its balance sheet at fair value. Substantially all of the assets purchased by such VIEs are investment-grade.

Exposure to nonconsolidated asset swap VIEs at December 31, 2009 and 2008, was as follows.

	2009				2008			
December 31, (in billions)	Derivative receivables/ (payables)	Trading assets[b]	Total exposure[c]	Par value of collateral held by VIEs[d]	Derivative receivables/ (payables)	Trading assets[b]	Total exposure[c]	Par value of collateral held by VIEs[d]
Nonconsolidated asset swap vehicles[a]	**$ 0.1**	**$ —**	**$ 0.1**	**$ 10.2**	$ (0.2)	$ —	$ (0.2)	$ 7.3

(a) Excluded fair value of collateral of $623 million and $1.0 billion at December 31, 2009 and 2008, respectively, which was consolidated as the Firm, in its role as secondary market maker, held a majority of the issued notes of certain vehicles.
(b) Trading assets principally comprise notes issued by VIEs, which from time to time are held as part of the termination of a deal or to support limited market-making.
(c) On-balance sheet exposure that includes derivative receivables and trading assets.
(d) The Firm's maximum exposure arises through the derivatives executed with the VIEs; the exposure varies over time with changes in the fair value of the derivatives. The Firm relies upon the collateral held by the VIEs to pay any amounts due under the derivatives; the vehicles are structured at inception so that the par value of the collateral is expected to be sufficient to pay amounts due under the derivative contracts.

Collateralized Debt Obligations vehicles

A CDO typically refers to a security that is collateralized by a pool of bonds, loans, equity, derivatives or other assets. The Firm's involvement with a particular CDO vehicle may take one or more of the following forms: arranger, warehouse funding provider, placement agent or underwriter, secondary market-maker for securities issued, or derivative counterparty.

As of December 31, 2009 and 2008, the Firm had funded noninvestment-grade loans of $156 million and $405 million, respectively, to nonconsolidated CDO warehouse VIEs. The Firm's maximum exposure to loss related to the nonconsolidated CDO warehouse VIEs was $156 million and $1.1 billion as of December 31, 2009 and 2008, respectively.

Once the CDO vehicle closes and issues securities, the Firm has no obligation to provide further support to the vehicle. At the time of closing, the Firm may hold unsold securities that it was not able to place with third-party investors. In addition, the Firm may on occasion hold some of the CDO vehicles' securities as a secondary market-maker or as a principal investor, or it may be a derivative counterparty to the vehicles. At December 31, 2009 and 2008, these amounts were not significant.

VIEs sponsored by third parties

Investment in a third-party credit card securitization trust

The Firm holds a note in a third-party-sponsored VIE, which is a credit card securitization trust that owns credit card receivables issued by a national retailer. The note is structured so that the principal amount can float up to 47% of the principal amount of the receivables held by the trust, not to exceed $4.2 billion.

The Firm is not the primary beneficiary of the trust and accounts for its investment at fair value within AFS investment securities. At December 31, 2009 and 2008, the amortized cost of the note was $3.5 billion and $3.6 billion, respectively, and the fair value was $3.5 billion and $2.6 billion, respectively. For more information on AFS securities, see Note 11 on pages 195–199 of this Annual Report.

VIE used in FRBNY transaction

In conjunction with the Bear Stearns merger, in June 2008, the Federal Reserve Bank of New York ("FRBNY") took control, through an LLC formed for this purpose, of a portfolio of $30.0 billion in assets, based on the value of the portfolio as of March 14, 2008. The assets of the LLC were funded by a $28.85 billion term loan from the FRBNY and a $1.15 billion subordinated loan from JPMorgan Chase. The JPMorgan Chase loan is subordinated to the FRBNY loan and will bear the first $1.15 billion of any losses of the portfolio. Any remaining assets in the portfolio after repayment of the FRBNY loan, repayment of the JPMorgan Chase loan and the expense of the LLC will be for the account of the FRBNY. The extent to which the FRBNY and JPMorgan Chase loans will be repaid will depend on the value of the asset portfolio and the liquidation strategy directed by the FRBNY.

Other VIEs sponsored by third parties

The Firm enters into transactions with VIEs structured by other parties. These include, for example, acting as a derivative counterparty, liquidity provider, investor, underwriter, placement agent, trustee or custodian. These transactions are conducted at arm's length, and individual credit decisions are based on the analysis of the specific VIE, taking into consideration the quality of the underlying assets. Where these activities do not cause JPMorgan Chase to absorb a majority of the expected losses, or to receive a majority of the residual returns, the Firm records and reports these positions on its Consolidated Balance Sheets, similarly to the way it would record and report positions from any other third-party transaction. These transactions are not considered significant.

Consolidated VIE assets and liabilities

The following table presents information on assets, liabilities and commitments related to VIEs that are consolidated by the Firm.

December 31, 2009 (in billions)	Assets Trading assets–debt and equity instruments	 Loans	 Other(b)	 Total assets(c)
VIE program type				
Multi-seller conduits	**$ —**	**$ 2.2**	**$ 2.9**	**$ 5.1**
Credit card loans(a)	**—**	**6.1**	**0.8**	**6.9**
Municipal bond vehicles	**2.8**	**—**	**—**	**2.8**
Credit-linked notes	**1.3**	**—**	**0.2**	**1.5**
CDO warehouses	**0.1**	**—**	**—**	**0.1**
Other	**2.2**	**4.7**	**1.1**	**8.0**
Total	**$ 6.4**	**$ 13.0**	**$ 5.0**	**$ 24.4**

December 31, 2008 (in billions)	Assets Trading assets–debt and equity instruments	 Loans	 Other(b)	 Total assets(c)
VIE program type				
Multi-seller conduits	$ —	$ —	$ —	$ —
Credit card loans(a)	—	—	—	—
Municipal bond vehicles	5.9	—	0.1	6.0
Credit-linked notes	1.9	—	0.5	2.4
CDO warehouses	0.2	—	0.1	0.3
Other	2.5	5.3	2.1	9.9
Total	$ 10.5	$ 5.3	$ 2.8	$ 18.6

December 31, 2009 (in billions)	Liabilities Beneficial interests in VIE assets(d)	 Other(e)	 Total liabilities
VIE program type			
Multi-seller conduits	**$ 4.8**	**$ —**	**$ 4.8**
Credit card loans(a)	**3.9**	**—**	**3.9**
Municipal bond vehicles	**2.7**	**—**	**2.7**
Credit-linked notes	**0.3**	**0.1**	**0.4**
CDO warehouses	**—**	**—**	**—**
Other	**3.5**	**2.1**	**5.6**
Total	**$ 15.2**	**$ 2.2**	**$ 17.4**

December 31, 2008 (in billions)	Liabilities Beneficial interests in VIE assets(d)	 Other(e)	 Total liabilities
VIE program type			
Multi-seller conduits	$ —	$ —	$ —
Credit card loans(a)	—	—	—
Municipal bond vehicles	5.5	0.4	5.9
Credit-linked notes	1.3	0.6	1.9
CDO warehouses	—	—	—
Other	3.8	2.9	6.7
Total	$ 10.6	$ 3.9	$ 14.5

(a) Represents consolidated securitized credit card loans related to the WMM Trust, as well as loans that were represented by the Firm's undivided interest and subordinated interest and fees, which were previously recorded on the Firm's Consolidated Balance Sheets prior to consolidation. For further discussion, see Note 15 on pages 206–213 respectively, of this Annual Report.

(b) Included assets classified as resale agreements and other assets within the Consolidated Balance Sheets.

(c) Assets of each consolidated VIE are generally used to satisfy the liabilities to third parties. The difference between total assets and total liabilities recognized for consolidated VIEs represents the Firm's interest in the consolidated VIEs for each program type.

(d) The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item on the Consolidated Balance Sheets titled, "Beneficial interests issued by consolidated variable interest entities." The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. Included in beneficial interests in VIE assets are long-term beneficial interests of $10.4 billion and $10.6 billion at December 31, 2009 and 2008, respectively.

(e) Included liabilities classified as other borrowed funds, long-term debt, and accounts payable and other liabilities in the Consolidated Balance Sheets.

New accounting guidance for consolidation of variable interest entities (including securitization entities)

In June 2009, the FASB issued guidance which amends the accounting for the transfers of financial assets and the consolidation of VIEs. The guidance eliminates the concept of QSPEs and provides additional guidance with regard to accounting for transfers of financial assets. The guidance also changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and reward model to a qualitative model, based on control and economics.

The Firm adopted this guidance for VIEs on January 1, 2010, which required the consolidation of the Firm's credit card securitization trusts, bank-administered asset-backed commercial paper conduits, and certain mortgage and other consumer securitization entities. The consolidation of these VIEs added approximately $88 billion and $92 billion of assets and liabilities, respectively, which were not previously consolidated on the Firm's Consolidated Balance Sheets in accordance with prior accounting guidance. The net impact of adopting this new accounting guidance was a reduction in stockholders' equity of approximately $4 billion and in Tier 1 capital ratio by approximately 30 basis points, driven predominantly by the establishment of an allowance for loan losses of approximately $7 billion (pre-tax) related to the receivables held in the credit card securitization trusts that were consolidated at the adoption date.

The U.S. GAAP consolidation of these entities did not have a significant impact on risk-weighted assets on the adoption date; this was due to the consolidation, for regulatory capital purposes, of the Chase Issuance Trust (the Firm's primary credit card securitization trust) in the second quarter of 2009, which added approximately $40 billion of risk-weighted assets. For further discussion, see Note 15 on pages 206–213 of this Annual Report.

In addition, the banking regulatory agencies issued regulatory capital rules relating to the adoption of this guidance for VIEs that permitted an optional two-quarter implementation delay, which defers the effect of this accounting guidance on risk-weighted assets and risk-based capital requirements. The Firm elected this regulatory implementation delay, as permitted under these new regulatory capital rules, for its bank-administered asset-backed commercial paper conduits and certain mortgage and other securitization entities.

In February 2010, the FASB finalized an amendment that defers the requirements of the consolidation guidance for certain investment funds, including mutual funds, private equity funds, and hedge funds. For the funds included in the deferral, the Firm will continue to analyze consolidation under other existing authoritative guidance; these funds are not included in the impact noted above.

Note 17 – Goodwill and other intangible assets

Goodwill and other intangible assets consist of the following.

December 31, (in millions)	**2009**	2008	2007
Goodwill	**$ 48,357**	$ 48,027	$ 45,270
Mortgage servicing rights	**15,531**	9,403	8,632
Other intangible assets:			
Purchased credit card relationships	**$ 1,246**	$ 1,649	$ 2,303
Other credit card–related intangibles	**691**	743	346
Core deposit intangibles	**1,207**	1,597	2,067
Other intangibles	**1,477**	1,592	1,383
Total other intangible assets	**$ 4,621**	$ 5,581	$ 6,099

Goodwill

Goodwill is recorded upon completion of a business combination as the difference between the purchase price and the fair value of the net assets acquired. Other intangible assets are recorded at their fair value upon completion of a business combination or certain other transactions, and generally represent the value of customer relationships or arrangements.

The increase in goodwill during 2009 was primarily due to final purchase accounting adjustments related to the Bear Stearns merger, and the acquisition of a commodities business, each primarily allocated to IB, and foreign currency translation adjustments related to the Firm's Canadian credit card operations, which were allocated to Card Services. The increase in goodwill during 2008 was primarily due to the dissolution of the Chase Paymentech Solutions joint venture (allocated to Card Services), the merger with Bear Stearns, the purchase of an additional equity interest in Highbridge and tax-related purchase accounting adjustments associated with the Bank One merger (which were primarily attributed to IB).

The goodwill associated with each business combination is allocated to the related reporting units, which are determined based on how the Firm's businesses are managed and how they are reviewed by the Firm's Operating Committee. The following table presents goodwill attributed to the business segments.

December 31, (in millions)	**2009**	2008	2007
Investment Bank	**$ 4,959**	$ 4,765	$ 3,578
Retail Financial Services	**16,831**	16,840	16,848
Card Services	**14,134**	13,977	12,810
Commercial Banking	**2,868**	2,870	2,873
Treasury & Securities Services	**1,667**	1,633	1,660
Asset Management	**7,521**	7,565	7,124
Corporate/Private Equity	**377**	377	377
Total goodwill	**$ 48,357**	$ 48,027	$ 45,270

The following table presents changes in the carrying amount of goodwill.

(in millions)	Total
Balance at December 31, 2007[a]:	$ 45,270
Changes during 2008 from:	
Business combinations	2,481
Dispositions	(38)
Other[b]	314
Balance at December 31, 2008[a]:	$ 48,027
Changes during 2009 from:	
Business combinations	**271**
Dispositions	**—**
Other[b]	**59**
Balance at December 31, 2009[a]	**$ 48,357**

[a] Reflects gross goodwill balances as the Firm has not recognized any impairment losses to date.

[b] Includes foreign currency translation adjustments and other tax-related adjustments.

Impairment Testing

Subsequent to initial recognition, goodwill is tested for impairment during the fourth quarter of each fiscal year, or more often if events or circumstances, such as adverse changes in the business climate, indicate there may be impairment. Goodwill was not impaired at December 31, 2009 or 2008, nor was any goodwill written off due to impairment during 2009, 2008 or 2007.

The goodwill impairment test is performed in two steps. In the first step, the current fair value of each reporting unit is compared with its carrying value, including goodwill. If the fair value is in excess of the carrying value (including goodwill), then the reporting unit's goodwill is considered not to be impaired. If the fair value is less than the carrying value (including goodwill), then a second step is performed. In the second step, the implied current fair value of the reporting unit's goodwill is determined by comparing the fair value of the reporting unit (as determined in step one) to the fair value of the net assets of the reporting unit, as if the reporting unit were being acquired in a business combination. The resulting implied current fair value of goodwill is then compared with the carrying value of the reporting unit's goodwill. If the carrying value of the goodwill exceeds its implied current fair value, then an impairment charge is recognized for the excess. If the carrying value of goodwill is less than its implied current fair value, then no goodwill impairment is recognized.

The primary method the Firm uses to estimate the fair value of its reporting units is the income approach. The models project levered cash flows for the forecast period and use the perpetuity growth method to calculate terminal values. These cash flows and terminal values are then discounted using an appropriate discount rate. Projections of cash flows are based on the reporting units' forecasts and reviewed with the Operating Committee of the Firm. The Firm's cost of equity is determined using the Capital Asset Pricing Model, which is consistent with methodologies and assumptions the Firm uses when advising clients. The discount rate used for each reporting unit represents an estimate of the cost of equity capital for that reporting unit and is determined based on the Firm's overall cost of equity, as adjusted for the risk characteristics specific to each reporting unit, for example, for higher levels of risk or uncertainty associated with the business or management's forecasts and assumptions. To assess the reasonableness of the discount rates used for each reporting unit, management compares the discount rate to the estimated cost of equity for publicly traded institutions with similar businesses and risk characteristics. In addition, the weighted average cost of equity (aggregating the various reporting units) is compared with the Firms' overall cost of equity to ensure reasonableness.

The valuations derived from the discounted cash flow models are then compared with market-based trading and transaction multiples for relevant competitors. Precise conclusions generally can not be drawn from these comparisons due to the differences that naturally exist between the Firm's businesses and competitor institutions. However, trading and transaction comparables are used as general indicators to assess the general reasonableness of the estimated fair values. Management also takes into consideration a comparison between the aggregate fair value of the Firm's reporting units and JPMorgan Chase's market capitalization. In evaluating this comparison, management considers several factors, including (a) a control premium that would exist in a market transaction, (b) factors related to the level of execution risk that would exist at the firm-wide level that do not exist at the reporting unit level and (c) short-term market volatility and other factors that do not directly affect the value of individual reporting units.

