

FEBRUARY 26, 2009

INVESTMENT BANK

Steve Black, Investment Bank Co-Chief Executive Officer

# 2008 IB financial performance

(\$ in millions)

	2008	2007	O/(U)2007	
			\$	%
Revenue	\$12,214	\$18,170	(\$5,956)	(33)%
Investment banking fees	5,907	6,616	(709)	(11)
Fixed income markets	1,957	6,339	(4,382)	(69)
Equity markets	3,611	3,903	(292)	(7)
Credit portfolio	739	1,312	(573)	(44)
Credit costs	2,015	654	1,361	208
Expense	13,844	13,074	770	6%
Net income	(\$1,175)	\$3,139	(\$4,314)	NM

## Key statistics<sup>1</sup>

ROE <sup>2</sup>	(5)%	15%
Comp/revenue	63%	44%
ALL/total loans	4.71%	2.14%
EOP equity (\$B)	\$33	\$21

<sup>1</sup> Actual numbers for all periods, not over/(under)

<sup>2</sup> Calculated based on average equity

## 2008 Summary

- Strength of client franchise
  - #1 IB fees with substantial market share gains
  - Record revenue in Rates and Currencies, Credit Trading, Commodities and Emerging Markets
  - Flight to quality
- 'Open for business' with ability to enter into large distressed trades
- Substantial de-risking achieved in highly illiquid markets
- Without impact of the Bear Stearns merger, 2008 net income would have been modestly positive
- Managed multiple, simultaneous credit events and record market volumes
- Weak trading in Securitized Products, Equity Derivatives, Loan Trading, Principal Investments and Fixed Income Hybrids and Exotics
- Marks of over (\$10B) in mortgages and leveraged lending

## Key questions on your mind

- How much worse could it get from here? How prepared are you?
- How has your revenue mix changed, and what revenue mix do you expect going forward?
- How flexible is your expense base? What have you done and what can you still do?
- How do you think about your returns, given lower leverage, higher capital and challenging markets?
- What lessons have you learned from this crisis?

# J.P. Morgan competitive advantages

- Scale
- Global client franchise
- “Fortress” balance sheet

## League Table Results

	2008		2007 <sup>1</sup>	
	Rank	Share	Rank	Share
Global IB fees <sup>2</sup>	#1	8.8%	#1	7.2%
Global M&A announced <sup>2</sup>	#1	24.4%	#4	18.7%
Global debt, equity and equity-related <sup>3</sup>	#1	9.7%	#2	7.6%
Global equity and equity-related <sup>3,4</sup>	#1	11.8%	#2	9.2%
Global debt <sup>3</sup>	#1	9.3%	#2	7.2%
Global loan syndications <sup>3</sup>	#1	11.5%	#1	12.8%

Note: Rankings as of 12/31/08 for full year 2008 and full year 2007

<sup>1</sup> 2007 represents heritage JPM only

<sup>2</sup> Source: Dealogic

<sup>3</sup> Source: Thomson Reuters

<sup>4</sup> Global Equity and Equity-related includes rights offerings

## Major Awards



### Bank of the Year

*International Financing Review*,  
December 2008



### Derivatives House of the Year Bank Risk Manager of the Year

*Risk*, January 2009



### Best Overall Investment Bank

*Institutional Investor*, December 2007



### European Investment Bank of the Year

*Financial News*, December 2008



### Greenwich Quality Leader

*Greenwich Associates*, December 2008

# Flight to quality

*Strong client flows across businesses as JPM becomes counterparty of choice*

## Prime Services

- Equity Prime Brokerage more than doubled the number of \$1B+ AUM client relationships from June to December; strong forward-looking pipeline
- On a market-adjusted basis, customer balances back to h-BSC peak levels
- H-BSC contributed ~\$500mm in revenue to Prime Services platform in 2008

## Markets businesses

- Markets client revenue increased 40% YoY
  - Rates/FX: Client revenue up more than 60%; 170% growth in Asia
  - Commodities: Client revenue up over 75%
  - Credit trading: Client revenue up over 50%
  - Emerging markets: Client revenue up nearly 60%
  - FI Exotics and Hybrids: Client revenue up nearly 40%, reflecting client restructuring opportunities
  - Equity derivatives: Client revenue up nearly 20%

