Management of JPMorgan Chase & Co. 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.

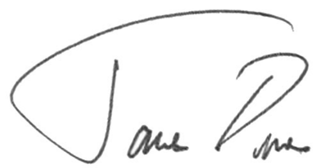
JPMorgan Chase's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records, that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Firm's assets; (2) provide reasonable assurance that transactions 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, 2006. 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, 2006, 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, 2006.

Management's assessment of the effectiveness of the Firm's internal control over financial reporting as of December 31, 2006, has been audited by PricewaterhouseCoopers LLP, JPMorgan Chase's independent registered public accounting firm, who also audited the Firm's financial statements as of and for the year ended December 31, 2006, as stated in their report which is included herein.



James Dimon
Chairman and Chief Executive Officer

Michael J. Cavanagh
Executive Vice President and Chief Financial Officer

February 21, 2007

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.:

We have completed integrated audits of JPMorgan Chase & Co.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

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 "Company") at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes 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. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying "Management's report on internal control over financial reporting", that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides 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 21, 2007

CONSOLIDATED STATEMENTS OF INCOME

JPMorgan Chase & Co.

Year ended December 31, (in millions, except per share data)	**2006**	2005	2004[(a)]
Revenue			
Investment banking fees	**$ 5,520**	$ 4,088	$ 3,536
Principal transactions	**10,346**	7,669	5,148
Lending & deposit related fees	**3,468**	3,389	2,672
Asset management, administration and commissions	**11,725**	9,891	7,682
Securities gains (losses)	**(543)**	(1,336)	338
Mortgage fees and related income	**591**	1,054	803
Credit card income	**6,913**	6,754	4,840
Other income	**2,175**	2,684	826
Noninterest revenue	**40,195**	34,193	25,845
Interest income	**59,107**	45,075	30,460
Interest expense	**37,865**	25,520	13,933
Net interest income	**21,242**	19,555	16,527
Total net revenue	**61,437**	53,748	42,372
Provision for credit losses	**3,270**	3,483	2,544
Noninterest expense			
Compensation expense	**21,191**	18,065	14,291
Occupancy expense	**2,335**	2,269	2,058
Technology, communications and equipment expense	**3,653**	3,602	3,687
Professional & outside services	**3,888**	4,162	3,788
Marketing	**2,209**	1,917	1,335
Other expense	**3,272**	6,199	6,537
Amortization of intangibles	**1,428**	1,490	911
Merger costs	**305**	722	1,365
Total noninterest expense	**38,281**	38,426	33,972
Income from continuing operations before income tax expense	**19,886**	11,839	5,856
Income tax expense	**6,237**	3,585	1,596
Income from continuing operations	**13,649**	8,254	4,260
Income from discontinued operations	**795**	229	206
Net income	**$ 14,444**	$ 8,483	$ 4,466
Net income applicable to common stock	**$ 14,440**	$ 8,470	$ 4,414
Per common share data			
Basic earnings per share			
Income from continuing operations	**$ 3.93**	$ 2.36	$ 1.51
Net income	**4.16**	2.43	1.59
Diluted earnings per share			
Income from continuing operations	**3.82**	2.32	1.48
Net income	**4.04**	2.38	1.55
Average basic shares	**3,470**	3,492	2,780
Average diluted shares	**3,574**	3,557	2,851
Cash dividends per common share	**$ 1.36**	$ 1.36	$ 1.36

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The Notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

JPMorgan Chase & Co.

December 31, (in millions, except share data)	2006	2005
Assets		
Cash and due from banks	**$ 40,412**	$ 36,670
Deposits with banks	**13,547**	21,661
Federal funds sold and securities purchased under resale agreements	**140,524**	133,981
Securities borrowed	**73,688**	74,604
Trading assets (including assets pledged of $82,474 at December 31, 2006, and $79,657 at December 31, 2005)	**365,738**	298,377
Securities:		
Available-for-sale (including assets pledged of $39,571 at December 31, 2006, and $17,614 at December 31, 2005)	**91,917**	47,523
Held-to-maturity (fair value: $60 at December 31, 2006, and $80 at December 31, 2005)	**58**	77
Interests in purchased receivables	**—**	29,740
Loans	**483,127**	419,148
Allowance for loan losses	**(7,279)**	(7,090)
Loans, net of Allowance for loan losses	**475,848**	412,058
Private equity investments	**6,359**	6,374
Accrued interest and accounts receivable	**22,891**	22,421
Premises and equipment	**8,735**	9,081
Goodwill	**45,186**	43,621
Other intangible assets:		
Mortgage servicing rights	**7,546**	6,452
Purchased credit card relationships	**2,935**	3,275
All other intangibles	**4,371**	4,832
Other assets	**51,765**	48,195
Total assets	**$ 1,351,520**	$ 1,198,942
Liabilities		
Deposits:		
U.S. offices:		
Noninterest-bearing	**$ 132,781**	$ 135,599
Interest-bearing	**337,812**	287,774
Non-U.S. offices:		
Noninterest-bearing	**7,662**	7,476
Interest-bearing	**160,533**	124,142
Total deposits	**638,788**	554,991
Federal funds purchased and securities sold under repurchase agreements	**162,173**	125,925
Commercial paper	**18,849**	13,863
Other borrowed funds	**18,053**	10,479
Trading liabilities	**147,957**	145,930
Accounts payable, accrued expenses and other liabilities (including the Allowance for lending-related commitments of $524 at December 31, 2006, and $400 at December 31, 2005)	**88,096**	78,460
Beneficial interests issued by consolidated variable interest entities	**16,184**	42,197
Long-term debt (including structured notes accounted for at fair value of $25,370 at December 31, 2006)	**133,421**	108,357
Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities	**12,209**	11,529
Total liabilities	**1,235,730**	1,091,731
Commitments and contingencies (see Note 27 on pages 130–131 of this Annual Report)		
Stockholders' equity		
Preferred stock ($1 par value; authorized 200,000,000 shares at December 31, 2006 and 2005; issued 0 shares and 280,433 shares at December 31, 2006 and 2005, respectively)	**—**	139
Common stock ($1 par value; authorized 9,000,000,000 shares at December 31, 2006 and 2005; issued 3,657,786,282 shares and 3,618,189,597 shares at December 31, 2006 and 2005, respectively)	**3,658**	3,618
Capital surplus	**77,807**	74,994
Retained earnings	**43,600**	33,848
Accumulated other comprehensive income (loss)	**(1,557)**	(626)
Treasury stock, at cost (196,102,381 shares and 131,500,350 shares at December 31, 2006 and 2005, respectively)	**(7,718)**	(4,762)
Total stockholders' equity	**115,790**	107,211
Total liabilities and stockholders' equity	**$ 1,351,520**	$ 1,198,942

The Notes to consolidated financial statements are an integral part of these statements.

Year ended December 31, (in millions, except per share data)	2006	2005	2004[a]
Preferred stock			
Balance at beginning of year	**$ 139**	$ 339	$ 1,009
Redemption of preferred stock	**(139)**	(200)	(670)
Balance at end of year	**—**	139	339
Common stock			
Balance at beginning of year	**3,618**	3,585	2,044
Issuance of common stock	**40**	33	72
Issuance of common stock for purchase accounting acquisitions	**—**	—	1,469
Balance at end of year	**3,658**	3,618	3,585
Capital surplus			
Balance at beginning of year	**74,994**	72,801	13,512
Issuance of common stock and options for purchase accounting acquisitions	**—**	—	55,867
Shares issued and commitments to issue common stock for employee stock-based compensation awards and related tax effects	**2,813**	2,193	3,422
Balance at end of year	**77,807**	74,994	72,801
Retained earnings			
Balance at beginning of year	**33,848**	30,209	29,681
Cumulative effect of change in accounting principles	**172**	—	—
Balance at beginning of year, adjusted	**34,020**	30,209	29,681
Net income	**14,444**	8,483	4,466
Cash dividends declared:			
Preferred stock	**(4)**	(13)	(52)
Common stock ($1.36 per share each year)	**(4,860)**	(4,831)	(3,886)
Balance at end of year	**43,600**	33,848	30,209
Accumulated other comprehensive income (loss)			
Balance at beginning of year	**(626)**	(208)	(30)
Other comprehensive income (loss)	**171**	(418)	(178)
Adjustment to initially apply SFAS 158	**(1,102)**	—	—
Balance at end of year	**(1,557)**	(626)	(208)
Treasury stock, at cost			
Balance at beginning of year	**(4,762)**	(1,073)	(62)
Purchase of treasury stock	**(3,938)**	(3,412)	(738)
Reissuance from treasury stock	**1,334**	—	—
Share repurchases related to employee stock-based compensation awards	**(352)**	(277)	(273)
Balance at end of year	**(7,718)**	(4,762)	(1,073)
Total stockholders' equity	**$ 115,790**	$ 107,211	$105,653
Comprehensive income			
Net income	**$ 14,444**	$ 8,483	$ 4,466
Other comprehensive income (loss)	**171**	(418)	(178)
Comprehensive income	**$ 14,615**	$ 8,065	$ 4,288

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The Notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

JPMorgan Chase & Co.

Year ended December 31, (in millions)	**2006**	2005	2004[(a)]
Operating activities			
Net income	**$ 14,444**	$ 8,483	$ 4,466
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for credit losses	**3,270**	3,483	2,544
Depreciation and amortization	**2,149**	2,828	2,924
Amortization of intangibles	**1,428**	1,490	911
Deferred tax benefit	**(1,810)**	(1,791)	(827)
Investment securities (gains) losses	**543**	1,336	(338)
Private equity unrealized (gains) losses	**(404)**	55	(766)
Gains on disposition of businesses	**(1,136)**	(1,254)	(17)
Stock based compensation	**2,368**	1,563	1,296
Originations and purchases of loans held-for-sale	**(178,355)**	(108,611)	(89,315)
Proceeds from sales and securitizations of loans held-for-sale	**170,874**	102,602	95,973
Net change in:			
Trading assets	**(61,664)**	(3,845)	(48,703)
Securities borrowed	**916**	(27,290)	(4,816)
Accrued interest and accounts receivable	**(1,170)**	(1,934)	(2,391)
Other assets	**(7,208)**	(9)	(17,588)
Trading liabilities	**(4,521)**	(12,578)	29,764
Accounts payable, accrued expenses and other liabilities	**7,815**	5,532	13,277
Other operating adjustments	**2,882**	(296)	(1,541)
Net cash used in operating activities	**(49,579)**	(30,236)	(15,147)
Investing activities			
Net change in:			
Deposits with banks	**8,168**	104	(4,196)
Federal funds sold and securities purchased under resale agreements	**(6,939)**	(32,469)	(13,101)
Held-to-maturity securities:			
Proceeds	**19**	33	66
Available-for-sale securities:			
Proceeds from maturities	**24,909**	31,053	45,197
Proceeds from sales	**123,750**	82,902	134,534
Purchases	**(201,530)**	(81,749)	(173,745)
Proceeds from sales and securitizations of loans held-for-investment	**20,809**	23,861	12,854
Originations and other changes in loans, net	**(70,837)**	(40,436)	(47,726)
Net cash received (used) in business dispositions or acquisitions	**185**	(1,039)	13,864
All other investing activities, net	**1,839**	4,796	2,519
Net cash used in investing activities	**(99,627)**	(12,944)	(29,734)
Financing activities			
Net change in:			
Deposits	**82,105**	31,415	52,082
Federal funds purchased and securities sold under repurchase agreements	**36,248**	(1,862)	7,065
Commercial paper and other borrowed funds	**12,657**	2,618	(4,343)
Proceeds from the issuance of long-term debt and capital debt securities	**56,721**	43,721	25,344
Repayments of long-term debt and capital debt securities	**(34,267)**	(26,883)	(16,039)
Net proceeds from the issuance of stock and stock-related awards	**1,659**	682	848
Excess tax benefits related to stock-based compensation	**302**	—	—
Redemption of preferred stock	**(139)**	(200)	(670)
Treasury stock purchased	**(3,938)**	(3,412)	(738)
Cash dividends paid	**(4,846)**	(4,878)	(3,927)
All other financing activities, net	**6,247**	3,868	(26)
Net cash provided by financing activities	**152,749**	45,069	59,596
Effect of exchange rate changes on cash and due from banks	**199**	(387)	185
Net increase in cash and due from banks	**3,742**	1,502	14,900
Cash and due from banks at the beginning of the year	**36,670**	35,168	20,268
Cash and due from banks at the end of the year	**$ 40,412**	$ 36,670	$ 35,168
Cash interest paid	**$ 36,415**	$ 24,583	$ 13,384
Cash income taxes paid	**$ 5,563**	$ 4,758	$ 1,477

Note: In 2006, the Firm exchanged selected corporate trust businesses for The Bank of New York's consumer, business banking and middle-market banking businesses. The fair values of the noncash assets exchanged was $2.15 billion. In 2004, the fair values of noncash assets acquired and liabilities assumed in the merger with Bank One were $320.9 billion and $277.0 billion, respectively, and approximately 1,469 million shares of common stock, valued at approximately $57.3 billion, were issued in connection with the merger with Bank One.

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

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, with operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, asset management and private equity. For a discussion of the Firm's business segment information, see Note 33 on pages 139–141 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 the 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 most usual condition for a controlling financial interest is the 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 set up 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 describe 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 can be structured to be bankruptcy-remote, thereby insulating investors from the impact of the creditors of other entities, including the seller of the assets.

There are two different accounting frameworks applicable to SPEs: the qualifying SPE ("QSPE") framework under SFAS 140; and the variable interest entity ("VIE") framework under FIN 46R. 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 criteria defined in SFAS 140. 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 no longer to meet the QSPE criteria. The Firm primarily follows the QSPE model for securitizations of its residential and commercial mortgages, credit card loans and automobile loans. For further details, see Note 14 on pages 114–118 of this Annual Report.

When the SPE does not meet the QSPE criteria, consolidation is assessed pursuant to FIN 46R. Under FIN 46R, 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.

FIN 46R 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 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 upon the relative contractual rights and preferences of each interest holder in the VIE's capital structure. For further details, see Note 15 on pages 118–120 of this Annual Report.

Investments in companies that are considered to be voting-interest entities under FIN 46R in which the Firm has significant influence over operating and financing decisions are accounted for in accordance with the equity method of accounting. These investments are generally included in Other assets, and the Firm's share of income or loss is included in Other income.

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

For a discussion of the accounting for private equity investments, see Note 4 on pages 98–99 of this Annual Report.

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, of revenue and expenses, and of disclosures of contingent assets and liabilities. Actual results could be different from these estimates. For discussion of critical accounting estimates used by the Firm, see pages 83–85 of this Annual Report.

Foreign currency translation

JPMorgan Chase revalues assets, liabilities, revenues and expenses denominated in foreign (i.e., 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.

Accounting for certain hybrid financial instruments

SFAS 155 applies to certain "hybrid financial instruments" which are financial instruments that contain embedded derivatives. The standard establishes a requirement to evaluate beneficial interests in securitized financial assets to determine if the interests represent freestanding derivatives or are hybrid financial instruments containing embedded derivatives requiring bifurcation. SFAS 155 also permits an irrevocable election for fair value measurement of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under SFAS 133. The fair value election can be applied to existing instruments on an instrument-by-instrument basis at the date of adoption and can be applied to new instruments on a prospective basis.

The Firm adopted SFAS 155 effective January 1, 2006. The Firm has elected to fair value all instruments issued, acquired or modified after December 31, 2005, that are required to be bifurcated under SFAS 133, as amended by SFAS 138, SFAS 149 and SFAS 155. In addition, the Firm elected to fair value certain structured notes existing as of December 31, 2005, resulting in a $22 million cumulative effect increase to Retained earnings. The cumulative effect adjustment includes gross unrealized gains of $29 million and gross unrealized losses of $7 million.

The substantial majority of the structured notes to which the fair-value election has been applied are classified in Long-term debt on the Consolidated balance sheets. The change in fair value associated with structured notes is classified within Principal transactions revenue on the Consolidated statements of income. For a discussion of Principal transactions and Long-term debt, see Notes 4 and 19 on pages 98–99 and 124–125, respectively, of this Annual Report.

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:

Note 2 – Business changes and developments

Merger with Bank One Corporation

Bank One Corporation merged with and into JPMorgan Chase (the "Merger") on July 1, 2004. As a result of the Merger, each outstanding share of common stock of Bank One was converted in a stock-for-stock exchange into 1.32 shares of common stock of JPMorgan Chase. JPMorgan Chase stockholders kept their shares, which remained outstanding and unchanged as shares of JPMorgan Chase following the Merger. Key objectives of the Merger were to provide the Firm with a more balanced business mix and greater geographic diversification. The Merger was accounted for using the purchase method of accounting, which requires that the assets and liabilities of Bank One be fair valued as of July 1, 2004. The purchase price to complete the Merger was $58.5 billion.

As part of the Merger, certain accounting policies and practices were conformed, which resulted in $976 million of charges in 2004. The significant components of the conformity charges were a $1.4 billion charge related to the decertification of the seller's interest in credit card securitizations, and the benefit of a $584 million reduction in the allowance for credit losses as a result of conforming the wholesale and consumer credit provision methodologies.

The final purchase price of the Merger was allocated to the assets acquired and liabilities assumed using their fair values as of the Merger date. The computation of the purchase price and the allocation of the purchase price to the net assets of Bank One – based upon their respective fair values as of July 1, 2004 – and the resulting goodwill are presented below.

(in millions, except per share amounts)		July 1, 2004
Purchase price		
Bank One common stock exchanged	1,113	
Exchange ratio	1.32	
JPMorgan Chase common stock issued	1,469	
Average purchase price per JPMorgan Chase common share[(a)]	$ 39.02	
		$ 57,336
Fair value of employee stock awards and direct acquisition costs		1,210
Total purchase price		58,546
Net assets acquired:		
Bank One stockholders' equity	$ 24,156	
Bank One goodwill and other intangible assets	(2,754)	
Subtotal	21,402	
Adjustments to reflect assets acquired at fair value:		
Loans and leases	(2,261)	
Private equity investments	(72)	
Identified intangible assets	8,665	
Pension plan assets	(778)	
Premises and equipment	(417)	
Other assets	(267)	
Amounts to reflect liabilities assumed at fair value:		
Deposits	(373)	
Deferred income taxes	932	
Other postretirement benefit plan liabilities	(49)	
Other liabilities	(1,162)	
Long-term debt	(1,234)	
		24,386
Goodwill resulting from Merger[(b)]		$ 34,160

(a) The value of the Firm's common stock exchanged with Bank One shareholders was based upon the average closing prices of the Firm's common stock for the two days prior to, and the two days following, the announcement of the Merger on January 14, 2004.
(b) Goodwill resulting from the Merger reflects adjustments of the allocation of the purchase price to the net assets acquired through June 30, 2005.

Condensed statement of net assets acquired

The following condensed statement of net assets acquired reflects the fair value of Bank One net assets as of July 1, 2004.

(in millions)	July 1, 2004
Assets	
Cash and cash equivalents	$ 14,669
Securities	70,512
Interests in purchased receivables	30,184
Loans, net of allowance for loan losses	129,650
Goodwill and other intangible assets	42,825
All other assets	47,739
Total assets	$ 335,579
Liabilities	
Deposits	$ 164,848
Short-term borrowings	9,811
All other liabilities	61,494
Long-term debt	40,880
Total liabilities	277,033
Net assets acquired	$ 58,546

Acquired, identified intangible assets

Components of the fair value of acquired, identified intangible assets as of July 1, 2004, were as follows:

	Fair value (in millions)	Weighted-average life (in years)	Useful life (in years)
Core deposit intangibles	$ 3,650	5.1	Up to 10
Purchased credit card relationships	3,340	4.6	Up to 10
Other credit card–related intangibles	295	4.6	Up to 10
Other customer relationship intangibles	870	4.6–10.5	Up to 20
Subtotal	8,155	5.1	Up to 20
Indefinite-lived asset management intangibles	510	NA	NA
Total	$ 8,665		

Unaudited pro forma condensed combined financial information

The following unaudited pro forma condensed combined financial information presents the results of operations of the Firm had the Merger taken place at January 1, 2004.

Year ended December 31, (in millions, except per share data)	2004
Noninterest revenue	$ 30,684
Net interest income	21,132
Total net revenue	51,816
Provision for credit losses	2,727
Noninterest expense	40,117
Income from continuing operations before income tax expense	8,972
Income from continuing operations	6,338
Income from discontinued operations	206
Net income	$ 6,544
Net income per common share:	
Basic	
Income from continuing operations	$ 1.79
Net income	1.85
Diluted	
Income from continuing operations	1.75
Net income	1.81
Average common shares outstanding:	
Basic	3,510
Diluted	3,593

Other business events

Acquisition of the consumer, business banking and middle-market banking businesses of The Bank of New York in exchange for selected corporate trust businesses, including trustee, paying agent, loan agency and document management services

On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York Company, Inc.'s ("The Bank of New York") consumer, business banking and middle-market banking businesses in exchange for selected corporate trust businesses plus a cash payment of $150 million. This acquisition added 339 branches and more than 400 ATMs, and it significantly strengthens Retail Financial Services distribution network in the New York Tri-state area. The Bank of New York businesses acquired were valued at a premium of $2.3 billion; the Firm's corporate trust businesses that were transferred (i.e., trustee, paying agent, loan agency and document management services) were valued at a premium of $2.2 billion. The Firm also may make a future payment to The Bank of New York of up to $50 million depending on certain new account openings. This transaction included the acquisition of approximately $7.7 billion in loans net of Allowance for loan losses and $12.9 billion in deposits from The Bank of New York. The Firm also recognized core deposit intangibles of $485 million which will be amortized using an accelerated method over a 10 year period. JPMorgan Chase recorded an after-tax gain of $622 million related to this transaction in the fourth quarter of 2006.

JPMorgan Partners management

On August 1, 2006, the buyout and growth equity professionals of JPMorgan Partners ("JPMP") formed an independent firm, CCMP Capital, LLC ("CCMP"), and the venture professionals separately formed an independent firm, Panorama Capital, LLC ("Panorama"). The investment professionals of CCMP and Panorama continue to manage the former JPMP investments pursuant to a management agreement with the Firm.

Sale of insurance underwriting business

On July 1, 2006, JPMorgan Chase completed the sale of its life insurance and annuity underwriting businesses to Protective Life Corporation for cash proceeds of approximately $1.2 billion, consisting of $900 million of cash received from Protective Life Corporation and approximately $300 million of preclosing dividends received from the entities sold. The after-tax impact of this transaction was negligible. The sale included both the heritage Chase insurance business and the insurance business that Bank One had bought from Zurich Insurance in 2003.

Acquisition of private-label credit card portfolio from Kohl's Corporation

On April 21, 2006, JPMorgan Chase completed the acquisition of $1.6 billion of private-label credit card receivables and approximately 21 million accounts from Kohl's Corporation ("Kohl's"). JPMorgan Chase and Kohl's have also entered into an agreement under which JPMorgan Chase will offer private-label credit cards to both new and existing Kohl's customers.

Collegiate Funding Services

On March 1, 2006, JPMorgan Chase acquired, for approximately $663 million, Collegiate Funding Services, a leader in education loan servicing and consolidation. This acquisition included $6 billion of education loans and will enable the Firm to create a comprehensive education finance business.

BrownCo

On November 30, 2005, JPMorgan Chase sold BrownCo, an on-line deep-discount brokerage business, to E*TRADE Financial for a cash purchase price of $1.6 billion. JPMorgan Chase recognized an after-tax gain of $752 million on the sale. BrownCo's results of operations were reported in the Asset Management business segment; however, the gain on the sale, which was recorded in Other income in the Consolidated statements of income, was reported in the Corporate business segment.

Sears Canada credit card business

On November 15, 2005, JPMorgan Chase purchased Sears Canada Inc.'s credit card operation, including both private-label card accounts and co-branded Sears MasterCard® accounts, aggregating approximately 10 million accounts with $2.2 billion (CAD$2.5 billion) in managed loans. Sears Canada and JPMorgan Chase entered into an ongoing arrangement under which JPMorgan Chase will offer private-label and co-branded credit cards to both new and existing customers of Sears Canada.

Chase Merchant Services, Paymentech integration

On October 5, 2005, JPMorgan Chase and First Data Corp. completed the integration of the companies' jointly owned Chase Merchant Services and Paymentech merchant businesses, to be operated under the name Chase Paymentech Solutions, LLC. The joint venture is the largest financial transaction processor in the U.S. for businesses accepting credit card payments via traditional point of sale, Internet, catalog and recurring billing. As a result of the integration into a joint venture, Paymentech has been deconsolidated and JPMorgan Chase's ownership interest in this joint venture is accounted for in accordance with the equity method of accounting.

Cazenove

On February 28, 2005, JPMorgan Chase and Cazenove Group plc ("Cazenove") formed a business partnership which combined Cazenove's investment banking business and JPMorgan Chase's U.K.-based investment banking business in order to provide investment banking services in the United Kingdom and Ireland. The new company is called JPMorgan Cazenove Holdings.

Other acquisitions

During 2004, JPMorgan Chase purchased the Electronic Financial Services ("EFS") business from Citigroup and acquired a majority interest in hedge fund manager Highbridge Capital Management, LLC ("Highbridge").

