This section of the Annual Report provides management's discussion and analysis ("MD&A") of the financial condition and results of operations for JPMorgan Chase. See the Glossary of terms on pages 145–146 for definitions of terms used throughout this Annual Report. The MD&A included in this Annual Report contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of JPMorgan Chase's management and are subject to significant risks and uncertainties. These risks and uncertainties could cause JPMorgan Chase's results to differ materially from those set forth in such forward-looking statements. Certain of such risks and uncertainties are described herein (see Forward-looking statements on page 147 of this Annual Report) and in the JPMorgan Chase Annual Report on Form 10-K for the year ended December 31, 2006 ("2006 Form 10-K"), in Part I, Item 1A: Risk factors, to which reference is hereby made.

INTRODUCTION

JPMorgan Chase & Co., a financial holding company incorporated under Delaware law in 1968, is a leading global financial services firm and one of the largest banking institutions in the United States, with $1.4 trillion in assets, $115.8 billion in stockholders' equity and operations worldwide. The Firm is a leader in investment banking, financial services for consumers and businesses, financial transaction processing, asset management and private equity. Under the JPMorgan and Chase brands, the Firm serves millions of customers in the United States and many of the world's most prominent corporate, institutional and government clients.

JPMorgan Chase's principal bank subsidiaries are JPMorgan Chase Bank, National Association ("JPMorgan Chase Bank, N.A."), a national banking association with branches in 17 states; and Chase Bank USA, National Association ("Chase Bank USA, N.A."), a national bank that is the Firm's credit card issuing bank. JPMorgan Chase's principal nonbank subsidiary is J.P. Morgan Securities Inc., the Firm's U.S. investment banking firm.

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

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

Retail Financial Services
Retail Financial Services ("RFS"), which includes Regional Banking, Mortgage Banking and Auto Finance reporting segments, helps meet the financial needs of consumers and businesses. RFS provides convenient consumer banking through the nation's fourth-largest branch network and third-largest ATM network. RFS is a top-five mortgage originator and servicer, the second-largest home equity originator, the largest noncaptive originator of automobile loans and one of the largest student loan originators.

RFS serves customers through more than 3,000 bank branches, 8,500 ATMs and 270 mortgage offices, and through relationships with more than 15,000 auto dealerships and 4,300 schools and universities. More than 11,000 branch salespeople assist customers, across a 17-state footprint from New York to Arizona, with checking and savings accounts, mortgage, home equity and business loans, investments and insurance. Over 1,200 additional mortgage officers provide home loans throughout the country.

Card Services
With more than 154 million cards in circulation and $152.8 billion in managed loans, Chase Card Services ("CS") is one of the nation's largest credit card issuers. Customers used Chase cards for over $339 billion worth of transactions in 2006.

Chase offers a wide variety of general-purpose cards to satisfy the needs of individual consumers, small businesses and partner organizations, including cards issued with AARP, Amazon, Continental Airlines, Marriott, Southwest Airlines, Sony, United Airlines, Walt Disney Company and many other well-known brands and organizations. Chase also issues private-label cards with Circuit City, Kohl's, Sears Canada and BP.

Chase Paymentech Solutions, LLC, a joint venture with JPMorgan Chase and First Data Corporation, is the largest processor of MasterCard and Visa payments in the world, having handled over 18 billion transactions in 2006.

Commercial Banking
Commercial Banking ("CB") serves more than 30,000 clients, including corporations, municipalities, financial institutions and not-for-profit entities. These clients generally have annual revenues ranging from $10 million to $2 billion. Commercial bankers serve clients nationally throughout the RFS footprint and in offices located in other major markets.

Commercial Banking offers its clients industry knowledge, experience, a dedicated service model, comprehensive solutions and local expertise. The Firm's broad platform positions CB to deliver extensive product capabilities – including lending, treasury services, investment banking and asset management – to meet its clients' U.S. and international financial needs.

Treasury & Securities Services
Treasury & Securities Services ("TSS") is a global leader in providing transaction, investment and information services to support the needs of institutional clients worldwide. TSS is one of the largest cash management providers in the world and a leading global custodian. Treasury Services ("TS") provides a variety of cash management products, trade finance and logistics solutions, wholesale card products, and liquidity management capabilities to small and midsized companies, multinational corporations, financial institutions and government entities. TS partners with the Commercial Banking, Retail Financial Services and Asset Management businesses to serve clients firmwide. As a result, certain TS revenues are included in other segments' results. Worldwide Securities Services ("WSS") stores, values, clears and services securities and alternative investments for investors and broker-dealers; and manages Depositary Receipt programs globally.

Asset Management
With assets under supervision of $1.3 trillion, Asset Management ("AM") is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including both money market instruments and bank deposits. AM also provides trust and estate and banking services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

Merger with Bank One Corporation

Effective July 1, 2004, Bank One Corporation ("Bank One") merged with and into JPMorgan Chase & Co. (the "Merger"). 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 & Co. The Merger was accounted for using the purchase method of accounting. Accordingly, the Firm's results of operations for 2004 include six months of heritage JPMorgan Chase results and six months of the combined Firm's results. For additional information regarding the Merger, see Note 2 on pages 95–96 of this Annual Report.

2006 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 RFS's 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 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.

Acquisition of certain operations from Paloma Partners
On March 1, 2006, JPMorgan Chase acquired the middle and back office operations of Paloma Partners Management Company ("Paloma"), which was part of a privately owned investment fund management group. The parties also entered into a multiyear contract under which JPMorgan Chase will provide daily operational services to Paloma. The acquired operations have been combined with JPMorgan Chase's current hedge fund administration unit, JPMorgan Tranaut.

JPMorgan and Fidelity Brokerage Company
On February 28, 2006, the Firm announced a strategic alliance with Fidelity Brokerage to become the exclusive provider of new issue equity securities and the primary provider of fixed income products to Fidelity's brokerage clients and retail customers, effectively expanding the Firm's existing distribution platform.

This overview of management's discussion and analysis highlights selected information and may not contain all of the information that is important to readers of this Annual Report. For a more complete understanding of events, trends and uncertainties, as well as the capital, liquidity, credit and market risks, and the Critical accounting estimates, affecting the Firm and and its various lines of business, this Annual Report should be read in its entirety.

Financial performance of JPMorgan Chase

Year ended December 31, (in millions, except per share and ratio data)	2006	2005	Change
Selected income statement data			
Net revenue	**$ 61,437**	$ 53,748	14%
Provision for credit losses	**3,270**	3,483	(6)
Noninterest expense	**38,281**	38,426	—
Income from continuing operations	**13,649**	8,254	65
Income from discontinued operations	**795**	229	247
Net income	**14,444**	8,483	70
Diluted earnings per share			
Income from continuing operations	**$ 3.82**	$ 2.32	65%
Net income	**4.04**	2.38	70
Return on common equity ("ROE")			
Income from continuing operations	**12%**	8%	
Net income	**13**	8	

Business overview

The Firm reported record 2006 net income of $14.4 billion, or $4.04 per share, compared with net income of $8.5 billion, or $2.38 per share, for 2005. The return on common equity was 13% compared with 8% in 2005. Reported results include discontinued operations related to the exchange of selected corporate trust businesses for the consumer, business banking and middle-market banking businesses of The Bank of New York. Discontinued operations produced $795 million of net income in 2006 compared with $229 million in the prior year. The primary driver of the increase was a one-time gain of $622 million related to the sale of the corporate trust business (for further information on discontinued operations see Note 3 on page 97 of this Annual Report). Income from continuing operations was a record $13.6 billion, or $3.82 per share, compared with $8.3 billion, or $2.32 per share, for 2005. For a detailed discussion of the Firm's consolidated results of operations, see pages 28–31 of this Annual Report.

Effective December 31, 2006, William B. Harrison, Jr. retired as Chairman of the Board and was succeeded as Chairman by Chief Executive Officer James Dimon.

The Firm's record 2006 results were affected positively by global economic conditions, investment in each line of business and the successful completion of milestones in the execution of its Merger integration plan. A key milestone related to the Merger integration was the New York Tri-state consumer conversion, which linked the Firm's more than 2,600 branches in 17 states on a common systems platform (excluding 339 branches acquired from The Bank of New York on October 1, 2006). The Tri-state conversion, along with many other merger integration activities, resulted in continued efficiencies. As a result the Firm made significant progress toward reaching its annual merger-related savings target of approximately $3.0 billion by the end of 2007. The Firm realized approximately $675 million of incremental merger savings in 2006, bringing estimated cumulative savings for 2006 to $2.5 billion, and the annualized run-rate of savings entering 2007 is approximately $2.8 billion. In order to achieve these savings, the Firm expensed Merger costs of $305 million during the year (including a modest amount of costs related to The Bank of New York transaction), bringing the total cumulative amount expensed since the Merger announcement to approximately $3.4 billion (including capitalized costs). Management currently estimates remaining Merger costs of approximately $400 million, which are expected to be incurred during 2007 and will include a modest amount of expense related to the acquisition of The Bank of New York's consumer, business banking and middle-market banking businesses.

The Firm also continued active management of its portfolio of businesses during 2006. Actions included: exchanging selected corporate trust businesses for the consumer, business banking and middle-market banking businesses of The Bank of New York; divesting the insurance underwriting business; purchasing Collegiate Funding Services to develop further the education finance business; acquiring Kohl's private-label credit card portfolio; acquiring the middle and back office operations of Paloma Partners to expand the Firm's hedge fund administration capabilities; and announcing a strategic alliance with Fidelity Brokerage to provide new issue equity and fixed income products.

In 2006, the global economy continued to expand, which supported continued rapid growth in the emerging market economies. Global gross domestic product increased by an estimated 5%, with the European economy gaining momentum, Japan making steady progress and emerging Asian economies expanding approximately 8%. The U.S. economy rebounded early in the year from the prior-year hurricane disruptions, but weakened in the second half of the year as home construction declined, automobile manufacturing weakened and the benefit of reconstruction from hurricane disruptions dissipated. The U.S. experienced rising interest rates during the first half of the year, as the Federal Reserve Board increased the federal funds rate from 4.25% to 5.25%. With an anticipated slowing of economic growth, lower inflation and stabilizing energy prices, the federal funds rate was held steady during the second half of the year. The yield curve subsequently inverted as receding inflation expectations pushed long-term interest rates below the federal funds rate. Equity markets, both domestic and international, reflected positive performance, with the S&P 500 up 13% on average and international indices increasing 16% on average during 2006. Global capital markets activity was strong during 2006, with debt and equity underwriting and merger and acquisition activity surpassing 2005 levels. Demand for wholesale loans in the U.S. was strong with growth of approximately 14%, while U.S. consumer loans grew an estimated 4% during 2006. U.S. consumer spending grew at a solid pace, supported by strong equity markets, low unemployment and income growth, and lower energy prices in the second half of the year. This strength came despite a significant decline in real estate appreciation.

The 2006 economic environment was a contributing factor to the performance of the Firm and each of its businesses. The overall economic expansion, strong level of capital markets activity and positive performance in equity markets helped to drive new business volume and organic growth within each of the Firm's businesses while also contributing to the stable credit quality within the loan portfolio. However, the interest rate environment affected negatively wholesale loan spread and consumer loan and deposit spreads. Spreads related to wholesale liabilities widened compared with the prior year, but this benefit declined over the course of 2006.

The discussion that follows highlights the performance of each business segment compared with the prior year, and discusses results on a managed basis unless otherwise noted. For more information about managed basis, See Explanation and reconciliation of the Firm's use of non-GAAP financial measures on pages 32–33 of this Annual Report.

Investment Bank net income was flat compared with the prior year, as record revenue was offset by higher compensation expense and a provision for credit losses compared with a benefit in the prior year. Revenue benefited from investments in key business initiatives, increased market share and higher global capital markets activity. Record investment banking fees were driven by record debt and equity underwriting fees and strong advisory fees. Fixed income markets revenue set a new record with strength in credit markets, emerging markets and currencies. Equity markets revenue was also at a record level, reflecting strength in cash equities and equity derivatives. The current-year Provision for credit losses reflects portfolio activity; credit quality remained stable. The increase in expense was primarily the result of higher performance-based compensation including the impact of a higher ratio of compensation expense to revenue and the adoption of SFAS 123R.

Retail Financial Services net income was down from the prior year as lower results in Mortgage Banking were offset partially by improved performance in Regional Banking and Auto Finance. Revenue declined due to lower revenue in Mortgage Banking, narrower loan and deposit spreads in Regional Banking and the sale of the insurance business on July 1, 2006. Deposit and loan spreads reflected the current interest rate and competitive environments. These factors were offset partially by increases in average deposit and loan balances and higher deposit-related and branch production fees in Regional Banking, which benefited from the continued investment in the retail banking distribution network and the overall strength of the U.S. economy. The provision for credit losses declined from the prior year due to the absence of a special provision related to Hurricane Katrina in 2005, partially offset by the establishment of additional allowance for loan losses related to loans acquired from The Bank of New York. Expense increased, reflecting the purchase of Collegiate Funding Services in the first quarter of 2006 and ongoing investments in the retail banking distribution network, with the net addition during the year of 438 branch offices (including 339 from The Bank of New York), 1,194 ATMs and over 500 personal bankers. Partially offsetting these increases were the sale of the insurance business and merger-related and other operating efficiencies.

Card Services net income was a record, increasing significantly compared with the prior year, primarily the result of a lower provision for credit losses. Net revenue (excluding the impact of the deconsolidation of Paymentech) declined slightly from the prior year. Net interest income was flat as the benefit of an increase in average managed loan balances, partially due to portfolio acquisitions as well as marketing initiatives, was offset by the challenging interest rate and competitive environments. Noninterest revenue declined as increased interchange income related to higher charge volume from increased consumer spending was more than offset by higher volume-driven payments to partners, including Kohl's, and increased rewards expense. The managed provision for credit losses benefited from significantly lower bankruptcy-related credit losses following the new bankruptcy legislation that became effective in October 2005. Underlying credit quality remained strong. Expense (excluding the impact of the deconsolidation of Paymentech) increased driven by higher marketing spending and acquisitions, partially offset by merger savings.

Commercial Banking net income was a record in 2006. Record revenue benefited from higher liability balances, higher loan volumes and increased investment banking revenue, all of which benefited from increased sales efforts and U.S. economic growth. Partially offsetting these benefits were loan spread compression and a shift to narrower-spread liability products. The provision for credit losses increased compared with the prior year reflecting portfolio activity and the establishment of additional allowances for loan losses related to loans acquired from The Bank of New York, partially offset by a release of the unused portion of the special reserve established in 2005 for Hurricane Katrina. Credit quality remained stable. Expense increased due to higher compensation expense related to the adoption of SFAS 123R and increased expense related to higher client usage of Treasury Services' products.

Treasury & Securities Services net income was a record and increased significantly over the prior year. Revenue was at a record level driven by higher average liability balances, business growth, increased product usage by clients and higher assets under custody, all of which benefited from global economic growth and capital markets activity. This growth was offset partially by a shift to narrower-spread liability products. Expense increased due to higher compensation related to business growth, investments in new products and the adoption of SFAS 123R. The expense increase was offset partially by the absence of a prior-year charge to terminate a client contract.

Asset Management net income was a record in 2006. Record revenue benefited from increased assets under management driven by net asset inflows and strength in global equity markets, and higher performance and placement fees. The Provision for credit losses was a benefit reflecting net loan recoveries. Expense increased due primarily to higher performance-based compensation, incremental expense from the adoption of SFAS 123R, and increased minority interest expense related to Highbridge Capital Management, LLC ("Highbridge"), offset partially by the absence of BrownCo.

Corporate segment reported significantly improved results (excluding the impact of discontinued operations, as discussed further, below) driven by lower expense, improved revenue and the benefit of tax audit resolutions. Revenue benefited from lower securities losses, improved net interest spread and a higher level of available-for-sale securities partially offset by the absence of the gain on the sale of BrownCo and lower Private Equity results. Expense benefited from the absence of prior-year litigation reserve charges, higher insurance recoveries relating to certain material litigation, lower merger-related costs and other operating efficiencies. These benefits were offset partially by incremental expense related to the adoption of SFAS 123R.

On October 1, 2006, the Firm completed the exchange of selected corporate trust businesses, including trustee, paying agent, loan agency and document management services, for the consumer, business banking and middle-market banking businesses of The Bank of New York. The corporate trust businesses, which were previously reported in TSS, were reported as discontinued operations. The related balance sheet and income statement activity is reflected in the Corporate segment for all periods presented. During 2006, these businesses produced $795 million of net income compared with net income of $229 million in the prior year. Net income from discontinued operations was significantly higher in 2006 due to a one-time after-tax gain of $622 million related to the sale of these businesses. A modest amount of costs associated with the acquisition side of this transaction are included in Merger costs.

Credit costs for the Firm were $5.5 billion compared with $7.3 billion in the prior year. The $1.8 billion decrease was due primarily to lower bankruptcy-related losses in Card Services and the release in the current year of a portion of the $400 million special provision related to Hurricane Katrina that was taken in 2005. The decline was offset partially by an increase in the wholesale provision. The wholesale provision was $321 million compared with a benefit of $811 million in the prior year. The increase was due primarily to portfolio activity, partly offset by a decrease in nonperforming loans. Credit quality in the wholesale portfolio was stable. The benefit in 2005 was due to improvement in credit quality, reflected by significant reductions in criticized exposures and nonperforming loans. Consumer provision for credit losses was $5.2 billion compared with $8.1 billion in the prior year. The reduction primarily reflected the impact of significantly lower bankruptcy-related credit losses and a special provision for credit losses in 2005 related to Hurricane Katrina.

The Firm had, at year end, total stockholders' equity of $115.8 billion, and a Tier 1 capital ratio of 8.7%. The Firm purchased $3.9 billion, or 91 million shares of common stock during the year.

2007 Business outlook

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

JPMorgan Chase's outlook for 2007 should be viewed against the backdrop of the global economy, financial markets activity and the geopolitical environment, all of which are linked integrally. While the Firm considers outcomes for, and has contingency plans to respond to, stress environments, the basic outlook for 2007 is predicated on the interest rate movements implied in the forward rate curve for U.S. Treasury securities, the continuation of favorable U.S. and international equity markets and continued expansion of the global economy.

The Investment Bank enters 2007 with a strong investment banking fee pipeline and remains focused on developing new products and capabilities. Asset Management anticipates growth driven by continued net asset inflows. Commercial Banking and Treasury & Securities Services expect growth due to increased business activity and product sales with some competitive and rate pressures. However, the performance of the Firm's wholesale businesses will be affected by overall global economic growth and by financial market movements and activity levels in any given period.

Retail Financial Services anticipates benefiting from the continued expansion of the branch network and sales force, including the addition of The Bank of New York's 339 branches, and improved sales productivity and cross-selling in the branches. Loan and deposit spreads are expected to experience continued compression due to the interest rate and competitive environments.

Card Services anticipates growth in managed receivables and sales volume, both of which are expected to benefit from marketing initiatives and new partnerships. Expenditures on marketing are expected to be lower than the 2006 level.

In the Corporate segment, the revenue outlook for the Private Equity business is directly related to the strength of the equity markets and the performance of the underlying portfolio investments. If current market conditions persist, the Firm anticipates continued realization of private equity gains in 2007, but results can be volatile from quarter to quarter. Management believes that the net loss in Treasury and Other Corporate, on a combined basis, will be approximately $50 to $100 million per quarter in 2007, reflecting merger savings and other expense efficiency initiatives, such as less excess real estate.

The Provision for credit losses in 2007 is anticipated to be higher than in 2006, primarily driven by a trend toward a more normal level of provisioning for credit losses in both the wholesale and consumer businesses. The consumer Provision for credit losses should reflect a higher level of net charge-offs as bankruptcy filings continue to increase from the significantly lower than normal levels experienced in 2006 related to the change in bankruptcy law in 2005.

Firmwide expenses are anticipated to reflect investments in each business, continued merger savings and other operating efficiencies. Annual Merger savings are expected to reach approximately $3.0 billion by the end of 2007, upon the completion of the last significant conversion activity, the wholesale deposit conversion scheduled for the second half of 2007. Offsetting merger savings will be continued investment in distribution enhancements and new product offerings, and expenses related to recent acquisitions including The Bank of New York transaction. Merger costs of approximately $400 million are expected to be incurred during 2007 (including a modest amount related to The Bank of New York transaction). These additions are expected to bring total cumulative merger costs to $3.8 billion by the end of 2007.

CONSOLIDATED RESULTS OF OPERATIONS

The following section provides a comparative discussion of JPMorgan Chase's consolidated results of operations on a reported basis for the three-year period ended December 31, 2006. Factors that are related primarily to a single business segment are discussed in more detail within that business segment than they are in this consolidated section. Total net revenue, Noninterest expense and Income tax expense have been revised to reflect the impact of discontinued operations. For a discussion of the Critical accounting estimates used by the Firm that affect the Consolidated results of operations, see pages 83–85 of this Annual Report.

Revenue

Year ended December 31, (in millions)	**2006**	2005	2004(a)
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
Net interest income	**21,242**	19,555	16,527
Total net revenue	**$ 61,437**	$ 53,748	$ 42,372

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

2006 compared with 2005

Total net revenue for 2006 was $61.4 billion, up by $7.7 billion, or 14%, from the prior year. The increase was due to higher Principal transactions, primarily from strong trading revenue results, record Asset management, administration and commissions revenue, and record Investment banking fees. Also contributing to the increase was higher Net interest income and lower securities portfolio losses. These improvements were offset partially by a decline in Other income partly as a result of the gain recognized in 2005 on the sale of BrownCo, and lower Mortgage fees and related income.

The increase in Investment banking fees was driven by record debt and equity underwriting as well as strong advisory fees. For a further discussion of Investment banking fees, which are recorded primarily in the IB, see the IB segment results on pages 36–37 of this Annual Report.

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, primarily in the IB, and Private equity gains and losses, primarily in the private equity business of Corporate. Trading revenue increased compared with 2005 due to record performance in Equity and Fixed income markets. For a further discussion of Principal transactions revenue, see the IB and Corporate segment results on pages 36–37 and 53–54, respectively, of this Annual Report.

Lending & deposit related fees rose slightly in comparison with 2005 as a result of higher fee income on deposit-related fees and, in part, from The Bank of New York transaction. For a further discussion of the change in Lending & deposit related fees, which are recorded in RFS, see the RFS segment results on pages 38–42 of this Annual Report.

The increase in Asset management, administration and commissions revenue in 2006 was driven by growth in assets under management in AM, which exceeded $1 trillion at the end of 2006, higher equity-related commissions in IB and higher performance and placement fees. The growth in assets under management reflected net asset inflows in the institutional and retail segments. Also contributing to the increase were higher assets under custody in TSS driven by market value appreciation and new business; and growth in depositary receipts, securities lending and global clearing, all of which were driven by a combination of increased product usage by existing clients and new business. In addition, commissions in the IB rose as a result of strength across regions, partly offset by the sale of the insurance business and BrownCo. For additional information on these fees and commissions, see the segment discussions for AM on pages 50–52, TSS on pages 48–49 and RFS on pages 38–42, of this Annual Report.

The favorable variance in Securities gains (losses) was due primarily to lower Securities losses in Treasury in 2006 from portfolio repositioning activities in connection with the management of the Firm's assets and liabilities. For a further discussion of Securities gains (losses), which are mostly recorded in the Firm's Treasury business, see the Corporate segment discussion on pages 53–54 of this Annual Report.

Mortgage fees and related income declined in comparison with 2005 reflecting a reduction in net mortgage servicing revenue and higher losses on mortgage loans transferred to held-for-sale. These declines were offset partly by growth in production revenue as a result of higher volume of loans sales and wider gain on sale margins. Mortgage fees and related income exclude the impact of NII and AFS securities gains related to mortgage activities. For a discussion of Mortgage fees and related income, which is recorded primarily in RFS's Mortgage Banking business, see the Mortgage Banking discussion on page 41 of this Annual Report.

Credit card income increased from 2005, primarily from higher customer charge volume that favorably impacted interchange income and servicing fees earned in connection with securitization activities, which benefited from lower credit losses incurred on securitized credit card loans. These increases were offset partially by increases in volume-driven payments to partners, expenses related to reward programs, and interest paid to investors in the securitized loans. Credit card income also was impacted negatively by the deconsolidation of Paymentech in the fourth quarter of 2005.

The decrease in Other income compared with the prior year was due to a $1.3 billion pretax gain recognized in 2005 on the sale of BrownCo and lower gains from loan workouts. Partially offsetting these two items were higher automobile operating lease revenue; an increase in equity investment income, in particular, from Chase Paymentech Solutions, LLC; and a pretax gain of $103 million on the sale of MasterCard shares in its initial public offering.

Net interest income rose due largely to improvement in Treasury's net interest spread and increases in wholesale liability balances, wholesale and consumer loans, available-for-sale securities, and consumer deposits. Increases in consumer and wholesale loans and deposits included the impact of The Bank of New York transaction. These increases were offset partially by narrower spreads on both trading-related assets and loans, a shift to narrower-spread deposit products, RFS's sale of the insurance business and the absence of BrownCo in AM. The Firm's total average interest-earning assets for 2006 were $995.5 billion, up 11% from the prior year, primarily as a result of an increase in loans and other liquid earning assets, partially offset by a decline in interests in purchased receivables as a result of the restructuring and deconsolidation during the second quarter of 2006 of certain multi-seller conduits that the Firm administered. The net yield on interest-earning assets, on a fully taxable-equivalent basis, was 2.16%, a decrease of four basis points from the prior year. For a further discussion of Net interest income, see the Business Segment Results section on pages 34–35 of this Annual Report.

2005 compared with 2004

Total net revenue for 2005 was $53.7 billion, up 27% from 2004, primarily due to the Merger, which affected every revenue category. The increase from 2004 also was affected by a $1.3 billion gain on the sale of BrownCo; higher Principal transactions revenue; and higher Asset management, administration and commissions, which benefited from several new investments and growth in Assets under management and Assets under custody. These increases were offset partly by available-for-sale ("AFS") securities losses as a result of repositioning of the Firm's Treasury investment portfolio. The discussions that follow highlight factors other than the Merger that affected the 2005 versus 2004 comparison.

The increase in Investment banking fees was driven by strong growth in advisory fees resulting in part from the Cazenove business partnership. For a further discussion of Investment banking fees, which are primarily recorded in the IB, see the IB segment results on pages 36–37 and Note 2 on page 97 of this Annual Report.