## Advisory and capital markets

- #1 global FIG wallet share
- Advised & led elephant acquisition financings in midst of credit crisis

# Radical change in IB business environment

## Major Events

<p>Competition</p>	<ul style="list-style-type: none"> <li>■ End of broker dealer model</li> <li>■ Industry consolidation</li> <li>■ Capital bases under pressure; rapid deleveraging</li> </ul>
<p>Market dynamics</p>	<ul style="list-style-type: none"> <li>■ Periods of volatility and illiquidity</li> <li>■ Record volumes</li> <li>■ Multiple, simultaneous credit events</li> </ul>
<p>Client</p>	<ul style="list-style-type: none"> <li>■ Certain businesses experiencing permanent shrinkage</li> <li>■ Hedge funds shrinking</li> <li>■ Restructuring/risk mgmt focus</li> </ul>
<p>Regulation</p>	<ul style="list-style-type: none"> <li>■ Greater government and regulatory oversight</li> <li>■ Renewed focus on capital</li> <li>■ Pressure on compensation</li> </ul>

## JPM Action Plan

- Continue to expand in Emerging markets, Commodities, Prime Services
- Scale back in securitized products, structured credit and FI prime brokerage
- Re-establish and redefine key markets
- Invest in flow business technology and e-trading
- Participate in centralized clearing for CDS
- Opportunistically invest in distressed assets and recovery trades
- Continue strong risk management practices
- Re-allocate capital across businesses to maximize returns
- Continue de-leveraging
- Further align incentive structure with long-term returns on capital

# Growth, discipline and people remain the core of our 2009 strategy

## Growth

- Build and invest in future growth
- Remain client centered
- Maintain market share gains
- Be a scale player
- Re-establish and redefine key markets

## Discipline

- Manage capital and leverage
- Risk management
- Maintain strong controls
- Cut expenses and improve productivity
- Build technology capabilities

## People

- Maintain our culture
- Attract and retain the best people
- Develop our talent
- Drive management accountability

Capitalize on our position of relative strength in everything we do

# Growth – Fixed Income Markets

## 2008 Achievements

- Record revenue in Rates and FX, Emerging Markets and Credit Trading
  - Rates/FX revenue double the 2007 record
  - Record Russia and Middle East/North Africa revenue
  - Record Short-Term Fixed Income revenue
- Client revenue up more than 50% across products
- Leading market positions
  - #1 in Global Rate derivatives e-commerce<sup>1</sup>
  - #1 Emerging Markets - Fixed Income player<sup>2</sup>
- Infrastructure capabilities tested and proven during record volumes
- Increased client penetration in India, China, Korea, Taiwan and Malaysia markets
  - Additional product roll-outs
- Relentless focus on expenses and risk management

1. Source: Bloomberg, Tradeweb

2. Source: Coalition



#1 Rates overall  
Best Emerging Markets IB



Best Credit Derivatives  
House of the Year

## 2009 Priorities

- Enhance top 3 Rates/FX house position
  - Enhance technology and e-trading capabilities
- Maintain #1 position in Emerging Markets - Fixed Income and our Top 3 position in Emerging Markets - Equities and Corporate Finance
  - Strengthen local presence in priority markets: China, India, Brazil, Russia, Middle East/North Africa
  - Expand onshore products across Emerging Asia, including China securities presence
- Expand principal investment activities
- Selectively extend balance sheet in Emerging Asia
- Maintain scale advantage

# Growth – Commodities platform expansion

## 2008 Progress

- Record economic revenue in 2008
  - Client revenue up more than 75% YoY
- Emerged as a complete scale player
  - Significantly expanded physical platform
  - Broader and deeper client franchise
  - Greater origination capabilities
  - Principal investment expertise
- Integrated Bear Energy and ClimateCare acquisitions
- Organically built out Global Oil and Environmental markets capabilities
- Expanded in Europe and Asia
- Hired new talent



Structured Products House of the Year

## 2009 Priorities

- Integrate UBS' Canadian and Agricultural business (closed January 2009)
- Become Top 3 player globally
  - Gain market share and attract talent while others divest
  - Leverage JPM's firmwide client franchise (Global Sales teams, Commercial Banking and Private Bank) to offer more commodity and structured products to corporate and investor clients
- Expand principal investing
- Build out physical capabilities in Asia