Note 3 – Discontinued operations

The transfer of selected corporate trust businesses to The Bank of New York (see Note 2 above) includes the trustee, paying agent, loan agency and document management services businesses. JPMorgan Chase recognized an after-tax gain of $622 million on this transaction. The results of operations of these corporate trust businesses were transferred from the Treasury & Securities Services ("TSS") segment to the Corporate segment effective with the second quarter of 2006, and reported as discontinued operations. Condensed financial information of the corporate trust business follows:

Selected income statements data

Year ended December 31, (in millions)	2006	2005	2004[(a)]
Other noninterest revenue	**$ 407**	$ 509	$ 491
Net interest income	**264**	276	234
Gain on sale of discontinued operations	**1,081**	—	—
Total net revenue	**1,752**	785	725
Noninterest expense	**385**	409	387
Income from discontinued operations before income taxes	**1,367**	376	338
Income tax expense	**572**	147	132
Income from discontinued operations	**$ 795**	$ 229	$ 206

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The following is a summary of the assets and liabilities associated with the selected corporate trust businesses related to The Bank of New York transaction that closed on October 1, 2006.

Selected balance sheet data (in millions)	October 1, 2006
Goodwill and other intangibles	$ 838
Other assets	547
Total assets	$ 1,385
Deposits	$ 24,011
Other liabilities	547
Total liabilities	$ 24,558

JPMorgan Chase will provide certain transitional services to The Bank of New York for a defined period of time after the closing date. The Bank of New York will compensate JPMorgan Chase for these transitional services.

Note 4 – Principal transactions

Principal transactions is a new caption, effective January 1, 2006, in the Consolidated statements of income. 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 structured notes to which the SFAS 155 fair value election has been applied, and Private equity gains and losses. The prior-period presentation of Trading revenue and Private equity gains (losses) has been reclassified to this new caption. The following table presents Principal transactions revenue:

Year ended December 31, (in millions)	2006	2005	2004[a]
Trading revenue	**$ 8,986**	$ 5,860	$ 3,612
Private equity gains	**1,360**	1,809	1,536
Principal transactions	**$10,346**	$ 7,669	$ 5,148

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Trading assets and liabilities

Trading assets include debt and equity securities held for trading purposes that JPMorgan Chase owns ("long" positions). Trading liabilities include debt and equity securities that the Firm has sold to other parties but does not own ("short" positions). The Firm is obligated to purchase securities 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. Loans are classified as trading where positions are bought and sold to make profits from short-term movements in price. Trading positions are carried at fair value on the Consolidated balance sheets.

The following table presents the fair value of Trading assets and Trading liabilities for the dates indicated:

December 31, (in millions)	2006	2005
Trading assets		
Debt and equity instruments:		
U.S. government and federal agency obligations	**$ 17,358**	$ 16,283
U.S. government-sponsored enterprise obligations	**28,544**	24,172
Obligations of state and political subdivisions	**9,569**	9,887
Certificates of deposit, bankers' acceptances and commercial paper	**8,204**	5,652
Debt securities issued by non-U.S. governments	**58,387**	48,671
Corporate securities and other	**188,075**	143,925
Total debt and equity instruments	**310,137**	248,590
Derivative receivables:[a][b]		
Interest rate	**28,932**	28,113
Foreign exchange	**4,260**	2,855
Equity	**6,246**	5,575
Credit derivatives	**5,732**	3,464
Commodity	**10,431**	9,780
Total derivative receivables	**55,601**	49,787
Total trading assets	**$ 365,738**	$ 298,377

December 31, (in millions)	2006	2005
Trading liabilities		
Debt and equity instruments[c]	**$ 90,488**	$ 94,157
Derivative payables:[a][b]		
Interest rate	**22,738**	26,930
Foreign exchange	**4,820**	3,453
Equity	**16,579**	11,539
Credit derivatives	**6,003**	2,445
Commodity	**7,329**	7,406
Total derivative payables	**57,469**	51,773
Total trading liabilities	**$ 147,957**	$ 145,930

(a) 2005 has been adjusted to reflect more appropriate product classifications of certain balances.
(b) Included in Trading assets and Trading liabilities are the reported receivables (unrealized gains) and payables (unrealized losses) related to derivatives. These amounts are reported net of cash received and paid of $23.0 billion and $18.8 billion, respectively, at December 31, 2006, and $26.7 billion and $18.9 billion, respectively, at December 31, 2005, under legally enforceable master netting agreements.
(c) Primarily represents securities sold, not yet purchased.

Average Trading assets and liabilities were as follows for the periods indicated:

Year ended December 31, (in millions)	2006	2005	2004[b]
Trading assets – debt and equity instruments	**$280,079**	$ 237,073	$ 200,389
Trading assets – derivative receivables	**57,368**	57,365	59,522
Trading liabilities – debt and equity instruments[a]	**$102,794**	$ 93,102	$ 82,204
Trading liabilities – derivative payables	**57,938**	55,723	52,761

(a) Primarily represents securities sold, not yet purchased.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Private equity

The following table presents the carrying value and cost of the Private equity investment portfolio for the dates indicated:

December 31,	2006		2005	
(in millions)	Carrying value	Cost	Carrying value	Cost
Total private equity investments	**$ 6,359**	**$ 7,560**	$ 6,374	$ 8,036

Private equity investments are held primarily by the Private equity business within Corporate (which includes investments made by JPMorgan Partners and ONE Equity Partners). The Private Equity business invests 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 by Private equity, are carried on the Consolidated balance sheets at fair value. Realized and unrealized gains and losses arising from changes in value are reported in Principal transactions revenue in the Consolidated statements of income in the period that the gains or losses occur.

Privately held investments are initially valued based upon cost. The carrying values of privately held investments are adjusted from cost to reflect both positive and negative changes evidenced by financing events with third-party capital providers. In addition, these investments are subject to ongoing impairment reviews by Private equity senior investment professionals. A variety of factors are reviewed and monitored to assess impairment including, but not limited to, operating performance of, and future expectations regarding, the particular portfolio investment; industry valuations of comparable public companies; changes in market outlook; and the third-party financing environment over time.

Private equity also holds publicly held equity investments, generally obtained through the initial public offering of privately held equity investments. Publicly held investments are marked-to-market at the quoted public value. To determine the carrying values of these investments, Private equity incorporates the use of discounts to take into account the fact that it cannot immediately realize the quoted public values as a result of regulatory and/or contractual sales restrictions imposed on these holdings.

Note 5 – Other 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 expenses. 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)	**2006**	2005	2004[(a)]
Underwriting:			
Equity	**$ 1,179**	$ 864	$ 780
Debt	**2,703**	1,969	1,858
Total Underwriting	**3,882**	2,833	2,638
Advisory	**1,638**	1,255	898
Total	**$ 5,520**	$ 4,088	$ 3,536

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Lending & 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 upon exceeding certain benchmarks or other performance targets, are accrued and recognized at the end of the performance period in which the target is met.

Mortgage fees and related income

This revenue category includes fees and income derived from mortgage origination, sales and servicing, and includes the effect of risk management activities associated with the mortgage pipeline, warehouse and the mortgage servicing rights ("MSRs") asset (excluding gains and losses on the sale of Available-for-sale ("AFS") securities). Origination fees and gains or losses on loan sales are recognized in income upon sale. Mortgage servicing fees are recognized over the period the related service is provided. Valuation changes in the mortgage pipeline, warehouse, MSR asset and corresponding risk management instruments are recognized in earnings as these changes occur. Net interest income and securities gains and losses on AFS securities used in mortgage-related risk management activities are not included in Mortgage fees and related income. For a further discussion of MSRs, see Note 16 on pages 121–122 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 expenses for rewards programs are netted against interchange income. Expenses related to rewards programs are recorded when the rewards are earned by the customer. Other Fee revenues are recognized as earned, except for annual fees, which are deferred with direct loan origination costs and recognized on a straight-line basis over the 12-month period to which they pertain.

Credit card revenue sharing agreements

The Firm has contractual agreements with numerous affinity organizations and co-brand partners, which grant to the Firm exclusive rights to market to their members or customers. 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 3 to 10 years. The economic incentives the Firm pays to the endorsing organizations and partners typically include payments based upon 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 upon new account originations as direct loan origination costs. Payments based upon charge volumes are considered by the Firm as revenue sharing with the affinity organizations and co-brand partners, which are deducted from Credit card income as the related revenue is earned. Payments based upon marketing efforts undertaken by the endorsing organization or partner are expensed by the Firm as incurred. These costs are recorded within Noninterest expense.

Note 6 – Interest income and Interest expense

Details of Interest income and Interest expense were as follows:

Year ended December 31, (in millions)	**2006**	2005[(b)]	2004[(b)(c)]
Interest income			
Loans	**$ 33,121**	$ 26,056	$ 16,768
Securities	**4,147**	3,129	3,377
Trading assets	**10,942**	9,117	7,527
Federal funds sold and securities purchased under resale agreements	**5,578**	3,562	1,380
Securities borrowed	**3,402**	1,618	578
Deposits with banks	**1,265**	660	539
Interests in purchased receivables[(a)]	**652**	933	291
Total interest income	**59,107**	45,075	30,460
Interest expense			
Interest-bearing deposits	**17,042**	9,986	4,515
Short-term and other liabilities	**14,086**	10,002	6,474
Long-term debt	**5,503**	4,160	2,466
Beneficial interests issued by consolidated VIEs	**1,234**	1,372	478
Total interest expense	**37,865**	25,520	13,933
Net interest income	**21,242**	19,555	16,527
Provision for credit losses	**3,270**	3,483	2,544
Net interest income after Provision for credit losses	**$ 17,972**	$ 16,072	$ 13,983

(a) As a result of restructuring certain multi-seller conduits the Firm administers, JPMorgan Chase deconsolidated $29 billion of Interests in purchased receivables, $3 billion of Loans and $1 billion of Securities, and recorded $33 billion of lending-related commitments during the second quarter of 2006.

(b) Prior periods have been adjusted to reflect the reclassification of certain amounts to more appropriate Interest income and Interest expense lines.

(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Note 7 – Pension and other postretirement employee benefit plans

The Firm's defined benefit pension plans are accounted for in accordance with SFAS 87 and SFAS 88, and its other postretirement employee benefit ("OPEB") plans are accounted for in accordance with SFAS 106. In September 2006, the FASB issued SFAS 158, which requires companies to recognize on their Consolidated balance sheets the overfunded or underfunded status of their defined benefit postretirement plans, measured as the difference between the fair value of plan assets and the benefit obligation. SFAS 158 requires unrecognized amounts (e.g., net actuarial loss and prior service costs) to be recognized in Accumulated other comprehensive income ("AOCI") and that these amounts be adjusted as they are subsequently recognized as components of net periodic benefit cost based upon the current amortization and recognition requirements of SFAS 87 and SFAS 106. The Firm prospectively adopted SFAS 158 as required on December 31, 2006, which resulted in a charge to AOCI of $1.1 billion.

SFAS 158 also eliminates the provisions of SFAS 87 and SFAS 106 that allow plan assets and obligations to be measured as of a date not more than three months prior to the reporting entity's balance sheet date. The Firm uses a measurement date of December 31 for its defined benefit pension and OPEB plans; therefore, this provision of SFAS 158 will have no effect on the Firm's financial statements.

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 actuarial gains and losses is included in annual net periodic benefit cost if, as of the beginning of the year, the net actuarial gain or loss exceeds 10 percent 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 10 years. For OPEB plans, any excess net actuarial gains and losses also are amortized over the average future service period, which is currently seven years; however, prior service costs are amortized over the average years of service remaining to full eligibility age, which is currently five years.

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 upon eligible compensation and years of service. Employees begin to accrue plan benefits after completing one year of service, and benefits generally vest after five years of service. The Firm also offers benefits through defined benefit pension plans to qualifying employees in certain non-U.S. locations based upon 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. As a result of the enactment of the Pension Protection Act in August 2006, which increased the maximum amount allowable for tax deduction, the Firm is reviewing 2007 U.S. and non-U.S. defined benefit pension plan contribution alternatives. The amount of potential 2007 contributions, if any, is not reasonably estimable at this time.

JPMorgan Chase has a number of other defined benefit pension plans (i.e., U.S. 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 Excess Retirement Plan is a nonqualified, noncontributory U.S. pension plan with an unfunded projected benefit obligation at December 31, 2006 and 2005, in the amount of $301 million and $273 million, respectively. In the current year, this plan has been incorporated into certain of this Note's tables for which it had not been included in prior years.

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 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 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.

OPEB plans

JPMorgan Chase offers postretirement medical and life insurance benefits to certain retirees and 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 benefits are contributory, while the life insurance benefits are noncontributory. As of August 1, 2005, the eligibility requirements for U.S. employees to qualify for subsidized retiree medical coverage were revised, and life insurance coverage was eliminated for active employees retiring after 2005. 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 expenses. The U.K. OPEB plan is unfunded.

The following tables present the funded status, changes in the benefit obligations and plan assets, accumulated benefit obligations, and AOCI amounts reported on the Consolidated balance sheets for the Firm's U.S. and non-U.S. defined benefit pension and OPEB plans:

As of or for the year ended December 31, (in millions)	Defined benefit pension plans U.S. 2006	2005[e]	Non-U.S. 2006	2005	OPEB plans[g] 2006	2005[h]
Change in benefit obligation						
Benefit obligation, beginning of year	**$ (8,054)**	$ (7,980)	**$ (2,378)**	$ (1,969)	**$ (1,395)**	$ (1,577)
Cazenove business partnership	**—**	—	**—**	(291)	**—**	—
Benefits earned during the year	**(281)**	(293)	**(37)**	(25)	**(9)**	(13)
Interest cost on benefit obligations	**(452)**	(453)	**(120)**	(104)	**(78)**	(81)
Plan amendments	**—**	—	**2**	—	**—**	117
Liabilities of newly material plans[a]	**—**	—	**(154)**	—	**—**	—
Employee contributions	**NA**	NA	**(2)**	—	**(50)**	(44)
Actuarial gain (loss)	**(200)**	(123)	**(23)**	(310)	**(55)**	21
Benefits paid	**856**	766	**68**	66	**177**	187
Expected Medicare Part D subsidy receipts	**NA**	NA	**NA**	NA	**(13)**	NA
Curtailments	**33**	29	**2**	—	**(12)**	(9)
Settlements	**—**	—	**37**	—	—	—
Special termination benefits	**—**	—	**(1)**	—	**(2)**	(1)
Foreign exchange impact and other	**—**	—	**(311)**	255	**(6)**	5
Benefit obligation, end of year	**$ (8,098)**	$ (8,054)	**$ (2,917)**	$ (2,378)	**$ (1,443)**	$ (1,395)
Change in plan assets						
Fair value of plan assets, beginning of year	**$ 9,617**	$ 9,637	**$ 2,223**	$ 1,889	**$ 1,329**	$ 1,302
Cazenove business partnership	**—**	—	**—**	252	**—**	—
Actual return on plan assets	**1,151**	703	**94**	308	**120**	43
Firm contributions	**43**	43	**241**	78	**2**	3
Employee contributions	**—**	—	**2**	—	**—**	—
Assets of newly material plans[a]	**—**	—	**67**	—	**—**	—
Benefits paid	**(856)**	(766)	**(68)**	(66)	**(100)**	(19)
Settlements	**—**	—	**(37)**	—	**—**	—
Foreign exchange impact and other	**—**	—	**291**	(238)	**—**	—
Fair value of plan assets, end of year	**$ 9,955**[c]	$ 9,617[c]	**$ 2,813**	$ 2,223	**$ 1,351**	$ 1,329
Funded (unfunded) status	**$ 1,857**	$ 1,563	**$ (104)**	$ (155)	**$ (92)**	$ (66)
Unrecognized amounts:						
Net actuarial loss	**NA**[d]	1,087	**NA**[d]	599	**NA**[d]	335
Prior service cost (credit)	**NA**[d]	43	**NA**[d]	3	**NA**[d]	(105)
Net amount recognized in the Consolidated balance sheets[b]	**$ 1,857**	$ 2,693	**$ (104)**	$ 447[f]	**$ (92)**	$ 164
Accumulated benefit obligation, end of year	**$ (7,679)**	$ (7,647)	**$ (2,849)**	$ (2,303)	**NA**	NA

(a) Reflects adjustments related to pension plans in Germany and Switzerland, which have defined benefit pension obligations that were not previously measured under SFAS 87 due to immateriality.
(b) Net amount recognized is recorded in Other assets for prepaid pension costs or in Accounts payable, accrued expenses and other liabilities for accrued pension costs.
(c) At December 31, 2006 and 2005, approximately $282 million and $405 million, respectively, of U.S. plan assets related to participation rights under participating annuity contracts.
(d) Under SFAS 158, and as noted in the following table, amounts that were previously reported as part of prepaid or accrued pension costs are now reported within AOCI.
(e) Revised primarily to incorporate amounts related to the U.S. defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act of 1974 (e.g., Excess Retirement Plan).
(f) At December 31, 2005, Accrued pension costs related to non-U.S. defined benefit pension plans that JPMorgan Chase elected not to prefund fully totaled $164 million.
(g) Includes accumulated postretirement benefit obligation of $52 million and $44 million and postretirement benefit liability (included in Accrued expenses) of $52 million and $50 million, at December 31, 2006 and 2005, respectively, for the U.K. plan, which is unfunded.
(h) The U.S. OPEB plan was remeasured as of August 1, 2005, to reflect a midyear plan amendment and the final Medicare Part D regulations that were issued on January 21, 2005; as a result, the benefit obligation was reduced by $116 million.

Amounts recognized in Accumulated other comprehensive income

December 31, 2006 (in millions)	Defined benefit pension plans U.S. Before tax	Tax effect	After tax	Non-U.S. Before tax	Tax effect	After tax	OPEB plans Before tax	Tax effect	After tax
Net actuarial loss[a]	**$ 783**	**$ 311**	**$ 472**	**$ 669**	**$ 266**	**$ 403**	**$ 335**	**$ 84**	**$ 251**
Prior service cost (credit)	**36**	**14**	**22**	**—**	**—**	**—**	**(77)**	**(31)**	**(46)**
Total recognized in Accumulated other comprehensive income	**$ 819**	**$ 325**	**$ 494**	**$ 669**	**$ 266**	**$ 403**	**$ 258**	**$ 53**	**$ 205**

(a) For defined benefit pension plans, the net actuarial loss is primarily the result of declines in discount rates in recent years, partially offset by asset gains. Other factors that contribute to this net actuarial loss include demographic experience, which differs from expectations, and changes in other actuarial assumptions. For OPEB plans, the primary drivers of the cumulative actuarial loss were the decline in the discount rate in recent years and in the medical cost trend rate, which was higher than expected. These losses have been offset partially by the recognition of future savings attributable to Medicare Part D subsidy receipts.

The following table presents the incremental effect of applying SFAS 158 on individual line items on the Consolidated balance sheets:

December 31, 2006 (in millions)	Before application of SFAS 158	SFAS 158 adjustments	After application of SFAS 158
Line item			
Other assets	$ 53,328	$ (1,563)	$ 51,765[(a)]
Total assets	1,353,083	(1,563)	1,351,520
Accounts payable, accrued expenses and other liabilities	88,557	(461)	88,096[(b)]
Total liabilities	1,236,191	(461)	1,235,730
Accumulated other comprehensive income (loss)	(455)	(1,102)	(1,557)
Total liabilities and stockholders' equity	1,353,083	(1,563)	1,351,520

(a) Includes overfunded defined benefit pension and OPEB plans of $2.3 billion.
(b) Includes underfunded defined benefit pension and OPEB plans of $596 million.

The following tables present the components of net periodic benefit costs reported in the Consolidated statements of 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[(e)]		
Year ended December 31, (in millions)	**2006**	2005[(b)]	2004[(b)(c)(d)]	**2006**	2005	2004[(c)(d)]	**2006**	2005	2004[(c)(d)]
Components of net periodic benefit cost									
Benefits earned during the period	**$ 281**	$ 293	$ 271	**$ 37**	$ 25	$ 17	**$ 9**	$ 13	$ 15
Interest cost on benefit obligations	**452**	453	368	**120**	104	87	**78**	81	81
Expected return on plan assets	**(692)**	(694)	(556)	**(122)**	(109)	(90)	**(93)**	(90)	(86)
Amortization:									
Net actuarial loss	**12**	4	24	**45**	38	44	**29**	12	—
Prior service cost (credit)	**5**	5	14	**—**	1	1	**(19)**	(10)	—
Curtailment (gain) loss	**2**	3	8	**1**	—	—	**2**	(17)	8
Settlement (gain) loss	**—**	—	—	**4**	—	(1)	**—**	—	—
Special termination benefits	**—**	—	—	**1**	—	11	**2**	1	2
Subtotal	**60**	64	129	**86**	59	69	**8**	(10)	20
Other defined benefit pension plans[(a)]	**2**	3	1	**36**	39	24	**NA**	NA	NA
Total defined benefit plans	**62**	67	130	**122**	98	93	**NA**	NA	NA
Total defined contribution plans	**254**	237	187	**199**	155	130	**NA**	NA	NA
Total pension and OPEB cost included in Compensation expense	**$ 316**	$ 304	$ 317	**$ 321**	$ 253	$ 223	**$ 8**	$ (10)	$ 20

(a) Includes immaterial non-U.S. defined benefit pension plans.
(b) Revised primarily to incorporate amounts related to the U.S. defined benefit pension plans not subject to Title IV of the Employee Retirement Income Security Act of 1974 (e.g., Excess Retirement Plan).
(c) Effective July 1, 2004, the Firm assumed the obligations of heritage Bank One's pension and OPEB plans. These plans were similar to those of heritage JPMorgan Chase. The heritage Bank One plans were merged into the JPMorgan Chase plans effective December 31, 2004.
(d) 2004 results include six months of the combined Firm's results and six months of the heritage JPMorgan Chase results.
(e) The Medicare Prescription Drug, Improvement and Modernization Act of 2003 resulted in a reduction of $32 million, $15 million and $5 million in 2006, 2005 and 2004, respectively, in net periodic benefit cost. The impact on 2006 and 2005 costs were higher as a result of the final Medicare Part D regulations issued on January 21, 2005, which were reflected beginning as of August 1, 2005, the next measurement date for the plan.

The estimated amounts that will be amortized from AOCI into net periodic benefit cost, before tax, in 2007 are as follows:

	Defined benefit pension plans		OPEB plans	
Year ended December 31, 2007 (in millions)	U.S.	Non-U.S.	U.S.	Non-U.S.
Net actuarial loss	$ —	$ 52	$ 34	$ —
Prior service cost (credit)	5	—	(16)	—
Total	$ 5	$ 52	$ 18	$ —

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 portfolio allocation. Returns on asset classes are developed using a forward-looking building-block approach and are not strictly based upon 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.

For the U.K. defined benefit pension plan, which represents 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, selected by reference to the yield on long-term U.K. government bonds and AA-rated long-term corporate bonds, plus an equity risk premium above the risk-free rate.

In 2006 and 2005, 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 yield on a portfolio of bonds with redemption dates and coupons that closely match each of the plan's projected cash flows; such portfolio is derived from a broad-based universe of high-quality corporate bonds as of the measurement date. In years in which this hypothetical bond portfolio generates 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. Prior to 2005, discount rates were selected by reference to the year-end Moody's corporate AA rate, as well as other high-quality indices with a duration that was similar to that of the respective plan's benefit obligations. The discount rates for the U.K. defined benefit pension and OPEB plans represent rates from the yield curve of the year-end iBoxx £ corporate AA 15-year-plus bond index with durations corresponding to those of the underlying benefit obligations.

The following tables present the weighted-average annualized actuarial assumptions for the projected and accumulated 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:

	U.S.		Non-U.S.	
December 31,	**2006**	2005	**2006**	2005
Weighted-average assumptions used to determine benefit obligations				
Discount rate:				
Defined benefit pension plans	**5.95%**	5.70%	**2.25-5.10%**	2.00-4.70%
OPEB plans	**5.90**	5.65	**5.10**	4.70
Rate of compensation increase	**4.00**	4.00	**3.00-4.00**	3.00-3.75
Health care cost trend rate:				
Assumed for next year	**10.00**	10.00	**6.63**	7.50
Ultimate	**5.00**	5.00	**4.00**	4.00
Year when rate will reach ultimate	**2014**	2013	**2010**	2010

	U.S.			Non-U.S.		
Year ended December 31,	**2006**	2005	2004	**2006**	2005	2004
Weighted-average assumptions used to determine net periodic benefit costs						
Discount rate:						
Defined benefit pension plans	**5.70%**	5.75%	6.00%	**2.00-4.70%**	2.00-5.30%	2.00-5.75%
OPEB plans	**5.65**	5.25-5.75[(a)]	6.00	**4.70**	5.30	5.40
Expected long-term rate of return on plan assets:						
Defined benefit pension plans	**7.50**	7.50	7.50-7.75	**3.25-5.50**	3.25-5.75	3.00-6.50
OPEB plans	**6.84**	6.80[(b)]	4.75-7.00	**NA**	NA	NA
Rate of compensation increase	**4.00**	4.00	4.25-4.50	**3.00-3.75**	1.75-3.75	1.75-3.75
Health care cost trend rate:						
Assumed for next year	**10.00**	10.00	10.00	**7.50**	7.50	6.50
Ultimate	**5.00**	5.00	5.00	**4.00**	4.00	4.00
Year when rate will reach ultimate	**2013**	2012	2011	**2010**	2010	2009

(a) The OPEB plan was remeasured as of August 1, 2005, and a rate of 5.25% was used from the period of August 1, 2005, through December 31, 2005.
(b) In 2005 the expected long-term rate of return on plan assets for the Firm's OPEB plan was revised to show the aggregate expected return for the heritage Bank One and JPMorgan Chase plans.