Revenue from Principal transactions increased compared with 2004, driven by stronger, although volatile, trading results across commodities, emerging markets, rate markets and currencies. Private equity gains were higher due to a continuation of favorable capital markets conditions. For a further discussion of Principal transactions revenue, see the IB and Corporate segment results on pages 36–37 and 53–54, respectively, of this Annual Report.

The higher Lending & deposit related fees were driven by the Merger; absent the effects of the Merger, the deposit-related fees would have been lower due to rising interest rates. In a higher interest rate environment, the value of deposit balances to a customer is greater, resulting in a reduction of deposit-related fees. For a further discussion of liability balances (including deposits) see the CB and TSS segment discussions on pages 46–47 and 48–49, respectively, of this Annual Report.

The increase in Asset management, administration and commissions revenue was driven by incremental fees from several new investments, including the acquisition of a majority interest in Highbridge, the Cazenove business partnership and the acquisition of Vastera. Also contributing to the higher level of revenue was an increase in Assets under management, reflecting net asset inflows in equity-related products and global equity market appreciation. In addition, Assets under custody were up due to market value appreciation and new business. Commissions rose as a result of a higher volume of brokerage transactions. For additional information on these fees and commissions, see the segment discussions for IB on pages 36–37, AM on pages 50–52 and TSS on pages 48–49 of this Annual Report.

The decline in Securities gains (losses) reflected $1.3 billion of securities losses, as compared with $338 million of gains in 2004. The losses were due to repositioning of the Firm's Treasury investment portfolio, to manage exposure to interest rates. For a further discussion of Securities gains (losses), which are recorded primarily in the Firm's Treasury business, see the Corporate segment discussion on pages 53–54 of this Annual Report.

Mortgage fees and related income increased due to improved MSR risk-management results. For a discussion of Mortgage fees and related income, which is recorded primarily in RFS's Mortgage Banking business, see the segment discussion for RFS on pages 38–42 of this Annual Report.

Credit card income rose as a result of higher interchange income associated with the increase in charge volume. This increase was offset partially by higher volume-driven payments to partners and rewards expense. For a further discussion of Credit card income, see CS segment results on pages 43–45 of this Annual Report.

The increase in Other income primarily reflected a $1.3 billion pretax gain on the sale of BrownCo; higher gains from loan workouts and loan sales; and higher automobile operating lease income.

Net interest income rose as a result of higher average volume of, and wider spreads on, liability balances. Also contributing to the increase was higher average volume of wholesale and consumer loans, in particular, real estate and credit card loans, which partly reflected a private label portfolio acquisition by CS. These increases were offset partially by narrower spreads on consumer and wholesale loans and on trading-related assets, as well as the impact of the repositioning of the Treasury investment portfolio, and the reversal of revenue related to increased bankruptcies in CS. The Firm's total average interest-earning assets in 2005 were $899.1 billion, up 23% from the prior year. The net interest yield on these assets, on a fully taxable-equivalent basis, was 2.20%, a decrease of seven basis points from the prior year.

Provision for credit losses

Year ended December 31, (in millions)	**2006**	2005	2004[(a)]
Provision for credit losses	**$ 3,270**	$ 3,483	$ 2,544

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

2006 compared with 2005

The Provision for credit losses in 2006 declined $213 million from the prior year due to a $1.3 billion decrease in the consumer Provision for credit losses, partly offset by a $1.1 billion increase in wholesale Provision for credit losses. The decrease in the consumer provision was driven by CS, reflecting lower bankruptcy-related losses, partly offset by higher contractual net charge-offs. The 2005 consumer provision also reflected $350 million of a special provision related to Hurricane Katrina, a portion of which was released in the current year. The increase in the wholesale provision was due primarily to portfolio activity, partly offset by a decrease in nonperforming loans. The benefit in 2005 was due to strong credit quality, reflected in significant reductions in criticized exposure and nonperforming loans. Credit quality in the wholesale portfolio was stable. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, refer to Credit risk management on pages 64–76 of this Annual Report.

2005 compared with 2004

The Provision for credit losses was $3.5 billion, an increase of $939 million, or 37%, from 2004, reflecting the full-year impact of the Merger. The wholesale Provision for credit losses was a benefit of $811 million for the year compared with a benefit of $716 million in the prior year, reflecting continued strength in credit quality. The wholesale loan net recovery rate was 0.06% in 2005, an improvement from a net charge-off rate of 0.18% in the prior year. The total consumer Provision for credit losses was $4.3 billion, $1.9 billion higher than the prior year, primarily due to the Merger, higher bankruptcy-related net charge-offs in Card Services and a $350 million special provision for Hurricane Katrina. Also included in 2004 were accounting policy conformity adjustments as a result of the Merger. Excluding these items, the consumer portfolio continued to show strength in credit quality.

Noninterest expense

Year ended December 31, (in millions)	2006	2005	2004[(a)]
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

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

2006 compared with 2005

Total noninterest expense for 2006 was $38.3 billion, down slightly from the prior year. The decrease was due to material litigation-related insurance recoveries of $512 million in 2006 compared with a net charge of $2.6 billion (includes $208 million material litigation-related insurance recoveries) in 2005, primarily associated with the settlement of the Enron and WorldCom class action litigations and for certain other material legal proceedings. Also contributing to the decrease were lower Merger costs, the deconsolidation of Paymentech, the sale of the insurance business, and merger-related savings and operating efficiencies. These items were offset mostly by higher performance-based compensation and incremental expense of $712 million related to SFAS 123R, the impact of acquisitions and investments in businesses, as well as higher Marketing expenditures.

The increase in Compensation expense from 2005 was primarily a result of higher performance-based incentives, incremental expense related to SFAS 123R of $712 million for 2006, and additional headcount in connection with growth in business volume, acquisitions, and investments in the businesses. These increases were offset partially by merger-related savings and other expense efficiencies throughout the Firm. For a detailed discussion of the adoption of SFAS 123R and employee stock-based incentives see Note 8 on pages 105–107 of this Annual Report.

The increase in Occupancy expense from 2005 was due to ongoing investments in the retail distribution network, which included the incremental expense from The Bank of New York branches, partially offset by merger-related savings and other operating efficiencies.

The slight increase in Technology, communications and equipment expense for 2006 was due primarily to higher depreciation expense on owned automobiles subject to operating leases and higher technology investments to support business growth, partially offset by merger-related savings and operating efficiencies.

Professional & outside services decreased from 2005 due to merger-related savings and operating efficiencies, lower legal fees associated with several legal matters settled in 2005 and the Paymentech deconsolidation. The decrease was offset partly by acquisitions and business growth.

Marketing expense was higher compared with 2005, reflecting the costs of campaigns for credit cards.

Other expense was lower due to significant litigation-related charges of $2.8 billion in 2005, associated with the settlement of the Enron and WorldCom class action litigations and certain other material legal proceedings. In addition, the Firm recognized insurance recoveries of $512 million and $208 million, in 2006 and 2005, respectively, pertaining to certain material litigation matters. For a further discussion of litigation, refer to Note 27 on pages 130–131 of this Annual Report. Also contributing to the decline from the prior year were charges of $93 million in connection with the termination of a client contract in TSS in 2005; and in RFS, the sale of the insurance business in the third quarter of 2006. These items were offset partially by higher charges related to other litigation, and the impact of growth in business volume, acquisitions and investments in the businesses.

For discussion of Amortization of intangibles and Merger costs, refer to Note 16 and Note 9 on pages 121–123 and 108, respectively, of this Annual Report.

2005 compared with 2004

Noninterest expense for 2005 was $38.4 billion, up 13% from 2004, primarily due to the full-year impact of the Merger. Excluding Litigation reserve charges and Merger costs, Noninterest expense would have been $35.1 billion, up 22%. In addition to the Merger, expenses increased as a result of higher performance-based incentives, continued investment spending in the Firm's businesses and incremental marketing expenses related to launching the new Chase brand, partially offset by merger-related savings and operating efficiencies throughout the Firm. Each category of Noninterest expense was affected by the Merger. The discussions that follow highlight factors other than the Merger that affected the 2005 versus 2004 comparison.

Compensation expense rose as a result of higher performance-based incentives; additional headcount due to the insourcing of the Firm's global technology infrastructure (effective December 31, 2004, when JPMorgan Chase terminated the Firm's outsourcing agreement with IBM); the impact of several investments, including Cazenove, Highbridge and Vastera; the accelerated vesting of certain employee stock options; and business growth. The effect of the termination of the IBM outsourcing agreement was to shift expenses from Technology and communications expense to Compensation expense. The increase in Compensation expense was offset partially by merger-related savings throughout the Firm. For a detailed discussion of employee stock-based incentives, see Note 8 on pages 105–107 of this Annual Report.

The increase in Occupancy expense was due primarily to the Merger, partially offset by lower charges for excess real estate and a net release of excess property tax accruals, as compared with $103 million of charges for excess real estate in 2004.

Technology and communications expense was down slightly. This reduction reflects the offset of six months of the combined Firm's results for 2004 against the full-year 2005 impact from termination of the JPMorgan Chase outsourcing agreement with IBM. The reduction in Technology and communications expense due to the outsourcing agreement termination is offset mostly by increases in Compensation expense related to additional headcount and investments in the Firm's hardware and software infrastructure.

Professional and outside services were higher compared with the prior year as a result of the insourcing of the Firm's global technology infrastructure, upgrades to the Firm's systems and technology, and business growth. These expenses were offset partially by operating efficiencies.

Marketing expense was higher compared with the prior year, primarily as a result of the Merger and the cost of advertising campaigns to launch the new Chase brand.

The decrease in Other expense reflected lower litigation reserve charges for certain material legal proceedings in 2005: $1.9 billion related to the settlement of the Enron class action litigation and for certain other material legal proceedings, and $900 million for the settlement of the WorldCom class action litigation; and in 2004, $3.7 billion to increase litigation reserves. Also contributing to the decrease were a $208 million insurance recovery related to certain material litigation, lower software impairment write-offs, merger-related savings and operating efficiencies. These were offset partially by $93 million in charges taken by TSS to terminate a client contract and a $40 million charge taken by RFS related to the dissolution of a student loan joint venture.

For a discussion of Amortization of intangibles and Merger costs, refer to Note 16 and Note 9 on pages 121–123 and 108, respectively, of this Annual Report.

Income tax expense

The Firm's Income from continuing operations before income tax expense, Income tax expense and Effective tax rate were as follows for each of the periods indicated:

Year ended December 31, (in millions, except rate)	**2006**	2005	2004[a]
Income from continuing operations before income tax expense	**$19,886**	$ 11,839	$ 5,856
Income tax expense	**6,237**	3,585	1,596
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.

2006 compared with 2005

The increase in the effective tax rate for 2006, as compared with the prior year, was primarily the result of higher reported pretax income combined with changes in the proportion of income subject to federal, state and local taxes. Also contributing to the increase in the effective tax rate were the litigation charges in 2005 and lower Merger costs, reflecting a tax benefit at a 38% marginal tax rate, partially offset by benefits related to tax audit resolutions of $367 million in 2006.

2005 compared with 2004

The increase in the effective tax rate was primarily the result of higher reported pretax income combined with changes in the proportion of income subject to federal, state and local taxes. Also contributing to the increase were lower 2005 litigation charges and a gain on the sale of BrownCo, which were taxed at marginal tax rates of 38% and 40%, respectively. These increases were offset partially by a tax benefit in 2005 of $55 million recorded in connection with the repatriation of foreign earnings.

Income from discontinued operations

As a result of the transaction with The Bank of New York on October 1, 2006, the results of operations of the selected corporate trust businesses (i.e., trustee, paying agent, loan agency and document management services) were reported as discontinued operations.

The Firm's Income from discontinued operations (after-tax) were as follows for each of the periods indicated:

Year ended December 31, (in millions)	**2006**	2005	2004[a]
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 increases from the prior two periods in Income from discontinued operations were due primarily to a gain of $622 million from exiting the corporate trust business in the fourth quarter of 2006.

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

The Firm prepares its Consolidated financial statements using accounting principles generally accepted in the United States of America ("U.S. GAAP"); these financial statements appear on pages 90–93 of this Annual Report. That presentation, which is referred to as "reported basis," provides the reader with an understanding of the Firm's results that can be tracked consistently from year to year and enables a comparison of the Firm's performance with other companies' U.S. GAAP financial statements.

Effective January 1, 2006, JPMorgan Chase's presentation of "operating earnings," which excluded merger costs and material litigation reserve charges and recoveries from reported results, was eliminated. These items had been excluded previously from operating results because they were deemed nonrecurring; they are included now in the Corporate segment's results. In addition, trading-related net interest income no longer is reclassified from Net interest income to Principal transactions.

In addition to analyzing the Firm's results on a reported basis, management reviews the Firm's and the 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 assumes credit card loans securitized by CS remain on the balance sheet and presents revenue on a fully taxable-equivalent ("FTE") basis. These adjustments do not have any impact on Net income as reported by the lines of business or by the Firm as a whole.

The presentation of CS results on a managed basis assumes that credit card loans that have been securitized and sold in accordance with SFAS 140 still remain on the balance sheet and that the earnings on the securitized loans are classified in the same manner as the earnings on retained loans recorded on the balance sheet. JPMorgan Chase uses the concept of managed basis to evaluate the credit performance and overall financial performance of the entire

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

(Table continues on next page)

Year ended December 31,	2006				2005			
(in millions, except per share and ratio data)	Reported results	Credit card[(b)]	Tax-equivalent adjustments	Managed basis	Reported results	Credit card[(b)]	Tax-equivalent adjustments	Managed basis
Revenue								
Investment banking fees	**$ 5,520**	**$ —**	**$ —**	**$ 5,520**	$ 4,088	$ —	$ —	$ 4,088
Principal transactions	**10,346**	**—**	**—**	**10,346**	7,669	—	—	7,669
Lending & deposit related fees	**3,468**	**—**	**—**	**3,468**	3,389	—	—	3,389
Asset management, administration and commissions	**11,725**	**—**	**—**	**11,725**	9,891	—	—	9,891
Securities gains (losses)	**(543)**	**—**	**—**	**(543)**	(1,336)	—	—	(1,336)
Mortgage fees and related income	**591**	**—**	**—**	**591**	1,054	—	—	1,054
Credit card income	**6,913**	**(3,509)**	**—**	**3,404**	6,754	(2,718)	—	4,036
Other income	**2,175**	**—**	**676**	**2,851**	2,684	—	571	3,255
Noninterest revenue	**40,195**	**(3,509)**	**676**	**37,362**	34,193	(2,718)	571	32,046
Net interest income	**21,242**	**5,719**	**228**	**27,189**	19,555	6,494	269	26,318
Total net revenue	**61,437**	**2,210**	**904**	**64,551**	53,748	3,776	840	58,364
Provision for credit losses	**3,270**	**2,210**	**—**	**5,480**	3,483	3,776	—	7,259
Noninterest expense	**38,281**	**—**	**—**	**38,281**	38,426	—	—	38,426
Income from continuing operations before income tax expense	**19,886**	**—**	**904**	**20,790**	11,839	—	840	12,679
Income tax expense	**6,237**	**—**	**904**	**7,141**	3,585	—	840	4,425
Income from continuing operations	**13,649**	**—**	**—**	**13,649**	8,254	—	—	8,254
Income from discontinued operations	**795**	**—**	**—**	**795**	229	—	—	229
Net income	**$ 14,444**	**$ —**	**$ —**	**$ 14,444**	$ 8,483	$ —	$ —	$ 8,483
Income from continuing operations – diluted earnings per share	**$ 3.82**	**$ —**	**$ —**	**$ 3.82**	$ 2.32	$ —	$ —	$ 2.32
Return on common equity[(a)]	**12%**	**—%**	**—%**	**12%**	8%	—%	—%	8%
Return on common equity less goodwill[(a)]	**20**	**—**	**—**	**20**	13	—	—	13
Return on assets[(a)]	**1.04**	**NM**	**NM**	**1.00**	0.70	NM	NM	0.67
Overhead ratio	**62**	**NM**	**NM**	**59**	71	NM	NM	66
Loans–Period-end	**$ 483,127**	**$ 66,950**	**$ —**	**$ 550,077**	$ 419,148	$ 70,527	—	$ 489,675
Total assets – average	**1,313,794**	**65,266**	**—**	**1,379,060**	1,185,066	67,180	—	1,252,246

(a) Based on Income from continuing operations.
(b) The impact of credit card securitizations affects CS. See pages 43–45 of this Annual Report for further information.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

managed credit card portfolio. Operations are funded and decisions are made about allocating resources, such as employees and capital, based upon managed financial information. In addition, the same underwriting standards and ongoing risk monitoring are used for both loans on the balance sheet and securitized loans. Although securitizations result in the sale of credit card receivables to a trust, JPMorgan Chase retains the ongoing customer relationships, as the customers may continue to use their credit cards; accordingly, the customer's credit performance will affect both the securitized loans and the loans retained on the balance sheet. JPMorgan Chase believes managed basis information is useful to investors, enabling them to understand both the credit risks associated with the loans reported on the balance sheet and the Firm's retained interests in securitized loans. For a reconciliation of reported to managed basis of CS results, see Card Services segment results on pages 43–45 of this Annual Report. For information regarding the securitization process, and loans and residual interests sold and securitized, see Note 14 on pages 114–118 of this Annual Report.

Total net revenue for each of the business segments and the Firm is presented on an FTE basis. Accordingly, revenue from tax-exempt securities and investments that receive tax credits is presented in the managed results on a basis comparable to taxable securities and investments. This non-GAAP financial measure allows management to assess the comparability of revenues arising from both taxable and tax-exempt sources. The corresponding income tax impact related to these items is recorded within Income tax expense.

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

(Table continued from previous page)

2004[c]			
Reported results	Credit card[b]	Tax-equivalent adjustments	Managed basis
$ 3,536	$ —	$ —	$ 3,536
5,148	—	—	5,148
2,672	—	—	2,672
7,682	—	—	7,682
338	—	—	338
803	—	—	803
4,840	(2,267)	—	2,573
826	(86)	317	1,057
25,845	(2,353)	317	23,809
16,527	5,251	6	21,784
42,372	2,898	323	45,593
2,544	2,898	—	5,442
33,972	—	—	33,972
5,856	—	323	6,179
1,596	—	323	1,919
4,260	—	—	4,260
206	—	—	206
$ 4,466	$ —	$ —	$ 4,466
$ 1.48	$ —	$ —	$ 1.48
6%	—%	—%	6%
8	—	—	8
0.44	NM	NM	0.43
80	NM	NM	75
$ 402,114	$ 70,795	—	$ 472,909
962,556	51,084	—	1,013,640

Calculation of Certain GAAP and Non-GAAP Metrics

The table below reflects the formulas used to calculate both the following GAAP and non-GAAP measures:

Return on common equity

Net income* / Average common stockholders' equity

Return on common equity less goodwill[a]

Net income* / Average common stockholders' equity less goodwill

Return on assets

Reported Net income / Total average assets

Managed Net income / Total average managed assets[b] (including average securitized credit card receivables)

Overhead ratio

Total noninterest expense / Total net revenue

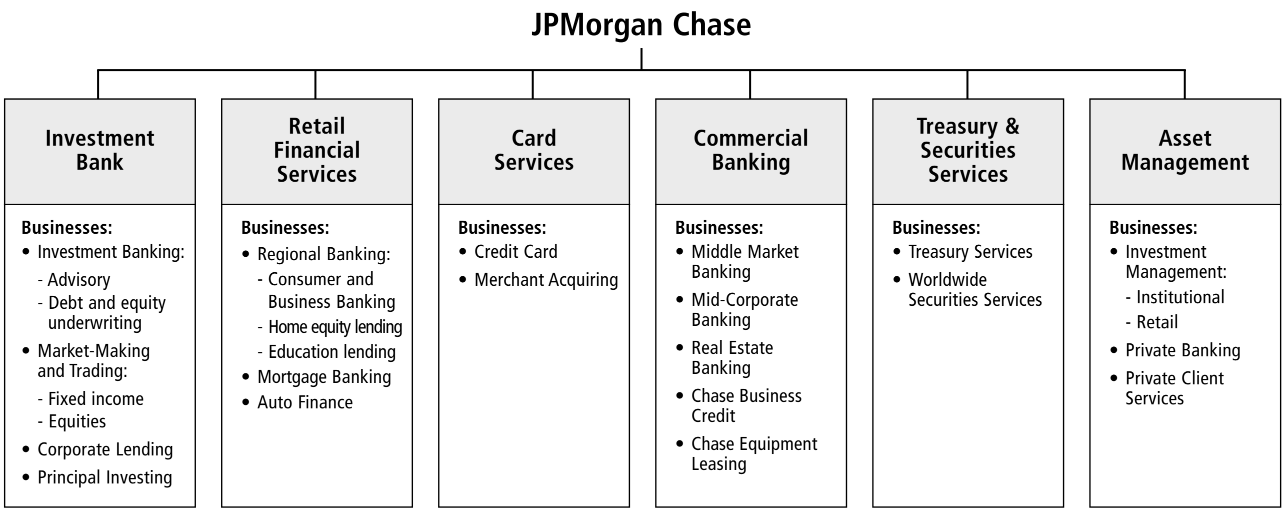
* Represents Net income applicable to common stock

(a) The Firm uses Return on common equity less goodwill, a non-GAAP financial measure, to evaluate the operating performance of the Firm and to facilitate comparisons to competitors.

(b) The Firm uses Return on managed assets, a non-GAAP financial measure, to evaluate the overall performance of the managed credit card portfolio, including securitized credit card loans.

BUSINESS SEGMENT RESULTS

The Firm is managed on a line-of-business basis. The business segment financial results presented reflect the current organization of JPMorgan Chase. There are six major reportable business segments: the Investment Bank, Retail Financial Services, Card Services, Commercial Banking, Treasury & Securities Services and Asset Management, as well as a Corporate 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. Segment results for 2004 include six months of the combined Firm's results and six months of heritage JPMorgan Chase only.



Description of business segment reporting methodology

Results of the business segments are intended to reflect each segment as if it were essentially a stand-alone business. During 2006, JPMorgan Chase modified certain of its segment 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 modifications are reflected in this Annual Report and, except as indicated, the financial information for prior periods has been revised to reflect the changes as if they had been in effect throughout all periods reported. A summary of the changes follows:

- The presentation of operating earnings in 2005 and 2004 that excluded from reported results merger costs and material litigation reserve charges and recoveries was eliminated effective January 1, 2006. These items had been excluded previously from operating results because they were deemed nonrecurring; they are included now in the Corporate business segment's results.
- Trading-related net interest income is no longer reclassified from Net interest income to Principal transactions.
- Various wholesale banking clients, together with the related balance sheet and income statement items, were transferred among CB, the IB and TSS. The primary client transfer was corporate mortgage finance from CB to the IB and TSS.
- TSS firmwide disclosures have been adjusted to reflect a refined set of TSS products as well as a revised allocation of liability balances and lending-related revenue related to certain client transfers.
- 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.

The management reporting process that derives business segment results allocates income and expense using market-based methodologies. The Firm continues to assess the assumptions, methodologies and reporting classifications used for segment reporting, and further refinements may be implemented in future periods. Segment reporting methodologies used by the Firm are discussed below.

Revenue sharing
When business segments join efforts to sell products and services to the Firm's clients, the participating business segments agree to share revenues from those transactions. The segment results reflect these revenue-sharing agreements.

Funds transfer pricing
Funds transfer pricing ("FTP") is used to allocate interest income and expense to each business and transfer the primary interest rate risk exposures to the Corporate business segment. The allocation process is unique to each business segment and considers the interest rate risk, liquidity risk and regulatory requirements of that segment's stand-alone peers. This process is overseen by the Firm's Asset-Liability Committee ("ALCO"). Business segments may retain certain interest rate exposures, subject to management approval, that would be expected in the normal operation of a similar peer business.

Capital allocation

Each business segment is allocated capital by taking into consideration stand-alone peer comparisons, economic risk measures and regulatory capital requirements. The amount of capital assigned to each business is referred to as equity. Effective January 1, 2006, the Firm refined its methodology for allocating capital to the business segments. As prior periods have not been revised to reflect the new capital allocations, certain business metrics, such as ROE, are not comparable to the current presentations. For a further discussion of this change, see Capital management–Line of business equity on page 57 of this Annual Report.

Expense allocation

Where business segments use services provided by support units within the Firm, the costs of those support units are allocated to the business segments. Those expenses are allocated based upon their actual cost or the lower of actual cost or market, as well as upon usage of the services provided. In contrast, certain other expenses related to certain corporate functions, or to certain technology and operations, are not allocated to the business segments and are retained in Corporate. These retained expenses include: parent company costs that would not be incurred if the segments were stand-alone businesses; adjustments to align certain corporate staff, technology and operations allocations with market prices; and other one-time items not aligned with the business segments.

During 2005, the Firm refined cost allocation methodologies related to certain corporate, technology and operations expenses in order to improve transparency, consistency and accountability with regard to costs allocated across business segments. Prior periods were not revised to reflect this methodology change.

Credit reimbursement

TSS reimburses the IB for credit portfolio exposures managed by the IB on behalf of clients that 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.

Segment results – Managed basis[(a)]

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

Year ended December 31,	Total net revenue			Noninterest expense		
(in millions, except ratios)	**2006**	2005	2004[(c)]	**2006**	2005	2004[(c)]
Investment Bank	**$ 18,277**	$ 14,613	$ 12,633	**$ 12,304**	$ 9,749	$ 8,709
Retail Financial Services	**14,825**	14,830	10,791	**8,927**	8,585	6,825
Card Services	**14,745**	15,366	10,745	**5,086**	4,999	3,883
Commercial Banking	**3,800**	3,488	2,278	**1,979**	1,856	1,326
Treasury & Securities Services	**6,109**	5,539	4,198	**4,266**	4,050	3,726
Asset Management	**6,787**	5,664	4,179	**4,578**	3,860	3,133
Corporate[(b)]	**8**	(1,136)	769	**1,141**	5,327	6,370
Total	**$ 64,551**	$ 58,364	$ 45,593	**$ 38,281**	$ 38,426	$ 33,972

Year ended December 31,	Net income (loss)			Return on equity		
(in millions, except ratios)	**2006**	2005	2004[(c)]	**2006**	2005	2004[(c)]
Investment Bank	**$ 3,674**	$ 3,673	$ 2,956	**18%**	18%	17%
Retail Financial Services	**3,213**	3,427	2,199	**22**	26	24
Card Services	**3,206**	1,907	1,274	**23**	16	17
Commercial Banking	**1,010**	951	561	**18**	28	27
Treasury & Securities Services	**1,090**	863	277	**48**	57	14
Asset Management	**1,409**	1,216	681	**40**	51	17
Corporate[(b)]	**842**	(3,554)	(3,482)	**NM**	NM	NM
Total	**$ 14,444**	$ 8,483	$ 4,466	**13%**	8%	6%

(a) Represents reported results on a tax-equivalent basis and excludes the impact of credit card securitizations.