# Growth – Prime Services

## 2008 Progress

- Successfully integrated activities across institutions
- Record growth in clients and revenue
  - BSC contributed ~\$500mm in revenue in 2008
  - Doubled the number of \$1B+ AUM clients from June to December
  - Customer balances back up to h-BSC peak levels on a market-adjusted basis
  - 4<sup>th</sup> year of double-digit F&O revenue growth

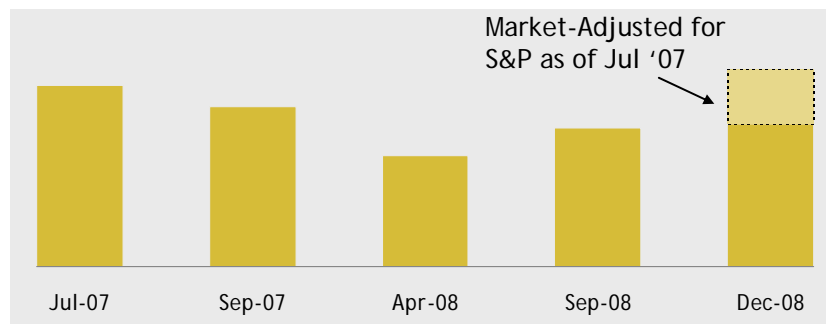


Best in Class in OTC, Derivatives, Prime Brokerage

## 2009 Priorities

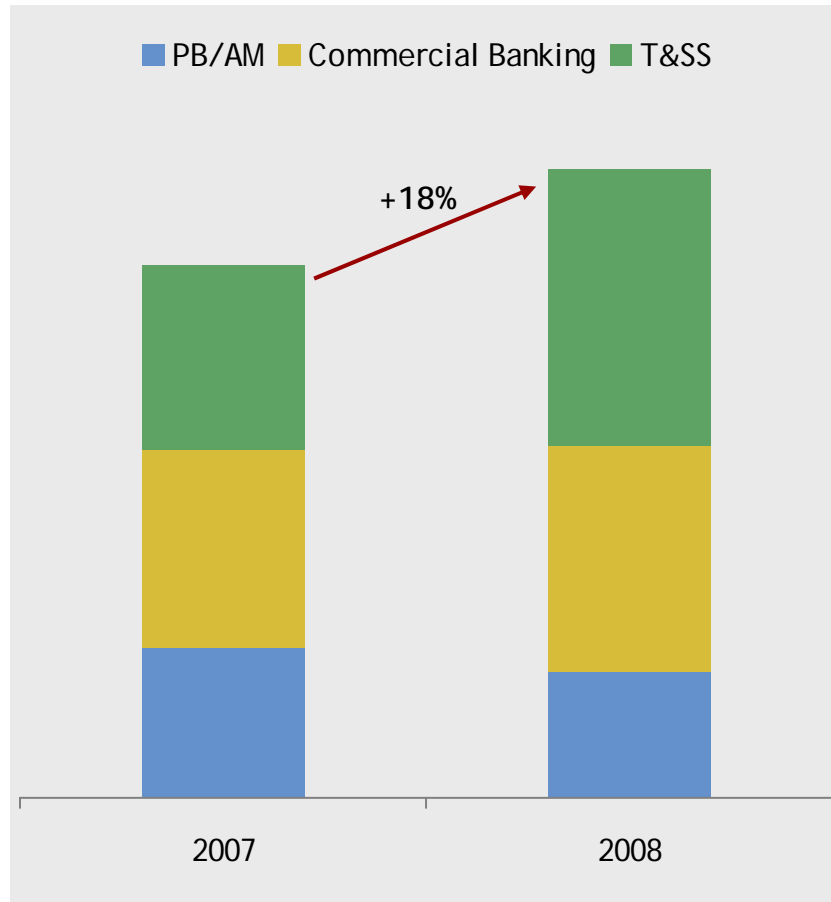
- Align Prime Services across 2 themes:
  - Securities Prime Brokerage & Finance
  - Futures & Options and OTC Clearing
- Expand Prime Brokerage internationally
- Concentrate on \$1B+ client relationships
- Make significant investments in technology across the platform
- Track regulatory developments in hedge fund industry
- Maintain focus on risk and balance sheet management