While no impairment of goodwill was recognized during 2009, the Firm's consumer lending businesses in RFS and Card Services have elevated risk of potential goodwill impairment due to their exposure to U.S. consumer credit risk. The valuation of these businesses are particularly dependent upon economic conditions (including unemployment rates, and home prices) and potential legislative and regulatory changes that affect consumer credit risk and their business models. The assumptions used in the discounted cash flow models for these businesses, and the values of the associated net assets, were determined using management's best estimates, and the cost of equity reflected the risk and uncertainty for these businesses and was evaluated in comparison to relevant market peers. Deterioration in these assumptions could cause the estimated fair values of these reporting units or their associated goodwill to decline, which may result in a material impairment charge to earnings in a future period related to some portion of their associated goodwill.

Mortgage servicing rights

Mortgage servicing rights represent the fair value of future cash flows for performing specified mortgage servicing activities (predominantly with respect to residential mortgage) for others. MSRs are either purchased from third parties or retained upon sale or securitization of mortgage loans. Servicing activities include collecting principal, interest, and escrow payments from borrowers; making tax and insurance payments on behalf of borrowers; monitoring delinquencies and executing foreclosure proceedings; and accounting for and remitting principal and interest payments to the investors of the mortgage-backed securities.

The Firm has one class of servicing assets. JPMorgan Chase made this determination based on the availability of market inputs used to measure its MSR asset at fair value and its treatment of MSRs as one aggregate pool for risk management purposes. As permitted by U.S. GAAP, the Firm elected to account for this one class of servicing assets at fair value. The Firm estimates the fair value of MSRs using an option-adjusted spread model ("OAS"), which projects MSR cash flows over multiple interest rate scenarios in conjunction with the Firm's prepayment model and then discounts these cash flows at risk-adjusted rates. The model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue and costs to service, and other economic factors. The Firm reassesses and periodically adjusts the underlying inputs and assumptions used in the OAS model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. During 2009 and 2008, the Firm continued to refine its proprietary prepayment model based on a number of market-related factors, including a downward trend in home prices, general tightening of credit underwriting standards and the associated impact on refinancing activity. The Firm compares fair value estimates and assumptions to observable market data where available, and to recent market activity and actual portfolio experience.

The fair value of MSRs is sensitive to changes in interest rates, including their effect on prepayment speeds. JPMorgan Chase uses or has used combinations of derivatives and securities to manage changes in the fair value of MSRs. The intent is to offset any changes in the fair value of MSRs with changes in the fair value of the related risk management instruments. MSRs decrease in value when interest rates decline. Conversely, securities (such as mortgage-backed securities), principal-only certificates and certain derivatives (when the Firm receives fixed-rate interest payments) increase in value when interest rates decline.

The following table summarizes MSR activity for the years ended December 31, 2009, 2008 and 2007.

Year ended December 31, (in millions, except where otherwise noted)	**2009**	2008	2007
Fair value at beginning of period	**$ 9,403**	$ 8,632	$ 7,546
MSR activity			
Originations of MSRs	**3,615**	3,061	2,335
Purchase of MSRs	**2**	6,755[d]	798
Disposition of MSRs	**(10)**	—	—
Total net additions	**3,607**	9,816	3,133
Change in valuation due to inputs and assumptions[a]	**5,807**	(6,933)	(516)
Other changes in fair value[b]	**(3,286)**	(2,112)	(1,531)
Total change in fair value of MSRs	**2,521**	(9,045)	(2,047)
Fair value at December 31	**$ 15,531[c]**	$ 9,403[c]	$ 8,632
Change in unrealized gains/(losses) included in income related to MSRs held at December 31	**$ 5,807**	$ (6,933)	$ (516)
Contractual service fees, late fees and other ancillary fees included in income	**$ 4,818**	$ 3,353	$ 2,429
Third-party mortgage loans serviced at December 31 (in billions)	**$ 1,091**	$ 1,185	$ 615

(a) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model. Also represents total realized and unrealized gains/(losses) included in net income using significant unobservable inputs (level 3).

(b) Includes changes in the MSR value due to modeled servicing portfolio runoff (or time decay). Represents the impact of cash settlements using significant unobservable inputs (level 3).

(c) Includes $41 million and $55 million related to commercial real estate at December 31, 2009 and 2008, respectively.

(d) Includes MSRs acquired as a result of the Washington Mutual transaction (of which $59 million related to commercial real estate) and the Bear Stearns merger. For further discussion, see Note 2 on pages 151–156 of this Annual Report.

The following table presents the components of mortgage fees and related income (including the impact of MSR risk management activities) for the years ended December 31, 2009, 2008 and 2007.

Year ended December 31, (in millions)	**2009**	2008	2007
RFS net mortgage servicing revenue			
Production revenue	**$ 503**	$ 898	$ 880
Net mortgage servicing revenue			
Operating revenue:			
Loan servicing revenue	**4,942**	3,258	2,334
Other changes in MSR asset fair value[a]	**(3,279)**	(2,052)	(1,531)
Total operating revenue	**1,663**	1,206	803
Risk management:			
Changes in MSR asset fair value due to inputs or assumptions in model[b]	**5,804**	(6,849)	(516)
Derivative valuation adjustments and other	**(4,176)**	8,366	927
Total risk management	**1,628**	1,517	411
Total RFS net mortgage servicing revenue	**3,291**	2,723	1,214
All other[c]	**(116)**	(154)	24
Mortgage fees and related income	**$ 3,678**	$ 3,467	$ 2,118

(a) Includes changes in the MSR value due to modeled servicing portfolio runoff (or time decay). Represents the impact of cash settlements using significant unobservable inputs (level 3).

(b) Represents MSR asset fair value adjustments due to changes in inputs, such as interest rates and volatility, as well as updates to assumptions used in the valuation model. Also represents total realized and unrealized gains/(losses) included in net income using significant unobservable inputs (level 3).

(c) Primarily represents risk management activities performed by the Chief Investment Office ("CIO") in the Corporate sector.

The table below outlines the key economic assumptions used to determine the fair value of the Firm's MSRs at December 31, 2009, and 2008, respectively; it also outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions.

Year ended December 31, (in millions, except rates)	**2009**	2008
Weighted-average prepayment speed assumption (CPR)	**11.37%**	35.21%
Impact on fair value of 10% adverse change	**$ (896)**	$(1,039)
Impact on fair value of 20% adverse change	**(1,731)**	(1,970)
Weighted-average option adjusted spread	**4.63%**	3.80%
Impact on fair value of 100 basis points adverse change	**$ (641)**	$ (311)
Impact on fair value of 200 basis points adverse change	**(1,232)**	(606)

CPR: Constant prepayment rate.

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. Changes in fair value based on a 10% and 20% variation in assumptions generally cannot be easily extrapolated, because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table, the effect that a change in a particular assumption may have on the fair value is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Other intangible assets

During 2009, purchased credit card relationships, other credit card-related intangibles, core deposit intangibles and other intangibles decreased $960 million, primarily reflecting amortization expense, partially offset by foreign currency translation adjustments related to the Firm's Canadian credit card operations.

The components of credit card relationships, core deposits and other intangible assets were as follows.

	2009			2008		
December 31, (in millions)	Gross amount	Accumulated amortization	Net carrying value	Gross amount	Accumulated amortization	Net carrying value
Purchased credit card relationships	**$ 5,783**	**$ 4,537**	**$ 1,246**	$ 5,765	$ 4,116	$ 1,649
Other credit card–related intangibles	**894**	**203**	**691**	852	109	743
Core deposit intangibles	**4,280**	**3,073**	**1,207**	4,280	2,683	1,597
Other intangibles[(a)]	**2,200**	**723**	**1,477**	2,376	784	1,592

(a) The decrease in other intangibles gross amount and accumulated amortization from December 2008 was primarily attributable to the removal of fully amortized assets.

Amortization expense

The Firm's intangible assets with finite lives are amortized over their useful lives in a manner that best reflects the economic benefits of the intangible asset. $517 million of intangible assets related to asset management advisory contracts were determined to have an indefinite life and are not amortized.

The following table presents amortization expense related to credit card relationships, core deposits and all other intangible assets.

Year ended December 31, (in millions)	**2009**	2008	2007
Purchased credit card relationships	**$ 421**	$ 625	$ 710
Other credit card–related intangibles	**94**	33	11
Core deposit intangibles	**390**	469	554
Other intangibles[(a)]	**145**	136	119
Total amortization expense	**$ 1,050**	$ 1,263	$ 1,394

(a) Excludes amortization expense related to servicing assets on securitized automobile loans, which is recorded in lending and deposit-related fees, of $2 million, $5 million and $9 million, for the years ended 2009, 2008, and 2007, respectively.

Future amortization expense

The following table presents estimated future amortization expense related to credit card relationships, core deposits and all other intangible assets at December 31, 2009.

Year ended December 31, (in millions)	Purchased credit card relationships	Other credit card-related intangibles	Core deposit intangibles	All other intangible assets	**Total**
2010	$ 354	$ 103	$ 329	$ 127	$ 913
2011	290	102	284	117	793
2012	252	105	240	113	710
2013	213	104	195	109	621
2014	109	100	106	105	420

Impairment

The Firm's intangible assets with indefinite lives are tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test for indefinite-lived intangible assets compares the fair value of the intangible asset to its carrying amount. If the carrying value exceeds the fair value, then an impairment charge is recognized for the difference. Core deposits and credit card relationships as well as other acquired intangible assets determined to have finite lives, are amortized over their estimated useful lives in a manner that best reflects the economic benefits of the intangible asset. The impairment test for a finite-lived intangible asset compares the undiscounted cash flows associated with the use or disposition of the intangible asset to its carrying value. If the sum of the undiscounted cash flows exceeds its carrying value, then no impairment charge is recorded. If the sum of the undiscounted cash flows is less than its carrying value, then an impairment charge is recognized to the extent the carrying amount of the asset exceeds its fair value.

Note 18 – Premises and equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. JPMorgan Chase computes depreciation using the straight-line method over the estimated useful life of an asset. For leasehold improvements, the Firm uses the straight-line method computed over the lesser of the remaining term of the leased facility or the estimated useful life of the leased asset. JPMorgan Chase has recorded immaterial asset retirement obligations related to asbestos remediation in those cases where it has sufficient information to estimate the obligations' fair value.

JPMorgan Chase capitalizes certain costs associated with the acquisition or development of internal-use software. Once the software is ready for its intended use, these costs are amortized on a straight-line basis over the software's expected useful life and reviewed for impairment on an ongoing basis.

Note 19 – Deposits

At December 31, 2009 and 2008, noninterest-bearing and interest-bearing deposits were as follows.

December 31, (in millions)	**2009**	2008
U.S. offices:		
Noninterest-bearing	**$ 204,003**	$ 210,899
Interest-bearing (included $1,463 and $1,849 at fair value at December 31, 2009 and 2008, respectively)	**439,104**	511,077
Non-U.S. offices:		
Noninterest-bearing	**8,082**	7,697
Interest-bearing (included $2,992 and $3,756 at fair value at December 31, 2009 and 2008, respectively)	**287,178**	279,604
Total	**$ 938,367**	$ 1,009,277

At December 31, 2009 and 2008, time deposits in denominations of $100,000 or more were as follows.

December 31, (in millions)	**2009**	2008
U.S.	**$ 90,552**	$ 147,493
Non-U.S.	**77,887**	58,247
Total	**$ 168,439**	$ 205,740

At December 31, 2009, the maturities of time deposits were as follows.

December 31, 2009 (in millions)	U.S.	Non-U.S.	**Total**
2010	$ 113,912	$ 97,465	$ 211,377
2011	9,489	654	10,143
2012	3,851	485	4,336
2013	2,783	634	3,417
2014	1,321	127	1,448
After 5 years	671	267	938
Total	$ 132,027	$ 99,632	$ 231,659

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "2008 Act") was signed into law. The 2008 Act temporarily increased the standard maximum FDIC deposit insurance from $100,000 to $250,000 per depositor per institution through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act of 2009 (the "2009 Act") was signed into law. The 2009 Act extends through December 31, 2013, the FDIC's temporary standard maximum deposit insurance amount of $250,000 per depositor. On January 1, 2014, the standard maximum deposit insurance amount will return to $100,000 per depositor for all deposit accounts except Individual Retirement Accounts ("IRAs") and certain other retirement accounts, which will remain at $250,000 per depositor.

In addition, on November 21, 2008, the FDIC released a final rule on the FDIC Temporary Liquidity Guarantee Program (the "TLG Program"). Under one component of this program, the Transaction Account Guarantee Program (the "TAG Program") provides unlimited deposit insurance through December 31, 2009, on certain noninterest-bearing transaction accounts at FDIC-insured participating institutions. On December 4, 2008, the Firm elected to participate in the TLG Program and, as a result, was required to pay additional insurance premiums to the FDIC in an amount equal to an annualized 10 basis points on balances in noninterest-bearing transaction accounts that exceeded the $250,000 FDIC deposit insurance limits, as determined on a quarterly basis. The expiration date of the program was extended by six months, from December 31, 2009, to June 30, 2010, to provide continued support to those institutions most affected by the recent financial crisis and phase out the program in an orderly manner. On October 22, 2009, the Firm notified the FDIC that, as of January 1, 2010, it would no longer participate in the TAG Program. As a result of the Firm's decision to opt out of the program, after December 31, 2009, funds held in noninterest-bearing transaction accounts will no longer be guaranteed in full, but will be insured up to $250,000 under the FDIC's general deposit rules.

Note 20 – Other borrowed funds

The following table details the components of other borrowed funds.

At December 31, (in millions)	2009	2008
Advances from Federal Home Loan Banks[(a)]	**$ 27,847**	$ 70,187
Nonrecourse advances – FRBB[(b)]	**—**	11,192
Other[(c)]	**27,893**	51,021
Total[(d)]	**$ 55,740**	$ 132,400

(a) Maturities of advances from the FHLBs are $23.6 billion, $2.6 billion, and $716 million in each of the 12-month periods ending December 31, 2010, 2011, and 2013, respectively, and $926 million maturing after December 31, 2014. Maturities for the 12-month period ending December 31, 2012 and 2014 were not material.

(b) On September 19, 2008, the Federal Reserve Board established a special lending facility, the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility ("AML Facility"), to provide liquidity to eligible U.S. money market mutual funds. Under the AML Facility, banking organizations must use the loan proceeds to finance their purchases of eligible high-quality ABCP investments from money market mutual funds, which are pledged to secure nonrecourse advances from the Federal Reserve Bank of Boston ("FRBB"). Participating banking organizations do not bear any credit or market risk related to the ABCP investments they hold under this facility; therefore, the ABCP investments held are not assessed any regulatory capital. The AML Facility ended on February 1, 2010. The nonrecourse advances from the FRBB were elected under the fair value option and recorded in other borrowed funds; the corresponding ABCP investments were also elected under the fair value option and recorded in other assets. The fair value of ABCP investments purchased under the AML Facility for U.S. money market mutual funds is determined based on observable market information and is classified in level 2 of the valuation hierarchy.

(c) Includes zero and $30 billion of advances from the Federal Reserve under the Federal Reserve's Term Auction Facility ("TAF") at December 31, 2009 and 2008, respectively, pursuant to which the Federal Reserve auctions term funds to depository institutions that are eligible to borrow under the primary credit program. The TAF allows all eligible depository institutions to place a bid for an advance from its local Federal Reserve Bank at an interest rate set by an auction. All advances are required to be fully collateralized. The TAF is designed to improve liquidity by making it easier for sound institutions to borrow when the markets are not operating efficiently.

(d) Includes other borrowed funds of $5.6 billion and $14.7 billion accounted for at fair value at December 31, 2009 and 2008, respectively.

Note 21 – Accounts payable and other liabilities

The following table details the components of accounts payable and other liabilities at each of the dates indicated.

At December 31, (in millions)	2009	2008
Brokerage payables[(a)]	**$ 92,848**	$ 115,483
Accounts payable and other liabilities[(b)]	**69,848**	72,495
Total	**$ 162,696**	$ 187,978

(a) Includes payables to customers, brokers, dealers and clearing organizations, and securities fails.

(b) Includes $357 million and zero accounted for at fair value at December 31, 2009 and 2008, respectively.