(b) Net income includes Income from discontinued operations (after-tax) of $795 million, $229 million and $206 million for 2006, 2005 and 2004, respectively.

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

INVESTMENT BANK

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

Selected income statement data

Year ended December 31, (in millions, except ratios)	2006	2005	2004[e]
Revenue			
Investment banking fees	**$ 5,537**	$ 4,096	$ 3,572
Principal transactions	**9,086**	6,059	3,548
Lending & deposit related fees	**517**	594	539
Asset management, administration and commissions	**2,110**	1,727	1,401
All other income	**528**	534	277
Noninterest revenue	**17,778**	13,010	9,337
Net interest income[a]	**499**	1,603	3,296
Total net revenue[b]	**18,277**	14,613	12,633
Provision for credit losses	**191**	(838)	(640)
Credit reimbursement from TSS[c]	**121**	154	90
Noninterest expense			
Compensation expense	**8,190**	5,792	4,896
Noncompensation expense	**4,114**	3,957	3,813
Total noninterest expense	**12,304**	9,749	8,709
Income before income tax expense	**5,903**	5,856	4,654
Income tax expense	**2,229**	2,183	1,698
Net income	**$ 3,674**	$ 3,673	$ 2,956
Financial ratios			
ROE	**18%**	18%	17%
ROA	**0.57**	0.61	0.62
Overhead ratio	**67**	67	69
Compensation expense as % of total net revenue[d]	**43**	40	39

(a) The decline in net interest income for the periods shown is largely driven by a decline in trading-related net interest income caused by a higher proportion of noninterest-bearing net trading assets to total net trading assets, higher funding costs compared with prior-year periods, and spread compression due to the inverted yield curve in place for most of the current year.
(b) Total Net revenue includes tax-equivalent adjustments, primarily due to tax-exempt income from municipal bond investments and income tax credits related to affordable housing investments, of $802 million, $752 million and $274 million for 2006, 2005 and 2004, respectively.
(c) TSS is charged a credit reimbursement related to certain exposures managed within the IB credit portfolio on behalf of clients shared with TSS. For a further discussion, see Credit reimbursement on page 35 of this Annual Report.
(d) Beginning in 2006, the Compensation expense to Total net revenue ratio is adjusted to present this ratio as if SFAS 123R had always been in effect. IB management believes that adjusting the Compensation expense to Total net revenue ratio for the incremental impact of adopting SFAS 123R provides a more meaningful measure of IB's Compensation expense to Total net revenue ratio.
(e) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

2006 compared with 2005

Net income of $3.7 billion was flat, as record revenue of $18.3 billion was offset largely by higher compensation expense, including the impact of SFAS 123R, and a provision for credit losses compared with a benefit in the prior year.

Total net revenue of $18.3 billion was up $3.7 billion, or 25%, from the prior year. Investment banking fees of $5.5 billion were a record, up 35% from the prior year, driven by record debt and equity underwriting as well as strong advisory fees, which were the highest since 2000. Advisory fees of $1.7 billion were up 31% over the prior year driven primarily by strong performance in the Americas. Debt underwriting fees of $2.7 billion were up 37% from the prior year driven by record performance in both loan syndications and bond underwriting. Equity underwriting fees of $1.2 billion were up 36% from the prior year driven by global equity markets. Fixed Income Markets revenue of $8.4 billion was also a record, up 15% from the prior year driven by strength in credit markets, emerging markets and currencies. Record Equity Markets revenue of $3.3 billion increased 81%, and was driven by strength in cash equities and equity derivatives. Credit Portfolio revenue of $1.1 billion was down 23%, primarily reflecting lower gains from loan workouts.

The following table provides the IB's total Net revenue by business segment:

Year ended December 31, (in millions)	2006	2005	2004[d]
Revenue by business			
Investment banking fees:			
Advisory	**$ 1,659**	$ 1,263	$ 938
Equity underwriting	**1,178**	864	781
Debt underwriting	**2,700**	1,969	1,853
Total investment banking fees	**5,537**	4,096	3,572
Fixed income markets[a]	**8,369**	7,277	6,342
Equity markets[b]	**3,264**	1,799	1,491
Credit portfolio[c]	**1,107**	1,441	1,228
Total net revenue	**$ 18,277**	$ 14,613	$ 12,633

(a) Fixed income markets includes client and portfolio management revenue related to both market-making and proprietary risk-taking across global fixed income markets, including foreign exchange, interest rate, credit and commodities markets.
(b) Equities markets includes client and portfolio management revenue related to market-making and proprietary risk-taking across global equity products, including cash instruments, derivatives and convertibles.
(c) Credit portfolio revenue includes Net interest income, fees and loan sale activity, as well as gains or losses on securities received as part of a loan restructuring, for the IB's credit portfolio. Credit portfolio revenue also includes the results of risk management related to the Firm's lending and derivative activities, and changes in the credit valuation adjustment ("CVA"), which is the component of the fair value of a derivative that reflects the credit quality of the counterparty. See pages 70–72 of the Credit risk management section of this Annual Report for further discussion.
(d) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Provision for credit losses was $191 million compared with a benefit of $838 million in the prior year. The current-year provision reflects portfolio activity; credit quality remained stable. The prior-year benefit reflected strong credit quality, a decline in criticized and nonperforming loans, and a higher level of recoveries.

Total noninterest expense of $12.3 billion was up by $2.6 billion, or 26%, from the prior year. This increase was due primarily to higher performance-based compensation, including the impact of an increase in the ratio of compensation expense to total net revenue, as well as the incremental expense related to SFAS 123R.

Return on equity was 18% on $20.8 billion of allocated capital compared with 18% on $20.0 billion in 2005.

2005 compared with 2004

Net income of $3.7 billion was up 24%, or $717 million, from the prior year. The increase was driven by the Merger, higher revenues and an increased benefit from the Provision for credit losses. These factors were offset partially by higher compensation expense. Return on equity was 18%.

Total net revenue of $14.6 billion was up $2.0 billion, or 16%, over the prior year, driven by strong Fixed Income and Equity Markets and Investment banking fees. Investment banking fees of $4.1 billion increased 15% from the prior year driven by strong growth in advisory fees resulting in part from the Cazenove business partnership. Advisory revenues of $1.3 billion were up 35% from the prior year, reflecting higher market volumes. Debt underwriting revenues of

$2.0 billion increased by 6% driven by strong loan syndication fees. Equity underwriting fees of $864 million were up 11% from the prior year driven by improved market share. Fixed Income Markets revenue of $7.3 billion increased 15%, or $935 million, driven by stronger, although volatile, trading results across commodities, emerging markets, rate markets and currencies. Equity Markets revenues increased 21% to $1.8 billion, primarily due to increased commissions, which were offset partially by lower trading results, which also experienced a high level of volatility. Credit Portfolio revenues were $1.4 billion, up $213 million from the prior year due to higher gains from loan workouts and sales as well as higher trading revenue from credit risk management activities.

The Provision for credit losses was a benefit of $838 million compared with a benefit of $640 million in 2004. The increased benefit was due primarily to the improvement in the credit quality of the loan portfolio and reflected net recoveries. Nonperforming assets of $645 million decreased by 46% since the end of 2004.

Total noninterest expense increased 12% to $9.7 billion, largely reflecting higher performance-based incentive compensation related to growth in revenue. Noncompensation expense was up 4% from the prior year primarily due to the impact of the Cazenove business partnership, while the overhead ratio declined to 67% for 2005, from 69% in 2004.

Selected metrics

Year ended December 31, (in millions, except headcount and ratio data)	**2006**	2005	2004[f]
Revenue by region			
Americas	**$ 9,227**	$ 8,258	$ 6,898
Europe/Middle East/Africa	**7,320**	4,627	4,082
Asia/Pacific	**1,730**	1,728	1,653
Total net revenue	**$ 18,277**	$ 14,613	$ 12,633
Selected average balances			
Total assets	**$ 647,569**	$599,761	$ 474,436
Trading assets–debt and equity instruments	**275,077**	231,303	190,119
Trading assets–derivative receivables	**54,541**	55,239	58,735
Loans:			
Loans retained[a]	**58,846**	44,813	37,804
Loans held-for-sale[b]	**21,745**	11,755	6,124
Total loans	**80,591**	56,568	43,928
Adjusted assets[c]	**527,753**	456,920	394,961
Equity	**20,753**	20,000	17,290
Headcount	**23,729**	19,802	17,501
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ (31)**	$ (126)	$ 47
Nonperforming assets:			
Nonperforming loans[d]	**231**	594	954
Other nonperforming assets	**38**	51	242
Allowance for loan losses	**1,052**	907	1,547
Allowance for lending related commitments	**305**	226	305
Net charge-off (recovery) rate[b]	**(0.05)%**	(0.28)%	0.12%
Allowance for loan losses to average loans[b]	**1.79**	2.02	4.09
Allowance for loan losses to nonperforming loans[d]	**461**	187	163
Nonperforming loans to average loans	**0.29**	1.05	2.17
Market risk–average trading and credit portfolio VAR[e]			
Trading activities:			
Fixed income	**$ 56**	$ 67	$ 74
Foreign exchange	**22**	23	17
Equities	**31**	34	28
Commodities and other	**45**	21	9
Less: portfolio diversification	**(70)**	(59)	(43)
Total trading VAR	**84**	86	85
Credit portfolio VAR	**15**	14	14
Less: portfolio diversification	**(11)**	(12)	(9)
Total trading and credit portfolio VAR	**$ 88**	$ 88	$ 90

(a) Loans retained include Credit Portfolio, conduit loans, leveraged leases, bridge loans for underwriting and other accrual loans.
(b) Loans held-for-sale, which include loan syndications, and warehouse loans held as part of the IB's mortgage-backed, asset-backed and other securitization businesses, are excluded from Total loans for the allowance coverage ratio and net charge-off rate.
(c) Adjusted assets, a non-GAAP financial measure, equals total average assets minus (1) securities purchased under resale agreements and securities borrowed less securities sold, not yet purchased; (2) assets of variable interest entities (VIEs) consolidated under FIN 46R; (3) cash and securities segregated and on deposit for regulatory and other purposes; and (4) goodwill and intangibles. The amount of adjusted assets is presented to assist the reader in comparing the IB's asset and capital levels to other investment banks in the securities industry. Asset-to-equity leverage ratios are commonly used as one measure to assess a company's capital adequacy. The IB believes an adjusted asset amount that excludes the assets discussed above, which are considered to have a low risk profile, provides a more meaningful measure of balance sheet leverage in the securities industry.
(d) Nonperforming loans include loans held-for-sale of $3 million, $109 million and $2 million as of December 31, 2006, 2005 and 2004, respectively, which are excluded from the allowance coverage ratios. Nonperforming loans exclude distressed HFS loans purchased as part of IB's proprietary activities.
(e) For a more complete description of VAR, see page 77 of this Annual Report.
(f) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Total average loans of $80.6 billion increased by $24.0 billion, or 42%, from the prior year. Average loans retained of $58.8 billion increased by $14.0 billion, or 31%, from the prior year driven by higher levels of capital markets activity. Average loans held-for-sale of $21.7 billion were up by $10.0 billion, or 85%, from the prior year driven primarily by growth in the IB securitization businesses.

IB's average Total trading and credit portfolio VAR was $88 million for both 2006 and 2005. The Commodities and other VAR category has increased from $21 million on average for 2005 to $45 million on average for 2006, reflecting the build-out of the IB energy business, which has also increased the effect of portfolio diversification such that Total IB Trading VAR was down slightly compared with the prior year.

According to Thomson Financial, in 2006, the Firm maintained its #2 position in Global Debt, Equity and Equity-related, its #1 position in Global Syndicated Loans, and its #6 position in Global Equity & Equity-related transactions. The Firm improved its position in Global Long-term Debt to #3 from #4.

According to Dealogic, the Firm was ranked #1 in Investment Banking fees generated during 2006, based upon revenue.

Market shares and rankings[a]

	2006		2005		2004	
December 31,	Market Share	Rankings	Market Share	Rankings	Market Share	Rankings
Global debt, equity and equity-related	**7%**	**#2**	7%	#2	7%	#3
Global syndicated loans	**14**	**1**	15	1	19	1
Global long-term debt	**6**	**3**	6	4	7	2
Global equity and equity-related	**7**	**6**	7	6	6	6
Global announced M&A	**23**	**4**	23	3	22	3
U.S. debt, equity and equity-related	**9**	**2**	8	3	8	5
U.S. syndicated loans	**26**	**1**	28	1	32	1
U.S. long-term debt	**12**	**2**	11	2	12	2
U.S. equity and equity-related[b]	**8**	**6**	9	6	9	4
U.S. announced M&A	**27**	**3**	26	3	28	2

(a) Source: Thomson Financial Securities data. Global announced M&A is based upon rank value; all other rankings are based upon proceeds, with full credit to each book manager/equal if joint. Because of joint assignments, market share of all participants will add up to more than 100%. The market share and rankings for December 31, 2004 are presented on a combined basis, as if the merger of JPMorgan Chase and Bank One had been in effect for the entire period.
(b) References U.S domiciled equity and equity-related transactions, per Thomson Financial.

RETAIL FINANCIAL SERVICES

Retail Financial Services, which includes Regional Banking, Mortgage Banking and Auto Finance reporting segments, helps meet the financial needs of consumers and businesses. RFS provides convenient consumer banking through the nation's fourth-largest branch network and third-largest ATM network. RFS is a top-five mortgage originator and servicer, the second-largest home equity originator, the largest noncaptive originator of automobile loans and one of the largest student loan originators.

RFS serves customers through more than 3,000 bank branches, 8,500 ATMs and 270 mortgage offices, and through relationships with more than 15,000 auto dealerships and 4,300 schools and universities. More than 11,000 branch salespeople assist customers, across a 17-state footprint from New York to Arizona, with checking and savings accounts, mortgage, home equity and business loans, investments and insurance. Over 1,200 additional mortgage officers provide home loans throughout the country.

During the first quarter of 2006, RFS completed the purchase of Collegiate Funding Services, which contributed an education loan servicing capability and provided an entry into the Federal Family Education Loan Program consolidation market. On July 1, 2006, RFS sold its life insurance and annuity underwriting businesses to Protective Life Corporation. On October 1, 2006, JPMorgan Chase completed The Bank of New York transaction, significantly strengthening RFS's distribution network in the New York Tri-state area.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2006	2005	2004(b)
Revenue			
Lending & deposit related fees	**$ 1,597**	$ 1,452	$ 1,013
Asset management, administration and commissions	**1,422**	1,498	1,020
Securities gains (losses)	**(57)**	9	(83)
Mortgage fees and related income	**618**	1,104	866
Credit card income	**523**	426	230
Other income	**557**	136	31
Noninterest revenue	**4,660**	4,625	3,077
Net interest income	**10,165**	10,205	7,714
Total net revenue	**14,825**	14,830	10,791
Provision for credit losses	**561**	724	449
Noninterest expense			
Compensation expense	**3,657**	3,337	2,621
Noncompensation expense	**4,806**	4,748	3,937
Amortization of intangibles	**464**	500	267
Total noninterest expense	**8,927**	8,585	6,825
Income before income tax expense	**5,337**	5,521	3,517
Income tax expense	**2,124**	2,094	1,318
Net income	**$ 3,213**	$ 3,427	$ 2,199
Financial ratios			
ROE	**22%**	26%	24%
ROA	**1.39**	1.51	1.18
Overhead ratio	**60**	58	63
Overhead ratio excluding core deposit intangibles(a)	**57**	55	61

(a) Retail Financial Services uses the overhead ratio (excluding the amortization of core deposit intangibles ("CDI")), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this method would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excludes Regional Banking's core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $458 million, $496 million and $264 million for the years ended December 31, 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.

2006 compared with 2005

Net income of $3.2 billion was down by $214 million, or 6%, from the prior year. A decline in Mortgage Banking was offset partially by improved results in Regional Banking and Auto Finance.

Total net revenue of $14.8 billion was flat compared with the prior year. Net interest income of $10.2 billion was down slightly due to narrower spreads on loans and deposits in Regional Banking, lower auto loan and lease balances and the sale of the insurance business. These declines were offset by the benefit of higher deposit and loan balances in Regional Banking, wider loan spreads in Auto Finance and The Bank of New York transaction. Noninterest revenue of $4.7 billion was up $35 million, or 1%, from the prior year. Results benefited from increases in deposit-related and branch production fees, higher automobile operating lease revenue and The Bank of New York transaction. This benefit was offset by lower net mortgage servicing revenue, the sale of the insurance business and losses related to loans transferred to held-for-sale. In 2006, losses of $233 million, compared with losses of $120 million in 2005, were recognized in Regional Banking related to mortgage loans transferred to held-for-sale; and losses of $50 million, compared with losses of $136 million in the prior year, were recognized in Auto Finance related to automobile loans transferred to held-for-sale.

The provision for credit losses of $561 million was down by $163 million from the prior-year provision due to the absence of a $250 million special provision for credit losses related to Hurricane Katrina in the prior year, partially offset by the establishment of additional allowance for loan losses related to loans acquired from The Bank of New York.

Noninterest expense of $8.9 billion was up by $342 million, or 4%, primarily due to The Bank of New York transaction, the acquisition of Collegiate Funding Services, investments in the retail distribution network and higher depreciation expense on owned automobiles subject to operating leases. These increases were offset partially by the sale of the insurance business and merger-related and other operating efficiencies and the absence of a $40 million prior-year charge related to the dissolution of a student loan joint venture.

2005 compared with 2004

Net income was $3.4 billion, up $1.2 billion from the prior year. The increase was due largely to the Merger but also reflected increased deposit balances and wider spreads, higher home equity and subprime mortgage balances, and expense savings in all businesses. These benefits were offset partially by narrower spreads on retained loan portfolios, the special provision for Hurricane Katrina and net losses associated with portfolio loan sales in Regional Banking and Auto Finance.

Total net revenue increased to $14.8 billion, up $4.0 billion, or 37%, due primarily to the Merger. Net interest income of $10.2 billion increased by $2.5 billion as a result of the Merger, increased deposit balances and wider spreads, and growth in retained consumer real estate loans. These benefits were offset partially by narrower spreads on loan balances and the absence of loan portfolios sold in late 2004 and early 2005. Noninterest revenue of $4.6 billion increased by $1.5 billion due to the Merger, improved MSR risk management results, higher automobile operating lease income and increased deposit-related fees. These benefits were offset in part by losses on portfolio loan sales in Regional Banking and Auto Finance.

The Provision for credit losses totaled $724 million, up $275 million, or 61%, from 2004. Results included a special provision in 2005 for Hurricane Katrina of $250 million and a release in 2004 of $87 million in the Allowance for loan losses related to the sale of the manufactured home loan portfolio. Excluding these items, the Provision for credit losses would have been down $62 million, or 12%. The decline reflected reductions in the Allowance for loan losses due to improved credit trends in most consumer lending portfolios and the benefit of certain portfolios in run-off. These reductions were offset partially by the Merger and higher provision expense related to subprime mortgage loans retained on the balance sheet.

Total noninterest expense rose to $8.6 billion, an increase of $1.8 billion from the prior year, due primarily to the Merger. The increase also reflected continued investment in retail banking distribution and sales, increased depreciation expense on owned automobiles subject to operating leases and a $40 million charge related to the dissolution of a student loan joint venture. Expense savings across all businesses provided a favorable offset.

Selected metrics

Year ended December 31, (in millions, except headcount and ratios)	**2006**	2005	2004[e]
Selected ending balances			
Assets	**$ 237,887**	$ 224,801	$226,560
Loans[a]	**213,504**	197,299	202,473
Deposits	**214,081**	191,415	182,372
Selected average balances			
Assets	**$ 231,566**	$ 226,368	$ 185,928
Loans[b]	**203,882**	198,153	162,768
Deposits	**201,127**	186,811	137,404
Equity	**14,629**	13,383	9,092
Headcount	**65,570**	60,998	59,632
Credit data and quality statistics			
Net charge-offs[c]	**$ 576**	$ 572	$ 990
Nonperforming loans[d]	**1,677**	1,338	1,161
Nonperforming assets	**1,902**	1,518	1,385
Allowance for loan losses	**1,392**	1,363	1,228
Net charge-off rate[b]	**0.31%**	0.31%	0.67%
Allowance for loan losses to ending loans[a]	**0.77**	0.75	0.67
Allowance for loan losses to nonperforming loans[d]	**89**	104	107
Nonperforming loans to total loans	**0.79**	0.68	0.57

(a) Includes loans held-for-sale of $32,744 million, $16,598 million and $18,022 million at December 31, 2006, 2005 and 2004, respectively. These amounts are not included in the allowance coverage ratios.
(b) Average loans include loans held-for-sale of $16,129 million, $15,675 million and $14,736 million for 2006, 2005 and 2004, respectively. These amounts are not included in the net charge-off rate.
(c) Includes $406 million of charge-offs related to the manufactured home loan portfolio in 2004.
(d) Nonperforming loans include loans held-for-sale of $116 million, $27 million and $13 million at December 31, 2006, 2005 and 2004, respectively. These amounts are not included in the allowance coverage ratios.
(e) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Regional Banking

Selected income statement data

Year ended December 31, (in millions, except ratios)	**2006**	2005	2004[b]
Noninterest revenue	**$ 3,204**	$ 3,138	$ 1,975
Net interest income	**8,768**	8,531	5,949
Total net revenue	**11,972**	11,669	7,924
Provision for credit losses	**354**	512	239
Noninterest expense	**6,825**	6,675	4,978
Income before income tax expense	**4,793**	4,482	2,707
Net income	**$ 2,884**	$ 2,780	$ 1,697
ROE	**27%**	31%	34%
ROA	**1.79**	1.84	1.53
Overhead ratio	**57**	57	63
Overhead ratio excluding core deposit intangibles[a]	**53**	53	59

(a) Regional Banking uses the overhead ratio (excluding the amortization of core deposit intangibles ("CDI")), a non-GAAP financial measure, to evaluate the underlying expense trends of the business. Including CDI amortization expense in the overhead ratio calculation results in a higher overhead ratio in the earlier years and a lower overhead ratio in later years; this inclusion would result in an improving overhead ratio over time, all things remaining equal. This non-GAAP ratio excludes Regional Banking's core deposit intangible amortization expense related to The Bank of New York transaction and the Bank One merger of $458 million, $496 million and $264 million for the years ended December 31, 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.

2006 compared with 2005

Regional Banking Net income of $2.9 billion was up by $104 million from the prior year. Total net revenue of $12.0 billion was up by $303 million, or 3%, including the impact of a $233 million current-year loss resulting from $13.3 billion of mortgage loans transferred to held-for-sale and a prior-year loss of $120 million resulting from $3.3 billion of mortgage loans transferred to held-for-sale. Results benefited from The Bank of New York transaction; the acquisition of Collegiate Funding Services; growth in deposits and home equity loans; and increases in deposit-related fees and credit card sales. These benefits were offset partially by the sale of the insurance business, narrower spreads on loans, and a shift to narrower-spread deposit products. The Provision for credit losses decreased by $158 million, primarily the result of a $230 million special provision in the prior year related to Hurricane Katrina, which was offset partially by additional Allowance for loan losses related to the acquisition of loans from The Bank of New York and increased net charge-offs due to portfolio seasoning and deterioration in subprime mortgages. Noninterest expense of $6.8 billion was up by $150 million, or 2%, from the prior year. The increase was due to investments in the retail distribution network, The Bank of New York transaction and the acquisition of Collegiate Funding Services, partially offset by the sale of the insurance business, merger savings and operating efficiencies, and the absence of a $40 million prior-year charge related to the dissolution of a student loan joint venture.

2005 compared with 2004

Regional Banking Net income of $2.8 billion was up by $1.1 billion from the prior year, including the impact of the Merger, and a current-year loss of $120 million resulting from $3.3 billion of mortgage loans transferred to held-for-sale compared with a prior-year loss of $52 million resulting from $5.2 billion of mortgage loans transferred to held-for-sale. Growth related to the Merger was offset partially by the impact of a $230 million special provision for credit losses related to Hurricane Katrina. Total net revenue of $11.7 billion was up by $3.7 billion, benefiting from the Merger, wider spreads on increased deposit balances, higher deposit-related fees and increased loan balances. These benefits were offset partially by mortgage loan spread compression due to rising short-term interest rates and a flat yield curve, which contributed to accelerated home equity loan payoffs. The Provision for credit losses increased by $273 million, primarily the result of the $230 million special provision related to Hurricane Katrina, a prior-year $87 million benefit associated with the Firm's exit of the manufactured home loan business and the Merger. These increases were offset partially by the impact of lower net charge-offs and improved credit trends. Noninterest expense of $6.7 billion was up by $1.7 billion as a result of the Merger, the continued investment in branch distribution and sales, and a $40 million charge related to the dissolution of a student loan joint venture, partially offset by merger savings and operating efficiencies.