## Client Equity (\$ in billions)



# Growth – capitalizing on the firmwide platform

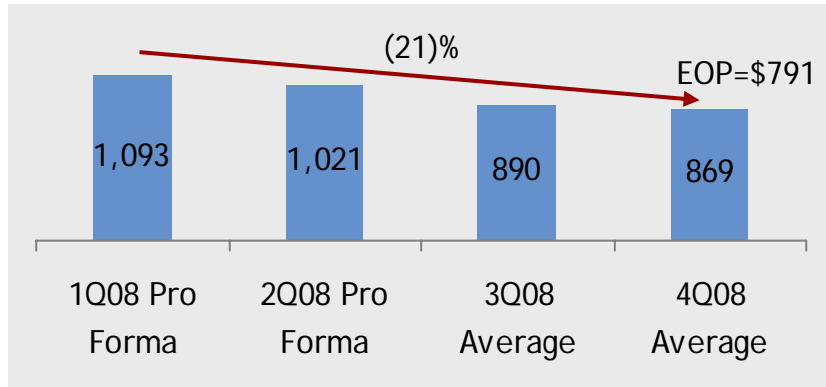
IB Net Revenue Share (\$ in millions)



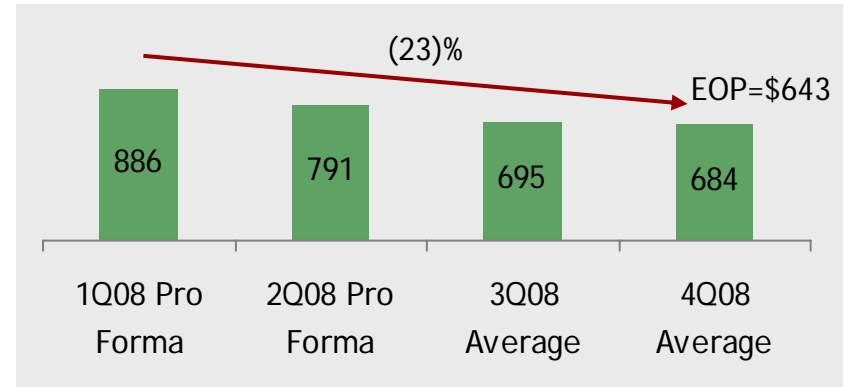
- **CB:** Gross IB revenue from CB clients of \$966mm
  - 21% CAGR since 2005
  - Target of \$1B now reached
- **T&SS:** FX revenue from T&SS cross-sell up 59% YoY
- **Global Corporate Banking JV** between IB and T&SS posted 15% YoY revenue growth
  - Double-digit revenue growth
  - Strong global pipeline
- **Asset Management/Private Bank:** Although revenue share marginally down YoY, strong collaboration continues with:
  - IB Referrals to Private Bank/Private Wealth Management up 18% YoY
  - Benefit from BSC merger

# Discipline – strong progress since the Bear Stearns merger

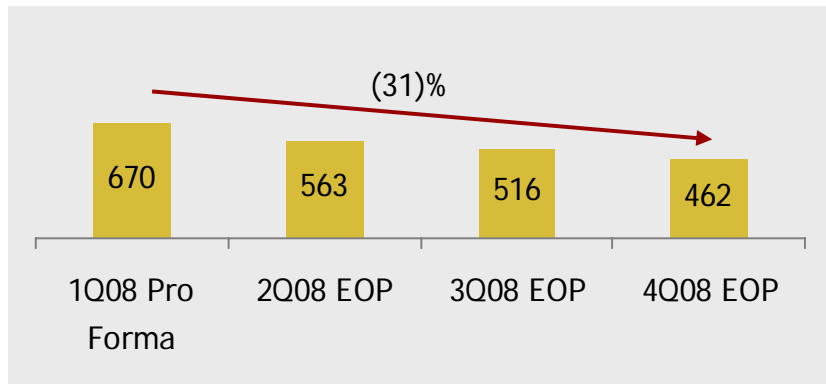
Gross Assets (\$ in billions)



Adjusted Assets (\$ in billions)



Basel I RWA (\$ in billions)