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:

For the year ended December 31, 2006 (in millions)	1-Percentage-point increase	1-Percentage-point decrease
Effect on total service and interest costs	**$ 4**	**$ (3)**
Effect on postretirement obligation	**63**	**(54)**

At December 31, 2006, the Firm increased the discount rates used to determine its benefit obligations for the U.S. defined benefit pension and OPEB plans based upon current market interest rates, which will result in a decrease in expense of approximately $23 million for 2007. The 2007 expected long-term rate of return on U.S. pension plan assets remained at 7.50%. The 2007 expected long-term rate of return on the Firm's U.S. OPEB plan assets increased from 6.84% to 7.00%. The Firm maintained the health care benefit obligation trend assumption at 10% for 2007, declining to an ultimate rate of 5% in 2014. The interest crediting rate assumption at December 31, 2006, used to determine pension benefits changed primarily due to changes in market interest rates, which will result in additional expense of $10 million for 2007. The assumed rate of compensation increase remained at 4.00% as of December 31, 2006. The most significant change to the assumptions used to determine net periodic benefit costs in 2006 from the prior year were lower discount rates for the Firm's non-U.S. plans, both defined benefit pension and OPEB, due to lower market interest rates, resulting in $23 million higher compensation expense in 2006 compared with 2005.

JPMorgan Chase's U.S. defined benefit pension and OPEB plan expenses are most sensitive to the expected long-term rate of return on plan assets. 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 $27 million in 2007 U.S. defined benefit pension and OPEB plan expenses. A 25–basis point decline in the discount rate for the U.S. plans would result in an increase in 2007 U.S. defined benefit pension and OPEB plan expenses of approximately $3 million and an increase in the related projected benefit obligations of approximately $217 million. A 25–basis point decline in the discount rates for the non-U.S. plans would result in an increase in the 2007 non-U.S. defined benefit pension and OPEB plan expenses of approximately $19 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 2007 U.S. defined benefit pension expense of approximately $10 million and an increase in the related projected benefit obligations of approximately $82 million.

Investment strategy and asset allocation

The investment policy for the Firm's postretirement employee benefit plan assets is to optimize the risk-return relationship as appropriate to the respective plan's needs and goals, using a global portfolio of various asset classes diversified by market segment, economic sector, and issuer. Specifically, the goal is to optimize the asset mix for future benefit obligations, while managing various risk factors and each plan's investment return objectives. For example, long-duration fixed income securities are included in the U.S. qualified pension plan's asset allocation, in recognition of its long-duration obligations. Plan assets are managed by a combination of internal and external investment managers and are rebalanced to within approved ranges, to the extent economically practical.

The Firm's U.S. defined benefit pension plan assets are held in various trusts and are invested in a well-diversified portfolio of equities (including U.S. large and small capitalization and international equities), fixed income (including corporate and government bonds), Treasury inflation-indexed and high-yield securities, real estate, cash equivalents, and alternative investments. Non-U.S. defined benefit pension plan assets are held in various trusts and are similarly 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. In addition, tax-exempt municipal debt securities, held in a trust, were used to fund the U.S. OPEB plan in prior periods; as of December 31, 2006, there are no remaining assets in the trust. As of December 31, 2006, the assets used to fund 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.

The following table presents the weighted-average asset allocation at December 31 for the years indicated, and 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.[a]			OPEB plans[b]		
	Target	% of plan assets		Target	% of plan assets		Target	% of plan assets	
December 31,	Allocation	**2006**	2005	Allocation	**2006**	2005	Allocation	**2006**	2005
Asset category									
Debt securities	10-30%	**31%**	33%	73%	**70%**	75%	50%	**50%**	54%
Equity securities	25-60	**55**	57	26	**26**	24	50	**50**	46
Real estate	5-20	**8**	6	—	**1**	1	—	**—**	—
Alternatives	15-50	**6**	4	1	**3**	—	—	**—**	—
Total	100%	**100%**	100%	100%	**100%**	100%	100%	**100%**	100%

(a) Represents the U.K. defined benefit pension plan only, as plans outside the U.K. are not significant.
(b) Represents the U.S. OPEB plan only, as the U.K. OPEB plan is unfunded.

The following table presents JPMorgan Chase's 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,	**2006**	2005	2004	**2006**	2005	2004
Actual rate of return:						
Defined benefit pension plans	**13.40%**	7.50%	12.50%	**2.80-7.30%**	2.70-15.90%	2.30-10.50%
OPEB plans	**9.30**	3.30	7.10	**NA**	NA	NA

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
2007	$ 561	$ 83	$ 130	$ 15
2008	563	81	132	16
2009	583	88	133	18
2010	602	93	135	19
2011	623	97	137	20
Years 2012–2016	3,417	533	657	121

Note 8 – Employee stock-based incentives

Effective January 1, 2006, the Firm adopted SFAS 123R and all related interpretations using the modified prospective transition method. SFAS 123R requires all share-based payments to employees, including employee stock options and stock appreciation rights ("SARs"), to be measured at their grant date fair values. Results for prior periods have not been restated. The Firm also adopted the transition election provided by FSP FAS 123(R)-3.

JPMorgan Chase had previously adopted SFAS 123, effective January 1, 2003, using the prospective transition method. Under SFAS 123, the Firm accounted for its stock-based compensation awards at fair value, similar to the SFAS 123R requirements. However, under the prospective transition method, JPMorgan Chase continued to account for unmodified stock options that were outstanding as of December 31, 2002, using the APB 25 intrinsic value method. Under this method, no expense was recognized for stock options granted at an exercise price equal to the stock price on the grant date, since such options have no intrinsic value.

Upon adopting SFAS 123R, the Firm began to recognize in the Consolidated statements of income compensation expense for unvested stock options previously accounted for under APB 25. Additionally, JPMorgan Chase recognized as compensation expense an immaterial cumulative effect adjustment resulting from the SFAS 123R requirement to estimate forfeitures at the grant date instead of recognizing them as incurred. Finally, the Firm revised its accounting policies for share-based payments granted to retirement-eligible employees under SFAS 123R. Prior to adopting SFAS 123R, the Firm's accounting policy for share-based payment awards granted to retirement-eligible employees was to recognize compensation cost over the award's stated service period. For awards granted to retirement-eligible employees in 2006, JPMorgan Chase recognized compensation expense on the grant date without giving consideration to the impact of post employment restrictions. In the first quarter of 2006, the Firm also began to accrue the estimated cost of stock awards granted to retirement-eligible employees in January 2007.

Employee stock-based awards

The Firm has granted restricted stock, restricted stock units ("RSUs"), stock options, and stock-settled SARs to certain of its employees.

In 2006, JPMorgan Chase granted long-term stock-based awards under the 2005 Long-Term Incentive Plan (the "2005 Plan"). In 2005, JPMorgan Chase granted long-term stock-based awards under the 1996 Long-Term Incentive Plan as amended (the "1996 plan") until May 2005 and under the 2005 Plan thereafter to certain key employees. These two plans, plus prior Firm plans and plans assumed as the result of acquisitions, constitute the Firm's stock-based compensation plans ("LTI Plans"). The 2005 Plan became effective on May 17, 2005, after approval by shareholders at the 2005 annual meeting. The 2005 Plan replaced three existing stock-based compensation plans – the 1996 Plan and two nonshareholder-approved plans – all of which expired in May 2005. Under the terms of the 2005 Plan, 275 million shares of common stock are available for issuance during its five-year term. The 2005 Plan is the only active plan under which the Firm is currently granting stock-based incentive awards.

Restricted stock and RSUs are granted by JPMorgan Chase at no cost to the recipient. These awards are subject to forfeiture until certain restrictions have lapsed, including continued employment for a specified period. The recipient of a share of restricted stock is entitled to voting rights and dividends on the common stock. An RSU entitles the recipient to receive a share of common stock after the applicable restrictions lapse; the recipient is entitled to receive cash payments equivalent to any dividends paid on the underlying common stock during the period the RSU is outstanding. Effective January 2005, the equity portion of the Firm's annual incentive awards were granted primarily in the form of RSUs. The Firm also periodically grants discretionary share-based payment awards, primarily in the form of both employee stock options and SARs.

Under the LTI Plans, stock options and SARs have been granted with an exercise price equal to JPMorgan Chase's common stock price on the grant date. Generally, options and SARs cannot be exercised until at least one year after the grant date and become exercisable over various periods as determined at the time of the grant. These awards generally expire 10 years after the grant date. The Firm's share-based compensation awards generally vest in multiple tranches.

The Firm separately recognizes compensation expense for each tranche of each award as if it were a separate award with its own vesting date. For each tranche granted (other than grants to employees who are retirement eligible at the grant date), 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 retirement eligible during the vesting period. For each tranche granted to employees who will become retirement 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 retirement eligibility date or the vesting date of the respective tranche.

The Firm's policy for issuing shares upon settlement of employee share-based payment awards is to issue either new shares of common stock or treasury shares. During 2006, the Firm issued new shares of common stock from January 1 through May 31, 2006, and treasury shares from June 1 through December 31, 2006.

On March 21, 2006, the Board of Directors approved a stock repurchase program that authorizes the repurchase of up to $8 billion of the Firm's common shares, which supersedes a $6 billion stock repurchase program approved in 2004. The $8 billion authorization includes shares to be repurchased to offset issuances under the Firm's employee stock-based plans. The actual number of shares repurchased 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.

In December 2005, the Firm accelerated the vesting of approximately 41 million unvested, out-of-the-money employee stock options granted in 2001 under the Growth and Performance Incentive Program ("GPIP"), which were scheduled to vest in January 2007. These options were not modified other than to accelerate vesting. The related expense was approximately $145 million, and was recognized as compensation expense in the fourth quarter of 2005. The Firm believed that at the time the options were accelerated they had limited economic value since the exercise price of the accelerated options was $51.22 and the closing price of the Firm's common stock on the effective date of the acceleration was $39.69.

Restricted stock and RSU activity

Compensation expense for restricted stock and RSUs is measured based upon the number of shares granted multiplied by the stock price at the grant date, and is recognized in Net income as previously described. The following table summarizes JPMorgan Chase's restricted stock and RSU activity for 2006:

Restricted stock and RSU activity

Year ended December 31, 2006 (in thousands, except weighted average data)	Number of Shares	Weighted-average grant date fair value
Outstanding, January 1	**84,604**	**$ 35.22**
Granted	**44,553**	**39.43**
Lapsed[(a)]	**(33,327)**	**31.00**
Forfeited	**(7,374)**	**40.28**
Restricted stock/RSUs outstanding December 31	**88,456**	**$ 38.50**

(a) Lapsed awards represent awards granted in prior years for which, in the case of restricted stock, restrictions have lapsed; and, in the case of RSUs, the awards have been converted into common stock.

The total fair value of shares that vested during the years ended December 31, 2006, 2005 and 2004, was $1.3 billion, $1.1 billion and $1.7 billion, respectively.

The vesting of certain restricted stock and RSU awards issued prior to 2002 was conditioned upon certain service requirements being met and JPMorgan Chase's common stock reaching and sustaining target prices within a five-year performance period. During 2002, it was determined that it was no longer probable that the target stock prices related to forfeitable awards granted in 1999, 2000, and 2001 would be achieved within their respective performance periods, and accordingly, previously accrued expenses were reversed. The target stock prices for these awards ranged from $73.33 to $85.00. These awards were forfeited as follows: 1.2 million shares granted in 1999 were forfeited in January 2004; 1.2 million shares granted in 2000 were forfeited in January 2005; and 1.2 million shares granted in 2001 were forfeited in January 2006.

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, 2006, including awards granted to key employees and awards granted in prior years under broad-based plans:

Year ended December 31, 2006 (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	**444,157**	**$ 38.61**		
Granted	**15,229**	**45.85**		
Exercised	**(70,446)**	**29.93**		
Forfeited	**(3,365)**	**36.14**		
Canceled	**(9,348)**	**47.88**		
Outstanding, December 31	**376,227**	**$ 40.31**	4.3	$ 3,384,553
Exercisable, December 31	**317,174**	**40.63**	3.8	2,794,461

The weighted-average grant date per share fair value of stock options and SARs granted during the years ended December 31, 2006, 2005 and 2004, was $10.99, $10.44 and $13.77, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was $994 million, $364 million and $520 million, respectively.

Impact of adoption of SFAS 123R

During 2006, the incremental expense related to the Firm's adoption of SFAS 123R was $712 million. This amount represents an accelerated noncash recognition of costs that would otherwise have been incurred in future periods. Also as a result of adopting SFAS 123R, the Firm's Income from continuing operations (pretax) for the year ended December 31, 2006, was lower by $712 million, and Income from continuing operations (after-tax), as well as Net income, for the year ended December 31, 2006, was lower by $442 million, than if the Firm had continued to account for share-based compensation under APB 25 and SFAS 123. Basic and diluted earnings per share from continuing operations, as well as basic and diluted Net income per share, for the year ended December 31, 2006 were $0.13 and $0.12 lower, respectively, than if the Firm had not adopted SFAS 123R.

The Firm recognized noncash compensation expense related to its various employee stock-based incentive awards of $2.4 billion (including the $712 million incremental impact of adopting SFAS 123R), $1.6 billion and $1.3 billion for the years ended December 31, 2006, 2005 and 2004, respectively, in its Consolidated statements of income. At December 31, 2006, approximately $1.0 billion (pretax) of compensation cost related to unvested awards has 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

The total income tax benefit related to stock-based compensation arrangements recognized in the Firm's Consolidated statements of income for the years ended December 31, 2006, 2005 and 2004, was $947 million, $625 million and $519 million, respectively.

Prior to adopting SFAS 123R, the Firm presented all tax benefits of deductions resulting from share-based compensation awards as operating cash flows in its Consolidated statements of cash flows. SFAS 123R requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation expense recognized for those share-based compensation awards (i.e., excess tax benefits) to be classified as financing cash flows. The $302 million of excess tax benefits classified as a financing cash inflow during 2006 would have been classified as an operating cash inflow if the Firm had not adopted SFAS 123R.

The following table sets forth the cash received from the exercise of stock options under all share-based compensation arrangements and the actual tax benefit realized related to the tax deduction from the exercise of stock options.

Year ended December 31, (in millions)	**2006**	2005	2004
Cash received for options exercised	**$ 1,924**	$ 635	$ 764
Tax benefit realized	**211**	65	204

Comparison of the fair and intrinsic value measurement methods

The following table presents Net income and basic and diluted earnings per share as reported, and as if all 2005 and 2004 share-based payment awards were accounted for at fair value. All 2006 awards were accounted for at fair value.

Year ended December 31, (in millions, except per share data)	2005	2004[(a)]
Net income as reported	$ 8,483	$ 4,466
Add: Employee stock-based compensation expense included in reported Net income, net of related tax effects	938	778
Deduct: Employee stock-based compensation expense determined under the fair value method for all awards, net of related tax effects	(1,015)	(960)
Pro forma Net income	$ 8,406	$ 4,284
Earnings per share:		
Basic: As reported	$ 2.43	$ 1.59
Pro forma	2.40	1.52
Diluted: As reported	$ 2.38	$ 1.55
Pro forma	2.36	1.48

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The following table presents the assumptions used to value employee stock options and SARs granted during the period under the Black-Scholes valuation model:

Year ended December 31,	**2006**	2005	2004
Weighted-average annualized valuation assumptions			
Risk-free interest rate	**5.11%**	4.25%	3.44%
Expected dividend yield	**2.89**	3.79	3.59
Expected common stock price volatility	**23**	37	41
Expected life (in years)	**6.8**	6.8	6.7

Prior to the adoption of SFAS 123R, the Firm used the historical volatility of its common stock price as the expected volatility assumption in valuing options. The Firm completed a review of its expected volatility assumption in 2006. Effective October 1, 2006, JPMorgan Chase began to value its employee stock options granted or modified after that date using an expected volatility assumption derived from the implied volatility of its 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 cancelled. The expected life assumption was developed using historic experience.

Note 9 – Noninterest expense

Merger costs

Costs associated with the Merger and The Bank of New York transaction are reflected in the Merger costs caption of the Consolidated statements of income. A summary of such costs, by expense category, is shown in the following table for 2006, 2005 and 2004.

Year ended December 31, (in millions)	2006	2005	2004(c)
Expense category			
Compensation	**$ 26**	$ 238	$ 467
Occupancy	**25**	(77)	448
Technology and communications and other	**239**	561	450
Bank of New York transaction(a)	**15**	—	—
Total(b)	**$ 305**	$ 722	$ 1,365

(a) Represents Compensation and Technology and communications and other.
(b) With the exception of occupancy-related write-offs, all of the costs in the table require the expenditure of cash.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The table below shows the change in the liability balance related to the costs associated with the Merger.

Year ended December 31, (in millions)	2006	2005(b)	2004(c)
Liability balance, beginning of period	**$ 311**	$ 952	$ —
Recorded as merger costs	**290**	722	1,365
Recorded as goodwill	**—**	(460)	1,028
Liability utilized	**(446)**	(903)	(1,441)
Liability balance, end of period	**$ 155**(a)	$ 311	$ 952

(a) Excludes $21 million related to The Bank of New York transaction.
(b) 2005 has been revised to reflect the current presentation.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Note 10 – Securities

Securities are classified as AFS, Held-to-maturity ("HTM") or Trading. Trading securities are discussed in Note 4 on page 98 of this Annual Report. Securities are classified primarily as AFS when purchased as part of the Firm's management of its structural interest rate risk. AFS securities are carried at fair value on the Consolidated balance sheets. Unrealized gains and losses after SFAS 133 valuation 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)	2006	2005	2004(b)
Realized gains	**$ 399**	$ 302	$ 576
Realized losses	**(942)**	(1,638)	(238)
Net realized Securities gains (losses)(a)	**$ (543)**	$(1,336)	$ 338

(a) Proceeds from securities sold were generally within 2% of amortized cost.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The amortized cost and estimated fair value of AFS and HTM securities were as follows for the dates indicated:

	2006				2005			
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 securities								
U.S. government and federal agency obligations:								
U.S. treasuries	**$ 2,398**	**$ —**	**$ 23**	**$ 2,375**	$ 4,245	$ 24	$ 2	$ 4,267
Mortgage-backed securities	**32**	**2**	**1**	**33**	80	3	—	83
Agency obligations	**78**	**8**	**—**	**86**	165	16	—	181
Collateralized mortgage obligations	**—**	**—**	**—**	**—**	4	—	—	4
U.S. government-sponsored enterprise obligations	**75,434**	**334**	**460**	**75,308**	22,604	9	596	22,017
Obligations of state and political subdivisions	**637**	**17**	**4**	**650**	712	21	7	726
Debt securities issued by non-U.S. governments	**6,150**	**7**	**52**	**6,105**	5,512	12	18	5,506
Corporate debt securities	**611**	**1**	**3**	**609**	5,754	39	74	5,719
Equity securities	**3,689**	**125**	**1**	**3,813**	3,179	110	7	3,282
Other, primarily asset-backed securities(a)	**2,890**	**50**	**2**	**2,938**	5,738	23	23	5,738
Total available-for-sale securities	**$ 91,919**	**$ 544**	**$ 546**	**$ 91,917**	$ 47,993	$ 257	$ 727	$ 47,523
Held-to-maturity securities(b)								
Total held-to-maturity securities	**$ 58**	**$ 2**	**$ —**	**$ 60**	$ 77	$ 3	$ —	$ 80

(a) Includes collateralized mortgage obligations of private issuers.
(b) Consists primarily of mortgage-backed securities issued by U.S. government-sponsored entities.

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

2006 (in millions)	Less than 12 months: Fair value	Less than 12 months: Gross unrealized losses	12 months or more: Fair value	12 months or more: Gross unrealized losses	Total Fair value	Total Gross unrealized losses
Available-for-sale securities						
U.S. government and federal agency obligations:						
U.S. treasuries	**$ 2,268**	**$ 23**	**$ —**	**$ —**	**$ 2,268**	**$ 23**
Mortgage-backed securities	**8**	**1**	**—**	**—**	**8**	**1**
Agency obligations	**—**	**—**	**—**	**—**	**—**	**—**
Collateralized mortgage obligations	**—**	**—**	**—**	**—**	**—**	**—**
U.S. government-sponsored enterprise obligations	**17,877**	**262**	**6,946**	**198**	**24,823**	**460**
Obligations of state and political subdivisions	**—**	**—**	**180**	**4**	**180**	**4**
Debt securities issued by non-U.S. governments	**3,141**	**13**	**2,354**	**39**	**5,495**	**52**
Corporate debt securities	**387**	**3**	**—**	**—**	**387**	**3**
Equity securities	**17**	**1**	**—**	**—**	**17**	**1**
Other, primarily asset-backed securities	**1,556**	**1**	**82**	**1**	**1,638**	**2**
Total securities with gross unrealized losses	**$ 25,254**	**$ 304**	**$ 9,562**	**$ 242**	**$ 34,816**	**$ 546**

2005 (in millions)	Less than 12 months: Fair value	Less than 12 months: Gross unrealized losses	12 months or more: Fair value	12 months or more: Gross unrealized losses	Total Fair value	Total Gross unrealized losses
Available-for-sale securities						
U.S. government and federal agency obligations:						
U.S. treasuries	$ 3,789	$ 1	$ 85	$ 1	$ 3,874	$ 2
Mortgage-backed securities	—	—	47	—	47	—
Agency obligations	7	—	13	—	20	—
Collateralized mortgage obligations	15	—	30	—	45	—
U.S. government-sponsored enterprise obligations	10,607	242	11,007	354	21,614	596
Obligations of state and political subdivisions	237	3	107	4	344	7
Debt securities issued by non-U.S. governments	2,380	17	71	1	2,451	18
Corporate debt securities	3,076	52	678	22	3,754	74
Equity securities	1,838	7	2	—	1,840	7
Other, primarily asset-backed securities	778	14	370	9	1,148	23
Total securities with gross unrealized losses	$ 22,727	$ 336	$ 12,410	$ 391	$ 35,137	$ 727

Impairment of AFS securities is evaluated considering numerous factors, and their relative significance varies case-by-case. Factors considered include the length of time and extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer of a security; and the Firm's intent and ability to retain the security in order to allow for an anticipated recovery in fair value. If, based upon an analysis of each of the above factors, it is determined that the impairment is other-than-temporary, the carrying value of the security is written down to fair value, and a loss is recognized through earnings.

Included in the $546 million of gross unrealized losses on AFS securities at December 31, 2006, was $242 million of unrealized losses that have existed for a period greater than 12 months. These securities are predominately rated AAA and the unrealized losses primarily are due to overall increases in market interest rates and not concerns regarding the underlying credit of the issuers. The majority of the securities with unrealized losses aged greater than 12 months are obligations of U.S. government-sponsored enterprises and have a fair value at December 31, 2006, that is within 3% of their amortized cost basis.

The following table presents the amortized cost, estimated fair value and average yield at December 31, 2006, of JPMorgan Chase's AFS and HTM securities by contractual maturity:

	Available-for-sale securities			Held-to-maturity securities		
By remaining maturity at December 31, 2006 (in millions, except rates)	Amortized cost	Fair value	Average yield[b]	Amortized cost	Fair value	Average yield[b]
Due in one year or less	**$ 7,067**	**$ 7,063**	**2.81%**	**$ —**	**$ —**	**—%**
Due after one year through five years	**4,007**	**4,007**	**3.95**	**—**	**—**	**—**
Due after five years through 10 years	**1,224**	**1,211**	**4.73**	**44**	**46**	**6.91**
Due after 10 years[a]	**79,621**	**79,636**	**5.58**	**14**	**14**	**6.61**
Total securities	**$ 91,919**	**$ 91,917**	**5.28%**	**$ 58**	**$ 60**	**6.84%**

(a) Includes securities with no stated maturity. Substantially all of the Firm's MBSs and CMOs are due in 10 years or more based upon contractual maturity. The estimated duration, which reflects anticipated future prepayments based upon a consensus of dealers in the market, is approximately four years for MBSs and CMOs.
(b) The average yield is based upon amortized cost balances at year end. Yields are derived by dividing interest income by total amortized cost. Taxable-equivalent yields are used where applicable.

Note 11 – 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 and settle other securities obligations. The Firm also enters into these transactions to accommodate customers' needs.

Securities purchased under resale agreements ("resale agreements") and securities sold under repurchase agreements ("repurchase agreements") are generally treated as collateralized financing transactions and are carried on the Consolidated balance sheets at the amounts the securities will be subsequently sold or repurchased, plus accrued interest. Where appropriate, resale and repurchase agreements with the same counterparty are reported on a net basis in accordance with FIN 41. 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 SFAS 140 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, a derivative, is recorded on the Consolidated balance sheets at its 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 are recorded in Interest income or Interest expense.