Note 22 – Long-term debt

JPMorgan Chase issues long-term debt denominated in various currencies, although predominantly U.S. dollars, with both fixed and variable interest rates. The following table is a summary of long-term debt carrying values (including unamortized original issue discount, valuation adjustments and fair value adjustments, where applicable) by contractual maturity as of December 31, 2009.

By remaining maturity at		2009				
December 31, 2009		Under		After		2008
(in millions, except rates)		1 year	1–5 years	5 years	**Total**	Total
Parent company						
Senior debt:[a]	Fixed rate[b]	**$ 11,645**	**$ 57,292**	**$ 24,792**	**$ 93,729**	$ 79,908
	Variable rate[c]	**16,892**	**47,308**	**9,135**	**73,335**	65,234
	Interest rates[d]	**0.28–6.00%**	**0.35–7.00%**	**0.22–7.50%**	**0.22–7.50%**	0.20–7.63%
Subordinated debt:	Fixed rate	**$ 1,713**	**$ 9,625**	**$ 13,513**	**$ 24,851**	$ 28,966
	Variable rate	**—**	**41**	**1,797**	**1,838**	1,786
	Interest rates[d]	**7.88–10.00%**	**1.92–6.75%**	**1.14–8.53%**	**1.14–10.00%**	1.92–10.00%
	Subtotal	**$ 30,250**	**$ 114,266**	**$ 49,237**	**$ 193,753**	$ 175,894
Subsidiaries						
Senior debt:[a]	Fixed rate	**$ 96**	**$ 1,695**	**$ 1,519**	**$ 3,310**	$ 8,370
	Variable rate[e]	**6,729**	**22,759**	**10,347**	**39,835**	57,980
	Interest rates[d]	**0.22–0.23%**	**0.16–2.10%**	**0.18–14.21%**	**0.16–14.21%**	0.03–14.21%
Subordinated debt:	Fixed rate	**$ —**	**$ —**	**$ 8,655**	**$ 8,655**	$ 8,700
	Variable rate	**—**	**—**	**1,150**	**1,150**	1,150
	Interest rates[d]	**—**	**—**	**0.58–8.25%**	**0.58–8.25%**	2.33–8.25%
	Subtotal	**$ 6,825**	**$ 24,454**	**$ 21,671**	**$ 52,950**	$ 76,200
Junior subordinated debt:	Fixed rate	**$ —**	**$ —**	**$ 16,349**	**$ 16,349**	$ 15,180
	Variable rate	**—**	**—**	**3,266**	**3,266**	3,409
	Interest rates[d]	**—**	**—**	**0.78–8.75%**	**0.78–8.75%**	2.42–8.75%
	Subtotal	**$ —**	**$ —**	**$ 19,615**	**$ 19,615**	$ 18,589
Total long-term debt[f]		**$ 37,075**	**$ 138,720**	**$ 90,523**	**$ 266,318**[h][i][j]	$ 270,683[j]
Long-term beneficial interests:						
	Fixed rate	**$ 596**	**$ 373**	**$ 65**	**$ 1,034**	$ 571
	Variable rate	**3,361**	**2,549**	**3,494**	**9,404**	9,990
	Interest rates	**0.26–5.20%**	**0.25–7.13%**	**0.25–5.50%**	**0.25–7.13%**	0.80–9.16%
Total long-term beneficial interests[g]		**$ 3,957**	**$ 2,922**	**$ 3,559**	**$ 10,438**	$ 10,561

(a) Included are various equity-linked or other indexed instruments. Embedded derivatives, separated from hybrid securities in accordance with U.S.GAAP, are reported at fair value and shown net with the host contract on the Consolidated Balance Sheets. Changes in fair value of separated derivatives are recorded in principal transactions revenue. Hybrid securities which the Firm has elected to measure at fair value are classified in the line item of the host contract on the Consolidated Balance Sheets; changes in fair value are recorded in principal transactions revenue in the Consolidated Statements of Income.

(b) Included $21.6 billion and $14.1 billion as of December 31, 2009 and 2008, respectively, guaranteed by the FDIC under the TLG Program.

(c) Included $19.3 billion and $6.9 billion as of December 31, 2009 and 2008, respectively, guaranteed by the FDIC under the TLG Program.

(d) The interest rates shown are the range of contractual rates in effect at year-end, including non-U.S. dollar fixed- and variable-rate issuances, which excludes the effects of the associated derivative instruments used in hedge accounting relationships, if applicable. The use of these derivative instruments modifies the Firm's exposure to the contractual interest rates disclosed in the table above. Including the effects of the hedge accounting derivatives, the range of modified rates in effect at December 31, 2009, for total long-term debt was (0.17)% to 14.21%, versus the contractual range of 0.16% to 14.21% presented in the table above. The interest rate ranges shown exclude structured notes accounted for at fair value.

(e) Included $7.8 billion principal amount of U.S. dollar-denominated floating-rate mortgage bonds issued to an unaffiliated statutory trust, which in turn issued €6.0 billion in covered bonds secured by mortgage loans.

(f) Included $49.0 billion and $58.2 billion of outstanding structured notes accounted for at fair value at December 31, 2009 and 2008, respectively.

(g) Included on the Consolidated Balance Sheets in beneficial interests issued by consolidated VIEs. Also included $1.4 billion and $1.7 billion of outstanding structured notes accounted for at fair value at December 31, 2009 and 2008, respectively. Excluded short-term commercial paper beneficial interests of $4.8 billion at December 31, 2009.

(h) At December 31, 2009, long-term debt aggregating $33.2 billion was redeemable at the option of JPMorgan Chase, in whole or in part, prior to maturity, based on the terms specified in the respective notes.

(i) The aggregate principal amount of debt that matures in each of the five years subsequent to 2009 is $37.1 billion in 2010, $49.1 billion in 2011, $46.8 billion in 2012, $18.4 billion in 2013 and $24.4 billion in 2014.

(j) Included $3.4 billion and $3.4 billion of outstanding zero-coupon notes at December 31, 2009 and 2008, respectively. The aggregate principal amount of these notes at their respective maturities was $6.6 billion and $7.1 billion, respectively.

The weighted-average contractual interest rates for total long-term debt were 3.52% and 4.25% as of December 31, 2009 and 2008, respectively. In order to modify exposure to interest rate and currency exchange rate movements, JPMorgan Chase utilizes derivative instruments, primarily interest rate and cross-currency interest rate swaps, in conjunction with some of its debt issues. The use of these instruments modifies the Firm's interest expense on the associated debt. The modified weighted-average interest rates for total long-term debt, including the effects of related derivative instruments, were 1.86% and 3.70% as of December 31, 2009 and 2008, respectively.

On December 4, 2008, the Firm elected to participate in the TLG Program, which was available to, among others, all U.S. depository institutions insured by the FDIC and all U.S. bank holding companies, unless they opted out of the TLG Program or the FDIC terminated their participation. Under the TLG Program, the FDIC guaranteed through the earlier of maturity or June 30, 2012, certain senior unsecured debt issued though October 31, 2009, in return for a fee to be paid based on the amount and maturity of the debt. Under the TLG Program, the FDIC would pay the unpaid principal and interest on an FDIC-guaranteed debt instrument upon the failure of the participating entity to make a timely payment of principal or interest in accordance with the terms of the instrument.

JPMorgan Chase & Co. (Parent Company) has guaranteed certain debt of its subsidiaries, including both long-term debt and structured notes sold as part of the Firm's market-making activities. These guarantees rank on a parity with all of the Firm's other unsecured and unsubordinated indebtedness. Guaranteed liabilities totaled $4.5 billion and $4.8 billion at December 31, 2009 and 2008, respectively. For additional information, see Note 2 on pages 151–156 of this Annual Report.

Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities

At December 31, 2009, the Firm had established 25 wholly-owned Delaware statutory business trusts ("issuer trusts") that had issued guaranteed capital debt securities.

The junior subordinated deferrable interest debentures issued by the Firm to the issuer trusts, totaling $19.6 billion and $18.6 billion at December 31, 2009 and 2008, respectively, were reflected in the Firm's Consolidated Balance Sheets in long-term debt, and in the table on the preceding page under the caption "Junior subordinated debt" (i.e., trust preferred capital debt securities). The Firm also records the common capital securities issued by the issuer trusts in other assets in its Consolidated Balance Sheets at December 31, 2009 and 2008. The debentures issued to the issuer trusts by the Firm, less the common capital securities of the issuer trusts, qualify as Tier 1 capital.

The following is a summary of the outstanding trust preferred capital debt securities, including unamortized original issue discount, issued by each trust, and the junior subordinated deferrable interest debenture issued to each trust, as of December 31, 2009.

December 31, 2009 (in millions)	Amount of trust preferred capital debt securities issued by trust (a)	Principal amount of debenture issued to trust (b)	Issue date	Stated maturity of trust preferred capital securities and debentures	Earliest redemption date	Interest rate of trust preferred capital securities and debentures	Interest payment/ distribution dates
Bank One Capital III	$ 474	$ 650	2000	2030	Any time	8.75%	Semiannually
Bank One Capital VI	525	553	2001	2031	Any time	7.20%	Quarterly
Chase Capital II	481	497	1997	2027	Any time	LIBOR + 0.50%	Quarterly
Chase Capital III	295	304	1997	2027	Any time	LIBOR + 0.55%	Quarterly
Chase Capital VI	241	249	1998	2028	Any time	LIBOR + 0.625%	Quarterly
First Chicago NBD Capital I	248	256	1997	2027	Any time	LIBOR + 0.55%	Quarterly
J.P. Morgan Chase Capital X	1,000	1,014	2002	2032	Any time	7.00%	Quarterly
J.P. Morgan Chase Capital XI	1,075	1,000	2003	2033	Any time	5.88%	Quarterly
J.P. Morgan Chase Capital XII	400	389	2003	2033	Any time	6.25%	Quarterly
JPMorgan Chase Capital XIII	465	480	2004	2034	2014	LIBOR + 0.95%	Quarterly
JPMorgan Chase Capital XIV	600	584	2004	2034	2009	6.20%	Quarterly
JPMorgan Chase Capital XV	995	1,101	2005	2035	Any time	5.88%	Semiannually
JPMorgan Chase Capital XVI	500	491	2005	2035	2010	6.35%	Quarterly
JPMorgan Chase Capital XVII	496	517	2005	2035	Any time	5.85%	Semiannually
JPMorgan Chase Capital XVIII	748	749	2006	2036	Any time	6.95%	Semiannually
JPMorgan Chase Capital XIX	563	564	2006	2036	2011	6.63%	Quarterly
JPMorgan Chase Capital XX	995	996	2006	2036	Any time	6.55%	Semiannually
JPMorgan Chase Capital XXI	836	837	2007	2037	2012	LIBOR + 0.95%	Quarterly
JPMorgan Chase Capital XXII	996	997	2007	2037	Any time	6.45%	Semiannually
JPMorgan Chase Capital XXIII	643	643	2007	2047	2012	LIBOR + 1.00%	Quarterly
JPMorgan Chase Capital XXIV	700	700	2007	2047	2012	6.88%	Quarterly
JPMorgan Chase Capital XXV	1,492	1,734	2007	2037	2037	6.80%	Semiannually
JPMorgan Chase Capital XXVI	1,815	1,815	2008	2048	2013	8.00%	Quarterly
JPMorgan Chase Capital XXVII	995	995	2009	2039	2039	7.00%	Semiannually
JPMorgan Chase Capital XXVIII	1,500	1,500	2009	2039	2014	7.20%	Quarterly
Total	$ 19,078	$ 19,615					

(a) Represents the amount of trust preferred capital debt securities issued to the public by each trust, including unamortized original issue discount.

(b) Represents the principal amount of JPMorgan Chase debentures issued to each trust, including unamortized original-issue discount. The principal amount of debentures issued to the trusts includes the impact of hedging and purchase accounting fair value adjustments that were recorded on the Firm's Consolidated Financial Statements.

Note 23 – Preferred stock

JPMorgan Chase is authorized to issue 200 million shares of preferred stock, in one or more series, with a par value of $1 per share.

On April 23, 2008, the Firm issued 600,000 shares of Fixed to Floating Rate Noncumulative Preferred Stock, Series I ("Series I"), for total proceeds of $6.0 billion.

On July 15, 2008, each series of Bear Stearns preferred stock then issued and outstanding was exchanged into a series of JPMorgan Chase preferred stock (Cumulative Preferred Stock, Series E, Series F and Series G) having substantially identical terms. As a result of the exchange, these preferred shares rank equally with the other series of the Firm's preferred stock.

On August 21, 2008, the Firm issued 180,000 shares of 8.625% Noncumulative Preferred Stock, Series J ("Series J"), for total proceeds of $1.8 billion.

On October 28, 2008, pursuant to the U.S. Department of the Treasury's (the "U.S. Treasury") Capital Purchase Program (the "Capital Purchase Program"), the Firm issued to the U.S. Treasury, for total proceeds of $25.0 billion, (i) 2.5 million shares of the Firm's Fixed Rate Cumulative Perpetual Preferred Stock, Series K, par value $1 per share and liquidation preference $10,000 per share (the "Series K Preferred Stock"); and (ii) a warrant to purchase up to 88,401,697 shares of the Firm's common stock at an exercise price of $42.42 per share (the "Warrant"), subject to certain anti-dilution and other adjustments. The $25.0 billion proceeds were allocated to the Series K Preferred Stock and the Warrant based on the relative fair value of the instruments. The difference between the initial carrying value of $23.7 billion allocated to the Series K Preferred Stock and its redemption value of $25.0 billion was being amortized to retained earnings (with a corresponding increase in the carrying value of the Series K Preferred Stock) over the first five years of the contract as an adjustment to the dividend yield, using the effective-yield method. The Series K Preferred Stock was nonvoting, qualified as Tier 1 capital and ranked equally with the Firm's other series of preferred stock. On June 17, 2009, the Firm redeemed all of the outstanding shares of Series K Preferred Stock and repaid the full $25.0 billion principal amount together with accrued but unpaid dividends.

In the event of a liquidation or dissolution of the Firm, JPMorgan Chase's preferred stock then outstanding takes precedence over the Firm's common stock for the payment of dividends and the distribution of assets.

Generally, dividends on shares of outstanding series of preferred stock are payable quarterly. Dividends on the shares of Series I preferred stock are payable semiannually at a fixed annual dividend rate of 7.90% through April 2018, and then become payable quarterly at an annual dividend rate of three-month LIBOR plus 3.47%. The Series K Preferred Stock bore cumulative dividends, payable quarterly, at a rate of 5% per year for the first five years and 9% per year thereafter. Dividends could only be paid if, as and when declared by the Firm's Board of Directors. The effective dividend yield on the Series K Preferred Stock was 6.16%. The Series K Preferred Stock ranked equally with the Firm's existing 6.15% Cumulative Preferred Stock, Series E; 5.72% Cumulative Preferred Stock, Series F; 5.49% Cumulative Preferred Stock, Series G; Fixed-to-Floating Rate Noncumulative Perpetual Preferred Stock, Series I; and 8.63% Noncumulative Perpetual Preferred Stock, Series J, in terms of dividend payments and upon liquidation of the Firm.

The following is a summary of JPMorgan Chase's preferred stock outstanding as of December 31, 2009 and 2008.

	Share value and redemption	Shares		Amount (in millions)		Earliest	**Contractual rate in effect at December 31,**
December 31,	price per share[b]	**2009**	2008	**2009**	2008	redemption date	**2009**
Cumulative Preferred Stock, Series E[a]	$ 200	**818,113**	818,113	**$ 164**	$ 164	Any time	**6.15%**
Cumulative Preferred Stock, Series F[a]	200	**428,825**	428,825	**86**	86	Any time	**5.72**
Cumulative Preferred Stock, Series G[a]	200	**511,169**	511,169	**102**	102	Any time	**5.49**
Fixed to Floating Rate Noncumulative Perpetual Preferred Stock, Series I[a]	10,000	**600,000**	600,000	**6,000**	6,000	4/30/2018	**7.90**
Noncumulative Perpetual Preferred Stock, Series J[a]	10,000	**180,000**	180,000	**1,800**	1,800	9/1/2013	**8.63**
Fixed Rate Cumulative Perpetual Preferred Stock, Series K	10,000	**—**	2,500,000	**—**	23,787[c]	—	**NA**
Total preferred stock		**2,538,107**	5,038,107	**$ 8,152**	$ 31,939		

[a] Represented by depositary shares.
[b] Redemption price includes amount shown in the table plus any accrued but unpaid dividends.
[c] Represents the carrying value as of December 31, 2008. The redemption value was $25.0 billion.