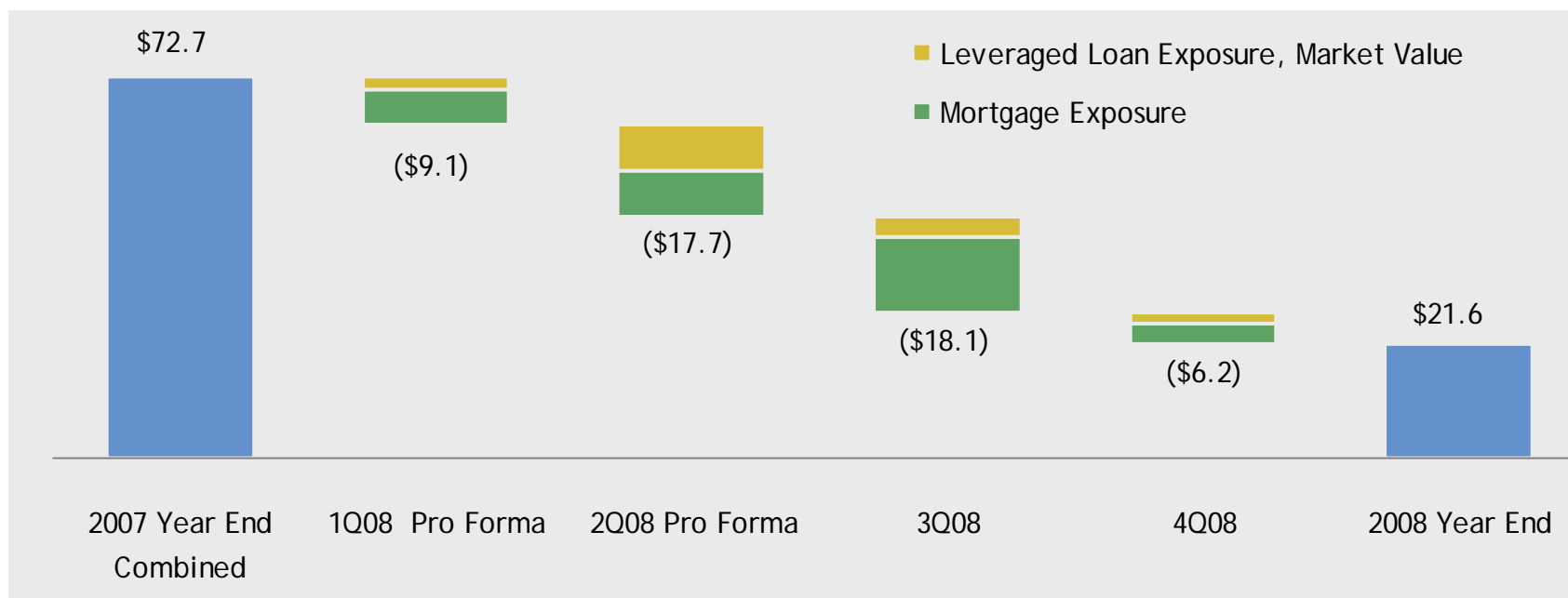


- \$33B of allocated capital
- IB TCE to total assets ratio is at high end of peers' IB segments

Note: 1Q08 asset tables represents average h-JPM balances plus March month end balance for h-BSC; 2Q08 pro forma asset tables represents averages for both h-JPM and h-BSC; Basel I RWA includes estimate of BSC at 3/31/08

## Discipline – meaningful reduction in exposure

### 2008 Exposure Reduction (\$ in billions)



### Exposure (\$ in billions)

	Combined				
	12/31/07	3/31/08	6/30/08	9/30/08	12/31/08
Leveraged Lending, Market Value	\$24.5	\$21.9	\$12.9	\$9.1	\$6.9
Mortgage-related	48.2	41.7	33.0	18.6	14.7
<b>Total</b>	<b>\$72.7</b>	<b>\$63.6</b>	<b>\$45.9</b>	<b>\$27.7</b>	<b>\$21.6</b>

Note: 2007 exposure represents h-JPM exposure at 12/31/07 combined with Bear Stearns exposure at merger. Leveraged loan exposure shown represents market value