Selected metrics

Year ended December 31, (in millions, except ratios and where otherwise noted)	2006	2005	2004[h]
Business metrics (in billions)			
Selected ending balances			
Home equity origination volume	**$ 51.9**	$ 54.1	$ 41.8
End-of-period loans owned			
Home equity	**85.7**	73.9	67.6
Mortgage	**30.1**	44.6	41.4
Business banking	**14.1**	12.8	12.5
Education	**10.3**	3.0	3.8
Other loans[a]	**2.7**	2.6	3.6
Total end of period loans	**142.9**	136.9	128.9
End-of-period deposits			
Checking	**68.7**	64.9	60.8
Savings	**92.4**	87.7	86.9
Time and other	**43.3**	29.7	24.2
Total end-of-period deposits	**204.4**	182.3	171.9
Average loans owned			
Home equity	**78.3**	69.9	42.9
Mortgage	**45.1**	45.4	40.6
Business banking	**13.2**	12.6	7.3
Education	**8.3**	2.8	2.1
Other loans[a]	**2.6**	3.1	6.5
Total average loans[b]	**147.5**	133.8	99.4
Average deposits			
Checking	**62.8**	61.7	43.7
Savings	**89.9**	87.5	66.5
Time and other	**37.5**	26.1	16.6
Total average deposits	**190.2**	175.3	126.8
Average assets	**160.8**	150.8	110.9
Average equity	**10.5**	9.1	5.0
Credit data and quality statistics			
30+ day delinquency rate[c][d]	**2.02%**	1.68%	1.47%
Net charge-offs			
Home equity	**$ 143**	$ 141	$ 79
Mortgage	**56**	25	19
Business banking	**91**	101	77
Other loans	**48**	28	552
Total net charge-offs	**338**	295	727
Net charge-off rate			
Home equity	**0.18%**	0.20%	0.18%
Mortgage	**0.12**	0.06	0.05
Business banking	**0.69**	0.80	1.05
Other loans	**0.59**	0.93	8.49
Total net charge-off rate[b]	**0.23**	0.23	0.75
Nonperforming assets[e][f][g]	**$ 1,725**	$ 1,282	$ 1,145

(a) Includes commercial loans derived from community development activities and, prior to July 1, 2006, insurance policy loans.
(b) Average loans include loans held-for-sale of $2.8 billion, $2.9 billion and $3.1 billion for the years ended December 31, 2006, 2005 and 2004, respectively. These amounts are not included in the net charge-off rate.
(c) Excludes delinquencies related to loans eligible for repurchase as well as loans repurchased from Governmental National Mortgage Association ("GNMA") pools that are insured by government agencies of $1.0 billion, $0.9 billion, and $0.9 billion at December 31, 2006, 2005 and 2004, respectively. These amounts are excluded as reimbursement is proceeding normally.
(d) Excludes loans that are 30 days past due and still accruing, which are insured by government agencies under the Federal Family Education Loan Program of $0.5 billion at December 31, 2006. The education loans past due 30 days were insignificant at December 31, 2005 and 2004. These amounts are excluded as reimbursement is proceeding normally.
(e) Excludes nonperforming assets related to loans eligible for repurchase as well as loans repurchased from GNMA pools that are insured by government agencies of $1.2 billion, $1.1 billion, and $1.5 billion at December 31, 2006, 2005, and 2004, respectively. These amounts are excluded as reimbursement is proceeding normally.
(f) Excludes loans that are 90 days past due and still accruing, which are insured by government agencies under the Federal Family Education Loan Program of $0.2 billion at December 31, 2006. The Education loans past due 90 days were insignificant at December 31, 2005 and 2004. These amounts are excluded as reimbursement is proceeding normally.
(g) Includes nonperforming loans held-for-sale related to mortgage banking activities of $11 million, $27 million, and $13 million at December 31, 2006, 2005 and 2004, respectively.
(h) 2004 results include six months of the combined Firm's results and six months heritage JPMorgan Chase results.

Retail branch business metrics

Year ended December 31, (in millions, except where otherwise noted)	2006	2005	2004[c]
Investment sales volume	**$ 14,882**	$11,144	$ 7,324
Number of:			
Branches	**3,079**	2,641	2,508
ATMs	**8,506**	7,312	6,650
Personal bankers[a]	**7,573**	7,067	5,750
Sales specialists[a]	**3,614**	3,214	2,638
Active online customers (in thousands)[b]	**5,715**	4,231	3,359
Checking accounts (in thousands)	**9,995**	8,793	8,124

(a) Excludes employees acquired as part of The Bank of New York transaction. Mapping of the existing Bank of New York acquired base is expected to be completed over the next year.
(b) Includes Mortgage Banking and Auto Finance online customers.
(c) 2004 results include six months of the combined Firm's results and six months heritage JPMorgan Chase results.

The following is a brief description of selected terms used by Regional Banking.

- **Personal bankers –** Retail branch office personnel who acquire, retain and expand new and existing customer relationships by assessing customer needs and recommending and selling appropriate banking products and services.
- **Sales specialists –** Retail branch product-specific experts who are licensed or specifically trained to assist in the sale of investments, mortgages, home equity lines and loans, and products tailored to small businesses.

Mortgage Banking

Selected income statement data

Year ended December 31, (in millions, except ratios and where otherwise noted)	2006	2005	2004[a]
Production revenue	$ 833	$ 744	$ 916
Net mortgage servicing revenue:			
Servicing revenue	2,300	2,115	2,070
Changes in MSR asset fair value:			
Due to inputs or assumptions in model	165	770	(248)
Other changes in fair value	(1,440)	(1,295)	(1,309)
Derivative valuation adjustments and other	(544)	(494)	361
Total net mortgage servicing revenue	**481**	1,096	874
Total net revenue	**1,314**	1,840	1,790
Noninterest expense	**1,341**	1,239	1,364
Income (loss) before income tax expense	**(27)**	601	426
Net income (loss)	**$ (17)**	$ 379	$ 269
ROE	**NM**	24%	17%
ROA	**NM**	1.69	1.10
Business metrics (in billions)			
Third-party mortgage loans serviced (ending)	**$ 526.7**	$ 467.5	$ 430.9
MSR net carrying value (ending)	**7.5**	6.5	5.1
Average mortgage loans held-for-sale	**12.8**	12.1	11.4
Average assets	**25.8**	22.4	24.4
Average equity	**1.7**	1.6	1.6
Mortgage origination volume by channel (in billions)			
Retail	**$ 40.4**	$ 46.3	$ 47.9
Wholesale	**32.8**	34.2	33.5
Correspondent (including negotiated transactions)	**45.9**	48.5	64.2
Total	**$ 119.1**	$ 129.0	$ 145.6

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

2006 compared with 2005

Mortgage Banking Net loss was $17 million compared with net income of $379 million in the prior year. Total net revenue of $1.3 billion was down by $526 million from the prior year due to a decline in net mortgage servicing revenue offset partially by an increase in production revenue. Production revenue was $833 million, up by $89 million, reflecting increased loan sales and wider gain on sale margins that benefited from a shift in the sales mix. Net mortgage servicing revenue, which includes loan servicing revenue, MSR risk management results and other changes in fair value, was $481 million compared with $1.1 billion in the prior year. Loan servicing revenue of $2.3 billion increased by $185 million on a 13% increase in third-party loans serviced. MSR risk management revenue of negative $379 million was down by $655 million from the prior year, including the impact of a $235 million negative valuation adjustment to the MSR asset in the third quarter of 2006 due to changes and refinements to assumptions used in the MSR valuation model. This result also reflected a fully hedged position in the current year. Other changes in fair value of the MSR asset, representing runoff of the asset against the realization of servicing cash flows, were negative $1.4 billion. Noninterest expense was $1.3 billion, up by $102 million, or 8%, due primarily to higher compensation expense related to an increase in the number of loan officers.

2005 compared with 2004

Mortgage Banking Net income was $379 million compared with $269 million in the prior year. Net revenue of $1.8 billion was up by $50 million from the prior year. Revenue comprises production revenue and net mortgage servicing revenue. Production revenue was $744 million, down by $172 million, due to an 11% decrease in mortgage originations. Net mortgage servicing revenue, which includes loan servicing revenue, MSR risk management results and other changes in fair value, was $1.1 billion compared with $874 million in the prior year. Loan servicing revenue of $2.1 billion increased by $45 million on an 8% increase in third-party loans serviced. MSR risk management revenue of $276 million was up by $163 million from the prior year, reflecting positive risk management results. Other changes in fair value of the MSR asset, representing runoff of the asset against the realization of servicing cash flows, were negative $1.3 billion. Noninterest expense of $1.2 billion was down by $125 million, or 9%, reflecting lower production volume and operating efficiencies.

Mortgage Banking origination channels comprise the following:

Retail – Borrowers who are buying or refinancing a home work directly with a mortgage banker employed by the Firm using a branch office, the Internet or by phone. Borrowers are frequently referred to a mortgage banker by real estate brokers, home builders or other third parties.

Wholesale – A third-party mortgage broker refers loan applications to a mortgage banker at the Firm. Brokers are independent loan originators that specialize in finding and counseling borrowers but do not provide funding for loans.

Correspondent – Banks, thrifts, other mortgage banks and other financial institutions sell closed loans to the Firm.

Correspondent negotiated transactions ("CNT") – Mid- to large-sized mortgage lenders, banks and bank-owned mortgage companies sell servicing to the Firm on an as-originated basis. These transactions supplement traditional production channels and provide growth opportunities in the servicing portfolio in stable and rising rate periods.

Net Mortgage servicing revenue components:

Production income – Includes net gain or loss on sales of mortgage loans, and other production related fees.

Servicing revenue – Represents all revenues earned from servicing mortgage loans for third parties, including stated service fees, excess service fees, late fees, and other ancillary fees.

Changes in MSR asset fair value due to inputs or assumptions in model – Represents MSR asset fair value adjustments due to changes in market-based inputs, such as interest rates and volatility, as well as updates to valuation assumptions used in the valuation model.

Changes in MSR asset fair value due to other changes – Includes changes in the MSR value due to servicing portfolio runoff (or time decay). Effective January 1, 2006, the Firm implemented SFAS 156, adopting fair value for the MSR asset. For the years ended December 31, 2005 and 2004, this amount represents MSR asset amortization expense calculated in accordance with SFAS 140.

Derivative valuation adjustments and other – Changes in the fair value of derivative instruments used to offset the impact of changes in market-based inputs to the MSR valuation model.

MSR risk management results – Includes "Changes in MSR asset fair value due to inputs or assumptions in model" and "Derivative valuation adjustments and other."

Auto Finance

Selected income statement data

Year ended December 31, (in millions, except ratios and where otherwise noted)	2006	2005	2004[b]
Noninterest revenue	**$ 368**	$ 86	$ 68
Net interest income	**1,171**	1,235	1,009
Total net revenue	**1,539**	1,321	1,077
Provision for credit losses	**207**	212	210
Noninterest expense	**761**	671	483
Income before income tax expense	**571**	438	384
Net income	**$ 346**	$ 268	$ 233
ROE	**14%**	10%	9%
ROA	**0.77**	0.50	0.46
Business metrics (in billions)			
Auto originations volume	**$ 19.3**	$ 18.1	$ 23.5
End-of-period loans and lease related assets			
Loans outstanding	**$ 39.3**	$ 41.7	$ 50.9
Lease financing receivables	**1.7**	4.3	8.0
Operating lease assets	**1.6**	0.9	—
Total end-of-period loans and lease related assets	**42.6**	46.9	58.9
Average loans and lease related assets			
Loans outstanding[a]	**$ 39.8**	$ 45.5	$ 42.3
Lease financing receivables	**2.9**	6.2	9.0
Operating lease assets	**1.3**	0.4	—
Total average loans and lease related assets	**44.0**	52.1	51.3
Average assets	**44.9**	53.2	52.0
Average equity	**2.4**	2.7	2.5
Credit quality statistics			
30+ day delinquency rate	**1.72%**	1.66%	1.64%
Net charge-offs			
Loans	**$ 231**	$ 257	$ 219
Lease financing receivables	**7**	20	44
Total net charge-offs	**238**	277	263
Net charge-off rate			
Loans[a]	**0.59%**	0.57%	0.52%
Lease financing receivables	**0.24**	0.32	0.49
Total net charge-off rate[a]	**0.56**	0.54	0.51
Nonperforming assets	**$ 177**	$ 236	$ 240

(a) Average loans include loans held-for-sale of $0.5 billion, $0.7 billion and $0.2 billion for 2006, 2005 and 2004, respectively. These amounts are not included in the net charge-off rate.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

2006 compared with 2005

Total net income of $346 million was up by $78 million from the prior year, including the impact of a $50 million current-year loss and a $136 million prior-year loss related to loans transferred to held-for-sale. Total net revenue of $1.5 billion was up by $218 million, or 17%, reflecting higher automobile operating lease revenue and wider loan spreads on lower loan and direct finance lease balances. The provision for credit losses of $207 million decreased by $5 million from the prior year. Noninterest expense of $761 million increased by $90 million, or 13%, driven by increased depreciation expense on owned automobiles subject to operating leases, partially offset by operating efficiencies.

2005 compared with 2004

Total net income of $268 million was up by $35 million from the prior year, including the impact of a $136 million current-year loss related to loans transferred to held-for-sale. Total net revenue of $1.3 billion was up by $244 million, or 23%, reflecting higher automobile operating lease revenue and a benefit of $34 million from the sale of the $2 billion recreational vehicle loan portfolio. These increases were offset partially by narrower spreads. Noninterest expense of $671 million increased by $188, or 39%, driven by increased depreciation expense on owned automobiles subject to operating leases, offset partially by operating efficiencies.

With more than 154 million cards in circulation and $153 billion in managed loans, Chase Card Services is one of the nation's largest credit card issuers. Customers used Chase cards for over $339 billion worth of transactions in 2006.

Chase offers a wide variety of general-purpose cards to satisfy the needs of individual consumers, small businesses and partner organizations, including cards issued with AARP, Amazon, Continental Airlines, Marriott, Southwest Airlines, Sony, United Airlines, Walt Disney Company and many other well-known brands and organizations. Chase also issues private-label cards with Circuit City, Kohl's, Sears Canada and BP.

Chase Paymentech Solutions, LLC, a joint venture with JPMorgan Chase and First Data Corporation, is the largest processor of MasterCard and Visa payments in the world, having handled over 18 billion transactions in 2006.

JPMorgan Chase uses the concept of "managed receivables" to evaluate the credit performance of its credit card loans, both loans on the balance sheet and loans that have been securitized. For further information, see Explanation and reconciliation of the Firm's use of non-GAAP financial measures on pages 32–33 of this Annual Report. Managed results exclude the impact of credit card securitizations on Total net revenue, the Provision for credit losses, net charge-offs and loan receivables. Securitization does not change reported Net income; however, it does affect the classification of items on the Consolidated statements of income and Consolidated balance sheets.

Selected income statement data – managed basis

Year ended December 31, (in millions, except ratios)	2006	2005	2004[c]
Revenue			
Credit card income	**$ 2,587**	$3,351	$2,179
All other income	**357**	212	192
Noninterest revenue	**2,944**	3,563	2,371
Net interest income	**11,801**	11,803	8,374
Total net revenue[a]	**14,745**	15,366	10,745
Provision for credit losses[b]	**4,598**	7,346	4,851
Noninterest expense			
Compensation expense	**1,003**	1,081	893
Noncompensation expense	**3,344**	3,170	2,485
Amortization of intangibles	**739**	748	505
Total noninterest expense[a]	**5,086**	4,999	3,883
Income before income tax expense[a]	**5,061**	3,021	2,011
Income tax expense	**1,855**	1,114	737
Net income	**$ 3,206**	$ 1,907	$ 1,274
Memo: Net securitization gains/ (amortization)	**$ 82**	$ 56	$ (8)
Financial metrics			
ROE	**23%**	16%	17%
Overhead ratio	**34**	33	36

(a) As a result of the integration of Chase Merchant Services and Paymentech merchant processing businesses into a joint venture, beginning in the fourth quarter of 2005, Total net revenue, Total noninterest expense and Income before income tax expense have been reduced to reflect the deconsolidation of Paymentech. There was no impact to Net income.
(b) 2005 includes a $100 million special provision related to Hurricane Katrina; the remaining unused portion was released in 2006.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

To illustrate underlying business trends, the following discussion of CS' performance assumes that the deconsolidation of Paymentech had occurred as of the beginning of 2004. The effect of the deconsolidation would have reduced Total net revenue, primarily in Noninterest revenue, and Total noninterest expense, but would not have had any impact on Net income for each period. The following table presents a reconciliation of CS' managed basis to an adjusted basis to disclose the effect of the deconsolidation of Paymentech on CS' results for the periods presented.

Reconciliation of Card Services' managed results to an adjusted basis to disclose the effect of the Paymentech deconsolidation

Year ended December 31, (in millions)	2006	2005	2004[a]
Noninterest revenue			
Managed for the period	**$ 2,944**	$ 3,563	$ 2,371
Adjustment for Paymentech	**—**	(422)	(276)
Adjusted Noninterest revenue	**$ 2,944**	$ 3,141	$ 2,095
Total net revenue			
Managed for the period	**$14,745**	$15,366	$10,745
Adjustment for Paymentech	**—**	(435)	(283)
Adjusted Total net revenue	**$14,745**	$14,931	$10,462
Total noninterest expense			
Managed for the period	**$ 5,086**	$ 4,999	$ 3,883
Adjustment for Paymentech	**—**	(389)	(252)
Adjusted Total noninterest expense	**$ 5,086**	$ 4,610	$ 3,631

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

2006 compared with 2005

Net income of $3.2 billion was up by $1.3 billion, or 68%, from the prior year. Results were driven by a lower provision for credit losses due to significantly lower bankruptcy filings.

End-of-period managed loans of $152.8 billion increased by $10.6 billion, or 7%, from the prior year. Average managed loans of $141.1 billion increased by $4.7 billion, or 3%, from the prior year. Compared with the prior year, both average managed and end-of-period managed loans continued to be affected negatively by higher customer payment rates. Management believes that contributing to the higher payment rates are the new minimum payment rules and a higher proportion of customers in rewards-based programs.

The current year benefited from organic growth and reflected acquisitions of two loan portfolios. The first portfolio was the Sears Canada credit card business, which closed in the fourth quarter of 2005. The Sears Canada portfolio's average managed loan balances were $2.1 billion in the current year and $291 million in the prior year. The second purchase was the Kohl's private label portfolio, which closed in the second quarter of 2006. The Kohl's portfolio average and period-end managed loan balances for 2006 were $1.2 billion and $2.5 billion, respectively.

Total net managed revenue of $14.7 billion was down by $186 million, or 1% from the prior year. Net interest income of $11.8 billion was flat to the prior year. Net interest income benefited from an increase in average managed loan balances and lower revenue reversals associated with lower charge-offs. These increases were offset by attrition of mature, higher spread balances as a result of higher payment rates and higher cost of funds on balance growth in promotional, introductory and transactor loan balances, which increased due to continued investment in marketing. Noninterest revenue of $2.9 billion was down by $197 million, or 6%. Interchange income increased, benefiting from 12% higher charge volume, but was more than offset by higher volume-driven payments to partners, including Kohl's, and increased rewards expense (both of which are netted against interchange income).

The managed provision for credit losses was $4.6 billion, down by $2.7 billion, or 37%, from the prior year. This benefit was due to a significant decrease in net charge-offs of $2.4 billion, reflecting the continued low level of bankruptcy losses, partially offset by an increase in contractual net charge-offs. The provision also benefited from a release in the Allowance for loan losses in the current year of unused reserves related to Hurricane Katrina, compared with an increase in the Allowance for loan losses in the prior year. The managed net charge-off rate decreased to 3.33%, down from 5.21% in the prior year. The 30-day managed delinquency rate was 3.13%, up from 2.79% in the prior year.

Noninterest expense of $5.1 billion was up $476 million, or 10%, from the prior year due largely to higher marketing spending and acquisitions offset partially by merger savings.

2005 compared with 2004

Net income of $1.9 billion was up $633 million, or 50%, from the prior year due to the Merger. In addition, lower expenses driven by merger savings, stronger underlying credit quality and higher revenue from increased loan balances and charge volume were offset partially by the impact of increased bankruptcies.

Net managed revenue was $14.9 billion, up $4.5 billion, or 43%. Net interest income was $11.8 billion, up $3.4 billion, or 41%, primarily due to the Merger, and the acquisition of a private label portfolio. In addition, higher loan balances were offset partially by narrower loan spreads and the reversal of revenue related to increased bankruptcy losses. Noninterest revenue of $3.1 billion was up $1.0 billion, or 50%, due to the Merger and higher interchange income from higher charge volume, partially offset by higher volume-driven payments to partners and higher expense related to rewards programs.

The Provision for credit losses was $7.3 billion, up $2.5 billion, or 51%, primarily due to the Merger, and included the acquisition of a private label portfolio. The provision also increased due to record bankruptcy-related net charge-offs resulting from bankruptcy legislation which became effective on October 17, 2005. Finally, the Allowance for loan losses was increased in part by the special Provision for credit losses related to Hurricane Katrina. These factors were offset partially by lower contractual net charge-offs. Despite a record level of bankruptcy losses, the net charge-off rate improved. The managed net charge-off rate was 5.21%, down from 5.27% in the prior year. The 30-day managed delinquency rate was 2.79%, down from 3.70% in the prior year, driven primarily by accelerated loss recognition of delinquent accounts as a result of the bankruptcy reform legislation and strong underlying credit quality.

Noninterest expense of $4.6 billion increased by $1.0 billion, or 27%, primarily due to the Merger, which included the acquisition of a private label portfolio. Merger savings, including lower processing and compensation costs were offset partially by higher spending on marketing.

Selected metrics

Year ended December 31, (in millions, except headcount, ratios and where otherwise noted)	**2006**	2005	2004[d]
% of average managed outstandings:			
Net interest income	**8.36%**	8.65%	9.16%
Provision for credit losses	**3.26**	5.39	5.31
Noninterest revenue	**2.09**	2.61	2.59
Risk adjusted margin[a]	**7.19**	5.88	6.45
Noninterest expense	**3.60**	3.67	4.25
Pretax income (ROO)	**3.59**	2.21	2.20
Net income	**2.27**	1.40	1.39
Business metrics			
Charge volume (in billions)	**$ 339.6**	$ 301.9	$ 193.6
Net accounts opened (in thousands)[b]	**45,869**	21,056	7,523
Credit cards issued (in thousands)	**154,424**	110,439	94,285
Number of registered Internet customers	**22.5**	14.6	13.6
Merchant acquiring business[c]			
Bank card volume (in billions)	**$ 660.6**	$ 563.1	$ 396.2
Total transactions	**18,171**	15,499	9,049
Selected ending balances			
Loans:			
Loans on balance sheets	**$ 85,881**	$ 71,738	$ 64,575
Securitized loans	**66,950**	70,527	70,795
Managed loans	**$152,831**	$ 142,265	$ 135,370
Selected average balances			
Managed assets	**$148,153**	$ 141,933	$ 94,741
Loans:			
Loans on balance sheets	**$ 73,740**	$ 67,334	$ 38,842
Securitized loans	**67,367**	69,055	52,590
Managed loans	**$141,107**	$ 136,389	$ 91,432
Equity	**$ 14,100**	$ 11,800	$ 7,608
Headcount	**18,639**	18,629	19,598
Managed credit quality statistics			
Net charge-offs	**$ 4,698**	$ 7,100	$ 4,821
Net charge-off rate	**3.33%**	5.21%	5.27%
Managed delinquency ratios			
30+ days	**3.13%**	2.79%	3.70%
90+ days	**1.50**	1.27	1.72
Allowance for loan losses	**$ 3,176**	$ 3,274	$ 2,994
Allowance for loan losses to period-end loans	**3.70%**	4.56%	4.64%

(a) Represents Total net revenue less Provision for credit losses.
(b) 2006 includes approximately 21 million accounts from the acquisition of the Kohl's private label portfolio in the second quarter of 2006 and approximately 9 million accounts from the acquisition of the BP and Pier 1 Imports, Inc. private label portfolios in the fourth quarter of 2006. Fourth quarter of 2005 includes approximately 10 million accounts from the acquisition of the Sears Canada portfolio.
(c) Represents 100% of the merchant acquiring business.
(d) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The following is a brief description of selected business metrics within Card Services.

- **Charge volume** – Represents the dollar amount of cardmember purchases, balance transfers and cash advance activity.
- **Net accounts opened** – Includes originations, purchases and sales.
- **Merchant acquiring business** – Represents an entity that processes payments for merchants. JPMorgan Chase is a partner in Chase Paymentech Solutions, LLC.
  - **Bank card volume** – Represents the dollar amount of transactions processed for merchants.
  - **Total transactions** – Represents the number of transactions and authorizations processed for merchants.

The financial information presented below reconciles reported basis and managed basis to disclose the effect of securitizations.

Year ended December 31, (in millions)	2006	2005	2004[c]
Income statement data[a]			
Credit card income			
Reported basis for the period	**$ 6,096**	$ 6,069	$ 4,446
Securitization adjustments	**(3,509)**	(2,718)	(2,267)
Managed credit card income	**$ 2,587**	$ 3,351	$ 2,179
All other income			
Reported basis for the period	**$ 357**	$ 212	$ 278
Securitization adjustments	**—**	—	(86)
Managed All other income	**$ 357**	$ 212	$ 192
Net interest income			
Reported basis for the period	**$ 6,082**	$ 5,309	$ 3,123
Securitization adjustments	**5,719**	6,494	5,251
Managed net interest income	**$ 11,801**	$ 11,803	$ 8,374
Total net revenue			
Reported basis for the period	**$ 12,535**	$ 11,590	$ 7,847
Securitization adjustments	**2,210**	3,776	2,898
Managed Total net revenue	**$ 14,745**	$ 15,366	$ 10,745
Provision for credit losses			
Reported data for the period[b]	**$ 2,388**	$ 3,570	$ 1,953
Securitization adjustments	**2,210**	3,776	2,898
Managed Provision for credit losses[b]	**$ 4,598**	$ 7,346	$ 4,851
Balance sheet – average balances[a]			
Total average assets			
Reported data for the period	**$ 82,887**	$ 74,753	$ 43,657
Securitization adjustments	**65,266**	67,180	51,084
Managed average assets	**$148,153**	$ 141,933	$ 94,741
Credit quality statistics[a]			
Net charge-offs			
Reported net charge-offs data for the period	**$ 2,488**	$ 3,324	$ 1,923
Securitization adjustments	**2,210**	3,776	2,898
Managed net charge-offs	**$ 4,698**	$ 7,100	$ 4,821

(a) For a discussion of managed basis, see the non-GAAP financial measures discussion on pages 32–33 of this Annual Report.
(b) 2005 includes a $100 million special provision related to Hurricane Katrina, which was released in 2006.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

COMMERCIAL BANKING

Commercial Banking serves more than 30,000 clients, including corporations, municipalities, financial institutions and not-for-profit entities. These clients generally have annual revenues ranging from $10 million to $2 billion. Commercial bankers serve clients nationally throughout the RFS footprint and in offices located in other major markets.