Dividend restrictions

Prior to the redemption of the Series K Preferred Stock, any accrued and unpaid dividends on the Series K Preferred Stock were required to be fully paid before dividends could be declared or paid on stock ranking junior or equally with the Series K Preferred Stock. In addition, the U.S. Treasury's consent was required for any increase in dividends on common stock from the $0.38 per share quarterly dividend paid on October 31, 2008. As a result of the redemption of the Series K Preferred Stock, JPMorgan Chase is no longer subject to any of these restrictions.

Stock repurchase restrictions

Prior to the redemption of the Series K Preferred Stock, the Firm could not repurchase or redeem any common stock or other equity securities of the Firm, or any trust preferred capital debt securities issued by the Firm or any of its affiliates, without the prior consent of the U.S. Treasury (other than (i) repurchases of the Series K Preferred Stock, and (ii) repurchases of junior preferred shares or common stock in connection with any employee benefit plan in the ordinary course of business consistent with past practice). As a result of the redemption of the Series K Preferred Stock, JPMorgan Chase is no longer subject to any of these restrictions.

Note 24 – Common stock

At December 31, 2009, JPMorgan Chase was authorized to issue 9.0 billion shares of common stock with a par value of $1 per share. On June 5, 2009, the Firm issued $5.8 billion, or 163 million new shares, of its common stock at $35.25 per share. On September 30, 2008, the Firm issued $11.5 billion, or 284 million new shares, of its common stock at $40.50 per share.

On April 8, 2008, pursuant to the Share Exchange Agreement dated March 24, 2008, between JPMorgan Chase and Bear Stearns, 20.7 million newly issued shares of JPMorgan Chase common stock were issued to Bear Stearns in a transaction that was exempt from registration under the Securities Act of 1933, pursuant to Section 4(2) thereof, in exchange for 95.0 million newly issued shares of Bear Stearns common stock (or 39.5% of Bear Stearns common stock after giving effect to the issuance). Upon the consummation of the Bear Stearns merger, on May 30, 2008, the 20.7 million shares of JPMorgan Chase common stock and 95.0 million shares of Bear Stearns common stock were cancelled. For a further discussion of this transaction, see Note 2 on pages 151–156 of this Annual Report.

Common shares issued (newly issued or distributed from treasury) by JPMorgan Chase during the years ended December 31, 2009, 2008 and 2007 were as follows.

December 31, (in millions)	**2009**	2008	2007
Issued – balance at January 1	**3,941.6**	3,657.7	3,657.8
Newly issued:			
Common stock:			
Open market issuance	**163.3**	283.9	—
Bear Stearns Share Exchange Agreement	**—**	20.7	—
Total newly issued	**163.3**	304.6	—
Canceled shares	**—**	(20.7)	(0.1)
Total issued – balance at December 31	**4,104.9**	3,941.6	3,657.7
Treasury – balance at January 1	**(208.8)**	(290.3)	(196.1)
Purchase of treasury stock	**—**	—	(168.2)
Share repurchases related to employee stock-based awards (a)	**(1.1)**	(0.5)	(2.7)
Issued from treasury:			
Net change from the Bear Stearns merger as a result of the reissuance of Treasury stock and the Share Exchange Agreement	**—**	26.5	—
Employee benefits and compensation plans	**45.7**	54.4	75.7
Employee stock purchase plans	**1.3**	1.1	1.0
Total issued from treasury	**47.0**	82.0	76.7
Total treasury – balance at December 31	**(162.9)**	(208.8)	(290.3)
Outstanding	**3,942.0**	3,732.8	3,367.4

(a) Participants in the Firm's stock-based incentive plans may have shares withheld to cover income taxes.

Pursuant to the Capital Purchase Program, the Firm issued to the U.S. Treasury a Warrant to purchase up to 88,401,697 shares of the Firm's common stock, at an exercise price of $42.42 per share, subject to certain antidilution and other adjustments. Based on the Warrant's fair value relative to the fair value of the Series K Preferred Stock on October 28, 2008, as discussed in Note 23 on pages 230–231 of this Annual Report, the Warrant was recorded at a value of $1.3 billion. The U.S. Treasury exchanged the Warrant for 88,401,697 warrants, each of which was a warrant to purchase a share of the Firm's common stock at an exercise price of $42.42 per share and, on December 11, 2009, sold the warrants in a secondary public offering for $950 million. The warrants are exercisable, in whole or in part, at any time and from time to time until October 28, 2018. The Firm did not purchase any of the warrants sold by the U.S. Treasury.

In April 2007, the Board of Directors approved a stock repurchase program that authorizes the repurchase of up to $10.0 billion of the Firm's common shares. In connection with the U.S. Treasury's sale of the warrants, the Board of Directors amended the Firm's securities repurchase program to authorize the repurchase of warrants for its stock. During the years ended December 31, 2009 and 2008, the Firm did not repurchase any shares of its common stock. During 2007, the Firm repurchased 168 million shares of common stock under stock repurchase programs approved by the Board of Directors. As of December 31, 2009, $6.2 billion of authorized repurchase capacity remained under the repurchase program with respect to repurchases of common stock, and all the authorized repurchase capacity remained with respect to the warrants.

The authorization to repurchase common stock and warrants will be utilized at management's discretion, and the timing of purchases and the exact number of shares and warrants purchased is subject to various factors, including: market conditions; legal considerations affecting the amount and timing of repurchase activity; the Firm's capital position, taking into account goodwill and intangibles; internal capital generation; and alternative potential investment opportunities. The repurchase program does not include specific price targets or timetables; may be executed through open market purchases or privately negotiated transactions, or utilizing Rule 10b5-1 programs; and may be suspended at any time. A Rule 10b5-1 repurchase plan allows the Firm to repurchase its equity during periods when it would not otherwise be repurchasing common stock – for example, during internal trading "black-out periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan that is established when the Firm is not aware of material nonpublic information.

As of December 31, 2009, approximately 582 million unissued shares of common stock were reserved for issuance under various employee incentive, compensation, option and stock purchase plans, director compensation plans, and the Warrants issued under the Capital Purchase Program as discussed above.

Note 25 – Earnings per share

Effective January 1, 2009, the Firm implemented new FASB guidance for participating securities, which clarifies that unvested stock-based compensation awards containing nonforfeitable rights to dividends or dividend equivalents (collectively, "dividends") are participating securities and should be included in the earnings per share ("EPS") calculation using the two-class method. JPMorgan Chase grants restricted stock and RSUs to certain employees under its stock-based compensation programs, which entitle the recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock; these unvested awards meet the definition of participating securities. Under the two-class method, all earnings (distributed and undistributed) are allocated to each class of common stock and participating securities, based on their respective rights to receive dividends. EPS data for the prior periods were revised as required by the FASB's guidance.

The following table presents the calculation of basic and diluted EPS for the years ended December 31, 2009, 2008 and 2007.

Year ended December 31, (in millions, except per share amounts)	**2009**	2008	2007
Basic earnings per share			
Income before extraordinary gain	**$ 11,652**	$ 3,699	$ 15,365
Extraordinary gain	**76**	1,906	—
Net income	**11,728**	5,605	15,365
Less: Preferred stock dividends	**1,327**	674	—
Less: Accelerated amortization from redemption of preferred stock issued to the U.S. Treasury	**1,112**[e]	—	—
Net income applicable to common equity	**9,289**	4,931	15,365
Less: Dividends and undistributed earnings allocated to participating securities	**515**	189	441
Net income applicable to common stockholders[a]	**8,774**	4,742	14,924
Total weighted-average basic shares outstanding	**3,862.8**	3,501.1	3,403.6
Per share			
Income before extraordinary gain	**$ 2.25**	$ 0.81	$ 4.38
Extraordinary gain	**0.02**	0.54	—
Net income[b]	**$ 2.27**[e]	$ 1.35	$ 4.38

Year ended December 31, (in millions, except per share amounts)	**2009**	2008	2007
Diluted earnings per share			
Net income applicable to common equity	**$ 9,289**	$ 4,931	$ 15,365
Less: Dividends and undistributed earnings allocated to participating securities	**515**	189	438
Net income applicable to common stockholders[a]	**8,774**	4,742	14,927
Total weighted-average basic shares outstanding	**3,862.8**	3,501.1	3,403.6
Add: Employee stock options, SARs and Warrants[c]	**16.9**	20.7	41.7
Total weighted-average diluted shares outstanding[d]	**3,879.7**	3,521.8	3,445.3
Per share			
Income before extraordinary gain	**$ 2.24**	$ 0.81	$ 4.33
Extraordinary gain	**0.02**	0.54	—
Net income per share[b]	**$ 2.26**[e]	$ 1.35	$ 4.33

(a) Net income applicable to common stockholders for diluted and basic EPS may differ under the two-class method as a result of adding common stock equivalents for options, SARs and warrants to dilutive shares outstanding, which alters the ratio used to allocate earnings to common stockholders and participating securities for purposes of calculating diluted EPS.

(b) EPS data has been revised to reflect the retrospective application of new FASB guidance for participating securities, which resulted in a reduction of basic and diluted EPS for the year ended December 31, 2009, of $0.13 and $0.05, respectively; for the year ended December 31, 2008, of $0.06 and $0.02, respectively; and for the year ended December 31, 2007, of $0.13 and $0.05, respectively.

(c) Excluded from the computation of diluted EPS (due to the antidilutive effect) were options issued under employee benefit plans and, for 2008, the Warrant issued under the U.S. Treasury's Capital Purchase Program to purchase shares of the Firm's common stock totaling 266 million, 209 million and 129 million for the years ended December 31, 2009, 2008 and 2007, respectively.

(d) Participating securities were included in the calculation of diluted EPS using the two-class method, as this computation was more dilutive than the calculation using the treasury-stock method.

(e) The calculation of basic and diluted EPS for the year ended December 31, 2009, includes a one-time noncash reduction of $1.1 billion, or $0.27 per share, resulting from the redemption of the Series K Preferred Stock issued to the U.S. Treasury.

Note 26 – Accumulated other comprehensive income/(loss)

Accumulated other comprehensive income/(loss) includes the after-tax change in unrealized gains/(losses) on AFS securities, foreign currency translation adjustments (including the impact of related derivatives), cash flow hedging activities and net loss and prior service cost/(credit) related to the Firm's defined benefit pension and OPEB plans.

(in millions)	Unrealized gains/(losses) on AFS securities[(a)]	Translation adjustments, net of hedges	Cash flow hedges	Net loss and prior service costs/(credit) of defined benefit pension and OPEB plans	Accumulated other comprehensive income/(loss)
Balance at December 31, 2006	$ 29	$ 5	$ (489)	$ (1,102)	$ (1,557)
Cumulative effect of changes in accounting principles (for fair value option elections)	(1)	—	—	—	(1)
Balance at January 1, 2007, adjusted	28	5	(489)	(1,102)	(1,558)
Net change	352[(b)]	3	(313)	599	641
Balance at December 31, 2007	380	8	(802)	(503)	(917)
Net change	(2,481)[(c)]	(606)	600	(2,283)	(4,770)
Balance at December 31, 2008	(2,101)	(598)	(202)	(2,786)	(5,687)
Net change	**4,133[(d)]**	**582**	**383**	**498**	**5,596**
Balance at December 31, 2009	**$ 2,032[(e)]**	**$ (16)**	**$ 181**	**$ (2,288)**	**$ (91)**

(a) Represents the after-tax difference between the fair value and amortized cost of the AFS securities portfolio and retained interests in securitizations recorded in other assets.

(b) The net change during 2007 was due primarily to a decline in interest rates.

(c) The net change during 2008 was due primarily to spread widening related to credit card asset-backed securities, nonagency mortgage-backed securities and collateralized loan obligations.

(d) The net change during 2009 was due primarily to overall market spread and market liquidity improvement as well as changes in the composition of investments.

(e) Includes after-tax unrealized losses of $(226) million not related to credit on debt securities for which credit losses have been recognized in income.

The following table presents the before- and after-tax changes in net unrealized gains/(losses); and reclassification adjustments for realized (gains)/losses on AFS securities and cash flow hedges; changes resulting from foreign currency translation adjustments (including the impact of related derivatives); net gains/(losses) and prior service costs/(credits) from pension and OPEB plans; and amortization of pension and OPEB amounts into net income. Reclassification adjustments include amounts recognized in net income that had been recorded previously in other comprehensive income/(loss).

	2009			2008			2007		
Year ended December 31, (in millions)	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax	Before tax	Tax effect	After tax
Unrealized gains/(losses) on AFS securities:									
Net unrealized gains/(losses) arising during the period	**$ 7,870**	**$ (3,029)**	**$ 4,841**	$ (3,071)	$ 1,171	$ (1,900)	$ 759	$ (310)	$ 449
Reclassification adjustment for realized (gains)/losses included in net income	**(1,152)**	**444**	**(708)**	(965)	384	(581)	(164)	67	(97)
Net change	**6,718**	**(2,585)**	**4,133**	(4,036)	1,555	(2,481)	595	(243)	352
Translation adjustments:									
Translation	**1,139**	**(398)**	**741**	(1,781)	682	(1,099)	754	(281)	473
Hedges	**(259)**	**100**	**(159)**	820	(327)	493	(780)	310	(470)
Net change	**880**	**(298)**	**582**	(961)	355	(606)	(26)	29	3
Cash flow hedges:									
Net unrealized gains/(losses) arising during the period	**767**	**(308)**	**459**	584	(226)	358	(737)	294	(443)
Reclassification adjustment for realized (gains)/losses included in net income	**(124)**	**48**	**(76)**	402	(160)	242	217	(87)	130
Net change	**643**	**(260)**	**383**	986	(386)	600	(520)	207	(313)
Net loss and prior service cost/(credit) of defined benefit pension and OPEB plans:									
Net gains/(losses) and prior service credits arising during the period	**494**	**(200)**	**294**	(3,579)	1,289	(2,290)	934	(372)	562
Reclassification adjustment for net loss and prior service credits included in net income	**337**	**(133)**	**204**	14	(7)	7	59	(22)	37
Net change	**831**	**(333)**	**498**	(3,565)	1,282	(2,283)	993	(394)	599
Total Other comprehensive income/(loss)	**$ 9,072**	**$ (3,476)**	**$ 5,596**	$ (7,576)	$ 2,806	$ (4,770)	$ 1,042	$ (401)	$ 641

Note 27 – Income taxes

JPMorgan Chase and its eligible subsidiaries file a consolidated U.S. federal income tax return. JPMorgan Chase uses the asset and liability method to provide income taxes on all transactions recorded in the Consolidated Financial Statements. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax asset or liability for each temporary difference is determined based on the tax rates that the Firm expects to be in effect when the underlying items of income and expense are realized. JPMorgan Chase's expense for income taxes includes the current and deferred portions of that expense. A valuation allowance is established to reduce deferred tax assets to the amount the Firm expects to realize.

Due to the inherent complexities arising from the nature of the Firm's businesses, and from conducting business and being taxed in a substantial number of jurisdictions, significant judgments and estimates are required to be made. Agreement of tax liabilities between JPMorgan Chase and the many tax jurisdictions in which the Firm files tax returns may not be finalized for several years. Thus, the Firm's final tax-related assets and liabilities may ultimately be different from those currently reported.

The components of income tax expense/(benefit) included in the Consolidated Statements of Income were as follows for each of the years ended December 31, 2009, 2008 and 2007.