# Credit risk management overview



## Credit Process

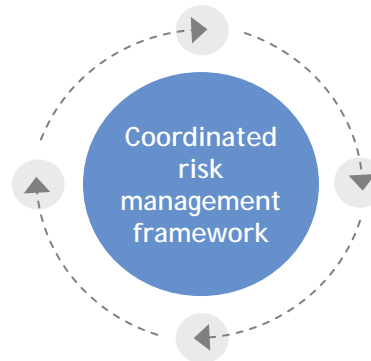


### Policy and Strategy

- Credit Policy, Risk Assessment and Finance and Risk reporting groups develop credit policies and strategies

### Restructuring

- Special Credits Group specialize in evaluating, negotiating and restructuring distressed or stressed credits to maximize the Firm's economic outcome



### Risk Analysis and Approval

- Credit Risk personnel perform credit and business risk assessment of IB exposures for initial credit approval and throughout the life of the transactions and risk positions

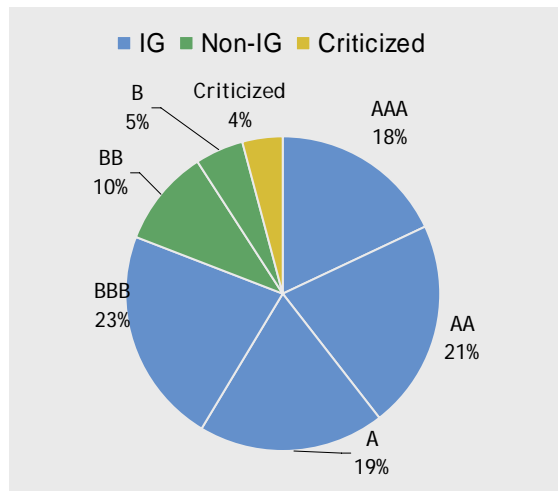
### Portfolio Risk Management

- Credit Portfolio Group and Credit Risk personnel develop and execute strategies to:
- Reduce credit risk concentrations and credit costs
  - Maximize the Firm's return on capital

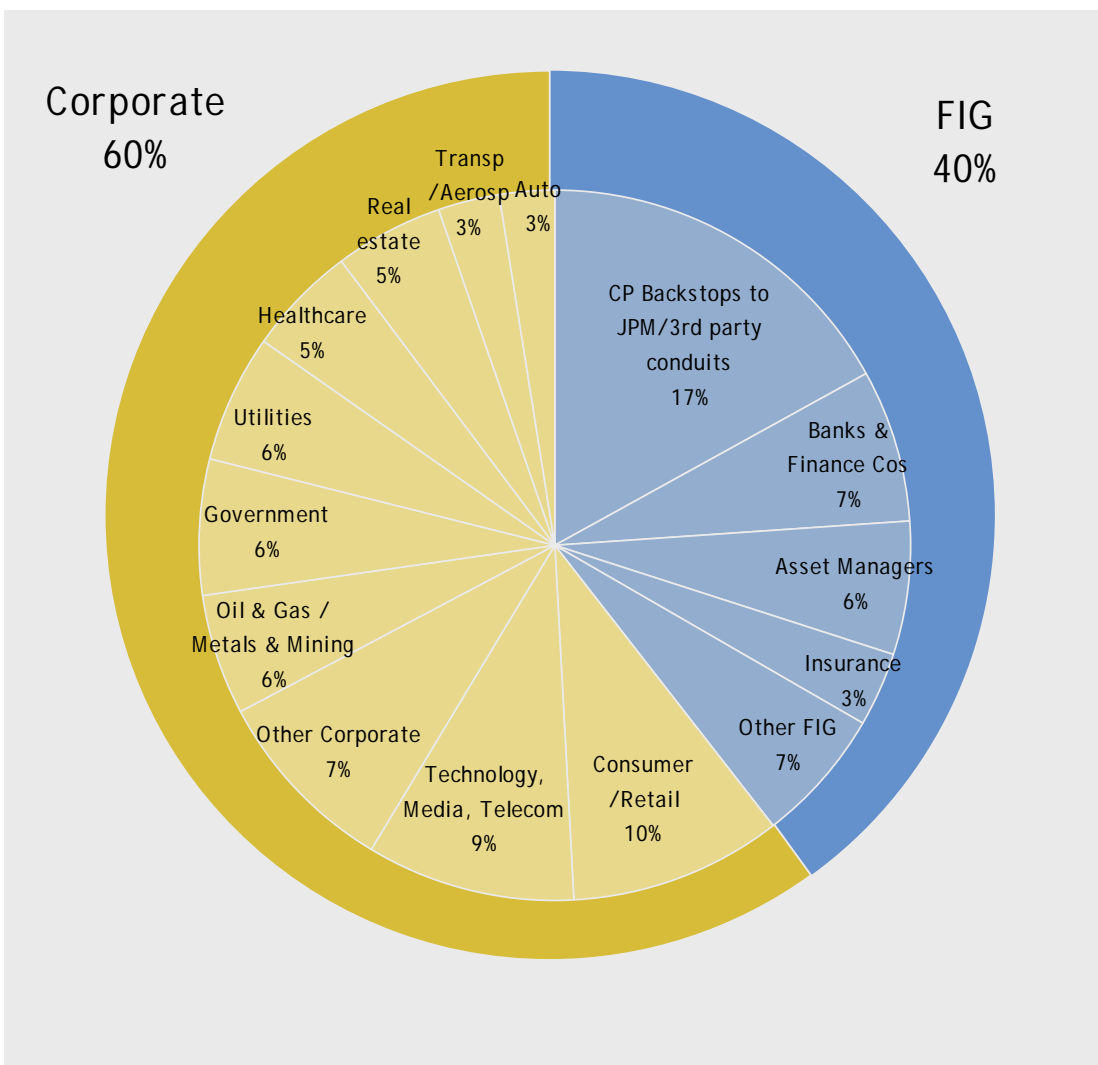
# Portfolio is largely investment grade and well-diversified