December 31, (in millions)	**2006**	2005
Securities purchased under resale agreements	**$ 122,479**	$ 129,570
Securities borrowed	**73,688**	74,604
Securities sold under repurchase agreements	**$ 143,253**	$ 103,052
Securities loaned	**8,637**	14,072

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, 2006, the Firm had received securities as collateral that could be repledged, delivered or otherwise used with a fair value of approximately $317 billion. This collateral was generally obtained under resale or securities-borrowing agreements. Of these securities, approximately $291 billion were repledged, delivered or otherwise used, generally as collateral under repurchase agreements, securities lending agreements or to cover short sales.

Note 12 – Loans

Loans that are originated or purchased by the Firm and that management has the intent and ability to hold for the foreseeable future are reported at the principal amount outstanding, net of the Allowance for loan losses, unearned income and any net deferred loan fees. Loans that are either originated or purchased by the Firm and that management intends to sell or to securitize are classified as held-for-sale and are carried at the lower of cost or fair value, with valuation changes recorded in Noninterest revenue. Gains or losses on held-for-sale loans are also recorded in Noninterest revenue. Interest income is recognized using the interest method, or on a basis approximating a level rate of return over the term of the loan.

Loans are transferred from the retained portfolio to the held-for-sale portfolio when management decides to sell the loan. Transfers to held-for-sale are recorded at the lower of cost or fair value on the date of transfer; losses attributed to credit losses are charged off to the Allowance for loan losses and losses due to interest rates, or exchange rates, are recognized in Noninterest revenue.

Nonaccrual loans are those on which the accrual of interest is discontinued. Loans (other than certain consumer loans discussed below) are placed on nonaccrual status immediately if, in the opinion of management, full payment of principal or 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 is recognized only to the extent it is received in cash. However, where there is doubt regarding the ultimate collectibility of loan principal, all cash thereafter received is applied to reduce the carrying value of such loans. Loans are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured. Loans are charged off to the Allowance for loan losses when it is highly certain that a loss has been realized.

Consumer loans are generally charged to the Allowance for loan losses upon reaching specified stages of delinquency, in accordance with the Federal Financial Institutions Examination Council ("FFIEC") 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 of the filing of bankruptcy, whichever is earlier. Residential mortgage products are generally charged off to net realizable value at 180 days past due. Other consumer products, if collateralized, are generally charged off to net realizable value at 120 days past due. Accrued interest on residential mortgage products, automobile financings, education financings and certain other consumer loans are accounted for in accordance with the nonaccrual loan policy discussed in the preceding paragraph. Interest and fees related to credit card loans continue to accrue until the loan is charged off or paid in full. Accrued interest on all other consumer loans is generally reversed against Interest income when the loan is charged off. A collateralized loan is considered an in-substance foreclosure and is reclassified to assets acquired in loan satisfactions, within Other assets, only when JPMorgan Chase has taken physical possession of the collateral, regardless of whether formal foreclosure proceedings have taken place.

The composition of the loan portfolio at each of the dates indicated was as follows:

December 31, (in millions)	**2006**	2005
U.S. wholesale loans:		
Commercial and industrial	**$ 77,788**	$ 70,233
Real estate	**14,237**	13,612
Financial institutions	**14,103**	11,100
Lease financing receivables	**2,608**	2,621
Other	**9,950**	14,499
Total U.S. wholesale loans	**118,686**	112,065
Non-U.S. wholesale loans:		
Commercial and industrial	**43,428**	27,452
Real estate	**1,146**	1,475
Financial institutions	**19,163**	7,975
Lease financing receivables	**1,174**	1,144
Other	**145**	—
Total non-U.S. wholesale loans	**65,056**	38,046
Total wholesale loans:[(a)]		
Commercial and industrial	**121,216**	97,685
Real estate[(b)]	**15,383**	15,087
Financial institutions	**33,266**	19,075
Lease financing receivables	**3,782**	3,765
Other	**10,095**	14,499
Total wholesale loans	**183,742**	150,111
Total consumer loans:[(c)]		
Home equity	**85,730**	73,866
Mortgage	**59,668**	58,959
Auto loans and leases	**41,009**	46,081
All other loans	**27,097**	18,393
Credit card receivables[(d)]	**85,881**	71,738
Total consumer loans	**299,385**	269,037
Total loans[(e)(f)]	**$ 483,127**	$ 419,148

(a) Includes Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management.
(b) Represents credits extended for real estate–related purposes to borrowers who are primarily in the real estate development or investment businesses and for which the primary repayment is from the sale, lease, management, operations or refinancing of the property.
(c) Includes Retail Financial Services and Card Services.
(d) Includes billed finance charges and fees net of an allowance for uncollectible amounts.
(e) Loans are presented net of unearned income and net deferred loan fees of $2.3 billion and $3.0 billion at December 31, 2006 and 2005, respectively.
(f) Includes loans held-for-sale (primarily related to securitization and syndication activities) of $55.2 billion and $34.2 billion at December 31, 2006 and 2005, respectively.

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

Year ended December 31, (in millions)	**2006**	2005[(a)]	2004[(a)(b)]
Net gains on sales of loans (including lower of cost or fair value adjustments)	**$ 568**	$ 365	$ 459

(a) Prior periods have been revised to reflect the current presentation.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Impaired loans

JPMorgan Chase accounts for and discloses nonaccrual loans as impaired loans and recognizes their interest income as discussed previously for nonaccrual loans. The following are excluded from impaired loans: small-balance, homogeneous consumer loans; loans carried at fair value or the lower of cost or fair value; debt securities; and leases.

The table below sets forth information about JPMorgan Chase's impaired loans. The Firm primarily uses the discounted cash flow method for valuing impaired loans:

December 31, (in millions)	2006	2005
Impaired loans with an allowance	**$ 623**	$ 1,095
Impaired loans without an allowance[(a)]	**66**	80
Total impaired loans	**$ 689**	$ 1,175
Allowance for impaired loans under SFAS 114[(b)]	**153**	257

(a) 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 under SFAS 114.
(b) The allowance for impaired loans under SFAS 114 is included in JPMorgan Chase's Allowance for loan losses.

Year ended December 31, (in millions)	2006	2005	2004
Average balance of impaired loans during the year	**$ 990**	$ 1,478	$ 1,883
Interest income recognized on impaired loans during the year	**2**	5	8

Note 13 – Allowance for credit losses

JPMorgan Chase's Allowance for loan losses covers the wholesale (risk-rated) and consumer (scored) loan portfolios and represents management's estimate of probable credit losses inherent in the Firm's loan portfolio as of December 31, 2006, 2005 and 2004. Management also computes an allowance for wholesale lending-related commitments using a methodology similar to that used for the wholesale loans.

The table below summarizes the Firm's reporting of its allowance for credit losses:

Allowance for credit losses on:	Reported in: Balance sheet	Income statement
Loans	Allowance for loan losses	Provision for credit losses
Lending-related commitments	Other liabilities	Provision for credit losses

The Allowance for loan losses includes an asset-specific component and a formula-based component. Within the formula-based component is a statistical calculation and an adjustment to the statistical calculation.

The asset-specific component relates to provisions for losses on loans considered impaired and measured pursuant to SFAS 114. An allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than the carrying value of that loan. To compute the asset-specific component of the allowance, larger impaired loans are evaluated individually, and smaller impaired loans are evaluated as a pool using historical loss experience for the respective class of assets.

The formula-based component covers performing wholesale and consumer loans and is the product of a statistical calculation, as well as adjustments to such calculation. These adjustments take into consideration model imprecision, external factors and economic events that have occurred but are not yet reflected in the factors used to derive the statistical calculation.

The statistical calculation is the product of probability of default and loss given default. For risk-rated loans (generally loans originated by the wholesale lines of business), these factors are differentiated by risk rating and maturity. For scored loans (generally loans originated by the consumer lines of business), loss is primarily determined by applying statistical loss factors and other risk indicators to pools of loans by asset type. Adjustments to the statistical calculation for the risk-rated portfolios are determined by creating estimated ranges using historical experience of both probability of default and loss given default. Factors related to concentrated and deteriorating industries are also incorporated into the calculation where relevant. Adjustments to the statistical calculation for the scored loan portfolios are accomplished in part by analyzing the historical loss experience for each major product segment. The estimated ranges and the determination of the appropriate point within the range are based upon management's view of uncertainties that relate to current macroeconomic and political conditions, quality of underwriting standards, and other relevant internal and external factors affecting the credit quality of the portfolio.

The Allowance for lending-related commitments represents management's estimate of probable credit losses inherent in the Firm's process of extending credit as of December 31, 2006, 2005 and 2004. 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.

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, 2006, 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)	2006	2005	2004[(d)]
Allowance for loan losses at January 1	**$ 7,090**	$ 7,320	$ 4,523
Addition resulting from the Merger, July 1, 2004	**—**	—	3,123
Gross charge-offs	**(3,884)**	(4,869)	(3,805)[(e)]
Gross recoveries	**842**	1,050	706
Net charge-offs	**(3,042)**	(3,819)	(3,099)
Provision for loan losses:			
Provision excluding accounting policy conformity	**3,153**	3,575	1,798
Accounting policy conformity	**—**	—	1,085
Total Provision for loan losses	**3,153**	3,575	2,883
Other	**78**[(a)]	14	(110)[(f)]
Allowance for loan losses at December 31	**$ 7,279**[(b)]	$ 7,090[(c)]	$ 7,320[(g)]

(a) Primarily relates to loans acquired in The Bank of New York transaction in the fourth quarter of 2006.
(b) Includes $51 million of asset-specific and $7.2 billion of formula-based allowance. Included within the formula-based allowance was $5.1 billion related to a statistical calculation and an adjustment to the statistical calculation of $2.1 billion.
(c) Includes $203 million of asset-specific and $6.9 billion of formula-based allowance. Included within the formula-based allowance was $5.1 billion related to a statistical calculation (including $400 million related to Hurricane Katrina), and an adjustment to a statistical calculation of $1.8 billion.
(d) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(e) Includes $406 million related to the Manufactured Home Loan portfolio in the fourth quarter of 2004.
(f) Primarily represents the transfer of the allowance for accrued interest and fees on reported and securitized credit card loans.
(g) Includes $469 million of asset-specific and $6.8 billion of formula-based allowance. Included within the formula-based allowance was $4.8 billion related to a statistical calculation and an adjustment to the statistical calculation of $2.0 billion.

The table below summarizes the changes in the Allowance for lending-related commitments:

Year ended December 31, (in millions)	**2006**	2005	2004[c]
Allowance for lending-related commitments at January 1	**$ 400**	$ 492	$ 324
Addition resulting from the Merger, July 1, 2004	**—**	—	508
Provision for lending-related commitments:			
Provision excluding accounting policy conformity	**117**	(92)	(112)
Accounting policy conformity	**—**	—	(227)[d]
Total Provision for lending-related commitments	**117**	(92)	(339)
Other[a]	**7**	—	(1)
Allowance for lending-related commitments at December 31[b]	**$ 524**	$ 400	$ 492

(a) 2006 amount relates to The Bank of New York transaction.
(b) 2006 includes $33 million of asset-specific and $491 million of formula-based allowance. 2005 includes $60 million of asset-specific and $340 million of formula-based allowance. 2004 includes $130 million of asset-specific and $362 million of formula-based allowance. The formula-based allowance for lending-related commitments is based upon a statistical calculation. There is no adjustment to the statistical calculation for lending-related commitments.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(d) Represents a reduction of $227 million to conform provision methodologies in the wholesale portfolio.

Note 14 – Loan securitizations

JPMorgan Chase securitizes and sells a variety of its consumer and wholesale loans. Consumer activities include securitizations of residential real estate, credit card and automobile loans that are originated or purchased by Retail Financial Services ("RFS"), and Card Services ("CS"). Wholesale activities include securitizations of purchased residential real estate loans and commercial loans (primarily real estate–related) originated by the Investment Bank ("IB").

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 94 of this Annual Report); accordingly, the assets and liabilities of securitization-related QSPEs are not reflected in the Firm's Consolidated balance sheets (except for retained interests, as described below) but are included on the balance sheet of the QSPE purchasing the assets. Assets held by securitization-related QSPEs as of December 31, 2006 and 2005, were as follows:

December 31, (in billions)	**2006**	2005
Consumer activities		
Credit card receivables	**$ 86.4**	$ 96.0
Automobile loans	**4.9**	5.5
Residential mortgage receivables	**40.7**	29.8
Wholesale activities		
Residential mortgages	**43.8**	11.1
Commercial and other[a][b]	**87.1**	61.8
Total	**$ 262.9**	$ 204.2

(a) Cosponsored securitizations include non-JPMorgan originated assets
(b) Commercial and other consists of commercial loans (primarily real estate) and non-mortgage consumer receivables purchased from third parties.

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 via an agreement 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 and are allocated between the loans sold and the retained interests, based upon their relative fair values at the date of sale. Gains on securitizations are reported in Noninterest revenue. When quoted market prices for the retained interests are not available, the Firm estimates the fair value for these retained interests by determining 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.

Interests in the securitized loans may be retained by the Firm in the form of senior or subordinated interest-only strips, senior and subordinated tranches, and escrow accounts. The classification of retained interests is dependent upon several factors, including the type of interest (e.g., whether the retained interest is represented by a security certificate) and when it was retained, due to the adoption of SFAS 155. The Firm has elected to fair value all interests in securitized loans retained after December 31, 2005, that have an embedded derivative required to be bifurcated under SFAS 155; these retained interests are classified primarily as Trading assets. Retained interests from wholesale activities are classified as Trading assets. For consumer activities, senior and subordinated retained interests represented by a security certificate are classified as AFS. Retained interests not represented by a security certificate are classified in Other assets. For those retained interests that are subject to prepayment risk (such that JPMorgan Chase may not recover substantially all of its investment) but are not required to be bifurcated under SFAS 155, the retained interests are recorded at fair value; subsequent adjustments are reflected in earnings or in Other comprehensive income (loss). Retained interests classified as AFS are subject to the impairment provisions of EITF 99-20.

Credit card securitization trusts require the Firm to maintain a minimum undivided interest in the trusts, representing the Firm's interests in the receivables transferred to the trust that have not been securitized. These seller's interests are not represented by security certificates. The Firm's undivided interests are carried at historical cost and are classified in Loans.

2006, 2005 and 2004 Securitization activity

The following table summarizes new securitization transactions that were completed during 2006, 2005 and 2004; the resulting gains arising from such securitizations; certain cash flows received from such securitizations; and the key economic assumptions used in measuring the retained interests, as of the dates of such sales:

Year ended December 31, 2006 (in millions, except rates and where otherwise noted)	Consumer activities			Wholesale activities	
	Credit card	Automobile	Residential mortgage	Residential mortgage	Commercial and other
Principal securitized	**$ 9,735**	**$ 2,405**	**$ 16,803**	**$ 30,810**	**$ 13,858**
Pretax gains (losses)	**67**	**—**	**85**	**161**	**129**
Cash flow information:					
Proceeds from securitizations	**$ 9,735**	**$ 1,745**	**$ 16,754**	**$ 31,048**	**$ 14,248**
Servicing fees collected	**88**	**3**	**18**	**—**	**1**
Other cash flows received	**401**	**—**	**—**	**35**	**95**
Proceeds from collections reinvested in revolving securitizations	**151,186**	**—**	**—**	**—**	**—**
Key assumptions (rates per annum):					
Prepayment rate[(a)]	**20.0–22.2% PPR**	**1.4-1.5% ABS**	**18.2–24.6% CPR**	**10.0–45.0% CPR**	**0.0–36.2% CPR**
Weighted-average life (in years)	**0.4**	**1.4–1.9**	**3.0–3.6**	**1.5–4.0**	**1.5–6.1**
Expected credit losses[(b)]	**3.3–4.2%**	**0.3–0.7%**	**—%**	**0.1–3.3%**	**0.0–0.9%**
Discount rate	**12.0%**	**7.6–7.8%**	**8.4–12.7%**	**15.1–26.2%**	**3.8–14.0%**

Year ended December 31, 2005 (in millions, except rates and where otherwise noted)	Consumer activities			Wholesale activities	
	Credit card	Automobile	Residential mortgage	Residential mortgage	Commercial and other
Principal securitized	$ 15,145	$ 3,762	$ 18,125	$ 11,399	$ 11,292
Pretax gains (losses)	101	9[(c)]	21	(3)	134
Cash flow information:					
Proceeds from securitizations	$ 14,844	$ 2,622	$ 18,093	$ 11,494	$ 11,398
Servicing fees collected	94	4	17	—	—
Other cash flows received	298	—	—	—	3
Proceeds from collections reinvested in revolving securitizations	129,696	—	—	—	—
Key assumptions (rates per annum):					
Prepayment rate[(a)]	16.7–20.0% PPR	1.5% ABS	9.1–12.1% CPR	22.0–43.0% CPR	0.0–50.0% CPR
Weighted-average life (in years)	0.4–0.5	1.4–1.5	5.6–6.7	1.4–2.6	1.0–4.4
Expected credit losses[(b)]	4.7–5.7%	0.6–0.7%	—%	0.6–2.0%	—%
Discount rate	12.0%	6.3–7.3%	13.0–13.3%	16.0–18.5%	0.6–0.9%

Year ended December 31, 2004[(d)] (in millions, except rates and where otherwise noted)	Consumer activities			
	Credit card	Automobile	Residential mortgage	Wholesale activities[(e)]
Principal securitized	$ 8,850	$ 1,600	$ 6,529	$ 8,756
Pretax gains (losses)	52	(3)	47	135
Cash flow information:				
Proceeds from securitizations	$ 8,850	$ 1,597	$ 6,608	$ 8,430
Servicing fees collected	69	1	12	3
Other cash flows received	225	—	25	16
Proceeds from collections reinvested in revolving securitizations	110,697	—	—	—
Key assumptions (rates per annum):				
Prepayment rate[(a)]	15.5–16.7% PPR	1.5% ABS	23.8–37.6% CPR	17.0–50.0% CPR
Weighted-average life (in years)	0.5–0.6	1.8	1.9–3.0	2.0–4.0
Expected credit losses[(b)]	5.5–5.8%	0.6%	1.0–2.3%	0.0–3.0%
Discount rate	12.0%	4.1%	15.0–30.0%	0.6–5.0%

(a) CPR: constant prepayment rate; PPR: principal payment rate; ABS: absolute prepayment speed.
(b) Expected credit losses for prime residential mortgage and certain wholesale securitizations are minimal and are incorporated into other assumptions.
(c) The auto securitization gain of $9 million does not include the write-down of loans transferred to held-for-sale in 2005 and risk management activities intended to protect the economic value of the loans while held-for-sale.
(d) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(e) Delineation between Residential mortgage and Commercial and other is not available for 2004.

At both December 31, 2006 and 2005, the Firm had, with respect to its credit card master trusts, $19.3 billion and $24.8 billion, respectively, related to undivided interests, and $2.5 billion and $2.2 billion, respectively, related to subordinated interests in accrued interest and fees on the securitized receivables, net of an allowance for uncollectible amounts. Credit card securitization trusts require the Firm to maintain a minimum undivided interest of 4% to 12% of the principal receivables in the trusts. The Firm maintained an average undivided interest in principal receivables in the trusts of approximately 21% for 2006 and 23% for 2005.

The Firm also maintains escrow accounts up to predetermined limits for some credit card and automobile securitizations, to cover the unlikely event of deficiencies in cash flows owed to investors. The amounts available in such escrow accounts are recorded in Other assets and, as of December 31, 2006, amounted to $153 million and $56 million for credit card and automobile securitizations, respectively; as of December 31, 2005, these amounts were $754 million and $76 million for credit card and automobile securitizations, respectively.

JPMorgan Chase retains servicing responsibilities for all originated and for certain purchased residential mortgage, credit card and automobile loan securitizations and for certain commercial activity securitizations it sponsors, and receives servicing fees based upon the securitized loan balance plus certain ancillary fees. The Firm also retains the right to service the residential mortgage loans it sells in connection with mortgage-backed securities transactions with the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA") and Federal Home Loan Mortgage Corporation ("Freddie Mac"). For a discussion of mortgage servicing rights, see Note 16 on pages 121–122 of this Annual report.

In addition to the amounts reported for securitization activity on the previous page, the Firm sold residential mortgage loans totaling $53.7 billion, $52.5 billion and $65.7 billion during 2006, 2005 and 2004, respectively, primarily as GNMA, FNMA and Freddie Mac mortgage-backed securities; these sales resulted in pretax gains of $251 million, $293 million and $58 million, respectively.

The table below summarizes other retained securitization interests, which are primarily subordinated or residual interests, and are carried at fair value on the Firm's Consolidated balance sheets:

December 31, (in millions)	**2006**	2005
Consumer activities		
Credit card[(a)(b)]	**$ 833**	$ 808
Automobile[(a)(c)]	**168**	150
Residential mortgage[(a)]	**155**	182
Wholesale activities[(d)]		
Residential mortgages	**1,032**	245
Commercial and other	**117**	20
Total	**$ 2,305**	$ 1,405

(a) Pretax unrealized gains recorded in Stockholders' equity that relate to retained securitization interests on consumer activities totaled $3 million and $6 million for credit card; $4 million and $5 million for automobile and $51 million and $60 million for residential mortgage at December 31, 2006 and 2005, respectively.
(b) The credit card retained interest amount noted above includes subordinated securities retained by the Firm totaling $301 million and $357 million at December 31, 2006 and 2005, respectively, that are classified as AFS securities. The securities are valued using quoted market prices and therefore are not included in the key economic assumptions and sensitivities table that follows.
(c) In addition to the automobile retained interest amounts noted above, the Firm also retained senior securities totaling $188 million and $490 million at December 31, 2006 and 2005, respectively, that are classified as AFS securities. These securities are valued using quoted market prices and therefore are not included in the key economic assumption and sensitivities table that follows.
(d) In addition to the wholesale retained interest amounts noted above, the Firm also retained subordinated securities totaling $23 million and $51 million at December 31, 2006 and 2005, respectively, predominately from resecuritizations activities that are classified as Trading assets. These securities are valued using quoted market prices and therefore are not included in the key assumptions and sensitivities table that follows.

The table below outlines the key economic assumptions used to determine the fair value of the Firm's retained interests in its securitizations at December 31, 2006 and 2005, respectively; and it outlines the sensitivities of those fair values to immediate 10% and 20% adverse changes in those assumptions:

December 31, 2006 (in millions, except rates and where otherwise noted)	Consumer activities: Credit card	Consumer activities: Automobile	Consumer activities: Residential mortgage	Wholesale activities: Residential mortgage	Wholesale activities: Commercial and other
Weighted-average life (in years)	**0.4–0.5**	**1.1**	**0.2-3.4**	**1.9–2.5**	**0.2–5.9**
Prepayment rate	**17.5–20.4% PPR**	**1.4% ABS**	**19.3-41.8% CPR**	**10.0–42.9% CPR**	**0.0–50.0%[(c)] CPR**
Impact of 10% adverse change	**$ (52)**	**$ (1)**	**$ (4)**	**$ (44)**	**$ (1)**
Impact of 20% adverse change	**(104)**	**(3)**	**(7)**	**(62)**	**(2)**
Loss assumption	**3.5–4.1%**	**0.7%**	**0.0-5.1%[(a)]**	**0.1–2.2%**	**0.0–1.3%**
Impact of 10% adverse change	**$ (87)**	**$ (4)**	**$ (4)**	**$ (45)**	**$ (1)**
Impact of 20% adverse change	**(175)**	**(7)**	**(8)**	**(89)**	**(1)**
Discount rate	**12.0%**	**7.6%**	**8.4–30.0%[(b)]**	**16.0-20.0%**	**0.5–14.0%**
Impact of 10% adverse change	**$ (2)**	**$ (1)**	**$ (3)**	**$ (25)**	**$ (1)**
Impact of 20% adverse change	**(3)**	**(2)**	**(7)**	**(48)**	**(2)**

December 31, 2005 (in millions, except rates and where otherwise noted)	Consumer activities Credit card	 Automobile	 Residential Mortgage	Wholesale activities Residential mortgage	 Commercial and other
Weighted-average life (in years)	0.4–0.7	1.2	0.5-3.5	2.6	0.2–4.1
Prepayment rate	11.9–20.8% PPR	1.5% ABS	20.1-43.7% CPR	22.0–46.6% CPR	0.0–50.0%(c) CPR
Impact of 10% adverse change	$ (44)	$ —	$ (3)	$ (4)	$ (1)
Impact of 20% adverse change	(88)	(2)	(5)	(4)	(2)
Loss assumption	3.2–8.1%	0.7%	0.0–5.2%(a)	0.6–2.0%	0.0%
Impact of 10% adverse change	$ (77)	$ (4)	$ (10)	$ (6)	$ —
Impact of 20% adverse change	(153)	(9)	(19)	(11)	—
Discount rate	6.9–12.0%	7.2%	12.7-30.0%(b)	16.0–18.5%	0.2–4.7%
Impact of 10% adverse change	$ (2)	$ (1)	$ (4)	$ (6)	$ —
Impact of 20% adverse change	(4)	(3)	(8)	(12)	—

(a) Expected credit losses for prime residential mortgage are minimal and are incorporated into other assumptions.
(b) The Firm sold certain residual interests from subprime mortgage securitizations via Net Interest Margin ("NIM") securitizations and retains residual interests in these NIM transactions, which are valued using a 30% discount rate.
(c) Prepayment risk on certain wholesale retained interests for commercial and other are minimal and are incorporated into other assumptions.