Commercial Banking offers its clients industry knowledge, experience, a dedicated service model, comprehensive solutions and local expertise. The Firm's broad platform positions CB to deliver extensive product capabilities – including lending, treasury services, investment banking and asset management – to meet its clients' U.S. and international financial needs.

On October 1, 2006, JPMorgan Chase completed the acquisition of The Bank of New York's consumer, business banking and middle-market banking businesses, adding approximately $2.3 billion in loans and $1.2 billion in deposits.

Selected income statement data

Year ended December 31, (in millions, except ratios)	2006	2005	2004(c)
Revenue			
Lending & deposit related fees	**$ 589**	$ 572	$ 438
Asset management, administration and commissions	**67**	57	30
All other income(a)	**417**	357	217
Noninterest revenue	**1,073**	986	685
Net interest income	**2,727**	2,502	1,593
Total net revenue	**3,800**	3,488	2,278
Provision for credit losses(b)	**160**	73	41
Noninterest expense			
Compensation expense	**740**	654	461
Noncompensation expense	**1,179**	1,137	831
Amortization of intangibles	**60**	65	34
Total noninterest expense	**1,979**	1,856	1,326
Income before income tax expense	**1,661**	1,559	911
Income tax expense	**651**	608	350
Net income	**$ 1,010**	$ 951	$ 561
Financial ratios			
ROE	**18%**	28%	27%
ROA	**1.75**	1.82	1.72
Overhead ratio	**52**	53	58

(a) IB-related and commercial card revenues are included in All other income.
(b) 2005 includes a $35 million special provision related to Hurricane Katrina.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Commercial Banking operates in 14 of the top 15 U.S. metropolitan areas and is divided into three businesses: Middle Market Banking, Mid-Corporate Banking and Real Estate Banking. General coverage for corporate clients is provided by Middle Market Banking, which covers clients with annual revenues generally ranging between $10 million and $500 million. Mid-Corporate Banking covers clients with annual revenues generally ranging between $500 million and $2 billion and focuses on clients that have broader investment-banking needs. The third segment, Real Estate Banking, serves large regional and national real estate customers across the United States. In addition to these three customer segments, CB offers several products to the Firm's entire customer base:

- Asset-based financing, syndications and collateral analysis through Chase Business Credit.
- A variety of equipment finance and leasing products, with specialties in aircraft finance, public sector, healthcare and information technology through Chase Equipment Leasing.
- Alternative capital strategies that provide a broader range of financing options, such as mezzanine and second lien loans and preferred equity, through Chase Capital Corporation.

With a large customer base across these segments and products, management believes the CB loan portfolio is highly diversified across a broad range of industries and geographic locations.

2006 compared with 2005

Net income of $1.0 billion increased by $59 million, or 6%, from the prior year due to higher revenue, partially offset by higher expense and provision for credit losses.

Record net revenue of $3.8 billion increased 9%, or $312 million. Net interest income increased to $2.7 billion, primarily driven by higher liability balances and loan volumes, partially offset by loan spread compression and a shift to narrower-spread liability products. Noninterest revenue was $1.1 billion, up $87 million, or 9%, due to record IB-related revenue and higher commercial card revenue.

Revenue grew for each CB business compared with the prior year, driven by increased treasury services, investment banking and lending revenue. Compared with the prior year, Middle Market Banking revenue of $2.5 billion increased by $177 million, or 8%. Mid-Corporate Banking revenue of $656 million increased by $105 million, or 19%, and Real Estate Banking revenue of $458 million increased by $24 million, or 6%.

Provision for credit losses was $160 million, up from $73 million in the prior year, reflecting portfolio activity and the establishment of additional allowance for loan losses related to loans acquired from The Bank of New York, partially offset by a release of the unused portion of the special reserve established in 2005 for Hurricane Katrina. Net charge-offs were flat compared with the prior year. Nonperforming loans declined 56%, to $121 million.

Total noninterest expense of $2.0 billion increased by $123 million, or 7%, from last year, primarily related to incremental Compensation expense related to SFAS 123R and increased expense resulting from higher client usage of Treasury Services' products.

2005 compared with 2004

Net income of $951 million was up $390 million, or 70%, from the prior year, primarily due to the Merger.

Total net revenue of $3.5 billion increased by $1.2 billion, or 53%, primarily as a result of the Merger. In addition to the overall increase from the Merger, Net interest income of $2.5 billion was positively affected by wider spreads on higher volume related to liability balances and increased loan volumes, partially offset by narrower loan spreads. Noninterest revenue of $986 million was positively impacted by the Merger and higher IB revenue, partially offset by lower deposit-related fees due to higher interest rates.

Each business within CB demonstrated revenue growth over the prior year, primarily due to the Merger. Middle Market Banking revenue was $2.4 billion, an increase of $861 million, or 58%, over the prior year; Mid-Corporate Banking revenue was $551 million, an increase of $183 million, or 50%; and

Real Estate Banking revenue was $434 million, up $162 million, or 60%. In addition to the Merger, revenue was higher for each business due to wider spreads and higher volume related to liability balances and increased investment banking revenue, partially offset by narrower loan spreads.

Provision for credit losses of $73 million increased by $32 million, primarily due to a special provision related to Hurricane Katrina, increased loan balances and refinements in the data used to estimate the allowance for credit losses. The credit quality of the portfolio was strong with net charge-offs of $26 million, down $35 million from the prior year, and nonperforming loans of $272 million were down $255 million, or 48%.

Total noninterest expense of $1.9 billion increased by $530 million, or 40%, primarily due to the Merger and to an increase in allocated unit costs for Treasury Services' products.

Selected metrics

Year ended December 31, (in millions, except headcount and ratios)	**2006**	2005	2004[d]
Revenue by product:			
Lending	**$ 1,344**	$ 1,215	$ 805
Treasury services	**2,243**	2,062	1,335
Investment banking	**253**	206	118
Other	**(40)**	5	20
Total Commercial Banking revenue	**$ 3,800**	$ 3,488	$ 2,278
IB revenue, gross[a]	**716**	552	NA
Revenue by business:			
Middle Market Banking	**$ 2,535**	$ 2,358	$ 1,497
Mid-Corporate Banking	**656**	551	368
Real Estate Banking	**458**	434	272
Other	**151**	145	141
Total Commercial Banking revenue	**$ 3,800**	$ 3,488	$ 2,278
Selected average balances			
Total assets	**$ 57,754**	$ 52,358	$ 32,547
Loans and leases[b]	**53,596**	48,117	28,914
Liability balances[c]	**73,613**	66,055	47,646
Equity	**5,702**	3,400	2,093
Average loans by business:			
Middle Market Banking	**$ 33,225**	$ 31,193	$ 17,500
Mid-Corporate Banking	**8,632**	6,388	4,354
Real Estate Banking	**7,566**	6,909	4,047
Other	**4,173**	3,627	3,013
Total Commercial Banking loans	**$ 53,596**	$ 48,117	$ 28,914
Headcount	**4,459**	4,418	4,527
Credit data and quality statistics:			
Net charge-offs	**$ 27**	$ 26	$ 61
Nonperforming loans	**121**	272	527
Allowance for loan losses	**1,519**	1,392	1,322
Allowance for lending-related commitments	**187**	154	169
Net charge-off rate[b]	**0.05%**	0.05%	0.21%
Allowance for loan losses to average loans[b]	**2.86**	2.91	4.57
Allowance for loan losses to nonperforming loans	**1,255**	512	251
Nonperforming loans to average loans	**0.23**	0.57	1.82

(a) Represents the total revenue related to investment banking products sold to CB clients.
(b) Average loans include loans held-for-sale of $442 million and $283 million for 2006 and 2005, respectively. This information is not available for 2004. Loans held-for-sale amounts are not included in the net charge-off rate or allowance coverage ratios.
(c) Liability balances include deposits and deposits swept to on–balance sheet liabilities.
(d) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Commercial Banking revenues comprise the following:

Lending includes a variety of financing alternatives, which are often provided on a basis secured by receivables, inventory, equipment, real estate or other assets. Products include:

- Term loans
- Revolving lines of credit
- Bridge financing
- Asset-based structures
- Leases

Treasury services includes a broad range of products and services enabling clients to transfer, invest and manage the receipt and disbursement of funds, while providing the related information reporting. These products and services include:

- U.S. dollar and multi-currency clearing
- ACH
- Lockbox
- Disbursement and reconciliation services
- Check deposits
- Other check and currency-related services
- Trade finance and logistics solutions
- Commercial card
- Deposit products, sweeps and money market mutual funds

Investment banking provides clients with sophisticated capital-raising alternatives, as well as balance sheet and risk management tools, through:

- Advisory
- Equity underwriting
- Loan syndications
- Investment-grade debt
- Asset-backed securities
- Private placements
- High-yield bonds
- Derivatives
- Foreign exchange hedges
- Securities sales

TREASURY & SECURITIES SERVICES

Treasury & Securities Services is a global leader in providing transaction, investment and information services to support the needs of institutional clients worldwide. TSS is one of the largest cash management providers in the world and a leading global custodian. Treasury Services provides a variety of cash management products, trade finance and logistics solutions, wholesale card products, and short-term liquidity management capabilities to small and mid-sized companies, multinational corporations, financial institutions and government entities. TS partners with the Commercial Banking, Retail Financial Services and Asset Management businesses to serve clients firmwide. As a result, certain TS revenues are included in other segments' results. Worldwide Securities Services stores, values, clears and services securities and alternative investments for investors and broker-dealers; and manages Depositary Receipt programs globally.

As a result of the transaction with The Bank of New York on October 1, 2006, selected corporate trust businesses were transferred from TSS to the Corporate segment and are reported in discontinued operations for all periods presented.

Selected income statement data

Year ending December 31, (in millions, except ratios)	2006	2005	2004[c]
Revenue			
Lending & deposit related fees	**$ 735**	$ 731	$ 649
Asset management, administration and commissions	**2,692**	2,409	1,963
All other income	**612**	519	361
Noninterest revenue	**4,039**	3,659	2,973
Net interest income	**2,070**	1,880	1,225
Total net revenue	**6,109**	5,539	4,198
Provision for credit losses	**(1)**	—	7
Credit reimbursement to IB[a]	**(121)**	(154)	(90)
Noninterest expense			
Compensation expense	**2,198**	1,874	1,414
Noncompensation expense	**1,995**	2,095	2,254
Amortization of intangibles	**73**	81	58
Total noninterest expense	**4,266**	4,050	3,726
Income before income tax expense	**1,723**	1,335	375
Income tax expense	**633**	472	98
Net income	**$ 1,090**	$ 863	$ 277
Financial ratios			
ROE	**48%**	57%	14%
Overhead ratio	**70**	73	89
Pretax margin ratio[b]	**28**	24	9

(a) TSS is charged a credit reimbursement related to certain exposures managed within the IB credit portfolio on behalf of clients shared with TSS. For a further discussion, see Credit reimbursement on page 35 of this Annual Report.
(b) Pretax margin represents Income before income tax expense divided by Total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its competitors.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

2006 compared with 2005

Net income was $1.1 billion, an increase of $227 million, or 26%, from the prior year. Earnings benefited from increased revenue, and was offset by higher compensation expense and the absence of prior-year charges of $58 million (after-tax) related to the termination of a client contract.

Total net revenue was $6.1 billion, an increase of $570 million, or 10%. Noninterest revenue was $4.0 billion, up by $380 million, or 10%. The improvement was due primarily to an increase in assets under custody to $13.9 trillion, which was driven by market value appreciation and new business. Also contributing to the improvement was growth in depositary receipts, securities lending, and global clearing, all of which were driven by a combination of increased product usage by existing clients and new business. Net interest income was $2.1 billion, an increase of $190 million, or 10%, benefiting from a 22% increase in average liability balances, partially offset by the impact of growth in narrower-spread liability products.

Treasury Services Total net revenue of $2.8 billion was up 4%. Worldwide Securities Services Total net revenue of $3.3 billion grew by $473 million, or 17%. TSS firmwide Total net revenue, which includes Treasury Services Total net revenue recorded in other lines of business, grew to $8.6 billion, up by $778 million, or 10%. Treasury Services firmwide Total net revenue grew to $5.2 billion, an increase of $305 million, or 6%.

Total noninterest expense was $4.3 billion, up $216 million, or 5%. The increase was due to higher compensation expense related to increased client activity, business growth, investment in new product platforms and incremental expense related to SFAS 123R, partially offset by the absence of prior-year charges of $93 million related to the termination of a client contract.

2005 compared with 2004

Net income was $863 million, an increase of $586 million, or 212%. Primarily driving the improvement in revenue were the Merger, business growth, and widening spreads on and growth in average liability balances. Noninterest expense increased primarily due to the Merger and higher compensation expense. Results for 2005 also included charges of $58 million (after-tax) to terminate a client contract. Results for 2004 also included software-impairment charges of $97 million (after-tax) and a gain of $10 million (after-tax) on the sale of a business.

Total net revenue of $5.5 billion increased $1.3 billion, or 32%. Net interest income grew to $1.9 billion, up $655 million, due to wider spreads on liability balances, a change in the corporate deposit pricing methodology in 2004 and growth in average liability balances. Noninterest revenue of $3.7 billion increased by $686 million, or 23%, due to product growth across TSS, the Merger and the acquisition of Vastera. Leading the product revenue growth was an increase in assets under custody to $10.7 trillion, primarily driven by market value appreciation and new business, along with growth in wholesale card, securities lending, foreign exchange, trade, clearing and ACH revenues. Partially offsetting this growth in noninterest revenue was a decline in deposit-related fees due to higher interest rates and the absence, in the current period, of a gain on the sale of a business.

TS Total net revenue of $2.7 billion grew by $635 million, and WSS Total net revenue of $2.8 billion grew by $706 million. TSS firmwide Total net revenue, which includes TS Total net revenue recorded in other lines of business, grew to $7.8 billion, up $2.1 billion, or 38%. Treasury Services firmwide Total net revenue grew to $4.9 billion, up $1.4 billion, or 41%.

Credit reimbursement to the Investment Bank was $154 million, an increase of $64 million, primarily as a result of the Merger. TSS is charged a credit reimbursement related to certain exposures managed within the Investment Bank credit portfolio on behalf of clients shared with TSS.

Total noninterest expense of $4.1 billion was up $324 million, or 9%, due to the Merger, increased compensation expense resulting from new business growth and the Vastera acquisition, and charges of $93 million to terminate a client contract. Partially offsetting these increases were higher product unit costs charged to other lines of business, primarily Commercial Banking, lower allocations of Corporate segment expenses, merger savings and business efficiencies. The prior year included software-impairment charges of $155 million.

Treasury & Securities Services firmwide metrics include certain TSS product revenues and liability balances reported in other lines of business for customers who are also customers of those lines of business. Management reviews firmwide metrics such as liability balances, revenues and overhead ratios in assessing financial performance for TSS as such firmwide metrics capture the firmwide impact of TS' and TSS' products and services. Management believes such firmwide metrics are necessary in order to understand the aggregate TSS business.

Selected metrics

Year ending December 31, (in millions, except headcount, ratio data and where otherwise noted)	2006	2005	2004[g]
Revenue by business			
Treasury Services	**$ 2,792**	$ 2,695	$ 2,060
Worldwide Securities Services	**3,317**	2,844	2,138
Total net revenue	**$ 6,109**	$ 5,539	$ 4,198
Business metrics			
Assets under custody (in billions)	**$ 13,903**	$ 10,662	$ 9,300
Number of:			
US$ ACH transactions originated (in millions)	**3,503**	2,966	1,994
Total US$ clearing volume (in thousands)	**104,846**	95,713	81,162
International electronic funds transfer volume (in thousands)[a]	**145,325**	89,537	45,654
Wholesale check volume (in millions)	**3,409**	3,735	NA
Wholesale cards issued (in thousands)[b]	**17,228**	13,206	11,787
Selected balance sheets (average)			
Total assets	**$ 31,760**	$ 28,206	$ 24,815
Loans	**15,564**	12,349	9,840
Liability balances[c]	**189,540**	154,731	115,514
Equity	**2,285**	1,525	1,989
Headcount	**25,423**	22,207	20,467
TSS firmwide metrics			
Treasury Services firmwide revenue[d]	**$ 5,242**	$ 4,937	$ 3,508
Treasury & Securities Services firmwide revenue[d]	**8,559**	7,781	5,646
Treasury Services firmwide overhead ratio[e]	**56%**	58%	65%
Treasury & Securities Services firmwide overhead ratio[e]	**62**	65	78
Treasury Services firmwide liability balances (average)[f]	**$162,020**	$139,579	$102,785
Treasury & Securities Services firmwide liability balances[f]	**262,678**	220,781	163,169

(a) International electronic funds transfer includes non-US$ ACH and clearing volume.
(b) Wholesale cards issued include domestic commercial card, stored value card, prepaid card, and government electronic benefit card products.
(c) Liability balances include deposits and deposits swept to on-balance sheet liabilities.
(d) Firmwide revenue includes TS revenue recorded in the CB, Regional Banking and AM lines of business (see below) and excludes FX revenues recorded in the IB for TSS-related FX activity.

(in millions)	2006	2005	2004[g]
Treasury Services revenue reported in CB	**$ 2,243**	$ 2,062	$ 1,335
Treasury Services revenue reported in other lines of business	**207**	180	113

TSS firmwide FX revenue, which includes FX revenue recorded in TSS and FX revenue associated with TSS customers who are FX customers of the IB, was $445 million, $382 million and $320 million for the years ended December 31, 2006, 2005 and 2004, respectively.
(e) Overhead ratios have been calculated based upon firmwide revenues and TSS and TS expenses, respectively, including those allocated to certain other lines of business. FX revenues and expenses recorded in the IB for TSS-related FX activity are not included in this ratio.
(f) Firmwide liability balances include TS' liability balances recorded in certain other lines of business. Liability balances associated with TS customers who are also customers of the CB line of business are not included in TS liability balances.
(g) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

ASSET MANAGEMENT

With assets under supervision of $1.3 trillion, AM is a global leader in investment and wealth management. AM clients include institutions, retail investors and high-net-worth individuals in every major market throughout the world. AM offers global investment management in equities, fixed income, real estate, hedge funds, private equity and liquidity, including both money-market instruments and bank deposits. AM also provides trust and estate and banking services to high-net-worth clients, and retirement services for corporations and individuals. The majority of AM's client assets are in actively managed portfolios.

Selected income statement data

Year ended December 31, (in millions, except ratios)	**2006**	2005	2004[b]
Revenue			
Asset management, administration and commissions	**$ 5,295**	$ 4,189	$ 3,140
All other income	**521**	394	243
Noninterest revenue	**5,816**	4,583	3,383
Net interest income	**971**	1,081	796
Total net revenue	**6,787**	5,664	4,179
Provision for credit losses	**(28)**	(56)	(14)
Noninterest expense			
Compensation expense	**2,777**	2,179	1,579
Noncompensation expense	**1,713**	1,582	1,502
Amortization of intangibles	**88**	99	52
Total noninterest expense	**4,578**	3,860	3,133
Income before income tax expense	**2,237**	1,860	1,060
Income tax expense	**828**	644	379
Net income	**$ 1,409**	$ 1,216	$ 681
Financial ratios			
ROE	**40%**	51%	17%
Overhead ratio	**67**	68	75
Pretax margin ratio[a]	**33**	33	25

(a) Pretax margin represents Income before income tax expense divided by Total net revenue, which is a measure of pretax performance and another basis by which management evaluates its performance and that of its competitors.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

2006 compared with 2005

Net income was a record $1.4 billion, up by $193 million, or 16%, from the prior year. Improved results were driven by increased revenue offset partially by higher performance-based compensation expense, incremental expense from the adoption of SFAS 123R and the absence of a tax credit recognized in the prior year.

Total net revenue was a record $6.8 billion, up by $1.1 billion, or 20%, from the prior year. Noninterest revenue, principally fees and commissions, of $5.8 billion was up by $1.2 billion, or 27%. This increase was due largely to increased assets under management and higher performance and placement fees. Net interest income was $971 million, down by $110 million, or 10%, from the prior year. The decline was due primarily to narrower spreads on deposit products and the absence of BrownCo, partially offset by higher deposit and loan balances.

Institutional revenue grew 41%, to $2.0 billion, due to net asset inflows and higher performance fees. Private Bank revenue grew 13%, to $1.9 billion, due to increased placement activity, higher asset management fees and higher deposit balances, partially offset by narrower average spreads on deposits. Retail revenue grew 22%, to $1.9 billion, primarily due to net asset inflows, partially offset by the sale of BrownCo. Private Client Services revenue decreased 1%, to $1.0 billion, as higher deposit and loan balances were more than offset by narrower average deposit and loan spreads.

Provision for credit losses was a benefit of $28 million compared with a benefit of $56 million in the prior year. The current-year benefit reflects a high level of recoveries and stable credit quality.

Total noninterest expense of $4.6 billion was up by $718 million, or 19%, from the prior year. The increase was due to higher performance-based compensation, incremental expense related to SFAS 123R, increased salaries and benefits related to business growth, and higher minority interest expense related to Highbridge, partially offset by the absence of BrownCo.

2005 compared with 2004

Net income of $1.2 billion was up $535 million from the prior year due to the Merger and increased revenue, partially offset by higher compensation expense.

Total net revenue was $5.7 billion, up $1.5 billion, or 36%. Noninterest revenue, primarily fees and commissions, of $4.6 billion was up $1.2 billion, principally due to the Merger, the acquisition of a majority interest in Highbridge in 2004, net asset inflows and global equity market appreciation. Net interest income of $1.1 billion was up $285 million, primarily due to the Merger, higher deposit and loan balances, partially offset by narrower deposit spreads.

Private Bank revenue grew 9%, to $1.7 billion. Retail revenue grew 30%, to $1.5 billion. Institutional revenue grew 57%, to $1.4 billion, due to the acquisition of a majority interest in Highbridge. Private Client Services revenue grew 88%, to $1.0 billion.

Provision for credit losses was a benefit of $56 million, compared with a benefit of $14 million in the prior year, due to lower net charge-offs and refinements in the data used to estimate the allowance for credit losses.

Total noninterest expense of $3.9 billion increased by $727 million, or 23%, reflecting the Merger, the acquisition of Highbridge and increased compensation expense related primarily to higher performance-based incentives.

Selected metrics

Year ended December 31, (in millions, except headcount, ranking data, and where otherwise noted)	2006	2005	2004[e]
Revenue by client segment			
Institutional	**$ 1,972**	$ 1,395	$ 891
Retail	**1,885**	1,544	1,184
Private Bank	**1,907**	1,689	1,554
Private Client Services	**1,023**	1,036	550
Total net revenue	**$ 6,787**	$ 5,664	$ 4,179
Business metrics			
Number of:			
Client advisors	**1,506**	1,484	1,377
Retirement planning services participants	**1,362,000**	1,299,000	918,000
% of customer assets in 4 & 5 Star Funds[a]	**58%**	46%	48%
% of AUM in 1st and 2nd quartiles:[b]			
1 year	**83**	69	66
3 years	**77**	68	71
5 years	**79**	74	68
Selected average balance sheets data			
Total assets	**$ 43,635**	$ 41,599	$ 37,751
Loans[c]	**26,507**	26,610	21,545
Deposits[c][d]	**50,607**	42,123	32,431
Equity	**3,500**	2,400	3,902
Headcount	**13,298**	12,127	12,287
Credit data and quality statistics			
Net charge-offs (recoveries)	**$ (19)**	$ 23	$ 72
Nonperforming loans	**39**	104	79
Allowance for loan losses	**121**	132	216
Allowance for lending-related commitments	**6**	4	5
Net charge-off (recovery) rate	**(0.07)%**	0.09%	0.33%
Allowance for loan losses to average loans	**0.46**	0.50	1.00
Allowance for loan losses to nonperforming loans	**310**	127	273
Nonperforming loans to average loans	**0.15**	0.39	0.37

(a) Derived from Morningstar for the United States; Micropal for the United Kingdom, Luxembourg, Hong Kong and Taiwan; and Nomura for Japan.
(b) Quartile rankings sourced from Lipper for the United States and Taiwan; Micropal for the United Kingdom, Luxembourg, Hong Kong and Taiwan; and Nomura for Japan.
(c) The sale of BrownCo, which closed on November 30, 2005, included $3.0 billion in both loans and deposits.
(d) Reflects the transfer in 2005 of certain consumer deposits from RFS to AM.
(e) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

AM's client segments comprise the following:

Institutional brings comprehensive global investment services – including asset management, pension analytics, asset-liability management and active risk budgeting strategies – to corporate and public institutions, endowments, foundations, not-for-profit organizations and governments worldwide.

Retail provides worldwide investment management services and retirement planning and administration through third-party and direct distribution of a full range of investment vehicles.

The **Private Bank** addresses every facet of wealth management for ultra-high-net-worth individuals and families worldwide, including investment management, capital markets and risk management, tax and estate planning, banking, capital raising and specialty-wealth advisory services.

Private Client Services offers high-net-worth individuals, families and business owners in the United States comprehensive wealth management solutions, including investment management, capital markets and risk management, tax and estate planning, banking, and specialty-wealth advisory services.

Assets under supervision

2006 compared with 2005

Assets under supervision ("AUS") were $1.3 trillion, up 17%, or $198 billion, from the prior year. Assets under management ("AUM") were $1.0 trillion, up 20%, or $166 billion, from the prior year. The increase was the result of net asset inflows in the Retail segment, primarily in equity-related products, Institutional segment flows, primarily in liquidity products, and market appreciation. Custody, brokerage, administration and deposit balances were $334 billion, up by $32 billion. The Firm also has a 43% interest in American Century Companies, Inc., whose AUM totaled $103 billion and $101 billion at December 31, 2006 and 2005, respectively.

2005 compared with 2004

AUS at December 31, 2005, were $1.1 trillion, up 4%, or $43 billion, from the prior year despite a $33 billion reduction due to the sale of BrownCo. AUM were $847 billion, up 7%. The increase was primarily the result of net asset inflows in equity-related products and global equity market appreciation. Custody, brokerage, administration, and deposits were $302 billion, down $13 billion due to a $33 billion reduction from the sale of BrownCo. The Firm also has a 43% interest in American Century Companies, Inc., whose AUM totaled $101 billion and $98 billion at December 31, 2005 and 2004, respectively.