Year ended December 31, (in millions)	**2009**	2008	2007
Current income tax expense			
U.S. federal	**$ 4,698**	$ 395	$ 2,805
Non-U.S.	**2,368**	1,009	2,985
U.S. state and local	**971**	307	343
Total current income tax expense	**8,037**	1,711	6,133
Deferred income tax expense/(benefit)			
U.S. federal	**(2,867)**	(3,015)	1,122
Non-U.S.	**(454)**	1	(185)
U.S. state and local	**(301)**	377	370
Total deferred income tax expense/(benefit)	**(3,622)**	(2,637)	1,307
Total income tax expense/(benefit) before extraordinary gain	**$ 4,415**	$ (926)	$ 7,440

Total income tax expense includes $280 million, $55 million and $74 million of tax benefits recorded in 2009, 2008 and 2007, respectively, as a result of tax audit resolutions.

The preceding table does not reflect the tax effect of certain items that are recorded each period directly in stockholders' equity and certain tax benefits associated with the Firm's employee stock-based compensation plans. The table also does not reflect the cumulative tax effects of initially implementing new accounting pronouncements in 2007. The tax effect of all items recorded directly to stockholders' equity resulted in a decrease of $3.7 billion in 2009 and an increase in stockholders' equity of $3.0 billion and $159 million in 2008 and 2007, respectively.

U.S. federal income taxes have not been provided on the undistributed earnings of certain non-U.S. subsidiaries, to the extent that such earnings have been reinvested abroad for an indefinite period of time. During 2008, as part of JPMorgan Chase's periodic review of the business requirements and capital needs of its non-U.S. subsidiaries, combined with the formation of specific strategies and steps taken to fulfill these requirements and needs, the Firm determined that the undistributed earnings of certain of its subsidiaries, for which U.S. federal income taxes had been provided, will be indefinitely reinvested to fund the current and future growth of the related businesses. As management does not intend to use the earnings of these subsidiaries as a source of funding for its U.S. operations, such earnings will not be distributed to the U.S. in the foreseeable future. This determination resulted in the release of deferred tax liabilities and the recognition of an income tax benefit of $1.1 billion associated with these undistributed earnings. For 2009, pretax earnings of approximately $2.8 billion were generated that will be indefinitely reinvested in these subsidiaries. At December 31, 2009, the cumulative amount of undistributed pretax earnings in these subsidiaries approximated $15.7 billion. If the Firm were to record a deferred tax liability associated with these undistributed earnings, the amount would be $3.6 billion at December 31, 2009.

The tax expense applicable to securities gains and losses for the years 2009, 2008 and 2007 was $427 million, $608 million, and $60 million, respectively.

A reconciliation of the applicable statutory U.S. income tax rate to the effective tax rate for each of the years ended December 31, 2009, 2008 and 2007, is presented in the following table.

Year ended December 31,	**2009**	2008	2007
Statutory U.S. federal tax rate	**35.0%**	35.0%	35.0%
Increase/(decrease) in tax rate resulting from:			
U.S. state and local income taxes, net of U.S. federal income tax benefit	**2.7**	16.0	2.0
Tax-exempt income	**(3.9)**	(14.8)	(2.4)
Non-U.S. subsidiary earnings	**(1.7)**	(53.6)	(1.1)
Business tax credits	**(5.5)**	(24.5)	(2.5)
Bear Stearns equity losses	**—**	5.7	—
Other, net	**0.9**	2.8	1.6
Effective tax rate	**27.5%**	(33.4)%	32.6%

Deferred income tax expense/(benefit) results from differences between assets and liabilities measured for financial reporting versus income-tax return purposes. The significant components of deferred tax assets and liabilities are reflected in the following table as of December 31, 2009 and 2008.

December 31, (in millions)	2009	2008
Deferred tax assets		
Allowance for loan losses	**$ 12,376**	$ 8,029
Employee benefits	**4,424**	4,841
Allowance for other than loan losses	**3,995**	3,686
Non-U.S. operations	**1,926**	2,504
Tax attribute carryforwards	**912**	1,383
Fair value adjustments[(a)]	**—**	2,565
Gross deferred tax assets	**$ 23,633**	$ 23,008
Deferred tax liabilities		
Depreciation and amortization	**$ 4,832**	$ 4,681
Leasing transactions	**2,054**	1,895
Non-U.S. operations	**1,338**	946
Fee income	**670**	1,015
Fair value adjustments[(a)]	**328**	—
Other, net	**147**	202
Gross deferred tax liabilities	**$ 9,369**	$ 8,739
Valuation allowance	**1,677**	1,266
Net deferred tax asset	**$ 12,587**	$ 13,003

(a) Includes fair value adjustments related to AFS securities, cash flows hedging activities and other portfolio investments.

JPMorgan Chase has recorded deferred tax assets of $912 million at December 31, 2009, in connection with U.S. federal, state and local and non-U.S. subsidiary net operating loss carryforwards. At December 31, 2009, the U.S. federal net operating loss carryforward was approximately $1.2 billion, the state and local net operating loss carryforwards were approximately $4.4 billion and the non-U.S. subsidiary net operating loss carryforward was $768 million.

If not utilized, the U.S. federal net operating loss carryforward will expire in 2027 and the state and local net operating loss carryforwards will expire in years 2026, 2027 and 2028. The non-U.S. subsidiary net operating loss carryforward has an unlimited carryforward period.

A valuation allowance has been recorded for losses associated with non-U.S. subsidiaries and certain portfolio investments, and certain state and local tax benefits. The increase in the valuation allowance from 2008 was predominantly related to non-U.S. subsidiaries.

At December 31, 2009, 2008 and 2007, JPMorgan Chase's unrecognized tax benefits, excluding related interest expense and penalties, were $6.6 billion, $5.9 billion and $4.8 billion, respectively, of which $3.5 billion, $2.9 billion and $1.3 billion, respectively, if recognized, would reduce the annual effective tax rate. As JPMorgan Chase is presently under audit by a number of tax authorities, it is reasonably possible that unrecognized tax benefits could significantly change over the next 12 months, which could also significantly impact JPMorgan Chase's quarterly and annual effective tax rates.

The following table presents a reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2009, 2008 and 2007.

Unrecognized tax benefits

Year ended December 31, (in millions)	2009	2008	2007
Balance at January 1,	**$ 5,894**	$ 4,811	$ 4,677
Increases based on tax positions related to the current period	**584**	890	434
Decreases based on tax positions related to the current period	**(6)**	(109)	(241)
Increases associated with the Bear Stearns merger	**—**	1,387	—
Increases based on tax positions related to prior periods	**703**	501	903
Decreases based on tax positions related to prior periods	**(322)**	(1,386)	(791)
Decreases related to settlements with taxing authorities	**(203)**	(181)	(158)
Decreases related to a lapse of applicable statute of limitations	**(42)**	(19)	(13)
Balance at December 31,	**$ 6,608**	$ 5,894	$ 4,811

Pretax interest expense and penalties related to income tax liabilities recognized in income tax expense were $154 million ($101 million after-tax) in 2009; $571 million ($346 million after-tax) in 2008; and $516 million ($314 million after-tax) in 2007. Included in accounts payable and other liabilities at December 31, 2009 and 2008, in addition to the Firm's liability for unrecognized tax benefits, was $2.4 billion and $2.3 billion, respectively, for income tax-related interest and penalties, of which the penalty component was insignificant.

JPMorgan Chase is subject to ongoing tax examinations by the tax authorities of the various jurisdictions in which it operates, including U.S. federal, state and local, and non-U.S. jurisdictions. The Firm's consolidated federal income tax returns are presently under examination by the Internal Revenue Service ("IRS") for the years 2003, 2004 and 2005. The consolidated federal income tax returns of Bear Stearns for the years ended November 30, 2003, 2004 and 2005, are also under examination. Both examinations are expected to conclude in 2010.

The IRS audits of the consolidated federal income tax returns of JPMorgan Chase for the years 2006, 2007 and 2008, and for Bear Stearns for the years ended November 30, 2006, November 30, 2007, and for the period December 1, 2007, through May 30, 2008, are expected to commence in 2010. Administrative appeals are pending with the IRS relating to prior periods that were examined. For 2002 and prior years, refund claims relating to income and credit adjustments, and to tax attribute carrybacks, for JPMorgan Chase and its predecessor entities, including Bank One, have been filed. Amended returns to reflect refund claims primarily attributable to net operating losses and tax credit carrybacks will be filed for the final Bear Stearns U.S. federal consolidated tax return for the period December 1, 2007, through May 30, 2008, and for prior years.

On January 1, 2007, the Firm adopted FASB guidance which addresses the recognition and measurement of tax positions taken or expected to be taken, and also guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure, to all of its income tax positions, resulting in a $436 million cumulative effect increase to retained earnings, a reduction in goodwill of $113 million and a $549 million decrease in the liability for income taxes.

The following table presents the U.S. and non-U.S. components of income before income tax expense/(benefit) and extraordinary gain for the years ended December 31, 2009, 2008 and 2007.

Year ended December 31, (in millions)	2009	2008	2007
U.S.	**$ 6,263**	$ (2,094)	$ 13,720
Non-U.S.[a]	**9,804**	4,867	9,085
Income before income tax expense/(benefit) and extraordinary gain	**$ 16,067**	$ 2,773	$ 22,805

(a) For purposes of this table, non-U.S. income is defined as income generated from operations located outside the U.S.

Note 28 – Restrictions on cash and intercompany funds transfers

The business of JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A.") is subject to examination and regulation by the Office of the Comptroller of the Currency ("OCC"). The Bank is a member of the U.S. Federal Reserve System, and its deposits are insured by the FDIC.

The Board of Governors of the Federal Reserve System (the "Federal Reserve") requires depository institutions to maintain cash reserves with a Federal Reserve Bank. The average amount of reserve balances deposited by the Firm's bank subsidiaries with various Federal Reserve Banks was approximately $821 million and $1.6 billion in 2009 and 2008, respectively.

Restrictions imposed by U.S. federal law prohibit JPMorgan Chase and certain of its affiliates from borrowing from banking subsidiaries unless the loans are secured in specified amounts. Such secured loans to the Firm or to other affiliates are generally limited to 10% of the banking subsidiary's total capital, as determined by the risk-based capital guidelines; the aggregate amount of all such loans is limited to 20% of the banking subsidiary's total capital.

The principal sources of JPMorgan Chase's income (on a parent company–only basis) are dividends and interest from JPMorgan Chase Bank, N.A., and the other banking and nonbanking subsidiaries of JPMorgan Chase. In addition to dividend restrictions set forth in statutes and regulations, the Federal Reserve, the OCC and the FDIC have authority under the Financial Institutions Supervisory Act to prohibit or to limit the payment of dividends by the banking organizations they supervise, including JPMorgan Chase and its subsidiaries that are banks or bank holding companies, if, in the banking regulator's opinion, payment of a dividend would constitute an unsafe or unsound practice in light of the financial condition of the banking organization.

At January 1, 2010 and 2009, JPMorgan Chase's banking subsidiaries could pay, in the aggregate, $3.6 billion and $17.0 billion, respectively, in dividends to their respective bank holding companies without the prior approval of their relevant banking regulators. The capacity to pay dividends in 2010 will be supplemented by the banking subsidiaries' earnings during the year.

In compliance with rules and regulations established by U.S. and non-U.S. regulators, as of December 31, 2009 and 2008, cash in the amount of $24.0 billion and $34.8 billion, respectively, and securities with a fair value of $10.2 billion and $23.4 billion, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

Note 29 – Capital

The Federal Reserve establishes capital requirements, including well-capitalized standards for the consolidated financial holding company. The OCC establishes similar capital requirements and standards for the Firm's national banks, including JPMorgan Chase Bank, N.A., and Chase Bank USA, N.A.

There are two categories of risk-based capital: Tier 1 capital and Tier 2 capital. Tier 1 capital includes common stockholders' equity, qualifying preferred stock and minority interest less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1, subordinated long-term debt and other instruments qualifying as Tier 2, and the aggregate allowance for credit losses up to a certain percentage of risk-weighted assets. Total regulatory capital is subject to deductions for investments in certain subsidiaries. Under the risk-based capital guidelines of the Federal Reserve, JPMorgan Chase is required to maintain minimum ratios of Tier 1 and Total (Tier 1 plus Tier 2) capital to risk-weighted assets, as well as minimum leverage ratios (which are defined as Tier 1 capital to average adjusted on–balance sheet assets). Failure to meet these minimum requirements could cause the Federal Reserve to take action. Banking subsidiaries also are subject to these capital requirements by their respective primary regulators. As of December 31, 2009 and 2008, JPMorgan Chase and all of its banking subsidiaries were well-capitalized and met all capital requirements to which each was subject.

The following table presents the risk-based capital ratios for JPMorgan Chase and its significant banking subsidiaries at December 31, 2009 and 2008.

December 31,	JPMorgan Chase & Co.[c]		JPMorgan Chase Bank, N.A.[c]		Chase Bank USA, N.A.[c]		Well-capitalized	Minimum capital
(in millions, except ratios)	**2009**	2008	**2009**	2008	**2009**	2008	ratios(f)	ratios [f]
Regulatory capital:								
Tier 1	**$ 132,971**	$ 136,104	**$ 96,372**	$ 100,597	**$ 15,534**	$ 11,190		
Total	**177,073**	184,720	**136,646**	143,832	**19,198**	12,901		
Assets:								
Risk-weighted[a]	**1,198,006**[d]	1,244,659[e]	**1,011,995**	1,150,938[e]	**114,693**	101,472		
Adjusted average[b]	**1,933,767**[d]	1,966,895[e]	**1,609,081**	1,705,754[e]	**74,087**	87,286		
Capital ratios:								
Tier 1 capital	**11.1%**[d]	10.9%	**9.5%**	8.7%	**13.5%**	11.0%	6.0%	4.0%
Total capital	**14.8**	14.8	**13.5**	12.5	**16.7**	12.7	10.0	8.0
Tier 1 leverage	**6.9**	6.9	**6.0**	5.9	**21.0**	12.8	5.0[g]	3.0[h]

(a) Includes off–balance sheet risk-weighted assets at December 31, 2009, of $367.4 billion, $312.3 billion and $49.9 billion, and at December 31, 2008, of $357.5 billion, $330.1 billion and $18.6 billion, for JPMorgan Chase, JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A., respectively. Risk-weighted assets are calculated in accordance with U.S. federal regulatory capital standards.

(b) Adjusted average assets, for purposes of calculating the leverage ratio, include total average assets adjusted for unrealized gains/(losses) on securities, less deductions for disallowed goodwill and other intangible assets, investments in certain subsidiaries, and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.

(c) Asset and capital amounts for JPMorgan Chase's banking subsidiaries reflect intercompany transactions, whereas the respective amounts for JPMorgan Chase reflect the elimination of intercompany transactions.

(d) On January 1, 2010 the Firm adopted new accounting standards, which required the consolidation of the Firm's credit card securitization trusts, bank-administered asset-backed commercial paper conduits and certain mortgage and other consumer securitization VIEs. At adoption, the Firm added approximately $88 billion of U.S. GAAP assets and decreased the Tier 1 capital ratio by approximately 30 basis points. The impact to the Tier 1 capital ratio predominantly reflects the establishment of allowance for loan losses of approximately $7 billion (pretax) related to the receivables held in the credit card securitization trusts that were consolidated at the adoption date. The impact to the Tier 1 capital ratio does not include guidance issued by the banking regulators that changed the regulatory treatment for consolidated ABCP conduits, since the Firm elected the optional two-quarter implementation delay, which may be followed by a two-quarter partial (50%) implementation of the effect on risk-weighted assets and risk-based capital requirements for entities where the Firm has not provided implicit or voluntary support. As a result of the election of the implementation delay as well as certain actions taken by the Firm during the second quarter of 2009 that resulted in the regulatory capital consolidation of the Chase Issuance Trust (the Firm's primary credit card securitization trust) which added approximately $40 billion of risk-weighted assets, the U.S. GAAP consolidation of these entities did not have a significant impact on risk-weighted assets at the adoption date.