The sensitivity analysis in the preceding table is hypothetical. Changes in fair value based upon 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.

Expected static-pool net credit losses include actual incurred losses plus projected net credit losses, divided by the original balance of the outstandings comprising the securitization pool. The table below displays the expected static-pool net credit losses for 2006, 2005 and 2004, based upon securitizations occurring in that year:

	Loans securitized in:(a) **2006** Residential mortgage(b)	 Automobile	 2005 Residential mortgage(b)	 Automobile	 2004(c) Residential mortgage	 Automobile
December 31, 2006	**4.4%**	**0.6%**	3.5%	0.7%	0.0–3.1%	0.7%
December 31, 2005	**NA**	**NA**	3.3	0.9	0.0–2.4	0.8
December 31, 2004	**NA**	**NA**	NA	NA	0.0–3.3	1.1

(a) Static-pool losses are not applicable to credit card securitizations due to their revolving nature.
(b) Primarily includes subprime residential mortgages securitized in 2006 and 2005 as part of wholesale activities. Expected losses for prime residential mortgage securitizations are minimal for consumer activities.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The table below presents information about delinquencies, net charge-offs (recoveries) and components of reported and securitized financial assets at December 31, 2006 and 2005:

	Total Loans		Nonaccrual and 90 days or more past due[d]		Net loan charge-offs (recoveries) Year ended	
December 31, (in millions)	**2006**	2005	**2006**	2005	**2006**	2005
Home Equity	**$ 85,730**	$ 73,866	**$ 454**	$ 422	**$ 143**	$ 141
Mortgage	**59,668**	58,959	**769**	442	**56**	25
Auto loans and leases	**41,009**	46,081	**132**	193	**238**	277
All other loans	**27,097**	18,393	**322**	281	**139**	129
Credit card receivables	**85,881**	71,738	**1,344**	1,091	**2,488**	3,324
Total consumer loans	**299,385**	269,037	**3,021**[e]	2,429[e]	**3,064**	3,896
Total wholesale loans	**183,742**	150,111	**420**	1,042	**(22)**	(77)
Total loans reported	**483,127**	419,148	**3,441**	3,471	**3,042**	3,819
Securitized consumer loans:						
Residential mortgage[a]	**7,995**	8,061	**191**	370	**57**	105
Automobile	**4,878**	5,439	**10**	11	**15**	15
Credit card	**66,950**	70,527	**962**	730	**2,210**	3,776
Total consumer loans securitized	**79,823**	84,027	**1,163**	1,111	**2,282**	3,896
Securitized wholesale activities						
Residential mortgage[a]	**27,275**	4,787	**544**	4	**13**	—
Commercial and other	**13,756**	4,262	**6**	—	**3**	—
Total securitized wholesale activities	**41,031**	9,049	**550**	4	**16**	—
Total loans securitized[b]	**120,854**	93,076	**1,713**	1,115	**2,298**	3,896
Total loans reported and securitized[c]	**$ 603,981**	$ 512,224	**$ 5,154**	$ 4,586	**$ 5,340**	$ 7,715

(a) Includes $18.6 billion and $11.9 billion of outstanding principal balances on securitized subprime 1–4 family residential mortgage loans as of December 31, 2006 and 2005, respectively.
(b) Total assets held in securitization-related SPEs were $262.9 billion and $204.2 billion at December 31, 2006 and 2005, respectively. The $120.9 billion and $93.1 billion of loans securitized at December 31, 2006 and 2005, respectively, excludes: $122.5 billion and $85.6 billion of securitized loans, in which the Firm's only continuing involvement is the servicing of the assets; $19.3 billion and $24.8 billion of seller's interests in credit card master trusts; and $0.2 billion and $0.7 billion of escrow accounts and other assets, respectively.
(c) Represents both loans on the Consolidated balance sheets and loans that have been securitized, but excludes loans for which the Firm's only continuing involvement is servicing of the assets.
(d) Includes nonperforming HFS loans of $120 million and $136 million at December 31, 2006 and 2005, respectively.
(e) Excludes nonperforming assets related to (i) loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by U.S. government agencies and U.S. government-sponsored enterprises of $1.2 billion and $1.1 billion for December 31, 2006 and 2005, respectively, and (ii) education loans that are 90 days past due and still accruing, which are insured by U.S. government agencies under the Federal Family Education Loan Program of $0.2 billion at December 31, 2006. These amounts for GNMA and education loans are excluded, as reimbursement is proceeding normally.

Note 15 – Variable interest entities

Refer to Note 1 on page 94 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 by providing flexibility relating to price, yield and desired risk. There are two broad categories of transactions involving VIEs in the IB: (1) multi-seller conduits and (2) client intermediation; both are discussed below. The IB also securitizes loans through QSPEs, to create asset-backed securities, as further discussed in Note 14 on pages 114–118 of this Annual Report.
- Asset Management ("AM"): Provides investment management services to a limited number of the Firm's mutual funds deemed VIEs. AM earns a fixed fee based upon assets managed; the fee varies with each fund's investment objective and is competitively priced. For the limited number of funds that qualify as VIEs, AM's relationships with such funds are not considered significant variable interests under FIN 46R.
- Treasury & Securities Services: Provides services to a number of VIEs. These services are similar to those provided to non-VIEs. TSS earns market-based fees for services provided. Such relationships are not considered significant variable interests under FIN 46R.
- Commercial Banking: 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 the Investment Bank. Commercial Banking may assist in the structuring and/or on-going administration of these VIEs and may provide liquidity, letters of credit and/or derivative instruments in support of the VIE. Such relationships are not considered significant variable interests under FIN 46R.
- The Private Equity business, included in Corporate, may be involved with entities that could be deemed VIEs. Private equity activities are accounted for in accordance with the Investment Company Audit Guide ("Audit Guide"). The FASB deferred adoption of FIN 46R for nonregistered investment companies that apply the Audit Guide until the proposed Statement of Position on the clarification of the scope of the Audit Guide is finalized. The Firm continues to apply this deferral provision; had FIN 46R been applied to VIEs subject to this deferral, the impact would have had an insignificant impact on the Firm's Consolidated financial statements as of December 31, 2006.

As noted above, there are two broad categories of transactions involving VIEs with which the IB is involved: multi-seller conduits and client intermediation.

Multi-seller conduits

The Firm is an active participant in the asset-backed securities business, helping meet customers' financing needs by providing access to the commercial paper markets through VIEs known as multi-seller conduits. These companies are separate bankruptcy-remote companies in the business of purchasing interests in, and making loans secured by, receivable pools and other financial assets pursuant to agreements with customers. The companies fund their purchases and loans through the issuance of highly rated commercial paper. The primary source of repayment of the commercial paper is the cash flow from the pools of assets.

JPMorgan Chase serves as the administrator and provides contingent liquidity support and limited credit enhancement for several multi-seller conduits. The commercial paper issued by the conduits is backed by collateral, credit enhancements and commitments to provide liquidity sufficient to enable the conduit to receive a liquidity rating of at least A-1, P-1 and, in certain cases, F1.

As a means of ensuring timely repayment of the commercial paper, each asset pool financed by the conduits has a minimum 100% deal-specific liquidity facility associated with it. The liquidity facilities are typically in the form of asset purchase agreements and are generally structured such that the liquidity is provided by the Firm purchasing, or lending against, a pool of nondefaulted, performing assets. Deal-specific liquidity facilities are the primary source of liquidity support for the conduits.

The Firm also provides vehicles with program-wide liquidity, in the form of revolving and short-term lending commitments, in the event of short-term disruptions in the commercial paper market.

Deal-specific credit enhancement that supports the commercial paper issued by the conduits is generally structured to cover a multiple of historical losses expected on the pool of assets and is provided primarily by customers (i.e., sellers) or other third parties. The deal-specific credit enhancement is 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. In certain instances, the Firm provides limited credit enhancement in the form of standby letters of credit.

In June 2006, the Firm restructured four multi-seller conduits that it administers: each conduit issued a capital note that was acquired by an independent third-party investor who absorbs the majority of the expected losses of the respective conduit whose note it had purchased. In determining the primary beneficiary of the conduits, the Firm used a Monte Carlo–based model to size the expected losses and considered the relative rights and obligations of each of the variable interest holders. As a result of the restructuring, the Firm deconsolidated approximately $33 billion of assets and liabilities as of June 30, 2006. The following table summarizes the Firm's involvement with Firm-administered multi-seller conduits:

	Consolidated		Nonconsolidated		**Total**	
December 31, (in billions)	**2006**	2005	**2006**	2005	**2006**	2005
Total commercial paper issued by conduits	**$ 3.4**	$ 35.2	**$ 44.1**	$ 8.9	**$ 47.5**	$ 44.1
Commitments						
Asset-purchase agreements	**$ 0.5**	$ 47.9	**$ 66.0**	$ 14.3	**$ 66.5**	$ 62.2
Program-wide liquidity commitments	**1.0**	5.0	**4.0**	1.0	**5.0**	6.0
Program-wide limited credit enhancements	**—**	1.3	**1.6**	1.0	**1.6**	2.3
Maximum exposure to loss(a)	**1.0**	48.4	**67.0**	14.8	**68.0**	63.2

(a) The Firm's maximum exposure to loss is limited to the amount of drawn commitments (i.e., sellers' assets held by the multi-seller conduits for which the Firm provides liquidity support) of $43.9 billion and $41.6 billion at December 31, 2006 and 2005, respectively, plus contractual but undrawn commitments of $24.1 billion and $21.6 billion at December 31, 2006 and 2005, respectively. Certain of the Firm's administered multi-seller conduits were deconsolidated as of June 30, 2006; the assets deconsolidated were approximately $33 billion. Since the Firm provides credit enhancement and liquidity to Firm administered multi-seller conduits, the maximum exposure is not adjusted to exclude exposure that would be absorbed by third-party liquidity providers.

The Firm views its credit exposure to multi-seller conduit transactions as limited. This is because, for the most part, the Firm is not required to fund under the liquidity facilities if the assets in the VIE are in default. Additionally, the Firm's obligations under the letters of credit are secondary to the risk of first loss provided by the customer or other third parties – for example, by the overcollateralization of the VIE with the assets sold to it or notes subordinated to the Firm's liquidity facilities.

Client intermediation

As a financial intermediary, the Firm is involved in structuring VIE transactions to meet investor and client needs. The Firm intermediates various types of risks (including fixed income, equity and credit), typically using derivative instruments as further discussed below. In certain circumstances, the Firm also provides liquidity and other support to the VIEs to facilitate the transaction. The Firm's current exposure to nonconsolidated VIEs is reflected in its Consolidated balance sheets or in the Notes to consolidated financial statements. The risks inherent in derivative instruments or liquidity commitments are managed similarly to other credit, market and liquidity risks to which the Firm is exposed. The Firm intermediates principally with the following types of VIEs: credit-linked note vehicles and municipal bond vehicles.

The Firm structures credit-linked notes 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 not held by the VIE. Credit-linked notes are issued by the VIE to transfer the risk of the referenced credit to the investors in the VIE. Clients and investors often prefer a VIE structure, since the credit-linked notes generally carry a higher credit rating than they would if issued directly by JPMorgan Chase.

The Firm is involved with municipal bond vehicles for the purpose of creating a series of secondary market trusts that allow tax-exempt investors to finance their investments at short-term tax-exempt rates. The VIE purchases fixed-rate, longer-term highly rated municipal bonds by issuing puttable floating-rate certificates and inverse floating-rate certificates; the investors that purchase the inverse floating-rate certificates are exposed to the residual losses of the VIE (the "residual interests"). For vehicles in which the Firm owns the residual interests, the Firm consolidates the VIE. In vehicles in which third-party investors own the residual interests, the Firm's exposure is limited because of the high credit quality of the underlying municipal bonds, the unwind triggers based upon the market value of the underlying collateral and the residual interests held by third parties. The Firm often serves as remarketing agent for the VIE and provides liquidity to support the remarketing.

Assets held by credit-linked and municipal bond vehicles at December 31, 2006 and 2005, were as follows:

December 31, (in billions)	**2006**	2005
Credit-linked note vehicles[(a)]	**$ 20.2**	$ 13.5
Municipal bond vehicles[(b)]	**16.9**	13.7

(a) Assets of $1.8 billion reported in the table above were recorded on the Firm's Consolidated balance sheets at December 31, 2006 and 2005, due to contractual relationships held by the Firm that relate to collateral held by the VIE.
(b) Total amounts consolidated due to the Firm owning residual interests were $4.7 billion and $4.9 billion at December 31, 2006 and 2005, respectively, and are reported in the table. Total liquidity commitments were $10.2 billion and $5.8 billion at December 31, 2006 and 2005, respectively. The Firm's maximum credit exposure to all municipal bond vehicles was $14.9 billion and $10.7 billion at December 31, 2006 and 2005, respectively.

The Firm may enter into transactions with VIEs structured by other parties. These transactions can 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 upon 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 of the VIEs or to receive a majority of the residual returns of the VIE, JPMorgan Chase records and reports these positions similarly to any other third-party transaction. These transactions are not considered significant for disclosure purposes.

Consolidated VIE assets

The following table summarizes the Firm's total consolidated VIE assets, by classification, on the Consolidated balance sheets, as of December 31, 2006 and 2005:

December 31, (in billions)	**2006**[(d)]	2005
Consolidated VIE assets[(a)]		
Securities purchased under resale agreements[(b)]	**$ 8.0**	$ 2.6
Trading assets[(c)]	**9.8**	9.3
Investment securities	**0.2**	1.9
Interests in purchased receivables	**—**	29.6
Loans[(b)]	**15.9**	8.1
Other assets	**2.9**	0.4
Total consolidated assets	**$ 36.8**	$ 51.9

(a) The Firm also holds $3.5 billion and $3.9 billion of assets, at December 31, 2006 and 2005, respectively, primarily as a seller's interest, in certain consumer securitizations in a segregated entity, as part of a two-step securitization transaction. This interest is included in the securitization activities disclosed in Note 14 on pages 114–118 of this Annual Report.
(b) Includes activity conducted by the Firm in a principal capacity, primarily in the IB.
(c) Includes the fair value of securities and derivative receivables.
(d) Certain multi-seller conduits administered by the Firm were deconsolidated as of June 30, 2006; the assets deconsolidated consisted of $29 billion of Interests in purchased receivables, $3 billion of Loans and $1 billion of investment securities.

Interests in purchased receivables included interests in receivables purchased by Firm-administered conduits, which had been consolidated in accordance with FIN 46R. Interests in purchased receivables were carried at cost and reviewed to determine whether an other-than-temporary impairment existed.

The interest-bearing beneficial interest liabilities issued by consolidated VIEs are classified in the line item titled, "Beneficial interests issued by consolidated variable interest entities" on the Consolidated balance sheets. The holders of these beneficial interests do not have recourse to the general credit of JPMorgan Chase. See Note 19 on page 124 of this Annual Report for the maturity profile of FIN 46 long-term beneficial interests.

FIN 46(R)-6 Transition

In April 2006, the FASB issued FSP FIN 46(R)-6, which requires an analysis of the design of a VIE in determining the variability to be considered in the application of FIN 46(R). The Firm adopted the guidance in FSP FIN 46(R)-6 prospectively on July 1, 2006. The adoption of FSP FIN 46(R)-6 did not significantly change the way in which the Firm evaluated its interests in VIEs under FIN 46(R); thus, it had an immaterial impact on the Firm's consolidated financial statements.

Note 16 – Goodwill and other intangible assets

Goodwill is not amortized. It is instead tested for impairment in accordance with SFAS 142 at the reporting-unit segment, which is generally one level below the six major reportable business segments (as described in Note 33 on pages 139–141 of this Annual Report); plus Private Equity (which is included in Corporate). Goodwill is tested annually (during the fourth quarter) or more often if events or circumstances, such as adverse changes in the business climate, indicate there may be impairment. Intangible assets determined to have indefinite lives are not amortized but instead are tested for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the fair value of the indefinite-lived intangible asset to its carrying amount. Other acquired intangible assets determined to have finite lives, such as core deposits and credit card relationships, are amortized over their estimated useful lives in a manner that best reflects the economic benefits of the intangible asset. In addition, impairment testing is performed periodically on these amortizing intangible assets.

Goodwill and other intangible assets consist of the following:

December 31, (in millions)	2006	2005
Goodwill	**$ 45,186**	$ 43,621
Mortgage servicing rights	**7,546**	6,452
Purchased credit card relationships	**2,935**	3,275
All other intangibles:		
Other credit card–related intangibles	**$ 302**	$ 124
Core deposit intangibles	**2,623**	2,705
Other intangibles	**1,446**	2,003
Total All other intangible assets	**$ 4,371**	$ 4,832

Goodwill

As of December 31, 2006, Goodwill increased by $1.6 billion compared with December 31, 2005. The increase is due principally to the $1.8 billion of goodwill resulting from the acquisition of the consumer, business banking and middle-market banking businesses of The Bank of New York, as well as $510 million of goodwill resulting from the acquisition of Collegiate Funding Services. The increase from acquisitions was offset partially by a reduction to Goodwill: of $402 million due to the sale of selected corporate trust businesses to The Bank of New York; resulting from purchase accounting adjustments related to the acquisition of the Sears Canada credit card business; of $111 million due to the sale of the insurance business; and of $70 million related to reclassifying net assets of a subsidiary as held-for-sale.

Goodwill attributed to the business segments was as follows:

December 31, (in millions)	2006	2005
Investment Bank	**$ 3,526**	$ 3,531
Retail Financial Services	**16,955**	14,991
Card Services	**12,712**	12,984
Commercial Banking	**2,901**	2,651
Treasury & Securities Services	**1,605**	2,062
Asset Management	**7,110**	7,025
Corporate (Private Equity)	**377**	377
Total Goodwill	**$ 45,186**	$ 43,621

Mortgage servicing rights

JPMorgan Chase recognizes as intangible assets mortgage servicing rights, which represent the right to perform specified residential mortgage servicing activities 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 the 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 amount initially capitalized as MSRs represents the amount paid to third parties to acquire MSRs or is the estimate of fair value, if retained upon the sale or securitization of mortgage loans. The Firm estimates the fair value of MSRs for initial capitalization and ongoing valuation using an option-adjusted spread ("OAS") model, which projects MSR cash flows over multiple interest rate scenarios in conjunction with the Firm's proprietary 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 revenues, and costs to service, and other economic factors. 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, AFS securities and trading instruments 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.

In March 2006, the FASB issued SFAS 156, which permits an entity a one-time irrevocable election to adopt fair value accounting for a class of servicing assets. JPMorgan Chase elected to adopt the standard effective January 1, 2006, and defined MSRs as one class of servicing assets for this election. At the transition date, the fair value of the MSRs exceeded their carrying amount, net of any related valuation allowance, by $150 million net of taxes. This amount was recorded as a cumulative-effect adjustment to retained earnings as of January 1, 2006. MSRs are recognized in the Consolidated balance sheet at fair value, and changes in their fair value are recorded in current-period earnings. During 2006, as in prior years, revenue amounts related to MSRs and the financial instruments used to manage the risk of MSRs are recorded in Mortgage fees and related income.

For the years ended December 31, 2005 and 2004, MSRs were accounted for under SFAS 140, using a lower of cost or fair value approach. Under this approach, MSRs were amortized as a reduction of the actual servicing income received in proportion to, and over the period of, the estimated future net servicing income stream of the underlying mortgage loans. For purposes of evaluating and measuring impairment of MSRs, the Firm stratified the portfolio on the basis of the predominant risk characteristics, which are loan type and interest rate. Any indicated impairment was recognized as a reduction in revenue through a valuation allowance, which represented the extent to which the carrying value of an individual stratum exceeded its estimated fair value. Any gross carrying value and related valuation allowance amounts which were not expected to be recovered in the foreseeable future, based upon the interest rate scenario, were considered to be other-than-temporary.

Prior to the adoption of SFAS 156, the Firm designated certain derivatives used to risk manage MSRs (e.g., a combination of swaps, swaptions and floors) as SFAS 133 fair value hedges of benchmark interest rate risk. SFAS 133 hedge accounting allowed the carrying value of the hedged MSRs to be adjusted through earnings in the same period that the change in value of the hedging derivatives was recognized through earnings. The designated hedge period was daily. In designating the benchmark interest rate, the Firm considered the impact that the change in the benchmark rate had on the prepayment speed estimates in determining the fair value of the MSRs. Hedge effectiveness was assessed using a regression analysis of the change in fair value of the MSRs as a result of changes in benchmark interest rates and of the change in the fair value of the designated derivatives. The valuation adjustments to both the MSRs and SFAS 133 derivatives were recorded in Mortgage fees and related income. With the election to apply fair value accounting to the MSRs under SFAS 156, SFAS 133 hedge accounting is no longer necessary. For a further discussion on derivative instruments and hedging activities, see Note 28 on pages 131–132 of this Annual Report.

The following table summarizes MSR activity, certain key assumptions, and the sensitivity of the fair value of MSRs to adverse changes in those key assumptions for the year ended December 31, 2006, during which MSRs were accounted for under SFAS 156.

Year ended December 31, (in millions, except rates and where otherwise noted)	2006
Balance at beginning of period after valuation allowance	$ 6,452
Cumulative effect of change in accounting principle	230
Fair value at beginning of period	**6,682**
Originations of MSRs	1,512
Purchase of MSRs	627
Total additions	**2,139**
Sales	—
Change in valuation due to inputs and assumptions[(a)]	165
Other changes in fair value[(b)]	(1,440)
Fair value at December 31	**$ 7,546**
Weighted-average prepayment speed assumption (CPR)	17.02%
Impact on fair value of 10% adverse change	$ (381)
Impact on fair value of 20% adverse change	(726)
Weighted-average discount rate	9.32%
Impact on fair value of 10% adverse change	$ (254)
Impact on fair value of 20% adverse change	(491)
Contractual service fees, late fees and other ancillary fees included in Mortgage fees and related income	$ 2,038
Third-party Mortgage loans serviced at December 31 (in billions)	$ 527

CPR: Constant prepayment rate.

(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.
(b) Includes changes in the MSR value due to servicing portfolio runoff (or time decay).

The sensitivity analysis in the preceding table is hypothetical and should be used with caution. Changes in fair value based upon 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.

The following table summarizes MSR activity for the years ended December 31, 2005 and 2004, during which MSRs were accounted for under SFAS 140.

Year ended December 31, (in millions, except rates and where otherwise noted)	2005[(c)]	2004[(d)]
Balance at January 1	$ 6,111	$ 6,159
Originations of MSRs	1,301	1,089
Purchase of MSRs	596	668
Total additions	1,897	1,757
Bank One merger	NA	90
Sales	—	(3)
Other-than-temporary impairment	(1)	(149)
Amortization	(1,295)	(1,297)
SFAS 133 hedge valuation adjustments	90	(446)
Balance at December 31	6,802	6,111
Less: valuation allowance[(a)]	350	1,031
Balance at December 31, after valuation allowance	$ 6,452	$ 5,080
Estimated fair value at December 31	$ 6,682	$ 5,124
Weighted-average prepayment speed assumption (CPR)	17.56%	17.29%
Weighted-average discount rate	9.68%	7.93%
Valuation allowance at January 1	$ 1,031	$ 1,378
Other-than-temporary impairment[(b)]	(1)	(149)
SFAS 140 impairment (recovery) adjustment	(680)	(198)
Valuation allowance at December 31	$ 350	$ 1,031
Contractual service fees, late fees and other ancillary fees included in Mortgage fees and related income	$ 1,769	$ 1,721
Third-party Mortgage loans serviced at December 31 (in billions)	$ 468	$ 431

(a) The valuation allowance in the preceding table at December 31, 2005 and 2004, represented the extent to which the carrying value of MSRs exceeded the estimated fair value for its applicable SFAS 140 strata. Changes in the valuation allowance were the result of the recognition of impairment or the recovery of previously recognized impairment charges due to changes in market conditions during the period.
(b) The Firm recorded an other-than-temporary impairment of its MSRs of $1 million and $149 million in 2005 and 2004, respectively, which permanently reduced the gross carrying value of the MSRs and the related valuation allowance. The permanent reduction precluded subsequent reversals. This write-down had no impact on the results of operations or financial condition of the Firm.
(c) During the fourth quarter of 2005, the Firm began valuing MSRs using an option-adjusted spread ("OAS") valuation model. Prior to the fourth quarter of 2005, MSRs were valued using cash flows and discount rates determined by a "static" or single interest rate path valuation model.
(d) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
CPR: Constant prepayment rate

Purchased credit card relationships and All other intangible assets

During 2006, Purchased credit card relationship intangibles decreased by $340 million as a result of $731 million in amortization expense, partially offset by increases from various acquisitions of private-label portfolios and purchase accounting adjustments related to the November 2005 acquisition of the Sears Canada credit card business. During 2006, all other intangible assets declined $461 million, primarily as a result of amortization expense and a reduction of $436 million related to the transfer of selected corporate trust businesses to The Bank of New York, partially offset by an increase in core deposit intangibles of $485 million resulting from the acquisition of The Bank of New York's consumer, business banking and middle-market banking businesses, and further purchase accounting adjustments related to the acquisition of the Sears Canada credit card business. Except for $513 million of indefinite-lived intangibles related to asset management advisory contracts that are not amortized but instead are tested for impairment at least annually, the remainder of the Firm's other acquired intangible assets are subject to amortization.