Assets under supervision[a] (in billions)

As of or for the year ended December 31,	**2006**	2005	2004
Assets by asset class			
Liquidity[b]	**$ 311**	$ 238	$ 232
Fixed income	**175**	165	171
Equities & balanced	**427**	370	326
Alternatives	**100**	74	62
Total Assets under management	**1,013**	847	791
Custody/brokerage/administration/deposits	**334**	302	315
Total Assets under supervision	**$ 1,347**	$ 1,149	$ 1,106
Assets by client segment			
Institutional[c]	**$ 538**	$ 481	$ 466
Retail[c]	**259**	169	133
Private Bank	**159**	145	139
Private Client Services	**57**	52	53
Total Assets under management	**$ 1,013**	$ 847	$ 791
Institutional[c]	**$ 539**	$ 484	$ 487
Retail[c]	**343**	245	221
Private Bank	**357**	318	304
Private Client Services	**108**	102	94
Total Assets under supervision	**$ 1,347**	$ 1,149	$ 1,106
Assets by geographic region			
U.S./Canada	**$ 630**	$ 562	$ 554
International	**383**	285	237
Total Assets under management	**$ 1,013**	$ 847	$ 791
U.S./Canada	**$ 889**	$ 805	$ 815
International	**458**	344	291
Total Assets under supervision	**$ 1,347**	$ 1,149	$ 1,106
Mutual fund assets by asset class			
Liquidity	**$ 255**	$ 182	$ 183
Fixed income	**46**	45	41
Equities	**206**	150	104
Total mutual fund assets	**$ 507**	$ 377	$ 328
Assets under management rollforward[d]			
Beginning balance, January 1	**$ 847**	$ 791	$ 561
Flows:			
Liquidity	**44**	8	3
Fixed income	**11**	—	(8)
Equities, balanced and alternative	**34**	24	14
Acquisitions/divestitures[e]	**—**	—	183
Market/performance/other impacts	**77**	24	38
Ending balance, December 31	**$ 1,013**	$ 847	$ 791
Assets under supervision rollforward[d]			
Beginning balance, January 1	**$ 1,149**	$ 1,106	$ 764
Net asset flows	**102**	49	42
Acquisitions /divestitures[f]	**—**	(33)	221
Market/performance/other impacts	**96**	27	79
Ending balance, December 31	**$ 1,347**	$ 1,149	$ 1,106

(a) Excludes Assets under management of American Century Companies, Inc.
(b) 2006 data reflects the reclassification of $19 billion of assets under management into liquidity from other asset classes. Prior period data were not restated.
(c) In 2006, assets under management of $22 billion from Retirement planning services has been reclassified from the Institutional client segment to the Retail client segment in order to be consistent with the revenue by client segment reporting.
(d) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(e) Reflects the Merger with Bank One ($176 billion) and the acquisition of a majority interest in Highbridge ($7 billion) in 2004.
(f) Reflects the sale of BrownCo ($33 billion) in 2005, and the Merger with Bank One ($214 billion) and the acquisition of a majority interest in Highbridge ($7 billion) in 2004.

The Corporate sector comprises Private Equity, Treasury, corporate staff units and expenses that are centrally managed. Private Equity includes the JPMorgan Partners and ONE Equity Partners businesses. Treasury manages the structural interest rate risk and investment portfolio for the Firm. The corporate staff units include Central Technology and Operations, Internal Audit, Executive Office, Finance, Human Resources, Marketing & Communications, Office of the General Counsel, Corporate Real Estate and General Services, Risk Management, and Strategy and Development. Other centrally managed expenses include the Firm's occupancy and pension-related expenses, net of allocations to the business.

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.

On October 1, 2006, the Firm completed the exchange of selected corporate trust businesses, including trustee, paying agent, loan agency and document management services, for the consumer, business banking and middle-market banking businesses of The Bank of New York. These corporate trust businesses, which were previously reported in TSS, are now reported as discontinued operations for all periods presented within Corporate. The related balance sheet and income statement activity were transferred to the Corporate segment commencing with the second quarter of 2006. Periods prior to the second quarter of 2006 have been revised to reflect this transfer.

Selected income statement data

Year ended December 31, (in millions)	**2006**	2005	2004[f]
Revenue			
Principal transactions	**$ 1,175**	$ 1,524	$ 1,542
Securities gains (losses)	**(608)**	(1,487)	332
All other income[a]	**485**	1,583	109
Noninterest revenue	**1,052**	1,620	1,983
Net interest income	**(1,044)**	(2,756)	(1,214)
Total net revenue	**8**	(1,136)	769
Provision for credit losses[b]	**(1)**	10	748
Noninterest expense			
Compensation expense	**2,626**	3,148	2,426
Noncompensation expense[c]	**2,351**	5,962	7,418
Merger costs	**305**	722	1,365
Subtotal	**5,282**	9,832	11,209
Net expenses allocated to other businesses	**(4,141)**	(4,505)	(4,839)
Total noninterest expense	**1,141**	5,327	6,370
Income (loss) from continuing operations before income tax expense	**(1,132)**	(6,473)	(6,349)
Income tax expense (benefit)[d]	**(1,179)**	(2,690)	(2,661)
Income (loss) from continuing operations	**47**	(3,783)	(3,688)
Income from discontinued operations[e]	**795**	229	206
Net income (loss)	**$ 842**	$ (3,554)	$(3,482)

(a) Includes a gain of $103 million in 2006 related to the initial public offering of Mastercard, and a gain of $1.3 billion on the sale of BrownCo in 2005.
(b) 2004 includes $858 million related to accounting policy conformity adjustments in connection with the Merger.
(c) Includes insurance recoveries related to material legal proceedings of $512 million and $208 million in 2006 and 2005, respectively. Includes litigation reserve charges of $2.8 billion and $3.7 billion in 2005 and 2004, respectively.
(d) Includes tax benefits recognized upon resolution of tax audits.
(e) Includes a $622 million gain from exiting the corporate trust business in the fourth quarter of 2006.
(f) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

2006 compared with 2005

Net income was $842 million compared with a net loss of $3.6 billion in the prior year. In comparison with the prior year, Private Equity earnings was $627 million, down from $821 million; Treasury net loss was $560 million compared with a net loss of $2.0 billion; the net loss in Other Corporate (including Merger costs) was $20 million compared with a net loss of $2.6 billion; and the Net income from discontinued operations was $795 million compared with $229 million.

Total net revenue was $8 million, as compared with a negative $1.1 billion in the prior year. Net interest income was a negative $1.0 billion compared with negative $2.8 billion in the prior year. Treasury was the primary driver of the improvement, with Net interest income of negative $140 million compared with negative $1.7 billion in the prior year, benefiting primarily from an improvement in Treasury's net interest spread and an increase in available-for-sale securities. Noninterest revenue was $1.1 billion compared with $1.6 billion, reflecting the absence of the $1.3 billion gain on the sale of BrownCo last year and lower Private Equity gains of $1.3 billion compared with gains of $1.7 billion in the prior year. These declines were offset by $619 million in securities losses in Treasury compared with securities losses of $1.5 billion in the prior year and a gain of $103 million related to the sale of Mastercard shares in its initial public offering in the current year.

Total noninterest expense was $1.1 billion, down by $4.2 billion from $5.3 billion in the prior year. Insurance recoveries relating to certain material litigation were $512 million in the current year, while the prior-year results included a material litigation charge of $2.8 billion, and related insurance recoveries of $208 million. Prior-year expense included a $145 million cost due to the accelerated vesting of stock options. Merger costs were $305 million compared with $722 million in the prior year.

Discontinued operations include the results of operations of selected corporate trust businesses sold to The Bank of New York on October 1, 2006. Prior to the sale, the selected corporate trust businesses produced $173 million of Net income in the current year compared with Net income of $229 million in the prior year. Net income from discontinued operations for 2006 also included a one-time gain of $622 million related to the sale of these businesses.

2005 compared with 2004

Total net revenue was a negative $1.1 billion compared with Total net revenue of $769 million in the prior year. Noninterest revenue of $1.6 billion decreased by $363 million and included securities losses of $1.5 billion due to the following: repositioning of the Treasury investment portfolio to manage exposure to interest rates; the gain on the sale of BrownCo of $1.3 billion; and the increase in private equity gains of $262 million. For further discussion on the sale of BrownCo, see Note 2 on page 97 of this Annual Report.

Net interest income was a loss of $2.8 billion compared with a loss of $1.2 billion in the prior year. Actions and policies adopted in conjunction with the Merger and the repositioning of the Treasury investment portfolio were the main drivers of the increased loss.

Total noninterest expense was $5.3 billion, down $1.1 billion from $6.4 billion in the prior year. Material litigation charges were $2.8 billion compared with $3.7 billion in the prior year. Merger costs were $722 million compared with $1.4 billion in the prior year. These decreases were offset primarily by the cost of accelerated vesting of certain employee stock options.

On September 15, 2004, JPMorgan Chase and IBM announced the Firm's plans to reintegrate the portions of its technology infrastructure – including data centers, help desks, distributed computing, data networks and voice networks – that were previously outsourced to IBM. In January 2005, approximately 3,100 employees and 800 contract employees were transferred to the Firm.

Selected metrics

Year ended December 31, (in millions, except headcount)	2006	2005	2004[e]
Total net revenue			
Private equity	**$ 1,142**	$ 1,521	$ 1,211
Treasury	**(797)**	(3,278)	81
Corporate other[a]	**(337)**	621	(523)
Total net revenue	**$ 8**	$ (1,136)	$ 769
Net income (loss)			
Private equity	**$ 627**	$ 821	$ 602
Treasury	**(560)**	(2,028)	(106)
Corporate other[a][b][c]	**169**	(2,128)	(3,337)
Merger costs	**(189)**	(448)	(847)
Income (loss) from continuing operations	**47**	(3,783)	(3,688)
Income from discontinued operations (after-tax)[d]	**795**	229	206
Total net income (loss)	**$ 842**	$ (3,554)	$(3,482)
Headcount	**23,242**	30,666	26,956

(a) Includes a gain of $64 million ($103 million pretax) in 2006 related to the initial public offering of Mastercard, and a gain of $752 million ($1.3 billion pretax) on the sale of BrownCo in 2005.
(b) Includes insurance recoveries (after-tax) related to material legal proceedings of $317 million and $129 million in 2006 and 2005, respectively. Includes litigation reserve charges (after-tax) of $1.7 billion and $2.3 billion in 2005 and 2004, respectively.
(c) Includes tax benefits recognized upon resolution of tax audits.
(d) Includes a $622 million gain from exiting the corporate trust business in the fourth quarter of 2006.
(e) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

Private equity portfolio

2006 compared with 2005

The carrying value of the private equity portfolio declined by $95 million to $6.1 billion as of December 31, 2006. This decline was due primarily to sales offset partially by new investment activity. The portfolio represented 8.6% of the Firm's stockholders' equity less goodwill at December 31, 2006, down from 9.7% at December 31, 2005.

2005 compared with 2004

The carrying value of the private equity portfolio declined by $1.3 billion to $6.2 billion as of December 31, 2005. This decline was primarily the result of sales and recapitalizations of direct investments. The portfolio represented 9.7% and 12% of JPMorgan Chase's stockholders' equity less goodwill at December 31, 2005 and 2004, respectively.

Selected income statement and balance sheet data

Year ended December 31, (in millions)	2006	2005	2004[d]
Treasury			
Securities gains (losses)[a]	**$ (619)**	$ (1,486)	$ 339
Investment portfolio (average)	**63,361**	46,520	57,776
Investment portfolio (ending)	**82,091**	30,741	64,949
Private equity gains (losses)			
Realized gains	**$ 1,223**	$ 1,969	$ 1,423
Write-ups / (write-downs)	**(73)**	(72)	(192)
Mark-to-market gains (losses)	**72**	(338)	164
Total direct investments	**1,222**	1,559	1,395
Third-party fund investments	**77**	132	34
Total private equity gains (losses)[b]	**1,299**	1,691	1,429
Private equity portfolio information[c]			
Direct investments			
Public securities			
Carrying value	**$ 587**	$ 479	$ 1,170
Cost	**451**	403	744
Quoted public value	**831**	683	1,758
Private direct securities			
Carrying value	**4,692**	5,028	5,686
Cost	**5,795**	6,463	7,178
Third-party fund investments			
Carrying value	**802**	669	641
Cost	**1,080**	1,003	1,042
Total private equity portfolio			
Carrying value	**$ 6,081**	$ 6,176	$ 7,497
Cost	**$ 7,326**	$ 7,869	$ 8,964

(a) Gains/losses reflect repositioning of the Treasury investment securities portfolio. Excludes gains/losses on securities used to manage risk associated with MSRs.
(b) Included in Principal transactions.
(c) For further information on the Firm's policies regarding the valuation of the private equity portfolio, see Critical accounting estimates used by the Firm on pages 84–85 and Note 4 on pages 98–99 of this Annual Report, respectively.
(d) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

BALANCE SHEET ANALYSIS

Selected balance sheet data

December 31, (in millions)	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:		
Debt and equity instruments	**310,137**	248,590
Derivative receivables	**55,601**	49,787
Securities:		
Available-for-sale	**91,917**	47,523
Held-to-maturity	**58**	77
Interests in purchased receivables	**–**	29,740
Loans, net of Allowance for loan losses	**475,848**	412,058
Other receivables	**27,585**	27,643
Goodwill	**45,186**	43,621
Other intangible assets	**14,852**	14,559
All other assets	**62,165**	58,428
Total assets	**$ 1,351,520**	$ 1,198,942
Liabilities		
Deposits	**$ 638,788**	$ 554,991
Federal funds purchased and securities sold under repurchase agreements	**162,173**	125,925
Commercial paper and other borrowed funds	**36,902**	24,342
Trading liabilities:		
Debt and equity instruments	**90,488**	94,157
Derivative payables	**57,469**	51,773
Long-term debt and trust preferred capital debt securities	**145,630**	119,886
Beneficial interests issued by consolidated VIEs	**16,184**	42,197
All other liabilities	**88,096**	78,460
Total liabilities	**1,235,730**	1,091,731
Stockholders' equity	**115,790**	107,211
Total liabilities and stockholders' equity	**$ 1,351,520**	$ 1,198,942

Balance sheet overview

At December 31, 2006, the Firm's total assets were $1.4 trillion, an increase of $152.6 billion, or 13%, from December 31, 2005. Total liabilities were $1.2 trillion, an increase of $144.0 billion, or 13%, from December 31, 2005. Stockholders' equity was $115.8 billion, an increase of $8.6 billion, or 8% from December 31, 2005. The following is a discussion of the significant changes in balance sheet items during 2006.

Federal funds sold and securities purchased under resale agreements; Securities borrowed; Federal funds purchased and securities sold under repurchase agreements; and Commercial paper and Other borrowed funds

The Firm utilizes Federal funds sold and securities purchased under resale agreements, Securities borrowed, Federal funds purchased and securities sold under repurchase agreements and Commercial paper and other borrowed funds as part of its liquidity management activities, in order to manage the Firm's cash positions, risk-based capital requirements, and to maximize liquidity access and minimize funding costs. In 2006, Federal funds sold increased in connection with higher levels of funds that were available for short-term investments.

Securities sold under repurchase agreements and Commercial paper and other borrowed funds increased primarily due to short-term requirements to fund trading positions and AFS securities inventory levels, as well as the result of growth in volume related to sweeps and other cash management products. For additional information on the Firm's Liquidity risk management, see pages 62–63 of this Annual Report.

Trading assets and liabilities – debt and equity instruments

The Firm uses debt and equity trading instruments for both market-making and proprietary risk-taking activities. These instruments consist primarily of fixed income securities (including government and corporate debt), equity securities and convertible cash instruments, as well as physical commodities. The increase in trading assets over December 31, 2005, was due primarily to the more favorable capital markets environment, with growth in client-driven market-making activities across both products (such as interest rate, credit and equity markets) and regions. For additional information, refer to Note 4 on page 98 of this Annual Report.

Trading assets and liabilities – derivative receivables and payables

The Firm utilizes various interest rate, foreign exchange, equity, credit and commodity derivatives for market-making, proprietary risk-taking and risk-management purposes. The increases in derivative receivables and payables from December 31, 2005, primarily stemmed from an increase in credit derivatives and equity contracts. For additional information, refer to Derivative contracts and Note 4 on pages 69–72 and 98, respectively, of this Annual Report.

Securities

The Firm's securities portfolio, almost all of which is classified as AFS, is used primarily to manage the Firm's exposure to interest rate movements. The AFS portfolio increased by $44.4 billion from the 2005 year end, primarily due to net purchases in the Treasury investment securities portfolio, in connection with repositioning the Firm's portfolio to manage exposure to interest rates. For additional information related to securities, refer to the Corporate segment discussion and to Note 10 on pages 53–54 and 108–111, respectively, of this Annual Report.

Interests in purchased receivables and Beneficial interests issued by consolidated VIEs

Interests in purchased receivables and Beneficial interests issued by consolidated VIEs declined from December 2005, as a result of the restructuring during the second quarter of 2006 of Firm-administered multi-seller conduits. The restructuring resulted in the deconsolidation of $29 billion of Interests in purchased receivables, $3 billion of Loans and $1 billion of AFS securities, as well as a corresponding decrease in Beneficial interests issued by consolidated VIEs. For additional information related to multi-seller conduits, refer to Off–balance sheet arrangements and contractual cash obligations on pages 59–60 and Note 15 on pages 118–120 of this Annual Report.

Loans

The Firm provides loans to customers of all sizes, from large corporate clients to individual consumers. The Firm manages the risk/reward relationship of each portfolio and discourages the retention of loan assets that do not generate a positive return above the cost of risk-adjusted capital. The $63.8 billion increase in loans, net of the Allowance for loan losses, from December 31, 2005, was due primarily to an increase of $33.6 billion in the wholesale portfolio, mainly in the IB, reflecting an increase in capital markets activity, including financings associated with client acquisitions, securitizations and loan syndications. CB loans also increased as a result of organic growth and The Bank of New York transaction. The $30.3 billion increase in consumer loans was due largely to increases in CS (reflecting strong organic growth, a reduction in credit card securitization activity, and the acquisitions of private-label credit card portfolios), increases in education loans resulting from the 2006 first-quarter acquisition of Collegiate Funding Services, and as a result of The Bank of New York transaction. These increases were offset partially by a decline in auto loans and leases. The Allowance for loan losses increased $189 million, or 3%, from December 31, 2005. For a more detailed discussion of the loan portfolio and the Allowance for loan losses, refer to Credit risk management on pages 64–76 of this Annual Report.

Goodwill

Goodwill arises from business combinations and represents the excess of the cost of an acquired entity over the net fair value amounts assigned to assets acquired and liabilities assumed. The $1.6 billion increase in Goodwill primarily resulted from the addition of $1.8 billion of goodwill from The Bank of New York transaction in the 2006 fourth quarter and from the 2006 first-quarter acquisition of Collegiate Funding Services. Partially offsetting the increase in Goodwill were reductions of $402 million resulting from the sale of selected corporate trust businesses to The Bank of New York; purchase accounting adjustments associated with the 2005 fourth-quarter acquisition of the Sears Canada credit card business; the 2006 second quarter sale of the insurance business; and a reduction related to reclassifying net assets of a subsidiary as held-for-sale. For additional information, see Notes 3 and 16 on pages 97 and 121–123 of this Annual Report.

Other intangible assets

The Firm's other intangible assets consist of mortgage servicing rights ("MSRs"), purchased credit card relationships, other credit card–related intangibles, core deposit intangibles, and all other intangibles. The $293 million increase in Other intangible assets primarily reflects higher MSRs due to growth in the servicing portfolio, the addition of core deposit intangibles from The Bank of New York transaction and purchase accounting adjustments related to the Sears Canada credit card business. Partially offsetting these increases were the amortization of intangibles and a $436 million reduction in Other intangible assets as a result of the sale of selected corporate trust businesses to The Bank of New York. For additional information on MSRs and other intangible assets, see Notes 3 and 16 on pages 97 and 121–123 of this Annual Report.

Deposits

The Firm's deposits represent a liability to customers, both retail and wholesale, for funds held on their behalf. Deposits are generally classified by location (U.S. and non-U.S.), whether they are interest- or noninterest-bearing, and by type (demand, money market deposit accounts ("MMDAs"), savings, time, negotiable order of withdrawal ("NOW") accounts), and help provide a stable and consistent source of funding to the Firm. Deposits increased by 15% from December 31, 2005. Growth in retail deposits reflected The Bank of New York transaction, new account acquisitions, and the ongoing expansion of the retail branch distribution network. Wholesale deposits increased driven by growth in business volumes. Partially offsetting the growth in wholesale deposits was a $24.0 billion decline as a result of the sale of selected corporate trust businesses to The Bank of New York. For more information on deposits, refer to the RFS segment discussion and the Liquidity risk management discussion on pages 38–42 and 62–63, respectively, of this Annual Report. For more information on wholesale liability balances, including deposits, refer to the CB and TSS segment discussions on pages 46–47 and 48–49, respectively, of this Annual Report.

Long-term debt and trust preferred capital debt securities

The Firm utilizes Long-term debt and trust preferred capital debt securities as part of its liquidity and capital management activities. Long-term debt and trust preferred capital debt securities increased by $25.7 billion, or 21%, from December 31, 2005, primarily due to net new issuances. Continued strong foreign investor participation in the global corporate markets allowed JPMorgan Chase to identify attractive opportunities globally to further diversify its funding and capital sources. During 2006, JPMorgan Chase issued approximately $56.7 billion of long-term debt and trust preferred capital debt securities. These issuances were offset partially by $34.3 billion of long-term debt and trust preferred capital debt securities that matured or were redeemed. For additional information on the Firm's long-term debt activities, see the Liquidity risk management discussion on pages 62–63 and Note 19 on pages 124–125 of this Annual Report.

Stockholders' equity

Total stockholders' equity increased by $8.6 billion, or 8%, from year-end 2005 to $115.8 billion at December 31, 2006. The increase was primarily the result of Net income for 2006 and net shares issued under the Firm's employee stock-based compensation plans, offset partially by the declaration of cash dividends, stock repurchases, a charge of $1.1 billion to Accumulated other comprehensive income (loss) related to the prospective adoption, as required on December 31, 2006, of SFAS 158 for the Firm's defined benefit pension and OPEB plans, and the redemption of preferred stock. For a further discussion of capital, see the Capital management section that follows. For a further discussion of SFAS 158, see Note 7 on pages 100–105 of this Annual Report.

The Firm's capital management framework is intended to ensure that there is capital sufficient to support the underlying risks of the Firm's business activities, as measured by economic risk capital, and to maintain "well-capitalized" status under regulatory requirements. In addition, the Firm holds capital above these requirements in amounts deemed appropriate to achieve management's regulatory and debt rating objectives. The process of assigning equity to the lines of business is integrated into the Firm's capital framework and is overseen by ALCO.

Line of business equity

The Firm's framework for allocating capital is based upon the following objectives:
- integrate firmwide capital management activities with capital management activities within each of the lines of business;
- measure performance consistently across all lines of business; and
- provide comparability with peer firms for each of the lines of business.

Equity for a line of business represents the amount the Firm believes the business would require if it were operating independently, incorporating sufficient capital to address economic risk measures, regulatory capital requirements and capital levels for similarly rated peers. Return on equity is measured and internal targets for expected returns are established as a key measure of a business segment's performance.

Effective January 1, 2006, the Firm refined its methodology for allocating capital to the lines of business. As a result of this refinement, RFS, CS, CB, TSS and AM had 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 line of business' 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.

In accordance with SFAS 142, the lines of business perform the required goodwill impairment testing. For a further discussion of goodwill and impairment testing, see Critical accounting estimates and Note 16 on pages 83–85 and 121–123, respectively, of this Annual Report.

Line of business equity	Yearly Average	
(in billions)	**2006**	2005
Investment Bank	**$ 20.8**	$ 20.0
Retail Financial Services	**14.6**	13.4
Card Services	**14.1**	11.8
Commercial Banking	**5.7**	3.4
Treasury & Securities Services	**2.3**	1.5
Asset Management	**3.5**	2.4
Corporate[(a)]	**49.7**	53.0
Total common stockholders' equity	**$110.7**	$105.5

(a) 2006 and 2005 include $41.7 billion and $43.1 billion, respectively, of equity to offset goodwill and $8.0 billion and $9.9 billion, respectively, of equity, primarily related to Treasury, Private Equity and the Corporate Pension Plan.

Economic risk capital

JPMorgan Chase assesses its capital adequacy relative to the risks underlying the Firm's business activities, utilizing internal risk-assessment methodologies. The Firm assigns economic capital primarily based upon four risk factors: credit risk, market risk, operational risk and private equity risk, principally for the Firm's private equity business.

Economic risk capital	Yearly Average	
(in billions)	**2006**	2005
Credit risk	**$ 22.1**	$ 22.6
Market risk	**9.9**	9.8
Operational risk	**5.7**	5.5
Private equity risk	**3.4**	3.8
Economic risk capital	**41.1**	41.7
Goodwill	**43.9**	43.1
Other[(a)]	**25.7**	20.7[(b)]
Total common stockholders' equity	**$ 110.7**	$ 105.5

(a) Reflects additional capital required, in management's view, to meet its regulatory and debt rating objectives.
(b) Includes $2.1 billion of capital previously reported as business risk capital.

Credit risk capital

Credit risk capital is estimated separately for the wholesale businesses (IB, CB, TSS and AM) and consumer businesses (RFS and CS).

Credit risk capital for the overall wholesale credit portfolio is defined in terms of unexpected credit losses, both from defaults and declines in market value due to credit deterioration, measured over a one-year period at a confidence level consistent with the level of capitalization necessary to achieve a targeted 'AA' solvency standard. Unexpected losses are in excess of those for which provisions for credit losses are maintained. In addition to maturity and correlations, capital allocation is based upon several principal drivers of credit risk: exposure at default (or loan-equivalent amount), likelihood of default, loss severity and market credit spread.

- Loan-equivalent amount for counterparty exposure in an over-the-counter derivative transaction is represented by the expected positive exposure based upon potential movements of underlying market rates. The loan-equivalent amount for unused revolving credit facilities represents the portion of the unused commitment or other contingent exposure that is expected, based upon average portfolio historical experience, to become outstanding in the event of a default by an obligor.
- Default likelihood is based upon current market conditions for all Investment Bank clients by referencing equity and credit derivatives markets, as well as certain other publicly traded entities that are not IB clients. This methodology facilitates, in the Firm's view, more active risk management by utilizing a dynamic, forward-looking measure of credit. This measure changes with the credit cycle over time, impacting the level of credit risk capital. For privately held firms and individuals in the Commercial Bank and Asset Management, default likelihood is based upon longer-term averages through the credit cycles.
- Loss severity of exposure is based upon the Firm's average historical experience during workouts, with adjustments to account for collateral or subordination.