*IB traditional credit exposure of \$325B was 26% drawn at year end 2008*

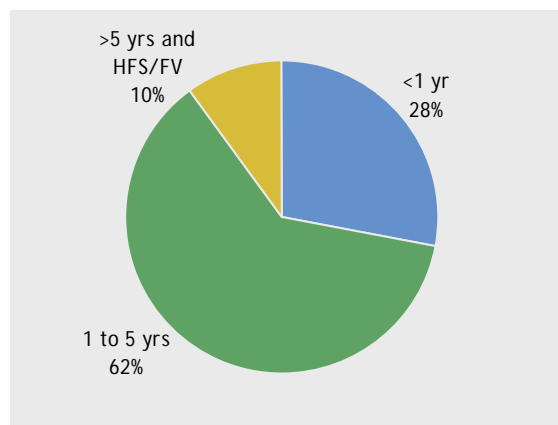
## Credit Rating



## Sector Diversification



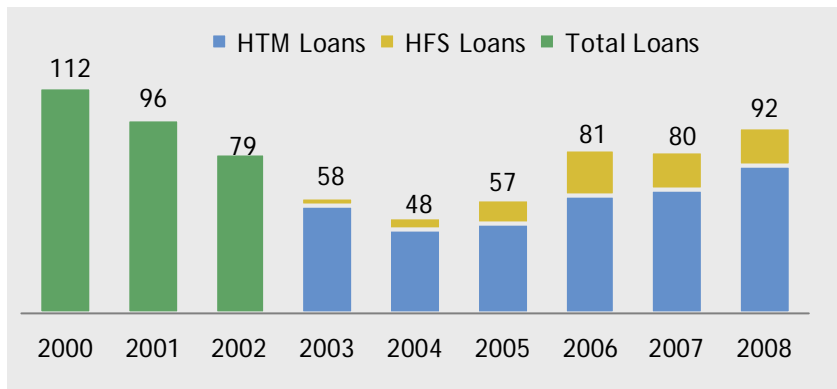
## Maturity Profile



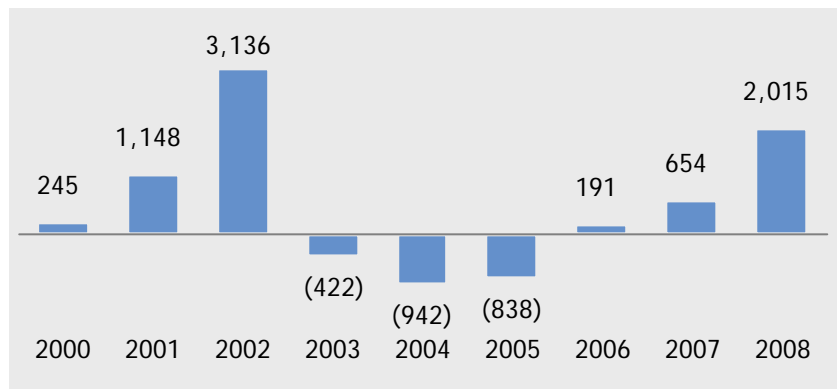
# Level-setting 2008 loan portfolio measures