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

	2006			2005		
December 31, (in millions)	Gross amount	Accumulated amortization	Net carrying value	Gross amount	Accumulated amortization	Net carrying value
Purchased credit card relationships	**$ 5,716**	**$ 2,781**	**$ 2,935**	$ 5,325	$ 2,050	$ 3,275
All other intangibles:						
Other credit card–related intangibles	**367**	**65**	**302**	183	59	124
Core deposit intangibles	**4,283**	**1,660**	**2,623**	3,797	1,092	2,705
Other intangibles(a)	**1,961**	**515(b)**	**1,446**	2,582	579(b)	2,003

(a) Amounts at December 31, 2006, exclude, and amounts at December 31,2005, include, other intangibles and related accumulated amortization of selected corporate trust businesses related to the transaction with The Bank of New York.
(b) Includes $11 million and $14 million of amortization expense related to servicing assets on securitized automobile loans for the years ended December 31, 2006 and 2005, respectively.

Amortization expense

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

Year ended December 31, (in millions)	**2006**	2005	2004(b)
Purchased credit card relationships	**$ 731**	$ 703	$ 476
All other intangibles:			
Other credit card–related intangibles	**6**	36	23
Core deposit intangibles	**568**	623	330
Other intangibles(a)	**123**	128	82
Total amortization expense	**$ 1,428**	$ 1,490	$ 911

(a) Amortization expense related to the aforementioned selected corporate trust businesses were reported in Income from discontinued operations for all periods presented.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

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, 2006:

Year ended December 31, (in millions)	Purchased credit card relationships	Other credit card-related intangibles	Core deposit intangibles	All other intangible assets	**Total**
2007	$ 700	$ 10	$ 555	$ 109	$ 1,374
2008	580	17	479	100	1,176
2009	428	23	397	92	940
2010	358	30	336	81	805
2011	289	35	293	73	690

Note 17 – 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 10 years. JPMorgan Chase has recorded immaterial asset retirement obligations related to asbestos remediation under SFAS 143 and FIN 47 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 under SOP 98-1. 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 18 – Deposits

At December 31, 2006 and 2005, time deposits in denominations of $100,000 or more were as follows:

December 31, (in millions)	2006	2005
U.S.	**$ 110,812**	$ 80,861
Non-U.S.	**51,138**	34,912
Total	**$ 161,950**	$ 115,773

At December 31, 2006, the maturities of time deposits were as follows:

December 31, 2006 (in millions)	U.S.	Non-U.S.	**Total**
2007	$ 132,313	$ 62,874	$195,187
2008	2,692	769	3,461
2009	1,200	653	1,853
2010	617	605	1,222
2011	621	486	1,107
After 5 years	735	784	1,519
Total	$ 138,178	$ 66,171	$204,349

Note 19 – 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, SFAS 133 valuation adjustments and fair value adjustments, where applicable) by contractual maturity for the current year.

By remaining maturity at December 31, 2006 (in millions, except rates)		2006 Under 1 year	2006 1–5 years	2006 After 5 years	2006 **Total**	2005 Total
Parent company						
Senior debt:(a)	Fixed rate	**$ 5,468**	**$ 12,162**	**$ 2,686**	**$ 20,316**	$ 24,920
	Variable rate	**3,299**	**22,506**	**2,459**	**28,264**	16,914
	Interest rates(b)	**4.13–5.50%**	**0.75–12.48%**	**1.25–10.37%**	**0.75–12.48%**	0.22–8.85%
Subordinated debt:	Fixed rate	**$ 1,858**	**$ 9,145**	**$ 15,009**	**$ 26,012**	$ 24,817
	Variable rate	**—**	**24**	**1,965**	**1,989**	1,823
	Interest rates(b)	**6.70–7.60%**	**1.60–10.00%**	**1.92–9.88%**	**1.60–10.00%**	1.92–10.00%
	Subtotal	**$ 10,625**	**$ 43,837**	**$ 22,119**	**$ 76,581**	$ 68,474
Subsidiaries						
Senior debt:(a)	Fixed rate	**$ 2,159**	**$ 4,080**	**$ 4,210**	**$ 10,449**	$ 6,744
	Variable rate	**15,488**	**20,459**	**5,269**	**41,216**	32,009
	Interest rates(b)	**3.59–5.57%**	**2.43–17.00%**	**1.76–9.00%**	**1.76–17.00%**	1.71–17.00%
Subordinated debt:	Fixed rate	**$ —**	**$ 828**	**$ 3,197**	**$ 4,025**	$ 1,130
	Variable rate	**—**	**—**	**1,150**	**1,150**	—
	Interest rates(b)	**—%**	**6.13–6.70%**	**4.38–8.25%**	**4.38–8.25%**	6.13–8.25%
	Subtotal	**$ 17,647**	**$ 25,367**	**$ 13,826**	**$ 56,840**	$ 39,883
Total long-term debt		**$ 28,272**	**$ 69,204**	**$ 35,945**	**$ 133,421**(d)(e)(f)(g)	$ 108,357
FIN 46R long-term beneficial interests:(c)						
	Fixed rate	**$ 7**	**$ 347**	**$ 423**	**$ 777**	$ 465
	Variable rate	**63**	**129**	**7,367**	**7,559**	1,889
	Interest rates(b)	**5.85–7.12%**	**1.73–8.75%**	**3.26–12.79%**	**1.73–12.79%**	0.51–12.79%
Total FIN 46R long-term beneficial interests		**$ 70**	**$ 476**	**$ 7,790**	**$ 8,336**	$ 2,354

(a) Included are various equity-linked or other indexed instruments. Embedded derivatives separated from hybrid securities in accordance with SFAS 133 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 in accordance with SFAS 155 are classified in the line item of the host contract on the Consolidated balance sheets; changes in fair values are recorded in Principal transactions revenue in the Consolidated statements of income.

(b) 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 SFAS 133 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 SFAS 133 hedge accounting derivatives, the range of modified rates in effect at December 31, 2006, for total long-term debt was 0.11% to 17.00%, versus the contractual range of 0.75% to 17.00% presented in the table above.

(c) Included on the Consolidated balance sheets in Beneficial interests issued by consolidated variable interest entities.

(d) At December 31, 2006, long-term debt aggregating $27.3 billion was redeemable at the option of JPMorgan Chase, in whole or in part, prior to maturity, based upon the terms specified in the respective notes.

(e) The aggregate principal amount of debt that matures in each of the five years subsequent to 2006 is $28.3 billion in 2007, $22.9 billion in 2008, $18.1 billion in 2009, $10.6 billion in 2010 and $17.6 billion in 2011.

(f) Includes $3.0 billion of outstanding zero-coupon notes at December 31, 2006. The aggregate principal amount of these notes at their respective maturities was $6.8 billion.

(g) Includes $25.4 billion of outstanding structured notes accounted for at fair value under SFAS 155.

The weighted-average contractual interest rate for total Long-term debt was 4.89% and 4.62% as of December 31, 2006 and 2005, 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 rate for total long-term debt, including the effects of related derivative instruments, was 4.99% and 4.65% as of December 31, 2006 and 2005, respectively.

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 trading activities. These guarantees rank on a parity with all of the Firm's other unsecured and unsubordinated indebtedness. Guaranteed liabilities totaled $30 million and $170 million at December 31, 2006 and 2005, respectively.

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

At December 31, 2006, the Firm had established 22 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 $12.2 billion and $11.5 billion at December 31, 2006 and 2005, respectively, were reflected in the Firm's Consolidated balance sheets in the Liabilities section under the caption "Junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities" (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, 2006 and 2005.

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 capital debt securities, including unamortized original issue discount, issued by each trust and the junior subordinated deferrable interest debenture issued by JPMorgan Chase to each trust as of December 31, 2006:

December 31, 2006 (in millions)	Amount of capital debt securities issued by trust[(a)]	Principal amount of debenture issued to trust[(b)]	Issue date	Stated maturity of capital securities and debentures	Earliest redemption date	Interest rate of capital securities and debentures	Interest payment/ distribution dates
Bank One Capital III	$ 474	$ 623	2000	2030	Any time	8.75%	Semiannually
Bank One Capital VI	525	555	2001	2031	Any time	7.20%	Quarterly
Chase Capital II	495	511	1997	2027	2007	LIBOR + 0.50%	Quarterly
Chase Capital III	297	306	1997	2027	2007	LIBOR + 0.55%	Quarterly
Chase Capital VI	249	256	1998	2028	Any time	LIBOR + 0.625%	Quarterly
First Chicago NBD Capital I	248	256	1997	2027	2007	LIBOR + 0.55%	Quarterly
First Chicago NBD Institutional Capital A	499	549	1996	2026	Any time	7.95%	Semiannually
First Chicago NBD Institutional Capital B	250	273	1996	2026	Any time	7.75%	Semiannually
First USA Capital Trust I	3	3	1996	2027	2007	9.33%	Semiannually
JPM Capital Trust I	750	773	1996	2027	2007	7.54%	Semiannually
JPM Capital Trust II	400	412	1997	2027	2007	7.95%	Semiannually
J.P. Morgan Chase Capital X	1,000	1,012	2002	2032	2007	7.00%	Quarterly
J.P. Morgan Chase Capital XI	1,075	982	2003	2033	2008	5.88%	Quarterly
J.P. Morgan Chase Capital XII	400	386	2003	2033	2008	6.25%	Quarterly
JPMorgan Chase Capital XIII	472	487	2004	2034	2014	LIBOR + 0.95%	Quarterly
JPMorgan Chase Capital XIV	600	579	2004	2034	2009	6.20%	Quarterly
JPMorgan Chase Capital XV	994	983	2005	2035	Any time	5.88%	Semiannually
JPMorgan Chase Capital XVI	500	488	2005	2035	2010	6.35%	Quarterly
JPMorgan Chase Capital XVII	496	467	2005	2035	Any time	5.85%	Semiannually
JPMorgan Chase Capital XVIII	748	749	2006	2036	Any time	6.95%	Semiannually
JPMorgan Chase Capital XIX	562	563	2006	2036	2011	6.63%	Quarterly
JPMorgan Chase Capital XX	995	996	2006	2036	Any time	6.55%	Semiannually
Total	$ 12,032	$ 12,209					

(a) Represents the amount of capital 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 20 – 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. There was no outstanding preferred stock at December 31, 2006. Outstanding preferred stock at December 31, 2005, was 280,433 shares. On March 31, 2006, JPMorgan Chase redeemed all 280,433 shares of its 6.63% Series H cumulative preferred stock. Dividends on shares of the Series H preferred stock were payable quarterly.

The following is a summary of JPMorgan Chase's preferred stock outstanding as of December 31:

(in millions, except per share amounts and rates)	Stated value and redemption price per share[b]	Shares 2006	Shares 2005	Outstanding at December 31, 2006	Outstanding at December 31, 2005	Earliest redemption date	Rate in effect at December 31, 2006
6.63% Series H cumulative[a]	$ 500.00	**—**	0.28	**$ —**	$ 139	NA	**NA**
Total preferred stock		**—**	0.28	**$ —**	$ 139		

(a) Represented by depositary shares.
(b) Redemption price includes amount shown in the table plus any accrued but unpaid dividends.

Note 21 – Common stock

At December 31, 2006, JPMorgan Chase was authorized to issue 9.0 billion shares of common stock with a $1 par value per share. Common shares issued (newly issued or distributed from treasury) by JPMorgan Chase during 2006, 2005 and 2004 were as follows:

December 31, (in millions)	2006	2005	2004[b]
Issued – balance at January 1	**3,618.2**	3,584.8	2,044.4
Newly issued:			
Employee benefits and compensation plans	**39.3**	34.0	69.0
Employee stock purchase plans	**0.6**	1.4	3.1
Purchase accounting acquisitions and other	**—**	—	1,469.4
Total newly issued	**39.9**	35.4	1,541.5
Cancelled shares	**(0.3)**	(2.0)	(1.1)
Total issued – balance at December 31	**3,657.8**	3,618.2	3,584.8
Treasury – balance at January 1	**(131.5)**	(28.6)	(1.8)
Purchase of treasury stock	**(90.7)**	(93.5)	(19.3)
Share repurchases related to employee stock-based awards[a]	**(8.8)**	(9.4)	(7.5)
Issued from treasury:			
Employee benefits and compensation plans	**34.4**	—	—
Employee stock purchase plans	**0.5**	—	—
Total issued from treasury	**34.9**	—	—
Total treasury – balance at December 31	**(196.1)**	(131.5)	(28.6)
Outstanding	**3,461.7**	3,486.7	3,556.2

(a) Participants in the Firm's stock-based incentive plans may have shares withheld to cover income taxes. The shares withheld amounted to 8.1 million, 8.2 million and 5.7 million for 2006, 2005 and 2004, respectively.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

During 2006, 2005 and 2004, the Firm repurchased 91 million shares, 94 million shares and 19 million shares, respectively, of common stock under stock repurchase programs approved by the Board of Directors.

As of December 31, 2006, approximately 464 million unissued shares of common stock were reserved for issuance under various employee or director incentive, compensation, option and stock purchase plans.

Note 22 – Earnings per share

SFAS 128 requires the presentation of basic and diluted earnings per share ("EPS") in the Consolidated statement of income. Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed using the same method as basic EPS but, in the denominator, the number of common shares reflect, in addition to outstanding shares, the potential dilution that could occur if convertible securities or other contracts to issue common stock were converted or exercised into common stock. Net income available for common stock is the same for basic EPS and diluted EPS, as JPMorgan Chase had no convertible securities, and therefore, no adjustments to Net income available for common stock were necessary. The following table presents the calculation of basic and diluted EPS for 2006, 2005 and 2004:

Year ended December 31, (in millions, except per share amounts)	2006	2005	2004[b]
Basic earnings per share			
Income from continuing operations	**$ 13,649**	$ 8,254	$ 4,260
Discontinued operations	**795**	229	206
Net income	**14,444**	8,483	4,466
Less: preferred stock dividends	**4**	13	52
Net income applicable to common stock	**$ 14,440**	$ 8,470	$ 4,414
Weighted-average basic shares outstanding	**3,470.1**	3,491.7	2,779.9
Income from continuing operations per share	**$ 3.93**	$ 2.36	$ 1.51
Discontinued operations per share	**0.23**	0.07	0.08
Net income per share	**$ 4.16**	$ 2.43	$ 1.59
Diluted earnings per share			
Net income applicable to common stock	**$ 14,440**	$ 8,470	$ 4,414
Weighted-average basic shares outstanding	**3,470.1**	3,491.7	2,779.9
Add: Employee restricted stock, RSUs, stock options and SARs	**103.8**	65.6	70.7
Weighted-average diluted shares outstanding[a]	**3,573.9**	3,557.3	2,850.6
Income from continuing operations per share	**$ 3.82**	$ 2.32	$ 1.48
Discontinued operations per share	**0.22**	0.06	0.07
Net income per share	**$ 4.04**	$ 2.38	$ 1.55

(a) Options issued under employee stock-based incentive plans to purchase 150 million, 280 million and 300 million shares of common stock were outstanding for the years ended 2006, 2005 and 2004, respectively, but were not included in the computation of diluted EPS because the options were antidilutive.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Note 23 – Accumulated other comprehensive income (loss)

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

(in millions)	Unrealized gains (losses) on AFS securities[b]	Translation adjustments, net of hedges	Cash flow hedges	Net actuarial loss and prior service (credit) of defined benefit pension and OPEB plans[f]	Accumulated other comprehensive income (loss)
Balance at December 31, 2003[a]	$ 19	$ (6)	$ (43)	$ —	$ (30)
Net change[a]	(80)[c]	(2)	(96)	—	(178)
Balance at December 31, 2004	(61)	(8)	(139)	—	(208)
Net change	(163)[d]	—	(255)	—	(418)
Balance at December 31, 2005	(224)	(8)	(394)	—	(626)
Net change	**253**[e]	**13**	**(95)**	**—**	**171**
Adjustment to initially apply SFAS 158, net of taxes	**—**	**—**	**—**	**(1,102)**	**(1,102)**
Balance at December 31, 2006	**$ 29**	**$ 5**	**$ (489)**	**$ (1,102)**	**$ (1,557)**

(a) Balance at December 31, 2003 reflects heritage JPMorgan Chase only. 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(b) 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.
(c) The net change during 2004 was due primarily to higher interest rates and recognition of unrealized gains from securities sales.
(d) The net change during 2005 was due primarily to higher interest rates, partially offset by the reversal of unrealized losses from securities sales.
(e) The net change during 2006 was due primarily to the reversal of unrealized losses from securities sales.
(f) For further discussion of SFAS 158, see Note 7 on pages 100–105 of this Annual Report.

The following table presents the after-tax changes in net unrealized holdings gains (losses), reclassification adjustments for realized gains and losses on AFS securities and cash flow hedges, and changes resulting from foreign currency translation adjustments (including the impact of related derivatives). The table also reflects the adjustment to Accumulated other comprehensive income (loss) resulting from the initial application of SFAS 158 to the Firm's defined benefit pension and OPEB plans. Reclassification adjustments include amounts recognized in Net income during the current year that had been recorded previously in Other comprehensive income (loss).

	2006			2005			2004[b]		
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 holdings gains (losses) arising during the period	**$ (403)**	**$ 144**	**$ (259)**	$ (1,706)	$ 648	$ (1,058)	$ 68	$ (27)	$ 41
Reclassification adjustment for realized (gains) losses included in Net income	**797**	**(285)**	**512**	1,443	(548)	895	(200)	79	(121)
Net change	**394**	**(141)**	**253**	(263)	100	(163)	(132)	52	(80)
Translation adjustments:									
Translation	**590**	**(236)**	**354**	(584)	233	(351)	474	(194)	280
Hedges	**(563)**	**222**	**(341)**	584	(233)	351	(478)	196	(282)
Net change	**27**	**(14)**	**13**	—	—	—	(4)	2	(2)
Cash flow hedges:									
Net unrealized holdings gains (losses) arising during the period	**(250)**	**98**	**(152)**	(470)	187	(283)	57	(23)	34
Reclassification adjustment for realized (gains) losses included in Net income	**93**	**(36)**	**57**	46	(18)	28	(216)	86	(130)
Net change	**(157)**	**62**	**(95)**	(424)	169	(255)	(159)	63	(96)
Total Other comprehensive income	**$ 264**	**$ (93)**	**$ 171**	$ (687)	$ 269	$ (418)	$(295)	$ 117	$(178)
Net actuarial loss and prior service cost (credit) of defined benefit pension and OPEB plans:									
Adjustments to initially apply SFAS 158[a]	**$ (1,746)**	**$ 644**	**$(1,102)**	NA	NA	NA	NA	NA	NA

(a) For further discussion of SFAS 158, see Note 7 on pages 100–105 of this Annual Report.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Note 24 – Income taxes

JPMorgan Chase and eligible subsidiaries file a consolidated U.S. federal income tax return. JPMorgan Chase uses the asset-and-liability method required by SFAS 109 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 liability or asset for each temporary difference is determined based upon 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 than those currently reported.

Deferred income tax expense (benefit) results from differences between assets and liabilities measured for financial reporting and for income-tax return purposes. The significant components of deferred tax assets and liabilities are reflected in the following table:

December 31, (in millions)	**2006**	2005
Deferred tax assets		
Employee benefits	**$ 5,175**	$ 3,381
Allowance for other than loan losses	**3,533**	3,554
Allowance for loan losses	**2,910**	2,745
Non-U.S. operations	**566**	807
Fair value adjustments	**427**	531
Gross deferred tax assets	**$ 12,611**	$11,018
Deferred tax liabilities		
Depreciation and amortization	**$ 3,668**	$ 3,683
Leasing transactions	**2,675**	3,158
Non-U.S. operations	**1,435**	1,297
Fee income	**1,216**	1,396
Other, net	**78**	149
Gross deferred tax liabilities	**$ 9,072**	$ 9,683
Valuation allowance	**$ 210**	$ 110
Net deferred tax asset	**$ 3,329**	$ 1,225

A valuation allowance has been recorded in accordance with SFAS 109, primarily relating to capital losses associated with certain portfolio investments.

The components of income tax expense included in the Consolidated statements of income were as follows:

Year ended December 31, (in millions)	**2006**	2005	2004[(a)]
Current income tax expense			
U.S. federal	**$ 5,512**	$ 4,178	$ 1,613
Non-U.S.	**1,656**	887	653
U.S. state and local	**879**	311	157
Total current income tax expense	**8,047**	5,376	2,423
Deferred income tax (benefit) expense			
U.S. federal	**(1,628)**	(2,063)	(382)
Non-U.S.	**194**	316	(322)
U.S. state and local	**(376)**	(44)	(123)
Total deferred income tax (benefit) expense	**(1,810)**	(1,791)	(827)
Total income tax expense from continuing operations	**6,237**	3,585	1,596
Total income tax expense from discontinued operations	**572**	147	132
Total income tax expense	**$ 6,809**	$ 3,732	$ 1,728

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Total income tax expense includes $367 million of tax benefits recorded in 2006 as a result of tax audit resolutions.

The preceding table does not reflect the tax effects of SFAS 52 foreign currency translation adjustments, SFAS 115 unrealized gains and losses on AFS securities, SFAS 133 hedge transactions and certain tax benefits associated with the Firm's employee stock-based compensation plans. Also not reflected are the cumulative tax effects of implementing in 2006, SFAS 155, which applies to certain hybrid financial instruments; SFAS 156, which accounts for servicing financial assets; and SFAS 158, which applies to defined benefit pension and OPEB plans. The tax effect of all items recorded directly in Stockholders' equity was an increase of $885 million, $425 million and $431 million in 2006, 2005 and 2004, 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. For 2006, such earnings approximated $423 million on a pretax basis. At December 31, 2006, the cumulative amount of undistributed pretax earnings in these subsidiaries approximated $1.9 billion. It is not practicable at this time to determine the income tax liability that would result upon repatriation of these earnings.

On October 22, 2004, the American Jobs Creation Act of 2004 (the "Act") was signed into law. The Act created a temporary incentive for U.S. companies to repatriate accumulated foreign earnings at a substantially reduced U.S. effective tax rate by providing a dividends received deduction on the repatriation of certain foreign earnings to the U.S. taxpayer (the "repatriation provision"). The deduction was subject to a number of limitations and requirements. In the fourth quarter of 2005, the Firm applied the repatriation provision to $1.9 billion of cash from foreign earnings, resulting in a net tax benefit of $55 million. The $1.9 billion of cash was invested in accordance with the Firm's domestic reinvestment plan pursuant to the guidelines set forth in the Act.

The tax expense (benefit) applicable to securities gains and losses for the years 2006, 2005 and 2004 was $(219) million, $(536) million and $126 million, respectively.

A reconciliation of the applicable statutory U.S. income tax rate to the effective tax rate for continuing operations for the past three years is shown in the following table:

Year ended December 31,	**2006**	2005	2004[(a)]
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 federal income tax benefit	**2.1**	1.4	0.2
Tax-exempt income	**(2.2)**	(3.1)	(4.2)
Non-U.S. subsidiary earnings	**(0.5)**	(1.4)	(1.4)
Business tax credits	**(2.5)**	(3.7)	(4.3)
Other, net	**(0.5)**	2.1	2.0
Effective tax rate	**31.4%**	30.3%	27.3%

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The following table presents the U.S. and non-U.S. components of Income from continuing operations before income tax expense:

Year ended December 31, (in millions)	**2006**	2005	2004[(b)]
U.S.	**$ 12,934**	$ 8,683	$ 3,566
Non-U.S.[(a)]	**6,952**	3,156	2,290
Income from continuing operations before income tax expense	**$ 19,886**	$ 11,839	$ 5,856

(a) For purposes of this table, non-U.S. income is defined as income generated from operations located outside the United States of America.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Note 25 – Restrictions on cash and intercompany funds transfers

JPMorgan Chase Bank, N.A.'s business 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 Federal Deposit Insurance Corporation ("FDIC").

The Federal Reserve Board 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 $2.2 billion in 2006 and $2.7 billion in 2005.

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 Board, 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, 2007 and 2006, JPMorgan Chase's banking subsidiaries could pay, in the aggregate, $14.3 billion and $7.4 billion, respectively, in dividends to their respective bank holding companies without prior approval of their relevant banking regulators. The capacity to pay dividends in 2007 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, 2006 and 2005, cash in the amount of $8.6 billion and $6.4 billion, respectively, and securities with a fair value of $2.1 billion and $2.1 billion, respectively, were segregated in special bank accounts for the benefit of securities and futures brokerage customers.