Credit risk capital for the consumer portfolio is based upon product and other relevant risk segmentation. Actual segment level default and severity experience are used to estimate unexpected losses for a one-year horizon at a confidence level equivalent to the 'AA' solvency standard. Statistical results for certain segments or portfolios are adjusted to ensure that capital is consistent with external benchmarks, such as subordination levels on market transactions or capital held at representative monoline competitors, where appropriate.

Market risk capital

The Firm calculates market risk capital guided by the principle that capital should reflect the risk of loss in the value of portfolios and financial instruments caused by adverse movements in market variables, such as interest and foreign exchange rates, credit spreads, securities prices and commodities prices. Daily Value-at-Risk ("VAR"), monthly stress-test results and other factors are used to determine appropriate capital levels. The Firm allocates market risk capital to each business segment according to a formula that weights that segment's VAR and stress-test exposures. See Market risk management on pages 77–80 of this Annual Report for more information about these market risk measures.

Operational risk capital

Capital is allocated to the lines of business for operational risk using a risk-based capital allocation methodology which estimates operational risk on a bottom-up basis. The operational risk capital model is based upon actual losses and potential scenario-based stress losses, with adjustments to the capital calculation to reflect changes in the quality of the control environment or the use of risk-transfer products. The Firm believes the model is consistent with the new Basel II Framework and expects to propose it eventually for qualification under the advanced measurement approach for operational risk.

Private equity risk capital

Capital is allocated to privately- and publicly-held securities, third-party fund investments and commitments in the Private Equity portfolio to cover the potential loss associated with a decline in equity markets and related asset devaluations.

Regulatory capital

The Firm's federal banking regulator, the Federal Reserve Board, establishes capital requirements, including well-capitalized standards for the consolidated financial holding company. The Office of the Comptroller of the Currency ("OCC") establishes similar capital requirements and standards for the Firm's national banks, including JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A.

On December 14, 2006, the federal banking regulatory agencies announced an interim decision that SFAS 158 will not impact regulatory capital. Until further guidance is issued, any amounts included in Accumulated other comprehensive income (loss) within Stockholders' equity related to the adoption of SFAS 158 will be excluded from regulatory capital. For further discussion of SFAS 158, refer to Note 7 on pages 100–105 of this Annual Report.

In the first quarter of 2006, the federal banking regulatory agencies issued a final rule that provides regulatory capital relief for certain cash-collateralized, securities-borrowed transactions. The final rule, which became effective February 22, 2006, also broadens the types of transactions qualifying for regulatory capital relief under the interim rule. Adoption of the rule did not have a material effect on the Firm's capital ratios.

On March 1, 2005, the Federal Reserve Board issued a final rule, which became effective April 11, 2005, that continues the inclusion of trust preferred capital debt securities in Tier 1 capital, subject to stricter quantitative limits and revised qualitative standards, and broadens the definition of restricted core capital elements. The rule provides for a five-year transition period. As an internationally active bank holding company, JPMorgan Chase is subject to the rule's limitation on restricted core capital elements, including trust preferred capital debt securities, to 15% of total core capital elements, net of goodwill less any associated deferred tax liability. At December 31, 2006, JPMorgan Chase's restricted core capital elements were 15.1% of total core capital elements.

The following tables show that JPMorgan Chase maintained a well-capitalized position based upon Tier 1 and Total capital ratios at December 31, 2006 and 2005.

Capital ratios

December 31,	**2006**	2005	Well-capitalized ratios
Tier 1 capital ratio	**8.7%**	8.5%	6.0%
Total capital ratio	**12.3**	12.0	10.0
Tier 1 leverage ratio	**6.2**	6.3	NA
Total stockholders' equity to assets	**8.6**	8.9	NA

Risk-based capital components and assets

December 31, (in millions)	**2006**	2005
Total Tier 1 capital	**$ 81,055**	$ 72,474
Total Tier 2 capital	**34,210**	29,963
Total capital	**$ 115,265**	$ 102,437
Risk-weighted assets	**$ 935,909**	$ 850,643
Total adjusted average assets	**1,308,699**	1,152,546

Tier 1 capital was $81.1 billion at December 31, 2006, compared with $72.5 billion at December 31, 2005, an increase of $8.6 billion. The increase was due primarily to net income of $14.4 billion, net issuances of common stock under the Firm's employee stock based compensation plans of $3.8 billion and $873 million of additional qualifying trust preferred capital debt securities. Partially offsetting these increases were changes in stockholders' equity net of Accumulated other comprehensive income (loss) due to dividends declared of $4.9 billion, common share repurchases of $3.9 billion, the redemption of preferred stock of $139 million, a $1.2 billion increase in the deduction for goodwill and other nonqualifying intangibles and a $563 million reduction in qualifying minority interests. Additional information regarding the Firm's capital ratios and the federal regulatory capital standards to which it is subject is presented in Note 26 on pages 129–130 of this Annual Report.

Basel II

The Basel Committee on Banking Supervision published the new Basel II Framework in 2004 in an effort to update the original international bank capital accord ("Basel I"), which has been in effect since 1988. The goal of the Basel II Framework is to make regulatory capital more risk-sensitive, and promote enhanced risk management practices among large, internationally active banking organizations.

U.S. banking regulators are in the process of incorporating the Basel II Framework into the existing risk-based capital requirements. JPMorgan Chase will be required to implement advanced measurement techniques in the U.S., commencing in 2009, by employing internal estimates of certain key risk drivers to derive capital requirements. Prior to its implementation of the new Basel II Framework, JPMorgan Chase will be required to demonstrate to its U.S. bank supervisors that its internal criteria meet the relevant supervisory standards. JPMorgan Chase expects to be in compliance within the established timelines with all relevant Basel II rules. During 2007 and 2008, the Firm will adopt Basel II rules in certain non-U.S. jurisdictions, as required.

Dividends

The Firm's common stock dividend policy reflects JPMorgan Chase's earnings outlook, desired dividend payout ratios, need to maintain an adequate capital level and alternative investment opportunities. In 2006, JPMorgan Chase declared quarterly cash dividends on its common stock of $0.34 per share. The Firm continues to target a dividend payout ratio of 30-40% of net income over time.

The following table shows the common dividend payout ratio based upon reported Net income:

Common dividend payout ratio

Year ended December 31,	2006	2005	2004
Common dividend payout ratio	**34%**	57%	88%

For information regarding restrictions on JPMorgan Chase's ability to pay dividends, see Note 25 on page 129 of this Annual Report.

Stock repurchases

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 supercedes 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.

For the year ended December 31, 2006, under the respective stock repurchase programs then in effect, the Firm repurchased a total of 91 million shares for $3.9 billion at an average price per share of $43.41. Under the original $6 billion stock repurchase program, during 2005, the Firm repurchased 94 million shares for $3.4 billion at an average price per share of $36.46.

As of December 31, 2006, $5.2 billion of authorized repurchase capacity remained under the current stock repurchase program.

The Firm has determined that it may, from time to time, enter into written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 to facilitate the repurchase of common stock in accordance with the repurchase program. A Rule 10b5-1 repurchase plan would allow the Firm to repurchase shares during periods when it would not otherwise be repurchasing common stock – for example, during internal trading "black-out periods." All purchases under a Rule 10b5-1 plan must be made according to a predefined plan that is established when the Firm is not aware of material nonpublic information.

For additional information regarding repurchases of the Firm's equity securities, see Part II, Item 5, Market for registrant's common equity, related stockholder matters and issuer purchases of equity securities, on page 11 of JPMorgan Chase's 2006 Form 10-K.

OFF–BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL CASH OBLIGATIONS

Special-purpose entities

JPMorgan Chase is involved with several types of off–balance sheet arrangements, including special purpose entities ("SPEs"), lines of credit and loan commitments. The principal uses of SPEs are to obtain sources of liquidity for JPMorgan Chase and its clients by securitizing financial assets, and to create other investment products for clients. These arrangements are an important part of the financial markets, providing market liquidity by facilitating investors' access to specific portfolios of assets and risks. For example, SPEs are integral to the markets for mortgage-backed securities, commercial paper and other asset-backed securities.

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. To insulate investors from creditors of other entities, including the seller of assets, SPEs are generally structured to be bankruptcy-remote.

JPMorgan Chase is involved with SPEs in three broad categories: loan securitizations, multi-seller conduits and client intermediation. Capital is held, as deemed appropriate, against all SPE-related transactions and related exposures, such as derivative transactions and lending-related commitments. For further discussion of SPEs and the Firm's accounting for these types of exposures, see Note 1 on page 94, Note 14 on pages 114–118 and Note 15 on pages 118–120 of this Annual Report.

The Firm has no commitments to issue its own stock to support any SPE transaction, and its policies require that transactions with SPEs be conducted at arm's length and reflect market pricing. Consistent with this policy, no JPMorgan Chase employee is permitted to invest in SPEs with which the Firm is involved where such investment would violate the Firm's Code of Conduct. These rules prohibit employees from self-dealing and acting on behalf of the Firm in transactions with which they or their family have any significant financial interest.

For certain liquidity commitments to SPEs, the Firm could be required to provide funding if the short-term credit rating of JPMorgan Chase Bank, N.A. were downgraded below specific levels, primarily P-1, A-1 and F1 for Moody's, Standard & Poor's and Fitch, respectively. The amount of these liquidity commitments was $74.4 billion and $71.3 billion at December 31, 2006 and 2005, respectively. Alternatively, if JPMorgan Chase Bank, N.A. were downgraded, the Firm could be replaced by another liquidity provider in lieu of providing funding under the liquidity commitment, or, in certain circumstances, could facilitate the sale or refinancing of the assets in the SPE in order to provide liquidity.

Of the $74.4 billion in liquidity commitments to SPEs at December 31, 2006, $74.0 billion was included in the Firm's other unfunded commitments to extend credit and asset purchase agreements, as shown in the table on the following page. Of the $71.3 billion of liquidity commitments to SPEs at December 31, 2005, $38.9 billion was included in the Firm's other unfunded commitments to extend credit and asset purchase agreements. Of these commitments, $356 million and $32.4 billion have been excluded from the table at December 31, 2006 and 2005, respectively, as the underlying assets of the SPEs have been included on the Firm's Consolidated balance sheets due to the consolidation of certain multi-seller conduits as required under FIN 46R. The decrease from the 2005 year end is due to the deconsolidation during the 2006 second quarter of several multi-seller conduits administrated by the Firm. For further information, refer to Note 15 on pages 118–120 of this Annual Report.

The Firm also has exposure to certain SPEs arising from derivative transactions; these transactions are recorded at fair value on the Firm's Consolidated balance sheets with changes in fair value (i.e., mark-to-market ("MTM") gains and losses) recorded in Principal transactions. Such MTM gains and losses are not included in the revenue amounts reported in the following table.

The following table summarizes certain revenue information related to consolidated and nonconsolidated variable interest entities ("VIEs") with which the Firm has significant involvement, and qualifying SPEs ("QSPEs"). The revenue reported in the table below primarily represents servicing and credit fee income. For further discussion of VIEs and QSPEs, see Note 1, Note 14 and Note 15, on pages 94, 114–118 and 118–120, respectively, of this Annual Report.

Revenue from VIEs and QSPEs

Year ended December 31, (in millions)	VIEs[(c)]	QSPEs	Total
2006	**$ 209**	**$ 3,183**	**$ 3,392**
2005[(a)]	222	2,940	3,162
2004[(a)(b)]	154	2,732	2,886

(a) Prior-period results have been restated to reflect current methodology.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(c) Includes VIE-related revenue (i.e., revenue associated with consolidated and significant nonconsolidated VIEs).

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 be required to 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. For further discussion of lending-related commitments and guarantees and the Firm's accounting for them, see Credit risk management on pages 64–76 and Note 29 on pages 132–134 of this Annual Report.

Contractual cash obligations

In the normal course of business, the Firm enters into various contractual obligations that may require future cash payments. Commitments for future cash expenditures primarily include contracts to purchase future services and capital expenditures related to real estate–related obligations and equipment.

The accompanying table summarizes, by remaining maturity, JPMorgan Chase's off–balance sheet lending-related financial instruments and significant contractual cash obligations at December 31, 2006. Contractual purchases and capital expenditures in the table below reflect the minimum contractual obligation under legally enforceable contracts with terms that are both fixed and determinable. Excluded from the following table are a number of obligations to be settled in cash, primarily in under one year. These obligations are reflected on the Firm's Consolidated balance sheets and include Federal funds purchased and securities sold under repurchase agreements; Other borrowed funds; purchases of Debt and equity instruments; Derivative payables; and certain purchases of instruments that resulted in settlement failures. For discussion regarding Long-term debt and trust preferred capital securities, see Note 19 on pages 124–125 of this Annual Report. For discussion regarding operating leases, see Note 27 on page 130 of this Annual Report.

Off–balance sheet lending-related financial instruments and guarantees

By remaining maturity at December 31, (in millions)	2006 Under 1 year	2006 1–<3 years	2006 3–5 years	2006 Over 5 years	2006 Total	2005 Total
Lending-related						
Consumer[(a)]	**$ 677,784**	**$ 3,807**	**$ 3,604**	**$ 62,340**	**$ 747,535**	$ 655,596
Wholesale:						
Other unfunded commitments to extend credit[(b)(c)(d)]	**92,829**	**52,465**	**67,250**	**16,660**	**229,204**	208,469
Asset purchase agreements[(e)]	**20,847**	**38,071**	**7,186**	**1,425**	**67,529**	31,095
Standby letters of credit and guarantees[(c)(f)(g)]	**23,264**	**21,286**	**38,812**	**5,770**	**89,132**	77,199
Other letters of credit[(c)]	**4,628**	**823**	**101**	**7**	**5,559**	4,346
Total wholesale	**141,568**	**112,645**	**113,349**	**23,862**	**391,424**	321,109
Total lending-related	**$ 819,352**	**$ 116,452**	**$ 116,953**	**$ 86,202**	**$ 1,138,959**	$ 976,705
Other guarantees						
Securities lending guarantees[(h)]	**$ 318,095**	**$ —**	**$ —**	**$ —**	**$ 318,095**	$ 244,316
Derivatives qualifying as guarantees[(i)]	**13,542**	**10,656**	**24,414**	**22,919**	**71,531**	61,759
Contractual cash obligations						
Time deposits	**$ 195,187**	**$ 5,314**	**$ 2,329**	**$ 1,519**	**$ 204,349**	$ 147,381
Long-term debt	**28,272**	**41,015**	**28,189**	**35,945**	**133,421**	108,357
Trust preferred capital debt securities	**—**	**—**	**—**	**12,209**	**12,209**	11,529
FIN 46R long-term beneficial interests[(j)]	**70**	**63**	**413**	**7,790**	**8,336**	2,354
Operating leases[(k)]	**1,058**	**1,995**	**1,656**	**6,320**	**11,029**	9,734
Contractual purchases and capital expenditures	**770**	**524**	**154**	**136**	**1,584**	2,324
Obligations under affinity and co-brand programs	**1,262**	**2,050**	**1,906**	**897**	**6,115**	6,877
Other liabilities[(l)]	**638**	**718**	**769**	**3,177**	**5,302**	11,646
Total	**$ 227,257**	**$ 51,679**	**$ 35,416**	**$ 67,993**	**$ 382,345**	$ 300,202

(a) Includes Credit card lending-related commitments of $657 billion and $579 billion at December 31, 2006 and 2005, respectively, that 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 2005, respectively.
(e) The maturity is based upon the weighted-average life of the underlying assets in the SPE, which are primarily multi-seller asset-backed commercial paper conduits. 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.
(i) Represents notional amounts of derivatives qualifying as guarantees. For further discussion of guarantees, see Note 29 on pages 132–134 of this Annual Report.
(j) Included on the Consolidated balance sheets in Beneficial interests issued by consolidated VIEs.
(k) Excludes benefit of noncancelable sublease rentals of $1.2 billion and $1.3 billion at December 31, 2006 and 2005, respectively.
(l) Includes deferred annuity contracts. Excludes contributions for pension and other postretirement benefits plans, if any, as these contributions are not reasonably estimatable at this time.

RISK MANAGEMENT

Risk is an inherent part of JPMorgan Chase's business activities. The Firm's risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in its business activities. The Firm's ability to properly identify, measure, monitor and report risk is critical to both its soundness and profitability.

- **Risk identification:** The Firm's exposure to risk through its daily business dealings, including lending, trading and capital markets activities, is identified and aggregated through the Firm's risk management infrastructure.
- **Risk measurement:** The Firm measures risk using a variety of methodologies, including calculating probable loss, unexpected loss and value-at-risk, and by conducting stress tests and making comparisons to external benchmarks. Measurement models and related assumptions are routinely reviewed with the goal of ensuring that the Firm's risk estimates are reasonable and reflect underlying positions.
- **Risk monitoring/control:** The Firm's risk management policies and procedures incorporate risk mitigation strategies and include approval limits by customer, product, industry, country and business. These limits are monitored on a daily, weekly and monthly basis, as appropriate.
- **Risk reporting:** Risk reporting is executed on a line of business and consolidated basis. This information is reported to management on a daily, weekly and monthly basis, as appropriate.

There are eight major risk types identified in the business activities of the Firm: liquidity risk, credit risk, market risk, interest rate risk, private equity risk, operational risk, legal and reputation risk, and fiduciary risk.

Risk governance

The Firm's risk governance structure starts with each line of business being responsible for managing its own risk. Each line of business works closely with Risk Management of the Firm, through its own risk committee and, in most cases, its own chief risk officer. Each risk committee is responsible for decisions regarding the business' risk strategy, policies and controls.

Overlaying the line of business risk management are five corporate functions with risk management–related responsibilities, including the Asset-Liability Committee, Treasury, Chief Investment Office, Office of the General Counsel and Risk Management.

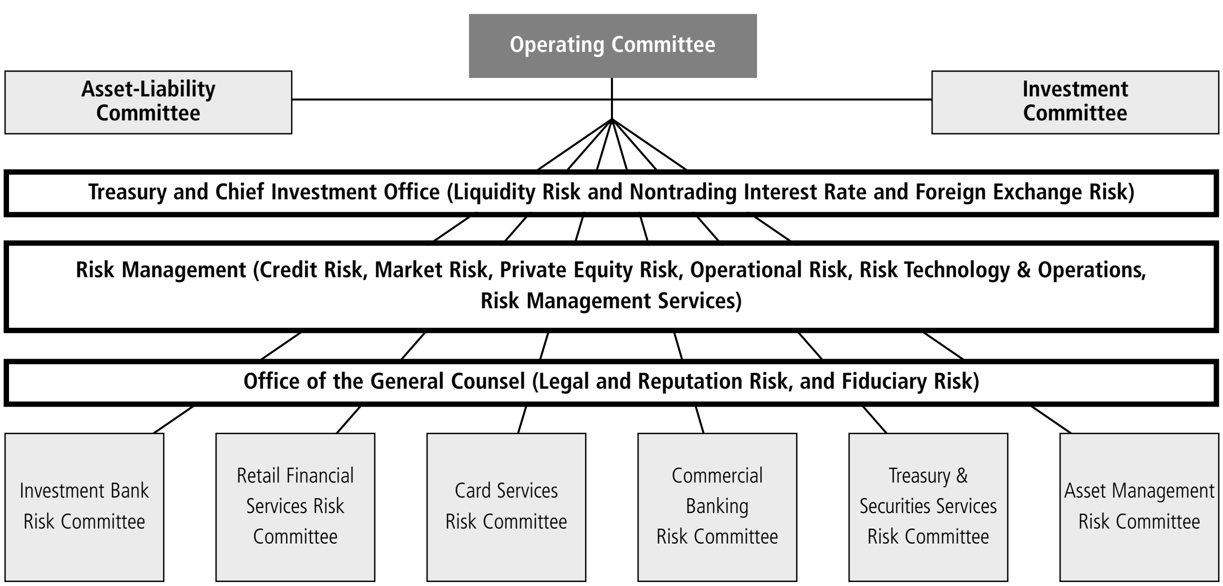
The Asset-Liability Committee is responsible for approving the Firm's liquidity policy, including contingency funding planning and exposure to SPEs (and any required liquidity support by the Firm of such SPEs). The committee also oversees the Firm's capital management and funds transfer pricing policy (through which lines of business "transfer" interest and foreign exchange risk to Treasury in the Corporate segment). The Committee is composed of the Firm's Chief Financial Officer, Chief Risk Officer, Chief Investment Officer, Corporate Treasurer and the Chief Financial Officers of each line of business.

Treasury and the Chief Investment Office are responsible for measuring, monitoring, reporting and managing the Firm's liquidity, interest rate and foreign exchange risk.

The Office of the General Counsel has oversight for legal and reputation and fiduciary risks.

Risk Management is responsible for providing a firmwide function of risk management and controls. Within Risk Management are units responsible for credit risk, market risk, operational risk and private equity risk, as well as Risk Management Services and Risk Technology and Operations. Risk Management Services is responsible for risk policy and methodology, risk reporting and risk education; and Risk Technology and Operations is responsible for building the information technology infrastructure used to monitor and manage risk. Risk Management is headed by the Firm's Chief Risk Officer, who is a member of the Operating Committee and reports to the Chief Executive Officer and the Board of Directors, primarily through the Board's Risk Policy Committee and Audit Committee. The person who filled the position of Chief Risk Officer during 2006 retired at the end of the year. Until his replacement is named, the Firm's Chief Executive Officer is acting as the interim Chief Risk Officer.

In addition to the risk committees of the lines of business and the above-referenced corporate functions, the Firm also has an Investment Committee, which oversees global merger and acquisition activities undertaken by JPMorgan Chase for its own investment account, that fall outside the scope of the Firm's private equity and other principal finance activities.



The Board of Directors exercises its oversight of risk management, principally through the Board's Risk Policy Committee and Audit Committee. The Risk Policy Committee oversees senior management risk-related responsibilities, including reviewing management policies and performance against these policies and related benchmarks. The Audit Committee is responsible for oversight of guidelines and policies that govern the process by which risk assessment and management is undertaken. In addition, the Audit Committee reviews with management the system of internal controls and financial reporting that is relied upon to provide reasonable assurance of compliance with the Firm's operational risk management processes.

LIQUIDITY RISK MANAGEMENT

Liquidity risk arises from the general funding needs of the Firm's activities and in the management of its assets and liabilities. JPMorgan Chase's liquidity management framework is intended to maximize liquidity access and minimize funding costs. Through active liquidity management the Firm seeks to preserve stable, reliable and cost-effective sources of funding. This access enables the Firm to replace maturing obligations when due and fund assets at appropriate maturities and rates. To accomplish this, management uses a variety of measures to mitigate liquidity and related risks, taking into consideration market conditions, prevailing interest rates, liquidity needs and the desired maturity profile of liabilities, among other factors.

The three primary measures of the Firm's liquidity position include the following:

- **Holding company short-term position:** Holding company short-term position measures the parent holding company's ability to repay all obligations with a maturity of less than one year at a time when the ability of the Firm's subsidiaries to pay dividends to the parent company is constrained.
- **Cash capital position:** Cash capital position is a measure intended to ensure the illiquid portion of the balance sheet can be funded by equity, long-term debt, trust preferred capital debt securities and deposits the Firm believes to be core.
- **Basic surplus:** Basic surplus measures the Bank's ability to sustain a 90-day stress event that is specific to the Firm where no new funding can be raised to meet obligations as they come due.

Liquidity is managed so that, based upon the measures described above, management believes there is sufficient surplus liquidity.

An extension of liquidity management is the Firm's contingency funding plan. The goal of the plan is to ensure appropriate liquidity during normal and stress periods. The plan considers numerous temporary and long-term stress scenarios where access to unsecured funding is severely limited or nonexistent, taking into account both on– and off–balance sheet exposures, separately evaluating access to funds by the parent holding company, JPMorgan Chase Bank, N.A. and Chase Bank USA, N.A.

Part of the Firm's contingency funding plan is its ratings downgrade analysis. For this analysis, the impact of numerous rating agency downgrade scenarios are considered.

The various analytics used to manage the Firm's liquidity and related risks rely on management's judgment regarding JPMorgan Chase's ability to liquidate assets or use assets as collateral for borrowings and take into account historical data on the funding of loan commitments (for example, commercial paper back-up facilities), liquidity commitments to SPEs, commitments with rating triggers and collateral posting requirements.

Governance

The Firm's Asset-Liability Committee approves the Firm's liquidity policy and oversees the policy's execution. Treasury is responsible for measuring, monitoring, reporting and managing the Firm's liquidity risk profile. Treasury formulates the Firm's liquidity targets and strategies; monitors the Firm's on– and off–balance sheet liquidity obligations; maintains contingency planning, including ratings downgrade stress testing; and identifies and measures internal and external liquidity warning signals to permit early detection of liquidity issues.

Funding

Sources of funds

Consistent with its liquidity management policy, the Firm has raised funds at the parent holding company sufficient to cover its obligations and those of its nonbank subsidiaries that mature over the next 12 months.

As of December 31, 2006, the Firm's liquidity position remained strong based upon its liquidity metrics. JPMorgan Chase's long-dated funding, including core liabilities, exceeded illiquid assets, and the Firm believes its obligations can be met even if access to funding is impaired.

The diversity of the Firm's funding sources enhances financial flexibility and limits dependence on any one source, thereby minimizing the cost of funds. The deposits held by the RFS, CB, TSS and AM lines of business are generally a stable and consistent source of funding for JPMorgan Chase Bank, N.A. As of December 31, 2006, total deposits for the Firm were $639 billion. A significant portion of the Firm's deposits are retail deposits, which are less sensitive to interest rate changes and therefore are considered more stable than market-based (i.e., wholesale) deposits. In addition to these deposits, the Firm benefits from substantial liability balances originated by RFS, CB, TSS and AM through the normal course of business. These franchise-generated liability balances are also a stable and consistent source of funding due to the nature of the businesses from which they are generated. For a further discussion of deposit and liability balance trends, see Business Segment Results and Balance Sheet Analysis on pages 36–52 and 55–56, respectively, of this Annual Report.