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

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

(g) Represents requirements for banking subsidiaries pursuant to regulations issued under the FDIC Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.

(h) The minimum Tier 1 leverage ratio for bank holding companies and banks is 3% or 4%, depending on factors specified in regulations issued by the Federal Reserve and OCC.

Note: Rating agencies allow measures of capital to be adjusted upward for deferred tax liabilities, which have resulted from both nontaxable business combinations and from tax-deductible goodwill. The Firm had deferred tax liabilities resulting from nontaxable business combinations totaling $812 million and $1.1 billion at December 31, 2009 and 2008, respectively. Additionally, the Firm had deferred tax liabilities resulting from tax-deductible goodwill of $1.7 billion and $1.6 billion at December 31, 2009 and 2008, respectively.

A reconciliation of the Firm's total stockholders' equity to Tier 1 capital and Total qualifying capital is presented in the following table.

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

(a) Primarily includes trust preferred capital debt securities of certain business trusts.
(b) Goodwill is net of any associated deferred tax liabilities.

Note 30 – Commitments and contingencies

At December 31, 2009, JPMorgan Chase and its subsidiaries were obligated under a number of noncancelable operating leases for premises and equipment used primarily for banking purposes, and for energy-related tolling service agreements. Certain leases contain renewal options or escalation clauses providing for increased rental payments based on maintenance, utility and tax increases, or they require the Firm to perform restoration work on leased premises. No lease agreement imposes restrictions on the Firm's ability to pay dividends, engage in debt or equity financing transactions or enter into further lease agreements.

The following table presents required future minimum rental payments under operating leases with noncancelable lease terms that expire after December 31, 2009.

Year ended December 31, (in millions)	
2010	$ 1,652
2011	1,629
2012	1,550
2013	1,478
2014	1,379
After 2014	8,264
Total minimum payments required[a]	15,952
Less: Sublease rentals under noncancelable subleases	(1,800)
Net minimum payment required	$ 14,152

(a) Lease restoration obligations are accrued in accordance with U.S. GAAP, and are not reported as a required minimum lease payment.

Total rental expense was as follows.

Year ended December 31, (in millions)	2009	2008	2007
Gross rental expense	**$ 1,884**	$ 1,917	$ 1,380
Sublease rental income	**(172)**	(415)	(175)
Net rental expense	**$ 1,712**	$ 1,502	$ 1,205

At December 31, 2009, assets were pledged to secure public deposits and for other purposes. The significant components of the assets pledged were as follows.

December 31, (in billions)	2009	2008
Reverse repurchase/securities borrowing agreements	**$ 392.9**	$ 456.6
Securities	**115.6**	31.0
Loans	**289.0**	342.3
Trading assets and other	**76.8**	98.0
Total assets pledged[a]	**$ 874.3**	$ 927.9

(a) Total assets pledged do not include assets of consolidated VIEs. These assets are not generally used to satisfy liabilities to third parties. See Note 16 on pages 214–222 of this Annual Report for additional information on assets and liabilities of consolidated VIEs.

In 2008, the Firm resolved with the IRS issues related to compliance with reporting and withholding requirements for certain accounts transferred to The Bank of New York Mellon Corporation ("BNYM") in connection with the Firm's sale to BNYM of its corporate trust business. The resolution of these issues did not have a material effect on the Firm.

Litigation reserve

The Firm maintains litigation reserves for certain of its outstanding litigation. JPMorgan Chase accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. When the Firm is named as a defendant in a litigation and may be subject to joint and several liability, and a judgment-sharing agreement is in place, the Firm recognizes expense and obligations net of amounts expected to be paid by other signatories to the judgment-sharing agreement.

While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at December 31, 2009, the Firm's litigation reserves were adequate at such date. Management reviews litigation reserves at least quarterly, and the reserves may be increased or decreased in the future to reflect further relevant developments. The Firm believes it has meritorious defenses to the claims asserted against it in its currently outstanding litigation and, with respect to such litigation, intends to continue to defend itself vigorously, litigating or settling cases according to management's judgment as to what is in the best interests of JPMorgan Chase stockholders.

Note 31 – Off–balance sheet lending-related financial instruments, guarantees and other commitments

JPMorgan Chase utilizes lending-related financial instruments (e.g., commitments and guarantees) to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparties draw down the commitment or the Firm fulfill its obligation under the guarantee, and the counterparties subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without a default occurring or without being drawn. As a result, the total contractual amount of these instruments is not, in the Firm's view, representative of its actual future credit exposure or funding requirements. Further, certain commitments, predominantly related to consumer financings, are cancelable, upon notice, at the option of the Firm.

To provide for the risk of loss inherent in wholesale-related contracts, an allowance for credit losses on lending-related commitments is maintained. See Note 14 on pages 204–206 of this Annual Report for further discussion of the allowance for credit losses on lending-related commitments.

The following table summarizes the contractual amounts of off–balance sheet lending-related financial instruments and guarantees and the related allowance for credit losses on lending-related commitments at December 31, 2009 and 2008. The amounts in the table below for credit card and home equity lending-related commitments represent the total available credit for these products. The Firm has not experienced, and does not anticipate, that all available lines of credit for these products will be utilized at the same time. The Firm can reduce or cancel these lines of credit by providing the borrower prior notice or, in some cases, without notice as permitted by law.

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

	Contractual amount		Carrying Value [h]	
December 31, (in millions)	**2009**	2008	**2009**	2008
Lending-related				
Consumer:				
Home equity — senior lien	**$ 19,246**	$ 27,998	**$ —**	$ —
Home equity — junior lien	**37,231**	67,745	**—**	—
Prime mortgage	**1,654**	5,079	**—**	—
Subprime mortgage	**—**	—	**—**	—
Option ARMs	**—**	—	**—**	—
Auto loans	**5,467**	4,726	**7**	3
Credit card	**569,113**	623,702	**—**	—
All other loans	**11,229**	12,257	**5**	22
Total consumer	**643,940**	741,507	**12**	25
Wholesale:				
Other unfunded commitments to extend credit[a]	**192,145**	189,563	**356**	349
Asset purchase agreements	**22,685**	53,729	**126**	147
Standby letters of credit and financial guarantees[a][b][c]	**91,485**	95,352	**919**	671
Unused advised lines of credit	**35,673**	36,300	**—**	—
Other letters of credit[a][b]	**5,167**	4,927	**1**	2
Total wholesale	**347,155**	379,871	**1,402**	1,169
Total lending-related	**$ 991,095**	$ 1,121,378	**$ 1,414**	$ 1,194
Other guarantees and commitments				
Securities lending guarantees[d]	**$ 170,777**	$ 169,281	**$ NA**	$ NA
Residual value guarantees	**672**	670	**—**	—
Derivatives qualifying as guarantees[e]	**87,191**	83,835	**762**	5,418
Equity investment commitments[f]	**2,374**	2,424	**—**	—
Loan sale and securitization-related indemnifications:				
Repurchase liability[g]	**NA**	NA	**1,705**	1,093
Loans sold with recourse	**13,544**	15,020	**271**	241

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

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

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

(d) Collateral held by the Firm in support of securities lending indemnification agreements was $173.2 billion and $170.1 billion at December 31, 2009 and 2008, respectively. Securities lending collateral comprises primarily cash, and securities issued by governments that are members of the Organization for Economic Co-operation and Development ("OECD") and U.S. government agencies.

(e) Represents notional amounts of derivatives qualifying as guarantees. The carrying value at December 31, 2009 and 2008, reflects derivative payables of $981 million and $5.6 billion, respectively, less derivative receivables of $219 million and $184 million, respectively.

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

(g) Indemnifications for breaches of representations and warranties in loan sale and securitization agreements. For additional information, see Loan sale and securitization-related indemnifications on page 241 of this Note.

(h) For lending-related products the carrying value represents the allowance for lending-related commitments and the fair value of the guarantee liability, for derivative-related products the carrying value represents the fair value, and for all other products the carrying value represents the valuation reserve.

Other unfunded commitments to extend credit

Other unfunded commitments to extend credit include commitments to U.S. domestic states and municipalities, hospitals and other not-for-profit entities to provide funding for periodic tenders of their variable-rate demand bond obligations or commercial paper. Performance by the Firm is required in the event that the variable-rate demand bonds or commercial paper cannot be remarketed to new investors. The amount of commitments related to variable-rate demand bonds and commercial paper of U.S. domestic states and municipalities, hospitals and not-for-profit entities was $23.3 billion and $23.5 billion at December 31, 2009 and 2008, respectively. Similar commitments exist to extend credit in the form of liquidity facility agreements with nonconsolidated municipal bond VIEs. For further information, see Note 16 on pages 214–222 of this Annual Report.

Also included in other unfunded commitments to extend credit are commitments to investment- and noninvestment-grade counterparties in connection with leveraged acquisitions. These commitments are dependent on whether the acquisition by the borrower is successful, tend to be short-term in nature and, in most cases, are subject to certain conditions based on the borrower's financial condition or other factors. The amounts of commitments related to leveraged acquisitions at December 31, 2009 and 2008, were $2.9 billion and $3.6 billion, respectively. For further information, see Note 3 and Note 4 on pages 156–173 and 173–175 respectively, of this Annual Report.

Guarantees

The Firm considers the following off–balance sheet lending-related arrangements to be guarantees under U.S. GAAP: certain asset purchase agreements, standby letters of credit and financial guarantees, securities lending indemnifications, certain indemnification agreements included within third-party contractual arrangements and certain derivative contracts. The amount of the liability related to guarantees recorded at December 31, 2009 and 2008, excluding the allowance for credit losses on lending-related commitments and derivative contracts discussed below, was $475 million and $535 million, respectively.

Asset purchase agreements

Asset purchase agreements are principally used as a mechanism to provide liquidity to SPEs, predominantly multi-seller conduits, as described in Note 16 on pages 214–222 of this Annual Report.

The carrying value of asset purchase agreements was $126 million and $147 million at December 31, 2009 and 2008, respectively, which was classified in accounts payable and other liabilities on the Consolidated Balance Sheets; the carrying values include $18 million and $9 million, respectively, for the allowance for lending-related commitments, and $108 million and $138 million, respectively, for the fair value of the guarantee liability.

Standby letters of credit

Standby letters of credit ("SBLC") and financial guarantees are conditional lending commitments issued by the Firm to guarantee the performance of a customer to a third party under certain arrangements, such as commercial paper facilities, bond financings, acquisition financings, trade and similar transactions. The carrying values of standby and other letters of credit were $920 million and $673 million at December 31, 2009 and 2008, respectively, which was classified in accounts payable and other liabilities on the Consolidated Balance Sheets; these carrying values include $553 million and $276 million, respectively, for the allowance for lending-related commitments, and $367 million and $397 million, respectively, for the fair value of the guarantee liability.

The following table summarizes the type of facilities under which standby letters of credit and other letters of credit arrangements are outstanding by the ratings profiles of the Firm's customers as of December 31, 2009 and 2008. The ratings scale represents the current status of the payment or performance risk of the guarantee, and is based on the Firm's internal risk ratings, which generally correspond to ratings defined by S&P and Moody's.

	2009		2008	
December 31, (in millions)	Standby letters of credit and other financial guarantees	Other letters of credit	Standby letters of credit and other financial guarantees	Other letters of credit[d]
Investment-grade[a]	**$ 66,786**	**$ 3,861**	$ 73,394	$ 3,772
Noninvestment-grade[a]	**24,699**	**1,306**	21,958	1,155
Total contractual amount[b]	**$ 91,485**[c]	**$ 5,167**	$ 95,352[c]	$ 4,927
Allowance for lending-related commitments	**$ 552**	**$ 1**	$ 274	$ 2
Commitments with collateral	**31,454**	**1,315**	30,972	1,000

(a) Ratings scale is based on the Firm's internal ratings which generally correspond to ratings defined by S&P and Moody's.

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

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

(d) The investment-grade and noninvestment-grade amounts have been revised from previous disclosures.

Derivatives qualifying as guarantees

In addition to the contracts described above, the Firm transacts certain derivative contracts that meet the characteristics of a guarantee under U.S. GAAP. These contracts include written put options that require the Firm to purchase assets upon exercise by the option holder at a specified price by a specified date in the future. The Firm may enter into written put option contracts in order to meet client needs, or for trading purposes. The terms of written put options are typically five years or less. Derivative guarantees also include contracts such as stable value derivatives that require the Firm to make a payment of the difference between the market value and the book value of a counterparty's reference portfolio of assets in the event that market value is less than book value and certain other conditions have been met. Stable value derivatives, commonly referred to as "stable value wraps", are transacted in order to allow investors to realize investment returns with less volatility than an unprotected portfolio and are typically longer-term or may have no stated maturity, but allow the Firm to terminate the contract under certain conditions.

Derivative guarantees are recorded on the Consolidated Balance Sheets at fair value in trading assets and trading liabilities. The total notional value of the derivatives that the Firm deems to be guarantees was $87.2 billion and $83.8 billion at December 31, 2009 and 2008, respectively. The notional value generally represents the Firm's maximum exposure to derivatives qualifying as guarantees, although exposure to certain stable value derivatives is contractually limited to a substantially lower percentage of the notional value. The fair value of the contracts reflects the probability of whether the Firm will be required to perform under the contract. The fair value related to derivative guarantees were derivative receivables of $219 million and $184 million and derivative payables of $981 million and $5.6 billion at December 31, 2009 and 2008, respectively. The Firm reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

In addition to derivative contracts that meet the characteristics of a guarantee, the Firm is both a purchaser and seller of credit protection in the credit derivatives market. For a further discussion of credit derivatives, see Note 5 on pages 175–183 of this Annual Report.

Securities lending indemnification

Through the Firm's securities lending program, customers' securities, via custodial and non-custodial arrangements, may be lent to third parties. As part of this program, the Firm provides an indemnification in the lending agreements which protects the lender against the failure of the third-party borrower to return the lent securities in the event the Firm did not obtain sufficient collateral. To minimize its liability under these indemnification agreements, the Firm obtains cash or other highly liquid collateral with a market value exceeding 100% of the value of the securities on loan from the borrower. Collateral is marked to market daily to help assure that collateralization is adequate. Additional collateral is called from the borrower if a shortfall exists, or collateral may be released to the borrower in the event of overcollateralization. If a borrower defaults, the Firm would use the collateral held to purchase replacement securities in the market or to credit the lending customer with the cash equivalent thereof. Also, as part of this program, the Firm invests cash collateral received from the borrower in accordance with approved guidelines.

Indemnification agreements – general

In connection with issuing securities to investors, the Firm may enter into contractual arrangements with third parties that require the Firm to make a payment to them in the event of a change in tax law or an adverse interpretation of tax law. In certain cases, the contract also may include a termination clause, which would allow the Firm to settle the contract at its fair value in lieu of making a payment under the indemnification clause. The Firm may also enter into indemnification clauses in connection with the licensing of software to clients ("software licensees") or when it sells a business or assets to a third party ("third-party purchasers"), pursuant to which it indemnifies software licensees for claims of liability or damages that may occur subsequent to the licensing of the software, or third-party purchasers for losses they may incur due to actions taken by the Firm prior to the sale of the business or assets. It is difficult to estimate the Firm's maximum exposure under these indemnification arrangements, since this would require an assessment of future changes in tax law and future claims that may be made against the Firm that have not yet occurred. However, based on historical experience, management expects the risk of loss to be remote.

Loan sale and securitization-related indemnifications

Indemnifications for breaches of representations and warranties

As part of the Firm's loan sale and securitization activities, as described in Note 13 and Note 15 on pages 200–204 and 206–213, respectively, of this Annual Report, the Firm generally makes representations and warranties in its loan sale and securitization agreements that the loans sold meet certain requirements. These agreements may require the Firm (including in its roles as a servicer) to repurchase the loans and/or indemnify the purchaser of the loans against losses due to any breaches of such representations or warranties. Generally, the maximum amount of future payments the Firm would be required to make for breaches under these representations and warranties would be equal to the unpaid principal balance of such loans held by purchasers, including securitization-related SPEs, that are deemed to have defects plus, in certain circumstances, accrued and unpaid interest on such loans and certain expense.