- IB credit metrics show some weakening but remain below historical peaks with a strong allowance coverage ratio

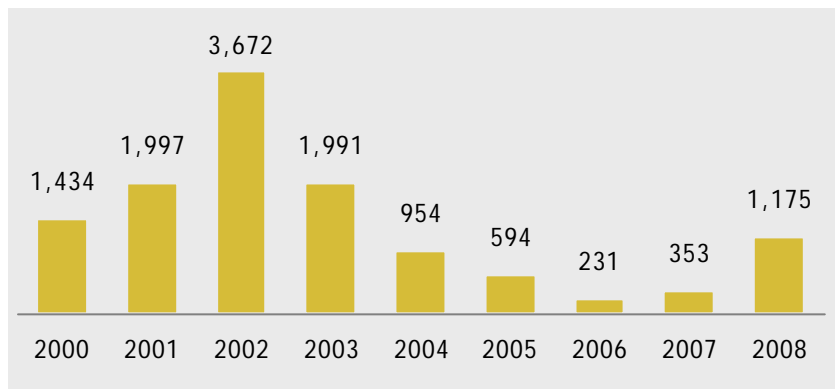
**Average IB Loans (\$ in billions)**



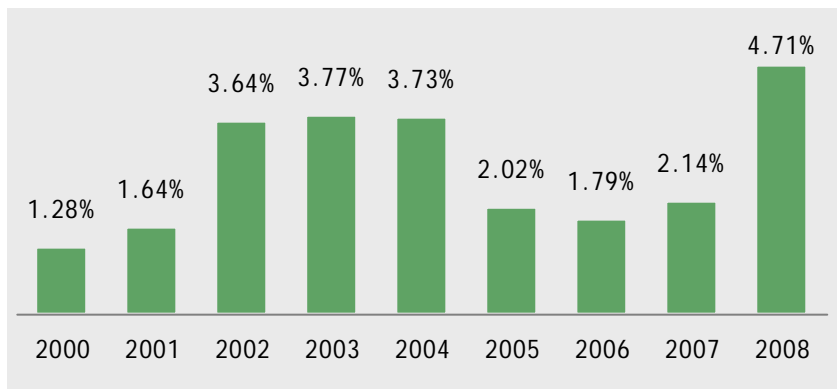
**Credit Costs (\$ in millions)**



**Nonperforming Loans (\$ in millions)**



**Allowance Coverage Ratio (%)**



Note: Loan balances for 2000-2002 are presented on a combined basis for JPM IB loans and Bank One Corporate Banking loans ex. Commercial Real Estate loans; prior to 2002, HTM/HFS loan split was not available. 2002 credit costs are pro forma for Bank One. Nonperforming loans and allowance coverage ratio for 2000-2002 and Credit Costs for 2000-2001 represent h-JPM only for commercial loans. Loan balance, Credit Costs, NPLs and allowance ratio for 2003-2004 are pro forma for Bank One.

# Financial performance target

- Continue to have an industry-leading ROE
  - Stretch target of 20% ROE through the cycle
  - Normalized 2008 ROE in the mid-teens
- Acknowledge difficulty to achieve in near-term; longer-term plan to get there by:
  - Maintaining market share gains
  - Investing in top growth initiatives
  - De-leveraging and reducing capital over time
- Capital base of \$33B driven by current market conditions and convergence of economic and Basel II capital models
- Reduced ROE volatility would also be valued by shareholders

# What can you expect from J.P. Morgan's Investment Bank?

- Leading market share achieved through client focus
- Investment in growth — e.g., Commodities, Emerging Markets, Prime Services, and Principal Investments
- Opportunistic investing driven by market conditions
- Disciplined approach to capital, expenses and headcount
  - Ensure we are sized appropriately
- Conservative approach to risk management, credit reserving and valuation
- Complete Bear Stearns integration and achieve additional noncomp expense benefits
  - Technology, infrastructure
- Strive for industry-leading ROE