Note 26 – Capital

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 Board, 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 Board to take action. Banking subsidiaries also are subject to these capital requirements by their respective primary regulators. As of December 31, 2006 and 2005, 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, 2006, and December 31, 2005:

(in millions, except ratios)	Tier 1 capital	Total capital	Risk-weighted assets[c]	Adjusted average assets[d]	Tier 1 capital ratio	Total capital ratio	Tier 1 leverage ratio
December 31, 2006							
JPMorgan Chase & Co.[a]	**$ 81,055**	**$ 115,265**	**$ 935,909**	**$ 1,308,699**	**8.7%**	**12.3%**	**6.2%**
JPMorgan Chase Bank, N.A.	**68,726**	**96,103**	**840,057**	**1,157,449**	**8.2**	**11.4**	**5.9**
Chase Bank USA, N.A.	**9,242**	**11,506**	**77,638**	**66,202**	**11.9**	**14.8**	**14.0**
December 31, 2005							
JPMorgan Chase & Co.[a]	$ 72,474	$ 102,437	$ 850,643	$ 1,152,546	8.5%	12.0%	6.3%
JPMorgan Chase Bank, N.A.	61,050	84,227	750,397	995,095	8.1	11.2	6.1
Chase Bank USA, N.A.	8,608	10,941	72,229	59,882	11.9	15.2	14.4
Well-capitalized ratios[b]					6.0%	10.0%	5.0%[e]
Minimum capital ratios[b]					4.0	8.0	3.0[f]

(a) 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.
(b) As defined by the regulations issued by the Federal Reserve Board, OCC and FDIC.
(c) Includes off–balance sheet risk-weighted assets in the amounts of $305.3 billion, $290.1 billion and $12.7 billion, respectively, at December 31, 2006, and $279.2 billion, $260.0 billion and $15.5 billion, respectively, at December 31, 2005, for JPMorgan Chase and its significant banking subsidiaries.
(d) Average adjusted 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 subsidiaries and the total adjusted carrying value of nonfinancial equity investments that are subject to deductions from Tier 1 capital.
(e) Represents requirements for banking subsidiaries pursuant to regulations issued under the Federal Deposit Insurance Corporation Improvement Act. There is no Tier 1 leverage component in the definition of a well-capitalized bank holding company.
(f) 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 Board and OCC.

The following table shows the components of the Firm's Tier 1 and Total capital:

December 31, (in millions)	**2006**	2005
Tier 1 capital		
Total stockholders' equity	**$ 115,790**	$ 107,211
Effect of certain items in Accumulated other comprehensive income (loss) excluded from Tier 1 capital[a]	**1,562**	618
Adjusted stockholders' equity	**117,352**	107,829
Minority interest[b]	**12,970**	12,660
Less: Goodwill	**45,186**	43,621
Investments in certain subsidiaries	**420**	401
Nonqualifying intangible assets	**3,661**	3,993
Tier 1 capital	**$ 81,055**	$ 72,474
Tier 2 capital		
Long-term debt and other instruments qualifying as Tier 2	**$ 26,613**	$ 22,733
Qualifying allowance for credit losses	**7,803**	7,490
Less: Investments in certain subsidiaries and other	**206**	260
Tier 2 capital	**$ 34,210**	$ 29,963
Total qualifying capital	**$ 115,265**	$ 102,437

(a) Includes the effect of net unrealized gains (losses) on AFS securities, cash flow hedging activities and, at December 31, 2006, unrecognized amounts related to the Firm's pension and OPEB plans.
(b) Primarily includes trust preferred securities of certain business trusts.

Note 27 – Commitments and contingencies

At December 31, 2006, JPMorgan Chase and its subsidiaries were obligated under a number of noncancelable operating leases for premises and equipment used primarily for banking purposes. Certain leases contain renewal options or escalation clauses providing for increased rental payments based upon maintenance, utility and tax increases or 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, 2006:

Year ended December 31, (in millions)	
2007	$ 1,058
2008	1,033
2009	962
2010	865
2011	791
After 2011	6,320
Total minimum payments required[a]	11,029
Less: Sublease rentals under noncancelable subleases	(1,177)
Net minimum payment required	$ 9,852

(a) Lease restoration obligations are accrued in accordance with SFAS 13, and are not reported as a required minimum lease payment.

Total rental expense was as follows:

Year ended December 31, (in millions)	**2006**	2005	2004[a]
Gross rental expense	**$ 1,266**	$ 1,239	$ 1,161
Sublease rental income	**(194)**	(192)	(158)
Net rental expense	**$ 1,072**	$ 1,047	$ 1,003

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

At December 31, 2006, 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)	**2006**	2005
Reverse repurchase/securities borrowing agreements	**$ 291**	$ 320
Securities	**40**	24
Loans	**117**	74
Trading assets and other	**108**	99
Total assets pledged	**$ 556**	$ 517

Litigation reserve

The Firm maintains litigation reserves for certain of its outstanding litigation. In accordance with the provisions of SFAS 5, 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. While the outcome of litigation is inherently uncertain, management believes, in light of all information known to it at December 31, 2006, the Firm's litigation reserves were adequate at such date. Management reviews litigation reserves periodically, and the reserves may be increased or decreased in the future to reflect further litigation developments. The Firm believes it has meritorious defenses to 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 stockholders.

Insurance recoveries related to certain material legal proceedings were $512 million and $208 million in 2006 and 2005, respectively. Charges related to certain material legal proceedings were $2.8 billion and $3.7 billion in 2005 and 2004, respectively. There were no charges in 2006 related to material legal proceedings.

Note 28 – Accounting for derivative instruments and hedging activities

Derivative instruments enable end users to increase, reduce or alter exposure to credit or market risks. The value of a derivative is derived from its reference to an underlying variable or combination of variables such as equity, foreign exchange, credit, commodity or interest rate prices or indices. JPMorgan Chase makes markets in derivatives for customers and also is an end-user of derivatives in order to hedge market exposures, modify the interest rate characteristics of related balance sheet instruments or meet longer-term investment objectives. The majority of the Firm's derivatives are entered into for trading purposes. Both trading and end-user derivatives are recorded at fair value in Trading assets and Trading liabilities as set forth in Note 4 on pages 98–99 of this Annual Report.

SFAS 133, as amended by SFAS 138, SFAS 149, and SFAS 155, establishes accounting and reporting standards for derivative instruments, including those used for trading and hedging activities, and derivative instruments embedded in other contracts. All free-standing derivatives, whether designated for hedging relationships or not, 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 the contract is for trading purposes or has been designated and qualifies for hedge accounting.

In order to qualify for hedge accounting, a derivative must be considered highly effective at reducing the risk associated with the exposure being hedged. In order for a derivative to be designated as a hedge, there must be documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, and how effectiveness is to be 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 hedging instrument has been and is expected to continue to be effective at achieving offsetting changes in fair value or cash flows must be assessed and documented at least quarterly. Any ineffectiveness 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.

For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair 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 item and continues to be amortized to earnings as a yield adjustment. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in Other comprehensive income and recognized in the Consolidated statement of income when the hedged cash flows affect earnings. The ineffective portions of cash flow hedges are immediately recognized in earnings. If the hedge relationship is terminated, then the change in fair value of the derivative recorded in Other comprehensive income is recognized when the cash flows that were hedged occur, consistent with the original hedge strategy. For hedge relationships discontinued because the forecasted transaction is not expected to occur according to the original strategy, any related derivative amounts recorded in Other comprehensive income are immediately recognized in earnings. For qualifying net investment hedges, changes in the fair value of the derivative or the revaluation of the foreign currency–denominated debt instrument are recorded in the translation adjustments account within Other comprehensive income.

JPMorgan Chase's fair value hedges primarily include hedges of fixed-rate long-term debt, loans, AFS securities and MSRs. Interest rate swaps are the most common type of derivative contract used to modify exposure to interest rate risk, converting fixed-rate assets and liabilities to a floating rate. Prior to the adoption of SFAS 156, interest rate options, swaptions and forwards were also used in combination with interest rate swaps to hedge the fair value of the Firm's MSRs in SFAS 133 hedge relationships. For a further discussion of MSR risk management activities, see Note 16 on pages 121–122 of this Annual Report. All amounts have been included in earnings consistent with the classification of the hedged item, primarily Net interest income, Mortgage fees and related income, and Other income. The Firm did not recognize any gains or losses during 2006, 2005 or 2004 on firm commitments that no longer qualify as fair value hedges.

JPMorgan Chase also enters into derivative contracts to hedge 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 revenues and expenses. Interest rate swaps, futures and forward contracts are the most common instruments used to reduce the impact of interest rate and foreign exchange rate changes on future earnings. All amounts affecting earnings have been recognized consistent with the classification of the hedged item, primarily Net interest income.

The Firm uses forward foreign exchange contracts and foreign currency–denominated debt instruments to protect the value of net investments in subsidiaries whose functional currency is not the U.S. dollar. The portion of the hedging instruments excluded from the assessment of hedge effectiveness (forward points) is recorded in Net interest income.

The following table presents derivative instrument hedging-related activities for the periods indicated:

Year ended December 31, (in millions)	**2006**	2005	2004[(b)]
Fair value hedge ineffective net gains/(losses)[(a)]	**$ 51**	$ (58)	$ 199
Cash flow hedge ineffective net gains/(losses)[(a)]	**2**	(2)	—
Cash flow hedging gains/(losses) on forecasted transactions that failed to occur	**—**	—	1

(a) Includes ineffectiveness and the components of hedging instruments that have been excluded from the assessment of hedge effectiveness.

(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Over the next 12 months, it is expected that $67 million (after-tax) of net losses recorded in Other comprehensive income at December 31, 2006, will be recognized in earnings. 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.

JPMorgan Chase does not seek to apply hedge accounting to all of the Firm's economic hedges. For example, the Firm does not apply hedge accounting to standard credit derivatives used to manage the credit risk of loans and commitments because of the difficulties in qualifying such contracts as hedges under SFAS 133. Similarly, the Firm does not apply hedge accounting to certain interest rate derivatives used as economic hedges.

Note 29 – Off–balance sheet lending-related financial instruments and guarantees

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 counterparty draw down the commitment or the Firm fulfill its obligation under the guarantee, and the counterparty 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, primarily 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 13 on pages 113–114 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, 2006 and 2005:

Off–balance sheet lending-related financial instruments and guarantees

	Contractual amount		Allowance for lending-related commitments	
December 31, (in millions)	**2006**	2005	**2006**	2005
Lending-related				
Consumer[(a)]	**$ 747,535**	$ 655,596	**$ 25**	$ 15
Wholesale:				
Other unfunded commitments to extend credit[(b)(c)(d)]	**229,204**	208,469	**305**	208
Asset purchase agreements[(e)]	**67,529**	31,095	**6**	3
Standby letters of credit and guarantees[(c)(f)(g)]	**89,132**	77,199	**187**	173
Other letters of credit[(c)]	**5,559**	4,346	**1**	1
Total wholesale	**391,424**	321,109	**499**	385
Total lending-related	**$1,138,959**	$ 976,705	**$ 524**	$ 400
Other guarantees				
Securities lending guarantees[(h)]	**$ 318,095**	$ 244,316	**NA**	NA
Derivatives qualifying as guarantees	**71,531**	61,759	**NA**	NA

(a) Includes Credit card lending-related commitments of $657 billion at December 31, 2006, and $579 billion at December 31, 2005, which represent the total available credit to the Firm's cardholders. The Firm has not experienced, and does not anticipate, that all of its cardholders will utilize their entire available lines of credit at the same time. The Firm can reduce or cancel a credit card commitment by providing the cardholder prior notice or, in some cases, without notice as permitted by law.
(b) Includes unused advised lines of credit totaling $39.0 billion and $28.3 billion at December 31, 2006 and 2005, respectively, which are not legally binding. In regulatory filings with the Federal Reserve Board, unused advised lines are not reportable.
(c) Represents contractual amount net of risk participations totaling $32.8 billion and $29.3 billion at December 31, 2006 and 2005, respectively.
(d) Excludes unfunded commitments to private third-party equity funds of $589 million and $242 million at December 31, 2006, and December 31, 2005, respectively.
(e) Represents asset purchase agreements with the Firm's administered multi-seller asset-backed commercial paper conduits, which excludes $356 million and $32.4 billion at December 31, 2006 and 2005, respectively, related to conduits that were consolidated in accordance with FIN 46R, as the underlying assets of the conduits are reported in the Firm's Consolidated balance sheets. It also includes $1.4 billion and $1.3 billion of asset purchase agreements to other third-party entities at December 31, 2006 and 2005, respectively. Certain of the Firm's administered multi-seller conduits were deconsolidated as of June 2006; the assets deconsolidated were approximately $33 billion.
(f) JPMorgan Chase held collateral relating to $13.5 billion and $9.0 billion of these arrangements at December 31, 2006 and 2005, respectively.
(g) Includes unused commitments to issue standby letters of credit of $45.7 billion and $37.5 billion at December 31, 2006 and 2005, respectively.
(h) Collateral held by the Firm in support of securities lending indemnification agreements was $317.9 billion and $245.0 billion at December 31, 2006 and 2005, respectively.

Other unfunded commitments to extend credit

Unfunded commitments to extend credit are agreements to lend only when a customer has complied with predetermined conditions, and they generally expire on fixed dates.

FIN 45 establishes accounting and disclosure requirements for guarantees, requiring that a guarantor recognize, at the inception of a guarantee, a liability in an amount equal to the fair value of the obligation undertaken in issuing the guarantee. FIN 45 defines a guarantee as a contract that contingently requires the guarantor to pay a guaranteed party, based upon: (a) changes in an underlying asset, liability or equity security of the guaranteed party; or (b) a third party's failure to perform under a specified agreement. The Firm considers the following off–balance sheet lending arrangements to be guarantees under FIN 45: 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. These guarantees are described in further detail below.

The fair value at inception of the obligation undertaken when issuing the guarantees and commitments that qualify under FIN 45 is typically equal to the net present value of the future amount of premium receivable under the contract. The Firm has recorded this amount in Other Liabilities with an offsetting entry recorded in Other Assets. As cash is received under the contract, it is applied to the premium receivable recorded in Other Assets, and the fair value of the liability recorded at inception is amortized into income as Lending & deposit related fees over the life of the guarantee contract. The amount of the liability related to FIN 45 guarantees recorded at December 31, 2006 and 2005, excluding the allowance for credit losses on lending-related commitments and derivative contracts discussed below, was approximately $297 million and $313 million, respectively.

Asset purchase agreements

The majority of the Firm's unfunded commitments are not guarantees as defined in FIN 45, except for certain asset purchase agreements that are principally used as a mechanism to provide liquidity to SPEs, primarily multi-seller conduits, as described in Note 15 on pages 118–120 of this Annual Report. Some of these asset purchase agreements can be exercised at any time by the SPE's administrator, while others require a triggering event to occur. Triggering events include, but are not limited to, a need for liquidity, a decline in market value of the assets or a downgrade in the rating of JPMorgan Chase Bank, N.A. These agreements may cause the Firm to purchase an asset from the SPE at an amount above the asset's fair value, in effect providing a guarantee of the initial value of the reference asset as of the date of the agreement. In most instances, third-party credit enhancements of the SPE mitigate the Firm's potential losses on these agreements.

Standby letters of credit and financial guarantees

Standby letters of credit and financial guarantees are conditional lending commitments issued by JPMorgan Chase 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. Approximately 50% of these arrangements mature within three years. The Firm typically has recourse to recover from the customer any amounts paid under these guarantees; in addition, the Firm may hold cash or other highly liquid collateral to support these guarantees.

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 issues securities lending indemnification agreements to the lender which protects it principally against the failure of the third-party borrower to return the lent securities. To support 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 released to the borrower in the event of overcollateralization. If an indemnifiable default by a borrower occurs, the Firm would expect to 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. On an exceptional basis the Firm may indemnify the lender against this investment risk when certain types of investments are made.

Based upon historical experience, management believes that these risks of loss are remote.

Indemnification agreements – general

In connection with issuing securities to investors, the Firm may enter into contractual arrangements with third parties that may 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; thus, such a clause would not require the Firm to make a payment under the indemnification agreement. Even without the termination clause, management does not expect such indemnification agreements to have a material adverse effect on the consolidated financial condition of JPMorgan Chase. The Firm may also enter into indemnification clauses when it sells a business or assets to a third party, pursuant to which it indemnifies that third party for losses it may incur due to actions taken by the Firm prior to the sale. See below for more information regarding the Firm's loan securitization activities. 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 upon historical experience, management expects the risk of loss to be remote.

Securitization-related indemnifications

As part of the Firm's loan securitization activities, as described in Note 14 on pages 114–118 of this Annual Report, the Firm provides representations and warranties that certain securitized loans meet specific requirements. The Firm may be required 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 under such repurchase and/or indemnification provisions would be equal to the current amount of assets held by such securitization-related SPEs as of December 31, 2006, plus, in certain circumstances, accrued and unpaid interest on such loans and certain expenses. The potential loss due to such repurchase and/or indemnity is mitigated by the due diligence the Firm performs before the sale to ensure that the assets comply with the requirements set forth in the representations and warranties. Historically, losses incurred on such repurchases and/or indemnifications have been insignificant, and therefore management expects the risk of material loss to be remote.

Credit card charge-backs

The Firm is 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 ("CMS") and Paymentech merchant businesses. The joint venture provides merchant processing services in the United States and Canada. 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. The joint venture is contractually liable to JPMorgan Chase Bank, N.A. for these disputed transactions. If a dispute is resolved in the cardmember's favor, the joint venture 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 the joint venture is unable to collect the amount from the merchant, the joint venture will bear the loss for the amount credited or refunded to the cardmember. The joint venture 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) the joint venture does not have sufficient collateral from the merchant to provide customer refunds; and (3) the joint venture does not have sufficient financial resources to provide customer refunds, JPMorgan Chase Bank, N.A. would be liable for the amount of the transaction, although it would have a contractual right to recover from its joint venture partner an amount proportionate to such partner's equity interest in the joint venture. For the year ended December 31, 2006, the joint venture incurred aggregate credit losses of $9 million on $661 billion of aggregate volume processed. At December 31, 2006, the joint venture held $893 million of collateral. For the year ended December 31, 2005, the CMS and Paymentech ventures incurred aggregate credit losses of $11 million on $563 billion of aggregate volume processed. At December 31, 2005, the joint venture held $909 million of collateral. The Firm believes that, based upon historical experience and the collateral held by the joint venture, the fair value of the Firm's chargeback-related obligations would not be different materially from the credit loss allowance recorded by the joint venture; therefore, the Firm has not recorded any allowance for losses in excess of the allowance recorded by the joint venture.

Exchange and clearinghouse guarantees

The Firm is a member of 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 members' guaranty fund, or, in a few cases, it 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 upon historical experience, management expects the risk of loss to be remote.

Derivative guarantees

In addition to the contracts described above, there are certain derivative contracts to which the Firm is a counterparty that meet the characteristics of a guarantee under FIN 45. These derivatives are recorded on the Consolidated balance sheets at fair value. These contracts include written put options that require the Firm to purchase assets from the option holder at a specified price by a specified date in the future, as well as derivatives that effectively guarantee the return on a counterparty's reference portfolio of assets. The total notional value of the derivatives that the Firm deems to be guarantees was $72 billion and $62 billion at December 31, 2006 and 2005, 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 these contracts. The fair value related to these contracts was a derivative receivable of $230 million and $198 million, and a derivative payable of $987 million and $767 million at December 31, 2006 and 2005, respectively. Finally, certain written put options and credit derivatives permit cash settlement and do not require the option holder or the buyer of credit protection to own the reference asset. The Firm does not consider these contracts to be guarantees under FIN 45.

Note 30 – 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 the credit risk portfolio to assess potential concentration risks and to obtain collateral when deemed necessary. In the Firm's wholesale portfolio, risk concentrations are evaluated primarily by industry and by geographic region. In the consumer portfolio, concentrations are evaluated primarily by product and by U.S. geographic region.

The Firm does not believe exposure to any one loan product with varying terms (e.g., interest-only payments for an introductory period) or exposure to loans with high loan-to-value ratios would result 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 12 on pages 112–113 of this Annual Report. For information regarding concentrations of off–balance sheet lending-related financial instruments by major product, see Note 29 on page 132 of this Annual Report. More information about concentrations can be found in the following tables or discussion in the MD&A:

Credit risk management – risk monitoring	Page 64
Wholesale exposure	Page 67
Wholesale selected industry concentrations	Page 68
Emerging markets country exposure	Page 72
Consumer real estate loan portfolio by geographic location	Page 74

The table below presents both on–balance sheet and off–balance sheet wholesale- and consumer-related credit exposure as of December 31, 2006 and 2005:

	2006			2005		
December 31, (in billions)	Credit exposure(b)	On-balance sheet(b)(c)	Off-balance sheet(d)	Credit exposure(b)	On-balance sheet(b)(c)	Off-balance sheet(d)
Wholesale-related:						
Banks and finance companies	**$ 63.6**	**$ 28.1**	**$ 35.5**	$ 51.1	$ 20.3	$ 30.8
Real estate	**35.9**	**21.6**	**14.3**	32.5	19.0	13.5
Healthcare	**30.1**	**6.1**	**24.0**	25.5	4.7	20.8
State and municipal governments	**27.5**	**6.9**	**20.6**	25.3	6.1	19.2
Consumer products	**27.1**	**9.1**	**18.0**	26.7	10.0	16.7
All other wholesale	**446.6**	**167.6**	**279.0**	389.6	169.5	220.1
Total wholesale-related	**630.8**	**239.4**	**391.4**	550.7	229.6	321.1
Consumer-related:						
Home equity	**155.2**	**85.7**	**69.5**	132.2	73.9	58.3
Mortgage	**66.3**	**59.7**	**6.6**	64.8	58.9	5.9
Auto loans and leases	**48.9**	**41.0**	**7.9**	51.8	46.1	5.7
All other loans	**33.5**	**27.1**	**6.4**	24.8	18.4	6.4
Card Services-reported(a)	**743.0**	**85.9**	**657.1**	651.0	71.7	579.3
Total consumer–related	**1,046.9**	**299.4**	**747.5**	924.6	269.0	655.6
Total exposure	**$ 1,677.7**	**$ 538.8**	**$ 1,138.9**	$ 1,475.3	$ 498.6	$ 976.7

(a) Excludes $67.0 billion and $70.5 billion of securitized credit card receivables at December 31, 2006 and 2005, respectively.
(b) Includes HFS loans.
(c) Represents loans, derivative receivables and interests in purchased receivables.
(d) Represents lending-related financial instruments.

Note 31 – Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The accounting for an asset or liability may differ based upon the type of instrument and/or its use in a trading or investing strategy. Generally, the measurement framework in the consolidated financial statements is one of the following:

- at fair value on the Consolidated balance sheets, with changes in fair value recorded each period in the Consolidated statements of income;
- at fair value on the Consolidated balance sheets, with changes in fair value recorded each period in the Accumulated other comprehensive income component of Stockholders' equity and as part of Other comprehensive income;
- at cost (less other-than-temporary impairments), with changes in fair value not recorded in the consolidated financial statements but disclosed in the notes thereto; or
- at the lower of cost or fair value.

Determination of fair value

The Firm has an established and well-documented process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models that primarily use market-based or independent information as inputs to the valuation model. Valuation adjustments may be necessary to ensure that financial instruments are recorded at fair value. These adjustments include amounts to reflect counterparty credit quality, liquidity and concentration concerns and are based upon defined methodologies that are applied consistently over time.

- Credit valuation adjustments are necessary when the market price (or parameter) is not indicative of the credit quality of the counterparty. As few 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 a AA credit rating; thus, all counterparties are assumed to have the same credit quality. An adjustment is therefore necessary to reflect the credit quality of each derivative counterparty and to arrive at fair value.
- Liquidity 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. Thus, valuation adjustments for the risk of loss due to a lack of liquidity are applied to those positions to arrive at fair value. The Firm tries to ascertain the amount of uncertainty in the initial valuation based upon the degree of liquidity or illiquidity, as the case may be, of the market in which the instrument trades and makes liquidity adjustments to the financial instruments. The Firm measures the liquidity adjustment based upon 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 component of the financial instrument.
- Concentration valuation adjustments are necessary to reflect the cost of unwinding larger-than-normal market-size risk positions. The cost is determined based upon the size of the adverse market move that is likely to occur during the extended period required to bring a position down to a nonconcentrated level. An estimate of the period needed to reduce, without market disruption, a position to a nonconcentrated level is generally based upon the relationship of the position to the average daily trading volume of that position. Without these adjustments, larger positions would be valued at a price greater than the price at which the Firm could exit the positions.

Valuation adjustments are determined based upon established policies and are controlled by a price verification group, which is independent of the risk-taking function. Economic substantiation of models, prices, market inputs and revenue through price/input testing, as well as back-testing, is done to validate the appropriateness of the valuation methodology. Any changes to the valuation methodology are reviewed by management to ensure the changes are justified.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, the use of different methodologies to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Certain financial instruments and all nonfinancial instruments are excluded from the scope of SFAS 107. Accordingly, the fair value disclosures required by SFAS 107 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.

The following items describe the methodologies and assumptions used, by financial instrument, to determine fair value.

Financial assets

Assets for which fair value approximates carrying value

The Firm considers fair values of certain financial assets carried at cost – including cash and due from banks, deposits with banks, securities borrowed, short-term receivables and accrued interest receivable – to approximate their respective carrying values, due to their short-term nature and generally negligible credit risk.