At December 31, 2009 and 2008, the Firm had recorded repurchase liabilities of $1.7 billion and $1.1 billion, respectively. The repurchase liabilities are intended to reflect the likelihood that JPMorgan Chase will have to perform under these representations and warranties and is based on information available at the reporting date. The estimate incorporates both presented demands and probable future demands and is the product of an estimated cure rate, an estimated loss severity and an estimated recovery rate from third parties, where applicable. The liabilities have been reported net of probable recoveries from third-parties and predominately as a reduction of mortgage fees and related income. During 2009, the Firm settled certain current and future claims for certain loans originated and sold by Washington Mutual Bank.

Loans sold with recourse

The Firm provides servicing for mortgages and certain commercial lending products on both a recourse and nonrecourse basis. In nonrecourse servicing, the principal credit risk to the Firm is the cost of temporary servicing advances of funds (i.e., normal servicing advances). In recourse servicing, the servicer agrees to share credit risk with the owner of the mortgage loans, such as Fannie Mae or Freddie Mac or a private investor, insurer or guarantor. Losses on recourse servicing predominantly occur when foreclosure sales proceeds of the property underlying a defaulted loan are less than the sum of the outstanding principal balance, plus accrued interest on the loan and the cost of holding and disposing of the underlying property. The Firm's securitizations are predominantly nonrecourse, thereby effectively transferring the risk of future credit losses to the purchaser of the mortgage-backed securities issued by the trust. At December 31, 2009 and 2008, the unpaid principal balance of loans sold with recourse totaled $13.5 billion and $15.0 billion, respectively. The carrying value of the related liability that the Firm has recorded, which is representative of the Firm's view of the likelihood it will have to perform under this guarantee, was $271 million and $241 million at December 31, 2009 and 2008, respectively.

Credit card charge-backs

Prior to November 1, 2008, the Firm was a partner with one of the leading companies in electronic payment services in a joint venture operating under the name of Chase Paymentech Solutions, LLC (the "joint venture"). The joint venture was formed in October 2005, as a result of an agreement by the Firm and First Data Corporation, its joint venture partner, to integrate the companies' jointly owned Chase Merchant Services and Paymentech merchant businesses. The joint venture provided merchant processing services in the United States and Canada. The dissolution of the joint venture was completed on November 1, 2008, and JPMorgan Chase retained approximately 51% of the business under the Chase Paymentech name.

Under the rules of Visa USA, Inc., and MasterCard International, JPMorgan Chase Bank, N.A., is liable primarily for the amount of each processed credit card sales transaction that is the subject of a dispute between a cardmember and a merchant. If a dispute is resolved in the cardmember's favor, Chase Paymentech will (through the cardmember's issuing bank) credit or refund the amount to the cardmember and will charge back the transaction to the merchant. If Chase Paymentech is unable to collect the amount from the merchant, Chase Paymentech will bear the loss for the amount credited or refunded to the cardmember. Chase Paymentech mitigates this risk by withholding future settlements, retaining cash reserve accounts or by obtaining other security. However, in the unlikely event that: (1) a merchant ceases operations and is unable to deliver products, services or a refund; (2) Chase Paymentech does not have sufficient collateral from the merchant to provide customer refunds; and (3) Chase Paymentech does not have sufficient financial resources to provide customer refunds, JPMorgan Chase Bank, N.A., would be liable for the amount of the transaction. For the year ended December 31, 2009, Chase Paymentech incurred aggregate credit losses of $11 million on $409.7 billion of aggregate volume processed, and at December 31, 2009, it held $213 million of collateral. For the year ended December 31, 2008, Chase Paymentech incurred aggregate credit losses of $13 million on $713.9 billion of aggregate volume processed, and at December 31, 2008, it held $222 million of collateral. The Firm believes that, based on historical experience and the collateral held by Chase Paymentech, the fair value of the Firm's charge back-related obligations, which are representative of the payment or performance risk to the Firm is immaterial.

Credit card association, exchange and clearinghouse guarantees

The Firm holds an equity interest in VISA Inc. During October 2007, certain VISA-related entities completed a series of restructuring transactions to combine their operations, including VISA USA, under one holding company, VISA Inc. Upon the restructuring, the Firm's membership interest in VISA USA was converted into an equity interest in VISA Inc. VISA Inc. sold shares via an initial public offering and used a portion of the proceeds from the offering to redeem a portion of the Firm's equity interest in Visa Inc. Prior to the restructuring, VISA USA's by-laws obligated the Firm upon demand by VISA USA to indemnify VISA USA for, among other things, litigation obligations of Visa USA. The accounting for that guarantee was not subject to initial recognition at fair value. Upon the restructuring event, the Firm's obligation to indemnify Visa Inc. was limited to certain identified litigations. Such a limitation is deemed a modification of the indemnity by-law and, accordingly, became subject to initial recognition at fair value. The value of the litigation guarantee has been recorded in the Firm's financial statements based on its then fair value; the net amount recorded (within other liabilities) did not have a material adverse effect on the Firm's financial statements. In addition to Visa, the Firm is a member of other associations, including several securities and futures exchanges and clearinghouses, both in the United States and other countries. Membership in some of these organizations requires the Firm to pay a pro rata share of the losses incurred by the organization as a result of the default of another member. Such obligations vary with different organizations. These obligations may be limited to members who dealt with the defaulting member or to the amount (or a multiple of the amount) of the Firm's contribution to a member's guarantee fund, or, in a few cases, the obligation may be unlimited. It is difficult to estimate the Firm's maximum exposure under these membership agreements, since this would require an assessment of future claims that may be made against the Firm that have not yet occurred. However, based on historical experience, management expects the risk of loss to be remote.

Residual value guarantee

In connection with the Bear Stearns merger, the Firm succeeded to an operating lease arrangement for the building located at 383 Madison Avenue in New York City (the "Synthetic Lease"). Under the terms of the Synthetic Lease, the Firm is obligated to make periodic payments based on the lessor's underlying interest costs. The Synthetic Lease expires on November 1, 2010. Under the terms of the Synthetic Lease, the Firm has the right to purchase the building for the amount of the then outstanding indebtedness of the lessor, or to arrange for the sale of the building, with the proceeds of the sale to be used to satisfy the lessor's debt obligation. If the sale does not generate sufficient proceeds to satisfy the lessor's debt obligation, the Firm is required to fund the shortfall, up to a maximum residual value guarantee. As of December 31, 2009, there was no expected shortfall and the maximum residual value guarantee was approximately $670 million.

Note 32 – Credit risk concentrations

Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities in the same geographic region, or when they have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions.

JPMorgan Chase regularly monitors various segments of its credit portfolio to assess potential concentration risks and to obtain collateral when deemed necessary. Senior management is significantly involved in the credit approval and review process, and risk levels are adjusted as needed to reflect management's risk tolerance.

In the Firm's wholesale portfolio, risk concentrations are evaluated primarily by industry and geographic region, and monitored regularly on both an aggregate portfolio level and on an individual customer basis. Management of the Firm's wholesale exposure is accomplished through loan syndication and participation, loan sales, securitizations, credit derivatives, use of master netting agreements, and collateral and other risk-reduction techniques. In the consumer portfolio, concentrations are evaluated primarily by product and by U.S. geographic region, with a key focus on trends and concentrations at the portfolio level, where potential risk concentrations can be remedied through changes in underwriting policies and portfolio guidelines.

The Firm does not believe that its exposure to any particular loan product (e.g., option ARMs), portfolio segment (e.g., commercial real estate) or its exposure to residential real estate loans with high loan-to-value ratios results in a significant concentration of credit risk. Terms of loan products and collateral coverage are included in the Firm's assessment when extending credit and establishing its allowance for loan losses.

For further information regarding on–balance sheet credit concentrations by major product and geography, see Note 13 on pages 200–204 of this Annual Report. For information regarding concentrations of off–balance sheet lending-related financial instruments by major product, see Note 31 on pages 238–242 of this Annual Report.

The table below presents both on–balance sheet and off–balance sheet wholesale- and consumer-related credit exposure as of December 31, 2009 and 2008.

	2009				2008			
		On-balance sheet				On-balance sheet		
December 31, (in millions)	Credit exposure	Loans	Derivatives	Off-balance sheet (d)	Credit exposure	Loans	Derivatives	Off-balance sheet(d)
Wholesale-related[(a)]:								
Real estate	$ 68,509	$ 57,195	$ 1,112	$ 10,202	$ 80,284	$ 64,510	$ 2,021	$ 13,753
Banks and finance companies	54,053	14,396	17,957	21,700	75,577	19,055	33,457	23,065
Healthcare	35,605	4,992	1,917	28,696	38,032	7,004	3,723	27,305
State and municipal governments	34,726	5,687	4,979	24,060	36,772	5,882	10,191	20,699
Utilities	27,178	5,451	3,073	18,654	34,246	9,184	4,664	20,398
Consumer products	27,004	7,880	1,094	18,030	29,766	10,081	2,225	17,460
Asset managers	24,920	5,930	6,640	12,350	49,256	9,640	18,806	20,810
Oil and gas	23,322	5,895	2,309	15,118	24,746	8,796	2,220	13,730
Retail & consumer services	20,673	5,611	769	14,293	23,223	7,597	1,537	14,089
Holding companies	16,018	4,360	1,042	10,616	14,466	6,247	2,846	5,373
Technology	14,169	3,802	1,409	8,958	17,025	4,965	1,340	10,720
Insurance	13,421	1,292	2,511	9,618	17,744	1,942	5,494	10,308
Machinery and equipment manufacturing	12,759	3,189	456	9,114	14,501	4,642	943	8,916
Metals/mining	12,547	3,410	1,158	7,979	14,980	6,470	1,991	6,519
Media	12,379	4,173	329	7,877	13,177	6,486	480	6,211
Telecom services	11,265	2,042	1,273	7,950	13,237	3,828	1,298	8,111
Securities firms and exchanges	10,832	3,457	4,796	2,579	25,590	6,360	14,111	5,119
Business services	10,667	3,627	397	6,643	11,247	3,677	757	6,813
Building materials/construction	10,448	3,252	281	6,915	12,065	4,625	613	6,827
Chemicals/plastics	9,870	2,719	392	6,759	11,719	3,745	1,201	6,773
Transportation	9,749	3,141	1,238	5,370	10,253	3,904	1,651	4,698
Central government	9,557	1,703	5,501	2,353	14,441	545	9,773	4,123
Automotive	9,357	2,510	357	6,490	11,448	3,746	1,111	6,591
Leisure	6,822	2,718	353	3,751	8,158	4,051	659	3,448
Agriculture/paper manufacturing	5,801	1,928	251	3,622	6,920	2,593	653	3,674
All other	135,791	39,717	18,616	77,458	181,713	38,514	38,861	104,338
Loans held-for-sale and loans at fair value	4,098	4,098	—	—	13,955	13,955	—	—
Receivables from customers[(b)]	15,745	—	—	—	16,141	—	—	—
Interests in purchased receivables	2,927	—	—	—	—	—	—	—
Total wholesale-related	650,212	204,175	80,210	347,155	820,682	262,044	162,626	379,871
Consumer-related excluding purchased credit-impaired loans:								
Home equity – senior lien	46,622	27,376	—	19,246	57,791	29,793	—	27,998
Home equity – junior lien	111,280	74,049	—	37,231	152,287	84,542	—	67,745
Prime mortgage	68,546	66,892	—	1,654	77,345	72,266	—	5,079
Subprime mortgage	12,526	12,526	—	—	15,330	15,330	—	—
Option ARMs	8,536	8,536	—	—	9,018	9,018	—	—
Auto loans	51,498	46,031	—	5,467	47,329	42,603	—	4,726
Credit card – reported[(c)]	647,899	78,786	—	569,113	728,448	104,746	—	623,702
All other loans	42,929	31,700	—	11,229	45,972	33,715	—	12,257
Loans held-for-sale	2,142	2,142	—	—	2,028	2,028	—	—
Total consumer–related excluding purchased credit-impaired loans	991,978	348,038	—	643,940	1,135,548	394,041	—	741,507
Consumer-related purchased credit-impaired loans								
Home equity	26,520	26,520	—	—	28,555	28,555	—	—
Prime mortgage	19,693	19,693	—	—	21,855	21,855	—	—
Subprime mortgage	5,993	5,993	—	—	6,760	6,760	—	—
Option ARMs	29,039	29,039	—	—	31,643	31,643	—	—
Total consumer-related purchased credit-impaired loans	81,245	81,245	—	—	88,813	88,813	—	—
Total consumer	1,073,223	429,283	—	643,940	1,224,361	482,854	—	741,507
Total exposure	$ 1,723,435	$ 633,458	$ 80,210	$ 991,095	$ 2,045,043	$ 744,898	$ 162,626	$ 1,121,378

(a) During the fourth quarter of 2009, certain industry classifications were modified to better reflect risk correlations and enhance the Firm's management of industry risk. Prior periods have been revised to reflect the current presentation.

(b) Primarily represents margin loans to prime and retail brokerage customers which are included in accrued interest and accounts receivable on the Consolidated Balance Sheets.

(c) Excludes $84.6 billion and $85.6 billion of securitized credit card receivables at December 31, 2009 and 2008, respectively.

(d) Represents lending-related financial instruments.

Note 33 – International operations

The following table presents income statement–related information for JPMorgan Chase by major international geographic area. The Firm defines international activities as business transactions that involve customers residing outside of the U.S., and the information presented below is based primarily upon the domicile of the customer, the location from which the customer relationship is managed or the location of the trading desk. However, many of the Firm's U.S. operations serve international businesses.

As the Firm's operations are highly integrated, estimates and subjective assumptions have been made to apportion revenue and expense between U.S. and international operations. These estimates and assumptions are consistent with the allocations used for the Firm's segment reporting as set forth in Note 34 on pages 245–247 of this Annual Report.

The Firm's long-lived assets for the periods presented are not considered by management to be significant in relation to total assets. The majority of the Firm's long-lived assets are located in the United States.

Year ended December 31, (in millions)	Revenue(a)	Expense(b)	Income before income tax expense/(benefit) and extraordinary gain	Net income
2009				
Europe/Middle East and Africa	**$ 16,915**	**$ 8,610**	**$ 8,290**	**$ 5,485**
Asia and Pacific	**5,088**	**3,438**	**1,646**	**1,119**
Latin America and the Caribbean	**1,982**	**1,112**	**861**	**513**
Other	**659**	**499**	**160**	**105**
Total international	**24,644**	**13,659**	**10,957**	**7,222**
Total U.S.	**75,790**	**70,708**	**5,110**	**4,506**
Total	**$ 100,434**	**$ 84,367**	**$ 16,067**	**$ 11,728**
2008				
Europe/Middle East and Africa	$ 11,449	$ 8,403	$ 3,046	$ 2,483
Asia and Pacific	4,097	3,580	517	672
Latin America and the Caribbean	1,353	903	450	274
Other	499	410	89	21
Total international	17,398	13,296	4,102	3,450
Total U.S.	49,854	51,183	(1,329)	2,155
Total	$ 67,252	$ 64,479	$ 2,773	$ 5,605
2007				
Europe/Middle East and Africa	$ 12,070	$ 8,445	$ 3,625	$ 2,585
Asia and Pacific	4,730	3,117	1,613	945
Latin America and the Caribbean	2,028	975	1,053	630
Other	407	289	118	79
Total international	19,235	12,826	6,409	4,239
Total U.S.	52,137	35,741	16,396	11,126
Total	$ 71,372	$ 48,567	$ 22,805	$ 15,365

(a) Revenue is composed of net interest income and noninterest revenue.
(b) Expense is composed of noninterest expense and the provision for credit losses.

Note 34 – Business segments

The Firm is managed on a line-of-business basis. There are six major reportable business segments — Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate/Private Equity segment. The business segments are determined based on the products and services provided, or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For a definition of managed basis, see Explanation and Reconciliation of the Firm's use of non-GAAP financial measures, on pages 58–60 of this Annual Report. For a further discussion concerning JPMorgan Chase's business segments, see Business segment results on pages 61–62 of this Annual Report.

The following is a description of each of the Firm's business segments:

Investment Bank

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

Retail Financial Services

Retail Financial Services ("RFS"), which includes the Retail Banking and Consumer Lending businesses, serves consumers and businesses through personal service at bank branches and through ATMs, online banking and telephone banking as well as through auto dealerships and school financial-aid offices. Customers can use more than 5,100 bank branches (third-largest nationally) and 15,400 ATMs (second-largest nationally), as well as online and mobile banking around the clock. More than 23,900 branch salespeople assist customers with checking and savings accounts, mortgages, home equity and business loans, and investments across the 23-state footprint from New York and Florida to California. Consumers also can obtain loans through 15,700 auto dealerships and nearly 2,100 schools and universities nationwide.

Card Services

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

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

Commercial Banking

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

Treasury & Securities Services

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

Asset Management

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

Corporate/Private Equity

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

Line of business equity increased during the second quarter of 2008 in IB and AM due to the Bear Stearns merger and for AM, the purchase of the additional equity interest in Highbridge. At the end of the third quarter of 2008, equity was increased for each line of business with a view toward the future implementation of the new Basel II capital rules. In addition, equity allocated to RFS, CS and CB was increased as a result of the Washington Mutual transaction.

Segment results

The following table provides a summary of the Firm's segment results for 2009, 2008 and 2007 on a managed basis. The impacts of credit card securitizations and tax-equivalent adjustments have been included in Reconciling items so that the total Firm results are on a reported basis.

Segment results and reconciliation[(a)] (table continued on next page)

Year ended December 31,	Investment Bank			Retail Financial Services			Card Services			Commercial Banking		
(in millions, except ratios)	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
Noninterest revenue	**$ 18,522**	$ 2,051	$ 14,215	**$ 12,200**	$ 9,355	$ 6,779	**$ 2,920**	$ 2,719	$ 3,046	**$ 1,817**	$ 1,481	$ 1,263
Net interest income	**9,587**	10,284	4,076	**20,492**	14,165	10,526	**17,384**	13,755	12,189	**3,903**	3,296	2,840
Total net revenue	**28,109**	12,335	18,291	**32,692**	23,520	17,305	**20,304**	16,474	15,235	**5,720**	4,777	4,103
Provision for credit losses	**2,279**	2,015	654	**15,940**	9,905	2,610	**18,462**	10,059	5,711	**1,454**	464	279
Credit reimbursement (to)/from TSS[(b)]	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—
Noninterest expense[(c)]	**15,401**	13,844	13,074	**16,748**	12,077	9,905	**5,381**	5,140	4,914	**2,176**	1,946	1,958
Income/(loss) before income tax expense/ (benefit) and extraordinary gain	**10,429**	(3,524)	4,563	**4**	1,538	4,790	**(3,539)**	1,275	4,610	**2,090**	2,367	1,866
Income tax expense/(benefit)	**3,530**	(2,349)	1,424	**(93)**	658	1,865	**(1,314)**	495	1,691	**819**	928	732
Income/(loss) before extraordinary gain	**6,899**	(1,175)	3,139	**97**	880	2,925	**(2,225)**	780	2,919	**1,271**	1,439	1,134
Extraordinary gain[(d)]	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—
Net income/(loss)	**$ 6,899**	$ (1,175)	$ 3,139	**$ 97**	$ 880	$ 2,925	**$ (2,225)**	$ 780	$ 2,919	**$ 1,271**	$ 1,439	$ 1,134
Average common equity	**$ 33,000**	$ 26,098	$ 21,000	**$ 25,000**	$ 19,011	$ 16,000	**$ 15,000**	$ 14,326	$ 14,100	**$ 8,000**	$ 7,251	$ 6,502
Average assets	**699,039**	832,729	700,565	**407,497**	304,442	241,112	**192,749**	173,711	155,957	**135,408**	114,299	87,140
Return on average equity	**21%**	(5)%	15%	**—%**	5%	18%	**(15)%**	5%	21%	**16%**	20%	17%
Overhead ratio	**55**	112	71	**51**	51	57	**27**	31	32	**38**	41	48

(a) In addition to analyzing the Firm's results on a reported basis, management reviews the Firm's lines of business results on a "managed basis," which is a non-GAAP financial measure. The Firm's definition of managed basis starts with the reported U.S. GAAP results and includes certain reclassifications that do not have any impact on net income as reported by the lines of business or by the Firm as a whole.

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

(c) Includes merger costs, which are reported in the Corporate/Private Equity segment. Merger costs attributed to the business segments for 2009, 2008 and 2007 were as follows.

Year ended December 31, (in millions)	**2009**	2008	2007
Investment Bank	**$ 27**	$ 183	$ (2)
Retail Financial Services	**228**	90	14
Card Services	**40**	20	(1)
Commercial Banking	**6**	4	(1)
Treasury & Securities Services	**11**	—	121
Asset Management	**6**	3	20
Corporate/Private Equity	**163**	132	58

(d) On September 25, 2008, JPMorgan Chase acquired the banking operations of Washington Mutual from the FDIC for $1.9 billion. The fair value of the net assets acquired exceeded the purchase price, which resulted in negative goodwill. In accordance with U.S. GAAP for business combinations, nonfinancial assets that are not held-for-sale, such as premises and equipment and other intangibles, acquired in the Washington Mutual transaction were written down against that negative goodwill. The negative goodwill that remained after writing down nonfinancial assets was recognized as an extraordinary gain.

(e) Included a $1.5 billion charge to conform Washington Mutual's loan loss reserve to JPMorgan Chase's allowance methodology.

(table continued from previous page)

Treasury & Securities Services			Asset Management			Corporate/Private Equity			Reconciling items(g)(h)			**Total**		
2009	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007	**2009**	2008	2007
$ 4,747	$ 5,196	$ 4,681	**$ 6,372**	$ 6,066	$ 7,475	**$ 2,771**	$ (278)	$ 5,056	**$ (67)**	$ 1,883	$ 2,451	**$ 49,282**	$ 28,473	$ 44,966
2,597	2,938	2,264	**1,593**	1,518	1,160	**3,863**	347	(637)	**(8,267)**	(7,524)	(6,012)	**51,152**	38,779	26,406
7,344	8,134	6,945	**7,965**	7,584	8,635	**6,634**	69	4,419	**(8,334)**	(5,641)	(3,561)	**100,434**	67,252	71,372
55	82	19	**188**	85	(18)	**80**	1,981(e)(f)	(11)	**(6,443)**	(3,612)	(2,380)	**32,015**	20,979	6,864
(121)	(121)	(121)	**—**	—	—	**—**	—	—	**121**	121	121	**—**	—	—
5,278	5,223	4,580	**5,473**	5,298	5,515	**1,895**	(28)	1,757	**—**	—	—	**52,352**	43,500	41,703
1,890	2,708	2,225	**2,304**	2,201	3,138	**4,659**	(1,884)	2,673	**(1,770)**	(1,908)	(1,060)	**16,067**	2,773	22,805
664	941	828	**874**	844	1,172	**1,705**	(535)	788	**(1,770)**	(1,908)	(1,060)	**4,415**	(926)	7,440
1,226	1,767	1,397	**1,430**	1,357	1,966	**2,954**	(1,349)	1,885	**—**	—	—	**11,652**	3,699	15,365
—	—	—	**—**	—	—	**76**	1,906	—	**—**	—	—	**76**	1,906	—
$ 1,226	$ 1,767	$ 1,397	**$ 1,430**	$ 1,357	$ 1,966	**$ 3,030**	$ 557	$ 1,885	**$ —**	$ —	$ —	**$ 11,728**	$ 5,605	$ 15,365
$ 5,000	$ 3,751	$ 3,000	**$ 7,000**	$ 5,645	$ 3,876	**$ 52,903**	$ 53,034	$ 54,245	**$ —**	$ —	$ —	**$ 145,903**	$ 129,116	$ 118,723
35,963	54,563	53,350	**60,249**	65,550	51,882	**575,529**	323,227	231,818	**(82,233)**	(76,904)	(66,780)	**2,024,201**	1,791,617	1,455,044
25%	47%	47%	**20%**	24%	51%	**NM**	NM	NM	**NM**	NM	NM	**6%**	4%(i)	13%
72	64	66	**69**	70	64	**NM**	NM	NM	**NM**	NM	NM	**52**	65	58

(f) In November 2008, the Firm transferred $5.8 billion of higher quality credit card loans from the legacy Chase portfolio to a securitization trust previously established by Washington Mutual ("the Trust"). As a result of converting higher credit quality Chase-originated on-book receivables to the Trust's seller's interest which has a higher overall loss rate reflective of the total assets within the Trust, approximately $400 million of incremental provision for credit losses was recorded during the fourth quarter of 2008. This incremental provision for credit losses was recorded in the Corporate/Private Equity segment as the action related to the acquisition of Washington Mutual's banking operations. For further discussion of credit card securitizations, see Note 15 on page 208 of this Annual Report.

(g) Managed results for credit card exclude the impact of credit card securitizations on total net revenue, provision for credit losses and average assets, as JPMorgan Chase treats the sold receivables as if they were still on the balance sheet in evaluating the credit performance of the entire managed credit card portfolio as operations are funded, and decisions are made about allocating resources such as employees and capital, based on managed information. These adjustments are eliminated in reconciling items to arrive at the Firm's reported U.S. GAAP results. The related securitization adjustments were as follows.

Year ended December 31, (in millions)	**2009**	2008	2007
Noninterest revenue	**$ (1,494)**	$ (3,333)	$ (3,255)
Net interest income	**7,937**	6,945	5,635
Provision for credit losses	**6,443**	3,612	2,380
Average assets	**82,233**	76,904	66,780

(h) Segment managed results reflect revenue on a tax-equivalent basis with the corresponding income tax impact recorded within income tax expense/(benefit). The adjustments are eliminated in reconciling items to arrive at the Firm's reported U.S. GAAP results. Tax-equivalent adjustments for the years ended December 31, 2009, 2008 and 2007 were as follows.

Year ended December 31, (in millions)	**2009**	2008	2007
Noninterest revenue	**$ 1,440**	$ 1,329	$ 683
Net interest income	**330**	579	377
Income tax expense	**1,770**	1,908	1,060

(i) Ratio is based on net income.

Note 35 – Parent company

Parent company – statements of income

Year ended December 31, (in millions)	2009	2008	2007
Income			
Dividends from subsidiaries:			
Bank and bank holding company	**$ 15,235**	$ 3,085	$ 5,834
Nonbank[a]	**1,036**	1,687	2,463
Interest income from subsidiaries	**1,501**	4,539	5,082
Other interest income	**266**	212	263
Other income from subsidiaries, primarily fees:			
Bank and bank holding company	**233**	244	182
Nonbank	**742**	95	960
Other income/(loss)	**844**	(1,038)	(131)
Total income	**19,857**	8,824	14,653
Expense			
Interest expense to subsidiaries[a]	**1,118**	1,302	1,239
Other interest expense	**4,696**	6,879	6,427
Compensation expense	**574**	43	125
Other noninterest expense	**414**	732	329
Total expense	**6,802**	8,956	8,120
Income/(loss) before income tax benefit and undistributed net income of subsidiaries	**13,055**	(132)	6,533
Income tax benefit	**1,269**	2,582	589
Equity in undistributed net income of subsidiaries	**(2,596)**	3,155	8,243
Net income	**$ 11,728**	$ 5,605	$ 15,365

Parent company – balance sheets

December 31, (in millions)	2009	2008
Assets		
Cash and due from banks	**$ 102**	$ 35
Deposits with banking subsidiaries	**87,893**	60,551
Trading assets	**14,808**	12,487
Available-for-sale securities	**2,647**	1,587
Loans	**1,316**	1,525
Advances to, and receivables from, subsidiaries:		
Bank and bank holding company	**54,152**	33,293
Nonbank	**81,365**	131,032
Investments (at equity) in subsidiaries:		
Bank and bank holding company	**157,412**	153,140
Nonbank[a]	**32,547**	27,968
Goodwill and other intangibles	**1,104**	1,616
Other assets	**14,793**	12,934
Total assets	**$ 448,139**	$ 436,168
Liabilities and stockholders' equity		
Borrowings from, and payables to, subsidiaries[a]	**$ 39,532**	$ 44,467
Other borrowed funds, primarily commercial paper	**41,454**	39,560
Other liabilities	**8,035**	9,363
Long-term debt[b]	**193,753**	175,894
Total liabilities	**282,774**	269,284
Total stockholders' equity	**165,365**	166,884
Total liabilities and stockholders' equity	**$ 448,139**	$ 436,168

Parent company – statements of cash flows

Year ended December 31, (in millions)	2009	2008	2007
Operating activities			
Net income	**$ 11,728**	$ 5,605	$ 15,365
Less: Net income of subsidiaries[a]	**13,675**	7,927	16,540
Parent company net loss	**(1,947)**	(2,322)	(1,175)
Add: Cash dividends from subsidiaries[a]	**16,054**	4,648	8,061
Other, net	**1,852**	1,920	3,496
Net cash provided by operating activities	**15,959**	4,246	10,382
Investing activities			
Net change in:			
Deposits with banking subsidiaries	**(27,342)**	(7,579)	(34,213)
Available-for-sale securities:			
Purchases	**(1,454)**	(1,475)	(104)
Proceeds from sales and maturities	**522**	—	318
Loans, net	**209**	(102)	(452)
Advances to subsidiaries, net	**28,808**	(82,725)	(24,553)
Investments (at equity) in subsidiaries, net[a]	**(6,582)**	(26,212)	(4,135)
Net cash used in investing activities	**(5,839)**	(118,093)	(63,139)
Financing activities			
Net change in borrowings from subsidiaries[a]	**(4,935)**	20,529	4,755
Net change in other borrowed funds	**1,894**	(12,880)	31,429
Proceeds from the issuance of long-term debt	**32,304**	50,013	38,986
Proceeds from the assumption of subsidiaries long-term debt[c]	**15,264**	39,778	—
Repayments of long-term debt	**(31,964)**	(22,972)	(11,662)
Proceeds from issuance of common stock	**5,756**	11,500	—
Excess tax benefits related to stock-based compensation	**17**	148	365
Proceeds from issuance of preferred stock and Warrant to the U.S. Treasury	**—**	25,000	—
Proceeds from issuance of preferred stock[d]	**—**	8,098	—
Redemption of preferred stock issued to the U.S. Treasury	**(25,000)**	—	—
Repurchases of treasury stock	**—**	—	(8,178)
Dividends paid	**(3,422)**	(5,911)	(5,051)
All other financing activities, net	**33**	469	1,467
Net cash provided by financing activities	**(10,053)**	113,772	52,111
Net increase/(decrease) in cash and due from banks	**67**	(75)	(646)
Cash and due from banks at the beginning of the year, primarily with bank subsidiaries	**35**	110	756
Cash and due from banks at the end of the year, primarily with bank subsidiaries	**$ 102**	$ 35	$ 110
Cash interest paid	**$ 5,629**	$ 7,485	$ 7,470
Cash income taxes paid	**3,124**	156	5,074

(a) Subsidiaries include trusts that issued guaranteed capital debt securities ("issuer trusts"). The Parent received dividends of $14 million, $15 million and $18 million from the issuer trusts in 2009, 2008 and 2007, respectively. For further discussion on these issuer trusts, see Note 22 on page 229 of this Annual Report.

(b) At December 31, 2009, long-term debt that contractually matures in 2010 through 2014 totaled $30.2 billion, $38.3 billion, $41.7 billion, $15.1 billion and $19.2 billion, respectively.

(c) Represents the assumption of Bear Stearns long-term debt by JPMorgan Chase & Co.

(d) 2008 included the conversion of Bear Stearns' preferred stock into JPMorgan Chase preferred stock.