Federal funds sold and securities purchased under resale agreements

Federal funds sold and securities purchased under resale agreements are typically short-term in nature and, as such, for a significant majority of the Firm's transactions, cost approximates carrying value. This balance sheet item also includes structured resale agreements and similar products with long-dated maturities. To estimate the fair value of these instruments, cash flows are discounted using the appropriate market rates for the applicable maturity.

Trading debt and equity instruments

The Firm's debt and equity trading instruments are carried at their estimated fair value. Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

Securities

Fair values of actively traded securities are determined by quoted external dealer prices, while the fair values for nonactively traded securities are based upon independent broker quotations.

Derivatives

Fair value for derivatives is determined based upon the following:

- position valuation, principally based upon liquid market pricing as evidenced by exchange-traded prices, broker-dealer quotations or related input parameters, which assume all counterparties have the same credit rating;
- credit valuation adjustments to the resulting portfolio valuation, to reflect the credit quality of individual counterparties; and
- other fair value adjustments to take into consideration liquidity, concentration and other factors.

For those derivatives valued based upon models with significant unobservable market parameters, the Firm defers the initial trading profit for these financial instruments. The deferred profit is recognized in Trading revenue on a systematic basis (typically straight-line amortization over the life of the instruments) and when observable market data becomes available.

The fair value of derivative payables does not incorporate a valuation adjustment to reflect JPMorgan Chase's credit quality.

Interests in purchased receivables

The fair value of variable-rate interests in purchased receivables approximate their respective carrying amounts due to their variable interest terms and negligible credit risk. The estimated fair values for fixed-rate interests in purchased receivables are determined using a discounted cash flow analysis using appropriate market rates for similar instruments.

Loans

Fair value for loans is determined using methodologies suitable for each type of loan:

- Fair value for the wholesale loan portfolio is estimated, primarily using the cost of credit derivatives, which is adjusted to account for the differences in recovery rates between bonds, upon which the cost of credit derivatives is based, and loans.
- Fair values for consumer installment loans (including automobile financings) and consumer real estate, for which market rates for comparable loans are readily available, are based upon discounted cash flows adjusted for prepayments. The discount rates used for consumer installment loans are current rates offered by commercial banks. For consumer real estate, secondary market yields for comparable mortgage-backed securities, adjusted for risk, are used.
- Fair value for credit card receivables is based upon discounted expected cash flows. The discount rates used for credit card receivables incorporate only the effects of interest rate changes, since the expected cash flows already reflect an adjustment for credit risk.
- The fair value of loans in the held-for-sale and trading portfolios is generally based upon observable market prices and upon prices of similar instruments, including bonds, credit derivatives and loans with similar characteristics. If market prices are not available, the fair value is based upon the estimated cash flows adjusted for credit risk; that risk is discounted, using a rate appropriate for each maturity.

Other

Commodities inventory is carried at the lower of cost or fair value. For the majority of commodities inventory, fair value is determined by reference to prices in highly active and liquid markets. The fair value for other commodities inventory is determined primarily using pricing and data derived from the markets on which the underlying commodities are traded. Market prices used may be adjusted for liquidity. This caption also includes Private equity investments and MSRs. For discussion of the fair value methodology for Private equity investments, see Note 4 on pages 98–99 of this Annual Report.

For discussion of the fair value methodology for retained interests related to securitizations, see Note 14 on pages 114–118 of this Annual Report.

For discussion of the fair value methodology for MSRs, see Note 16 on pages 121–122 of this Annual Report.

Financial liabilities

Liabilities for which fair value approximates carrying value

SFAS 107 requires that the fair value for deposit liabilities with no stated maturity (i.e., demand, savings and certain money market deposits) be equal to their carrying value. SFAS 107 does not allow for the recognition of the inherent funding value of these instruments.

Fair value of commercial paper, other borrowed funds, accounts payable and accrued liabilities is considered to approximate their respective carrying values due to their short-term nature.

Interest-bearing deposits

Fair values of interest-bearing deposits are estimated by discounting cash flows using the appropriate market rates for the applicable maturity.

Federal funds purchased and securities sold under repurchase agreements

Federal funds purchased and securities sold under repurchase agreements are typically short-term in nature; as such, for a significant majority of these transactions, cost approximates carrying value. This balance sheet item also includes structured repurchase agreements and similar products with long-dated maturities. To estimate the fair value of these instruments, the cash flows are discounted using the appropriate market rates for the applicable maturity.

Trading liabilities

For a discussion of the fair value methodology for trading debt and equity instruments and derivatives, see the related discussions in the Financial assets section of this Note.

Beneficial interests issued by consolidated VIEs

Beneficial interests issued by consolidated VIEs ("beneficial interests") are generally short-term in nature and, as such, for a significant majority of the Firm's transactions, cost approximates carrying value. The Consolidated balance sheets also include beneficial interests with long-dated maturities. The fair value of these instruments is based upon current market rates.

Long-term debt-related instruments

Fair value for long-term debt, including the junior subordinated deferrable interest debentures held by trusts that issued guaranteed capital debt securities, is based upon current market rates and is adjusted for JPMorgan Chase's credit quality.

Lending-related commitments

Although there is no liquid secondary market for wholesale commitments, the Firm estimates the fair value of its wholesale lending-related commitments primarily using the cost of credit derivatives (which is adjusted to account for the difference in recovery rates between bonds, upon which the cost of credit derivatives is based, and loans) and loan equivalents (which represent the portion of an unused commitment expected, based upon the Firm's average portfolio historical experience, to become outstanding in the event an obligor defaults). The Firm estimates the fair value of its consumer commitments to extend credit based upon the primary market prices to originate new commitments. It is the change in current primary market prices that provides the estimate of the fair value of these commitments. On this basis, at December 31, 2006, the estimated fair value of the Firm's lending-related commitments was a liability of $0.2 billion, compared with $0.5 billion at December 31, 2005.

The following table presents the carrying value and estimated fair value of financial assets and liabilities valued under SFAS 107; accordingly, certain assets and liabilities that are not considered financial instruments are excluded from the table.

	2006			2005		
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	**$ 150.5**	**$ 150.5**	**$ —**	$ 155.4	$ 155.4	$ —
Federal funds sold and securities purchased under resale agreements	**140.5**	**140.5**	**—**	134.0	134.3	0.3
Trading assets	**365.7**	**365.7**	**—**	298.4	298.4	—
Securities	**92.0**	**92.0**	**—**	47.6	47.6	—
Loans: Wholesale, net of Allowance for loan losses	**181.0**	**184.6**	**3.6**	147.7	150.2	2.5
Consumer, net of Allowance for loan losses	**294.8**	**294.8**	**—**	264.4	262.7	(1.7)
Interests in purchased receivables	**—**	**—**	**—**	29.7	29.7	—
Other	**61.8**	**62.4**	**0.6**	53.4	54.7	1.3
Total financial assets	**$ 1,286.3**	**$ 1,290.5**	**$ 4.2**	$ 1,130.6	$ 1,133.0	$ 2.4
Financial liabilities						
Liabilities for which fair value approximates carrying value	**$ 259.9**	**$ 259.9**	**$ —**	$ 241.0	$ 241.0	$ —
Interest-bearing deposits	**498.3**	**498.4**	**(0.1)**	411.9	411.7	0.2
Federal funds purchased and securities sold under repurchase agreements	**162.2**	**162.2**	**—**	125.9	125.9	—
Trading liabilities	**148.0**	**148.0**	**—**	145.9	145.9	—
Beneficial interests issued by consolidated VIEs	**16.2**	**16.2**	**—**	42.2	42.1	0.1
Long-term debt-related instruments	**145.6**	**147.1**	**(1.5)**	119.9	120.6	(0.7)
Total financial liabilities	**$ 1,230.2**	**$ 1,231.8**	**$ (1.6)**	$ 1,086.8	$ 1,087.2	$ (0.4)
Net appreciation			**$ 2.6**			$ 2.0

Note 32 – International operations

The following table presents income statement information of JPMorgan Chase by major 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 or the location from which the customer relationship is managed. 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 33 on pages 139–141 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 U.S.

Year ended December 31, (in millions)	Revenue(b)	Expense(c)	Income from continuing operations before income taxes	Net income
2006				
Europe/Middle East and Africa	**$ 11,238**	**$ 7,367**	**$ 3,871**	**$ 2,774**
Asia and Pacific	**3,144**	**2,566**	**578**	**400**
Latin America and the Caribbean	**1,328**	**806**	**522**	**333**
Other	**381**	**240**	**141**	**90**
Total international	**16,091**	**10,979**	**5,112**	**3,597**
Total U.S.	**45,346**	**30,572**	**14,774**	**10,847**
Total	**$ 61,437**	**$ 41,551**	**$ 19,886**	**$ 14,444**
2005				
Europe/Middle East and Africa	$ 7,549	$ 5,379	$ 2,170	$ 1,547
Asia and Pacific	2,806	2,024	782	509
Latin America and the Caribbean	960	493	467	285
Other	165	89	76	44
Total international	11,480	7,985	3,495	2,385
Total U.S.	42,268	33,924	8,344	6,098
Total	$ 53,748	$ 41,909	$ 11,839	$ 8,483
2004(a)				
Europe/Middle East and Africa	$ 6,439	$ 4,587	$ 1,852	$ 1,305
Asia and Pacific	2,597	1,742	855	547
Latin America and the Caribbean	812	405	407	255
Other	112	77	35	25
Total international	9,960	6,811	3,149	2,132
Total U.S.	32,412	29,705	2,707	2,334
Total	$ 42,372	$ 36,516	$ 5,856	$ 4,466

(a) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(b) Revenue is composed of Net interest income and Noninterest revenue.
(c) Expense is composed of Noninterest expense and Provision for credit losses.

Note 33 – Business segments

JPMorgan Chase is organized into six major reportable business segments — Investment Bank, Retail Financial Services, Card Services, Commercial Banking ("CB"), Treasury & Securities Services and Asset Management, as well as a Corporate segment. The segments are based upon the products and services provided or the type of customer served, and they reflect the manner in which financial information is currently evaluated by management. Results of these lines of business are presented on a managed basis. For a definition of managed basis, see Explanation and Reconciliation of the Firm's use of non-GAAP financial measures, on pages 32–33 of this Annual Report. For a further discussion concerning JPMorgan Chase's business segments, see Business segment results on pages 34–35 of this Annual Report.

Business segment financial disclosures

Effective January 1, 2006, JPMorgan Chase modified certain of its financial disclosures to reflect more closely the manner in which the Firm's business segments are managed and to provide improved comparability with competitors. These financial disclosure revisions are reflected in this Annual Report, and the financial information for prior periods has been revised to reflect the disclosure changes as if they had been in effect throughout all periods reported. A summary of the changes are described below.

Reported versus Operating Basis Changes

The presentation of operating earnings that excluded merger costs and material litigation reserve charges and recoveries from reported results has been eliminated. These items had been excluded previously from operating results because they were deemed nonrecurring; they are now included in the Corporate business segment's results. In addition, trading-related net interest income is no longer reclassified from Net interest income to trading revenue. As a result of these changes, effective January 1, 2006, management has discontinued reporting on an "operating" basis.

Business Segment Disclosures

Various wholesale banking clients, together with the related balance sheet and income statement items, were transferred among CB, IB and TSS. The primary client transfer was corporate mortgage finance from CB to IB and TSS.

Capital allocation changes

Effective January 1, 2006, the Firm refined its methodology for allocating capital (i.e., equity) to the business segments. As a result of this refinement, RFS, CS, CB, TSS and AM have higher amounts of capital allocated to them, commencing in the first quarter of 2006. The revised methodology considers for each line of business, among other things, goodwill associated with such business segment's acquisitions since the Merger. In management's view, the revised methodology assigns responsibility to the lines of business to generate returns on the amount of capital supporting acquisition-related goodwill. As part of this refinement in the capital allocation methodology, the Firm assigned to the Corporate segment an amount of equity capital equal to the then-current book value of goodwill from and prior to the Merger. As prior periods have not been revised to reflect the new capital allocations, capital allocated to the respective lines of business for 2006 is not comparable to prior periods and certain business metrics, such as ROE, are not comparable to the current presentation. The Firm may revise its equity capital allocation methodology again in the future.

Discontinued operations

As a result of the transaction with The Bank of New York, selected corporate trust businesses have been transferred from TSS to the Corporate segment and reported in discontinued operations for all periods reported.

Segment results

The following table provides a summary of the Firm's segment results for 2006, 2005 and 2004 on a managed basis. The impact 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. The first six months of 2004 reflect heritage JPMorgan Chase–only results and have been restated to reflect the current business segment organization and reporting classifications.

Segment results and reconciliation[a] (table continued on next page)

Year ended December 31,[b]	Investment Bank			Retail Financial Services[e]			Card Services[f]			Commercial Banking		
(in millions, except ratios)	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Noninterest revenue	**$ 17,778**	$ 13,010	$ 9,337	**$ 4,660**	$ 4,625	$ 3,077	**$ 2,944**	$ 3,563	$ 2,371	**$ 1,073**	$ 986	$ 685
Net interest income	**499**	1,603	3,296	**10,165**	10,205	7,714	**11,801**	11,803	8,374	**2,727**	2,502	1,593
Total net revenue	**18,277**	14,613	12,633	**14,825**	14,830	10,791	**14,745**	15,366	10,745	**3,800**	3,488	2,278
Provision for credit losses	**191**	(838)	(640)	**561**	724	449	**4,598**	7,346	4,851	**160**	73	41
Credit reimbursement (to)/from TSS[c]	**121**	154	90	**—**	—	—	**—**	—	—	**—**	—	—
Noninterest expense[d]	**12,304**	9,749	8,709	**8,927**	8,585	6,825	**5,086**	4,999	3,883	**1,979**	1,856	1,326
Income (loss) from continuing operations before income tax expense	**5,903**	5,856	4,654	**5,337**	5,521	3,517	**5,061**	3,021	2,011	**1,661**	1,559	911
Income tax expense (benefit)	**2,229**	2,183	1,698	**2,124**	2,094	1,318	**1,855**	1,114	737	**651**	608	350
Income (loss) from continuing operations	**3,674**	3,673	2,956	**3,213**	3,427	2,199	**3,206**	1,907	1,274	**1,010**	951	561
Income (loss) from discontinued operations	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—
Net income (loss)	**$ 3,674**	$ 3,673	$ 2,956	**$ 3,213**	$ 3,427	$ 2,199	**$ 3,206**	$ 1,907	$ 1,274	**$ 1,010**	$ 951	$ 561
Average equity	**$ 20,753**	$ 20,000	$ 17,290	**$ 14,629**	$ 13,383	$ 9,092	**$ 14,100**	$ 11,800	$ 7,608	**$ 5,702**	$ 3,400	$ 2,093
Average assets	**647,569**	599,761	474,436	**231,566**	226,368	185,928	**148,153**	141,933	94,741	**57,754**	52,358	32,547
Return on average equity	**18%**	18%	17%	**22%**	26%	24%	**23%**	16%	17%	**18%**	28%	27%
Overhead ratio	**67**	67	69	**60**	58	63	**34**	33	36	**52**	53	58

(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) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

(c) TSS reimburses the IB for credit portfolio exposures the IB manages on behalf of clients the segments share. At the time of the Merger, the reimbursement methodology was revised to be based upon pretax earnings, net of the cost of capital related to those exposures. Prior to the Merger, the credit reimbursement was based upon pretax earnings, plus the allocated capital associated with the shared clients.

(d) Includes Merger costs which are reported in the Corporate segment. Merger costs attributed to the business segments for 2006, 2005 and 2004 were as follows:

Year ended December 31, (in millions)	**2006**	2005	2004[b]
Investment Bank	**$ 2**	$ 32	$ 74
Retail Financial Services	**24**	133	201
Card Services	**29**	222	79
Commercial Banking	**1**	3	23
Treasury & Securities Services	**117**	95	68
Asset Management	**23**	60	31
Corporate	**109**	177	889

(e) Effective January 1, 2006, RFS was reorganized into three businesses: Regional Banking, Mortgage Banking and Auto Finance.

(f) Managed results for CS 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 credit performance and the overall performance of CS' entire managed credit card portfolio as operations are funded, and decisions are made about allocating resources such as employees and capital, based upon 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)	**2006**	2005	2004[b]
Noninterest revenue	**$ (3,509)**	$ (2,718)	$ (2,353)
Net interest income	**5,719**	6,494	5,251
Provision for credit losses	**2,210**	3,776	2,898
Average assets	**65,266**	67,180	51,084

(table continued from previous page)

Treasury & Securities Services			Asset Management			Corporate			Reconciling items(f)(h)			**Total**		
2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	2004
$ 4,039	$ 3,659	$ 2,973	**$ 5,816**	$ 4,583	$ 3,383	**$ 1,052**	$ 1,620	$ 1,983	**$ 2,833**	$ 2,147	$ 2,036	**$ 40,195**	$ 34,193	$ 25,845
2,070	1,880	1,225	**971**	1,081	796	**(1,044)**	(2,756)	(1,214)	**(5,947)**	(6,763)	(5,257)	**21,242**	19,555	16,527
6,109	5,539	4,198	**6,787**	5,664	4,179	**8**	(1,136)	769	**(3,114)**	(4,616)	(3,221)	**61,437**	53,748	42,372
(1)	—	7	**(28)**	(56)	(14)	**(1)**	10	748(g)	**(2,210)**	(3,776)	(2,898)	**3,270**	3,483	2,544
(121)	(154)	(90)	**—**	—	—	**—**	—	—	**—**	—	—	**—**	—	—
4,266	4,050	3,726	**4,578**	3,860	3,133	**1,141**	5,327	6,370	**—**	—	—	**38,281**	38,426	33,972
1,723	1,335	375	**2,237**	1,860	1,060	**(1,132)**	(6,473)	(6,349)	**(904)**	(840)	(323)	**19,886**	11,839	5,856
633	472	98	**828**	644	379	**(1,179)**	(2,690)	(2,661)	**(904)**	(840)	(323)	**6,237**	3,585	1,596
1,090	863	277	**1,409**	1,216	681	**47**	(3,783)	(3,688)	**—**	—	—	**13,649**	8,254	4,260
—	—	—	**—**	—	—	**795**	229	206	**—**	—	—	**795**	229	206
$ 1,090	$ 863	$ 277	**$ 1,409**	$ 1,216	$ 681	**$ 842**	$ (3,554)	$ (3,482)	**$ —**	$ —	$ —	**$ 14,444**	$ 8,483	$ 4,466
$ 2,285	$ 1,525	$ 1,989	**$ 3,500**	$ 2,400	$ 3,902	**$ 49,728**	$ 52,999	$ 33,667	**$ —**	$ —	$ —	**$ 110,697**	$105,507	$ 75,641
31,760	28,206	24,815	**43,635**	41,599	37,751	**218,623**	162,021	163,422	**(65,266)**	(67,180)	(51,084)	**1,313,794**	1,185,066	962,556
48%	57%	14%	**40%**	51%	17%	**NM**	NM	NM	**NM**	NM	NM	**13%**	8%	6%
70	73	89	**67**	68	75	**NM**	NM	NM	**NM**	NM	NM	**62**	71	80

(g) Includes $858 million of accounting policy conformity adjustments consisting of approximately $1.4 billion related to the decertification of the seller's retained interest in credit card securitizations, partially offset by a benefit of $584 million related to conforming wholesale and consumer provision methodologies for the combined Firm.

(h) Segment managed results reflect revenues on a tax-equivalent basis with the corresponding income tax impact recorded within Income tax expense. These adjustments are eliminated in Reconciling items to arrive at the Firm's reported U.S. GAAP results.Tax-equivalent adjustments were as follows for the years ended December 31, 2006, 2005 and 2004:

Year ended December 31, (in millions)	**2006**	2005	2004(b)
Noninterest income	**$ 676**	$ 571	$ 317
Net interest income	**228**	269	6
Income tax expense	**904**	840	323

Note 34 – Parent company

Parent company – statements of income

Year ended December 31, (in millions)	2006	2005	2004[c]
Income			
Dividends from bank and bank holding company subsidiaries	**$ 2,935**	$ 2,361	$ 1,208
Dividends from nonbank subsidiaries[a]	**1,999**	791	773
Interest income from subsidiaries	**3,612**	2,369	1,370
Other interest income	**273**	209	137
Other income from subsidiaries, primarily fees:			
Bank and bank holding company	**220**	246	833
Nonbank	**739**	462	499
Other income	**(206)**	13	204
Total income	**9,572**	6,451	5,024
Expense			
Interest expense to subsidiaries[a]	**1,025**	846	603
Other interest expense	**4,536**	3,076	1,834
Compensation expense	**519**	369	353
Other noninterest expense	**295**	496	1,105
Total expense	**6,375**	4,787	3,895
Income before income tax benefit and undistributed net income of subsidiaries	**3,197**	1,664	1,129
Income tax benefit	**982**	852	556
Equity in undistributed net income (loss) of subsidiaries	**10,265**	5,967	2,781
Net income	**$ 14,444**	$ 8,483	$ 4,466

Parent company – balance sheets

December 31, (in millions)	2006	2005
Assets		
Cash and due from banks, primarily with bank subsidiaries	**$ 756**	$ 461
Deposits with banking subsidiaries	**18,759**	9,452
Securities purchased under resale agreements, primarily with nonbank subsidiaries	**—**	24
Trading assets	**7,975**	7,548
Available-for-sale securities	**257**	285
Loans	**971**	338
Advances to, and receivables from, subsidiaries:		
Bank and bank holding company	**22,765**	22,673
Nonbank	**34,282**	31,342
Investments (at equity) in subsidiaries:		
Bank and bank holding company	**119,017**	110,745
Nonbank[a]	**22,552**	21,367
Goodwill and other intangibles	**853**	804
Other assets	**11,983**	10,553
Total assets	**$ 240,170**	$ 215,592
Liabilities and stockholders' equity		
Borrowings from, and payables to, subsidiaries[a]	**$ 19,183**	$ 16,511
Other borrowed funds, primarily commercial paper	**21,011**	15,675
Other liabilities	**7,605**	7,721
Long-term debt[b]	**76,581**	68,474
Total liabilities	**124,380**	108,381
Stockholders' equity	**115,790**	107,211
Total liabilities and stockholders' equity	**$ 240,170**	$ 215,592

Parent company – statements of cash flows

Year ended December 31, (in millions)	2006	2005	2004[c]
Operating activities			
Net income	**$14,444**	$ 8,483	$ 4,466
Less: Net income of subsidiaries	**15,199**	9,119	4,762
Parent company net loss	**(755)**	(636)	(296)
Add: Cash dividends from subsidiaries[a]	**4,934**	2,891	1,964
Other, net	**(185)**	(130)	(81)
Net cash provided by operating activities	**3,994**	2,125	1,587
Investing activities			
Net change in:			
Deposits with banking subsidiaries	**(9,307)**	1,251	1,851
Securities purchased under resale agreements, primarily with nonbank subsidiaries	**24**	(24)	355
Loans	**(633)**	(176)	407
Advances to subsidiaries	**(3,032)**	(483)	(5,772)
Investments (at equity) in subsidiaries	**579**	(2,949)	(4,015)
Other, net	**(1)**	34	11
Available-for-sale securities:			
Purchases	**—**	(215)	(392)
Proceeds from sales and maturities	**29**	124	114
Cash received in business acquisitions	**—**	—	4,608
Net cash used in investing activities	**(12,341)**	(2,438)	(2,833)
Financing activities			
Net change in borrowings from subsidiaries[a]	**2,672**	2,316	941
Net change in other borrowed funds	**5,336**	625	(1,510)
Proceeds from the issuance of long-term debt	**18,153**	15,992	12,816
Repayments of long-term debt	**(10,557)**	(10,864)	(6,149)
Net proceeds from the issuance of stock and stock-related awards	**1,659**	682	848
Excess tax benefits related to stock-based compensation	**302**	—	—
Redemption of preferred stock	**(139)**	(200)	(670)
Treasury stock purchased	**(3,938)**	(3,412)	(738)
Cash dividends paid	**(4,846)**	(4,878)	(3,927)
Net cash provided by financing activities	**8,642**	261	1,611
Net increase (decrease) in cash and due from banks	**295**	(52)	365
Cash and due from banks at the beginning of the year, primarily with bank subsidiaries	**461**	513	148
Cash and due from banks at the end of the year, primarily with bank subsidiaries	**$ 756**	$ 461	$ 513
Cash interest paid	**$ 5,485**	$ 3,838	$ 2,383
Cash income taxes paid	**$ 3,599**	$ 3,426	$ 701

(a) Subsidiaries include trusts that issued guaranteed capital debt securities ("issuer trusts"). As a result of FIN 46R, the Parent deconsolidated these trusts in 2003. The Parent received dividends of $23 million, $21 million and $15 million from the issuer trusts in 2006, 2005 and 2004, respectively. For further discussion on these issuer trusts, see Note 19 on page 125 of this Annual Report.
(b) At December 31, 2006, debt that contractually matures in 2007 through 2011 totaled $10.6 billion, $12.4 billion, $13.7 billion, $4.3 billion and $13.5 billion, respectively.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results. For further discussion of the Merger, see Note 2 on pages 95–96 of this Annual Report.