Additional sources of funds include a variety of both short- and long-term instruments, including federal funds purchased, commercial paper, bank notes, long-term debt, and trust preferred capital debt securities. This funding is managed centrally, using regional expertise and local market access, to ensure active participation by the Firm in the global financial markets while maintaining consistent global pricing. These markets serve as a cost-effective and diversified source of funds and are a critical component of the Firm's liquidity management. Decisions concerning the timing and tenor of accessing these markets are based upon relative costs, general market conditions, prospective views of balance sheet growth and a targeted liquidity profile.

Finally, funding flexibility is provided by the Firm's ability to access the repurchase and asset securitization markets. These markets are evaluated on an ongoing basis to achieve an appropriate balance of secured and unsecured funding. The ability to securitize loans, and the associated gains on those securitizations, are principally dependent upon the credit quality and yields of the assets securitized and are generally not dependent upon the credit ratings of the issuing entity. Transactions between the Firm and its securitization structures are reflected in JPMorgan Chase's consolidated financial statements and notes to the consolidated financial statements; these relationships include retained interests in securitization trusts, liquidity facilities and derivative transactions. For further details, see Off–balance sheet arrangements and contractual cash obligations and Notes 14 and 29 on pages 59–60, 114–118 and 132–134, respectively, of this Annual Report.

Issuance

Continued strong foreign investor participation in the global corporate markets allowed JPMorgan Chase to identify attractive opportunities globally to further diversify its funding and capital sources. During 2006, JPMorgan Chase issued approximately $56.7 billion of long-term debt and trust preferred capital debt securities. These issuances were offset partially by $34.3 billion of long-term debt and trust preferred capital debt securities that matured or were redeemed, and by the Firm's redemption of $139 million of preferred stock. In addition, in 2006 the Firm securitized approximately $16.8 billion of residential mortgage loans and $9.7 billion of credit card loans, resulting in pretax gains on securitizations of $85 million and $67 million, respectively. In addition, the Firm securitized approximately $2.4 billion of automobile loans resulting in an insignificant gain. For a further discussion of loan securitizations, see Note 14 on pages 114–118 of this Annual Report.

In connection with the issuance of certain of its trust preferred capital debt securities, the Firm has entered into Replacement Capital Covenants ("RCCs") granting certain rights to the holder of "covered debt," as defined in the RCCs, that prohibit the repayment, redemption or purchase of the trust preferred capital debt securities except, with limited exceptions, to the extent that JPMorgan Chase has received specified amounts of proceeds from the sale of certain qualifying securities. Currently the Firm's covered debt is its 5.875% Junior Subordinated Deferrable Interest Debentures, Series O, due 2035. For more information regarding these covenants, see the Forms 8-K filed by the Firm on August 17, 2006, September 28, 2006 and February 2, 2007.

Cash Flows

Cash Flows from Operating Activities

For the years ended December 31, 2006 and 2005, net cash used in operating activities was $49.6 billion and $30.2 billion, respectively. Net cash was used to support the Firm's lending and capital markets activities, as well as to support loans originated or purchased with an initial intent to sell. JPMorgan Chase's operating assets and liabilities vary significantly in the normal course of business due to the amount and timing of cash flows. Management believes cash flows from operations, available cash balances and short- and long-term borrowings will be sufficient to fund the Firm's operating liquidity needs.

Cash Flows from Investing Activities

The Firm's investing activities primarily include originating loans to be held to maturity, other receivables, and the available-for-sale investment portfolio. For the year ended December 31, 2006, net cash of $99.6 billion was used in investing activities, primarily due to increased loans in the wholesale portfolio, mainly in the IB, reflecting an increase in capital markets activity, as well as organic growth in CB. On the consumer side, increases in CS loans reflected strong organic growth, the acquisitions of private-label credit card portfolios and the 2006 first-quarter acquisition of Collegiate Funding Services, offset partially by credit card securitization activity and a decline in auto loans and leases. Cash also was used to fund the increase in the Treasury investment securities portfolio, primarily in connection with repositioning of the Firm's portfolio to manage exposure to interest rates.

For the year ended December 31, 2005, net cash of $12.9 billion was used in investing activities, primarily attributable to growth in consumer loans, primarily home equity and in CS, reflecting growth in new account originations and the acquisition of the Sears Canada credit card business, offset partially by securitization activity and a decline in auto loans reflecting a difficult auto lending market. Net cash was generated by the Treasury investment securities portfolio primarily from maturities of securities, as purchases and sales of securities essentially offset each other.

Cash Flows from Financing Activities

The Firm's financing activities primarily include the issuance of debt and receipt of customer deposits. JPMorgan Chase pays quarterly dividends on its common stock and has an ongoing stock repurchase program. In 2006, net cash provided by financing activities was $152.7 billion due to growth in deposits, reflecting the ongoing expansion of the retail branch distribution network and higher wholesale business volumes; and net new issuances of Long-term debt and trust preferred capital debt securities, offset partially by the payment of cash dividends and stock repurchases.

In 2005, net cash provided by financing activities was $45.1 billion due to growth in deposits, reflecting, on the retail side, new account acquisitions and the ongoing expansion of the branch distribution network, and higher wholesale business volumes; and net new issuances of Long-term debt and trust preferred capital debt securities, offset partially by the payment of cash dividends and stock repurchases.

Credit ratings

The credit ratings of JPMorgan Chase's parent holding company and each of its significant banking subsidiaries, as of December 31, 2006, were as follows:

	Short-term debt			Senior long-term debt		
	Moody's	S&P	Fitch	Moody's	S&P	Fitch
JPMorgan Chase & Co.	P-1	A-1	F1	Aa3	A+	A+
JPMorgan Chase Bank, N.A.	P-1	A-1+	F1+	Aa2	AA-	A+
Chase Bank USA, N.A.	P-1	A-1+	F1+	Aa2	AA-	A+

On February 14, 2007, S&P raised the senior long-term debt ratings on JPMorgan Chase & Co. and the operating bank subsidiaries to AA- and AA, respectively. Additionally, S&P raised the short-term debt rating of JPMorgan Chase & Co. to A-1+. Similarly, on February 16, 2007, Fitch raised the senior long-term debt rating on JPMorgan Chase & Co. and operating bank subsidiaries to AA-. Fitch also raised the short-term debt rating of JPMorgan Chase & Co. to F1+. The cost and availability of unsecured financing are influenced by credit ratings. A reduction in these ratings could have an adverse affect on the Firm's access to liquidity sources, increase the cost of funds, trigger additional collateral requirements and decrease the number of investors and counterparties willing to lend. Critical factors in maintaining high credit ratings include a stable and diverse earnings stream, strong capital ratios, strong credit quality and risk management controls, diverse funding sources and disciplined liquidity monitoring procedures.

If the Firm's ratings were downgraded by one notch, the Firm estimates the incremental cost of funds and the potential loss of funding to be negligible. Additionally, the Firm estimates the additional funding requirements for VIEs and other third-party commitments would not be material. In the current environment, the Firm believes a downgrade is unlikely. For additional information on the impact of a credit ratings downgrade on the funding requirements for VIEs, and on derivatives and collateral agreements, see Special-purpose entities on page 59 and Ratings profile of derivative receivables mark-to-market ("MTM") on page 71, of this Annual Report.

CREDIT RISK MANAGEMENT

Credit risk is the risk of loss from obligor or counterparty default. The Firm provides credit (for example, through loans, lending-related commitments and derivatives) to customers of all sizes, from large corporate clients to the individual consumer. The Firm manages the risk/reward relationship of each credit and discourages the retention of assets that do not generate a positive return above the cost of risk-adjusted capital. The majority of the Firm's wholesale syndicated loan originations (primarily to IB clients) continues to be distributed into the marketplace, with residual holds by the Firm averaging less than 10%. Wholesale loans generated by CB and AM are generally retained on the balance sheet. With regard to the consumer credit market, the Firm focuses on creating a portfolio that is diversified from both a product and a geographic perspective. Within the mortgage business, originated loans are retained on the balance sheet as well as securitized and sold selectively to U.S. government agencies and U.S. government-sponsored enterprises; the latter category of loans is routinely classified as held-for-sale.

Credit risk organization

Credit risk management is overseen by the Chief Risk Officer. The Firm's credit risk management governance consists of the following primary functions:

- establishing a comprehensive credit risk policy framework
- calculating the allowance for credit losses and ensuring appropriate credit risk-based capital management
- assigning and managing credit authorities in connection with the approval of all credit exposure
- monitoring and managing credit risk across all portfolio segments
- managing criticized exposures

Risk identification

The Firm is exposed to credit risk through lending and capital markets activities. Credit risk management works in partnership with the business segments in identifying and aggregating exposures across all lines of business.

Risk measurement

To measure credit risk, the Firm employs several methodologies for estimating the likelihood of obligor or counterparty default. Losses generated by consumer loans are more predictable than wholesale losses, but are subject to cyclical and seasonal factors. Although the frequency of loss is higher on consumer loans than on wholesale loans, the severity of loss is typically lower and more manageable on a portfolio basis. As a result of these differences, methodologies vary depending on certain factors, including type of asset (e.g., consumer installment versus wholesale loan), risk measurement parameters (e.g., delinquency status and credit bureau score versus wholesale risk rating) and risk management and collection processes (e.g., retail collection center versus centrally managed workout groups). Credit risk measurement is based upon the amount of exposure should the obligor or the counterparty default, the probability of default and the loss severity given a default event. Based upon these factors and related market-based inputs, the Firm estimates both probable and unexpected losses for the wholesale and consumer portfolios. Probable losses, reflected in the Provision for credit losses, primarily are based upon statistical estimates of credit losses over time, anticipated as a result of obligor or counterparty default. However, probable losses are not the sole indicators of risk. If losses were entirely predictable, the probable loss rate could be factored into pricing and covered as a normal and recurring cost of doing business. Unexpected losses, reflected in the allocation of credit risk capital, represent the potential volatility of actual losses relative to the probable level of losses. (Refer to Capital management on pages 57–59 of this Annual Report for a further discussion of the credit risk capital methodology.) Risk measurement for the wholesale portfolio is assessed primarily on a risk-rated basis; for the consumer portfolio, it is assessed primarily on a credit-scored basis.

Risk-rated exposure

For portfolios that are risk-rated, probable and unexpected loss calculations are based upon estimates of probability of default and loss given default. Probability of default is the expected default calculated on an obligor basis. Loss given default is an estimate of losses that are based upon collateral and structural support for each credit facility. Calculations and assumptions are based upon management information systems and methodologies which are under continual review. Risk ratings are assigned and reviewed on an ongoing basis by Credit Risk Management and revised, if needed, to reflect the borrowers' current risk profiles and the related collateral and structural positions.

Credit-scored exposure

For credit-scored portfolios (generally held in RFS and CS), probable loss is based upon a statistical analysis of inherent losses over discrete periods of time. Probable losses are estimated using sophisticated portfolio modeling, credit scoring and decision-support tools to project credit risks and establish underwriting standards. In addition, common measures of credit quality derived from historical loss experience are used to predict consumer losses. Other risk characteristics evaluated include recent loss experience in the portfolios, changes in origination sources, portfolio seasoning, loss severity and underlying credit practices, including charge-off policies. These analyses are applied to the Firm's current portfolios in order to forecast delinquencies and severity of losses, which determine the amount of probable losses. These factors and analyses are updated on a quarterly basis.

Risk monitoring

The Firm has developed policies and practices that are designed to preserve the independence and integrity of decision-making and ensure credit risks are assessed accurately, approved properly, monitored regularly and managed actively at both the transaction and portfolio levels. The policy framework establishes credit approval authorities, concentration limits, risk-rating methodologies, portfolio-review parameters and guidelines for management of distressed exposure. Wholesale credit risk is monitored regularly on both an aggregate portfolio level and on an individual customer basis. For consumer credit risk, the key focus items are trends and concentrations at the portfolio level, where potential problems can be remedied through changes in underwriting policies and portfolio guidelines. Consumer Credit Risk Management monitors trends against business expectations and industry benchmarks. In order to meet credit risk management objectives, the Firm seeks to maintain a risk profile that is diverse in terms of borrower, product type, industry and geographic concentration. Additional management of the Firm's exposure is accomplished through loan syndication and participations, loan sales, securitizations, credit derivatives, use of master netting agreements and collateral and other risk-reduction techniques.

Risk reporting

To enable monitoring of credit risk and decision-making, aggregate credit exposure, credit metric forecasts, hold-limit exceptions and risk profile changes are reported regularly to senior credit risk management. Detailed portfolio reporting of industry, customer and geographic concentrations occurs monthly, and the appropriateness of the allowance for credit losses is reviewed by senior management at least on a quarterly basis. Through the risk reporting and governance structure, credit risk trends and limit exceptions are provided regularly to, and discussed with, the Operating Committee.

2006 Credit risk overview

The wholesale portfolio exhibited credit stability during 2006. There was substantial growth in wholesale lending as a result of increased capital markets–related activity, offset by decreases in nonperforming loans and criticized exposure of $601 million and $591 million, respectively. In 2006, the Firm also made significant strides in its multiyear initiative to reengineer its wholesale credit risk systems infrastructure. Several enhancements were incorporated into the Firm's operating infrastructure in 2006. Overall, the initiative has enhanced management of credit risk; timeliness and accuracy of reporting; support of client relationships; allocation of economic capital; and compliance with Basel II initiatives. The Firm is on target to substantially complete the initiative by year-end 2007.

Consumer credit performance generally was stable in 2006. CS adopted the FFIEC higher minimum payment requirements, which initially resulted in higher payment rates than historically experienced, albeit with losses less severe than initially anticipated. Loans impacted by Hurricane Katrina generally have performed better than initially projected, but have experienced longer resolution timeframes, especially where real estate and business banking assets are involved. The Allowance for loan losses related to Hurricane Katrina was reduced by $121 million in 2006 as a result of the better than anticipated performance. Bankruptcy reform legislation became effective on October 17, 2005. This legislation prompted a "rush to file" effect that resulted in a spike in bankruptcy filings and increased 2005 credit losses, predominantly in CS. As expected, following this spike in filings the Firm experienced lower credit card net charge-offs in 2006, as the record levels of bankruptcy filings in the fourth quarter of 2005 are believed to have included bankruptcy filings that would have occurred in 2006.

In 2006, management of the consumer segment continued to focus on portfolios providing the most appropriate risk/reward relationship while keeping within the Firm's desired risk tolerance. During the past year, the majority of the new subprime mortgage production was sold or classified as held-for-sale. In addition, a portion of the subprime mortgage portfolio was transferred into the held-for-sale account. The Firm also continued a de-emphasis of vehicle finance leasing. The Firm experienced growth in many core consumer lending products including home equity, credit cards, education, and business banking reflecting a focus on the prime credit quality segment of the market.

CREDIT PORTFOLIO

The following table presents JPMorgan Chase's credit portfolio as of December 31, 2006 and 2005. Total credit exposure at December 31, 2006, increased by $198.7 billion from December 31, 2005, reflecting an increase of $80.0 billion in the wholesale credit portfolio and $118.7 billion in the consumer credit portfolio as further described in the following pages.

In the table below, reported loans include all HFS loans, which are carried at the lower of cost or fair value with changes in value recorded in Noninterest revenue. However, these HFS loans are excluded from the average loan balances used for the net charge-off rate calculations.

Total credit portfolio

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure 2006	Credit exposure 2005	Nonperforming assets[i] 2006	Nonperforming assets[i] 2005	Net charge-offs 2006	Net charge-offs 2005	Average annual net charge-off rate 2006	Average annual net charge-off rate 2005
Total credit portfolio								
Loans – reported[a]	**$ 483,127**	$ 419,148	**$ 2,077[j]**	$ 2,343[j]	**$ 3,042**	$ 3,819	**0.73%**	1.00%
Loans – securitized[b]	**66,950**	70,527	**—**	—	**2,210**	3,776	**3.28**	5.47
Total managed loans[c]	**550,077**	489,675	**2,077**	2,343	**5,252**	7,595	**1.09**	1.68
Derivative receivables	**55,601**	49,787	**36**	50	**NA**	NA	**NA**	NA
Interests in purchased receivables[d]	**—**	29,740	**—**	—	**NA**	NA	**NA**	NA
Total managed credit-related assets	**605,678**	569,202	**2,113**	2,393	**5,252**	7,595	**1.09**	1.68
Lending-related commitments[d][e]	**1,138,959**	976,705	**NA**	NA	**NA**	NA	**NA**	NA
Assets acquired in loan satisfactions	**NA**	NA	**228**	197	**NA**	NA	**NA**	NA
Total credit portfolio	**$ 1,744,637**	$1,545,907	**$ 2,341**	$ 2,590	**$ 5,252**	$ 7,595	**1.09%**	1.68%
Net credit derivative hedges notional[f]	**$ (50,733)**	$ (29,882)	**$ (16)**	$ (17)	**NA**	NA	**NA**	NA
Collateral held against derivatives[g]	**(6,591)**	(6,000)	**NA**	NA	**NA**	NA	**NA**	NA
Held-for-sale								
Total average HFS loans	**$ 38,316**	$ 27,713	**$ 87**	$ 95	**NA**	NA	**NA**	NA
Nonperforming – purchased[h]	**251**	341	**NA**	NA	**NA**	NA	**NA**	NA

(a) 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.
(b) Represents securitized credit card receivables. For further discussion of credit card securitizations, see Card Services on pages 43–45 of this Annual Report.
(c) Past-due 90 days and over and accruing includes credit card receivables of $1.3 billion and $1.1 billion, and related credit card securitizations of $962 million and $730 million at December 31, 2006 and 2005, respectively.
(d) 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 a related increase of $33 billion of lending-related commitments during the second quarter of 2006.
(e) Includes wholesale 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. Credit card lending-related commitments of $657 billion and $579 billion at December 31, 2006 and 2005, respectively, represent the total available credit to its 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.
(f) Represents the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133.
(g) Represents other liquid securities collateral held by the Firm as of December 31, 2006 and 2005, respectively.
(h) Represents distressed HFS wholesale loans purchased as part of IB's proprietary activities, which are excluded from nonperforming assets.
(i) Includes nonperforming HFS loans of $120 million and $136 million as of December 31, 2006 and 2005, respectively.
(j) Excludes nonperforming assets related to (1) 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 at December 31, 2006 and 2005, respectively, and (2) education loans that are 90 days past due and still accruing, which are insured by 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.

WHOLESALE CREDIT PORTFOLIO

As of December 31, 2006, wholesale exposure (IB, CB, TSS and AM) increased by $80.0 billion from December 31, 2005, due to increases in lending-related commitments of $70.3 billion, Loans of $33.6 billion, and Derivative receivables of $5.8 billion, partially offset by a decrease of $29.7 billion in Interests in purchased receivables. During the second quarter of 2006, certain multi-seller conduits that the Firm administers were deconsolidated, resulting in a decrease of $29 billion in Interests in purchased receivables, offset by a related increase of $33 billion in lending-related commitments. For a more detailed discussion of the deconsolidation, refer to Note 15 on pages 118–120 of this Annual Report. The remainder of the increase in Loans and lending-related commitments was primarily in the IB, reflecting an increase in capital markets–related activity, including financings associated with client acquisitions, securitizations and loan syndications.

Wholesale

As of or for the year ended December 31, (in millions)	Credit exposure		Nonperforming assets[f]	
	2006	2005	**2006**	2005
Loans – reported[a]	**$ 183,742**	$ 150,111	**$ 391**	$ 992
Derivative receivables	**55,601**	49,787	**36**	50
Interests in purchased receivables	**—**	29,740	**—**	—
Total wholesale credit-related assets	**239,343**	229,638	**427**	1,042
Lending-related commitments[b]	**391,424**	321,109	**NA**	NA
Assets acquired in loan satisfactions	**NA**	NA	**3**	17
Total wholesale credit exposure	**$ 630,767**	$ 550,747	**$ 430**	$ 1,059
Net credit derivative hedges notional[c]	**$ (50,733)**	$ (29,882)	**$ (16)**	$ (17)
Collateral held against derivatives[d]	**(6,591)**	(6,000)	**NA**	NA
Held-for-sale				
Total average HFS loans	**$ 22,187**	$ 12,038	**$ 58**	$ 74
Nonperforming – purchased[e]	**251**	341	**NA**	NA

(a) Includes loans greater or equal to 90 days past due that continue to accrue interest. The principal balance of these loans totaled $29 million and $50 million at December 31, 2006 and 2005, respectively. Also see Note 12 on pages 112–113 of this Annual Report.
(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 the net notional amount of protection purchased and sold of single-name and portfolio credit derivatives used to manage the credit risk of credit exposures; these derivatives do not qualify for hedge accounting under SFAS 133. Also see Credit derivative positions on page 71 of this Annual Report.
(d) Represents other liquid securities collateral held by the Firm as of December 31, 2006 and 2005, respectively.
(e) Represents distressed HFS loans purchased as part of IB's proprietary activities, which are excluded from nonperforming assets.
(f) Includes nonperforming HFS loans of $4 million and $109 million as of December 31, 2006 and 2005, respectively.

Net charge-offs/recoveries

Wholesale

Year ended December 31, (in millions, except ratios)	**2006**	2005
Loans – reported		
Net recoveries	**$ 22**	$ 77
Average annual net recovery rate[a]	**0.01%**	0.06%

(a) Excludes average loans HFS of $22 billion and $12 billion for the years ended December 31, 2006 and 2005, respectively.

During both 2006 and 2005, there were no net charge-offs for Derivative receivables, Interests in purchased receivables or lending-related commitments.

Net recoveries do not include gains from sales of nonperforming loans that were sold from the credit portfolio (as shown in the following table). Gains from these sales during 2006 and 2005 were $72 million and $67 million, respectively, and are reflected in Noninterest revenue.

Nonperforming loan activity

Wholesale

Year ended December 31, (in millions)	**2006**	2005
Beginning balance	**$ 992**	$ 1,574
Additions	**480**	581
Reductions:		
Paydowns and other	**(578)**	(520)
Charge-offs	**(186)**	(255)
Returned to performing	**(133)**	(204)
Sales	**(184)**	(184)
Total reductions	**(1,081)**	(1,163)
Net additions (reductions)	**(601)**	(582)
Ending balance	**$ 391**	$ 992

The following table presents summaries of the maturity and ratings profiles of the wholesale portfolio as of December 31, 2006 and 2005. The ratings scale is based upon the Firm's internal risk ratings and is presented on an S&P-equivalent basis.

Wholesale exposure

	Maturity profile[d]				Ratings profile			
					Investment-grade ("IG")	Noninvestment-grade		
December 31, 2006 (in billions, except ratios)	Under 1 year	1–5 years	Over 5 years	Total	AAA to BBB-	BB+ & below	Total	Total % of IG
Loans	**44%**	**41%**	**15%**	**100%**	**$ 104**	**$ 57**	**$ 161**	**65%**
Derivative receivables	**16**	**34**	**50**	**100**	**49**	**7**	**56**	**88**
Interests in purchased receivables[a]	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Lending-related commitments[a]	**36**	**58**	**6**	**100**	**338**	**53**	**391**	**86**
Total excluding HFS	**37%**	**51%**	**12%**	**100%**	**$ 491**	**$ 117**	**608**	**81%**
Loans held-for-sale[b]							**23**	
Total exposure							**$ 631**	
Net credit derivative hedges notional[c]	**16%**	**75%**	**9%**	**100%**	**$ (45)**	**$ (6)**	**$ (51)**	**88%**

	Maturity profile[d]				Ratings profile			
					Investment-grade ("IG")	Noninvestment-grade		
December 31, 2005 (in billions, except ratios)	Under 1 year	1–5 years	Over 5 years	Total	AAA to BBB-	BB+ & below	Total	Total % of IG
Loans	43%	44%	13%	100%	$ 87	$ 45	$ 132	66%
Derivative receivables	2	42	56	100	42	8	50	84
Interests in purchased receivables	41	57	2	100	30	—	30	100
Lending-related commitments	36	57	7	100	273	48	321	85
Total excluding HFS	35%	52%	13%	100%	$ 432	$ 101	533	81%
Loans held-for-sale[b]							18	
Total exposure							$ 551	
Net credit derivative hedges notional[c]	15%	74%	11%	100%	$ (27)	$ (3)	$ (30)	90%

(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 a related increase of $33 billion of lending-related commitments during the second quarter of 2006.
(b) HFS loans relate primarily to securitization and syndication activities.
(c) Ratings are based upon the underlying referenced assets.
(d) The maturity profile of Loans and lending-related commitments is based upon the remaining contractual maturity. The maturity profile of Derivative receivables is based upon the maturity profile of Average exposure. See page 70 of this Annual Report for a further discussion of Average exposure.

Wholesale credit exposure – selected industry concentration

The Firm focuses on the management and the diversification of its industry concentrations. At December 31, 2006, the top 10 industries remained unchanged from December 31, 2005. The increase in Banks and finance companies, Utilities, Asset managers, and Securities firms and exchanges reflects the overall growth in wholesale exposure. Below are summaries of the top 10 industry concentrations as of December 31, 2006 and 2005.

Wholesale credit exposure – selected industry concentration

December 31, 2006 (in millions, except ratios)	Credit exposure[c]	Investment grade	Noninvestment-grade Noncriticized	Noninvestment-grade Criticized	Net charge-offs/ (recoveries)	Credit derivative hedges[d]	Collateral held against derivative receivables[e]
Top 10 industries[a]							
Banks and finance companies	**$ 61,792**	**84%**	**$ 9,733**	**$ 74**	**$ (12)**	**$ (7,847)**	**$ (1,452)**
Real estate	**32,102**	**57**	**13,702**	**243**	**9**	**(2,223)**	**(26)**
Healthcare	**28,998**	**83**	**4,618**	**284**	**(1)**	**(3,021)**	**(5)**
State and municipal governments	**27,485**	**98**	**662**	**23**	**—**	**(801)**	**(12)**
Consumer products	**27,114**	**72**	**7,327**	**383**	**22**	**(3,308)**	**(14)**
Utilities	**24,938**	**88**	**2,929**	**183**	**(6)**	**(4,123)**	**(2)**
Asset managers	**24,570**	**88**	**2,956**	**31**	**—**	**—**	**(750)**
Securities firms and exchanges	**23,127**	**93**	**1,527**	**5**	**—**	**(784)**	**(1,207)**
Retail and consumer services	**22,122**	**70**	**6,268**	**278**	**(3)**	**(2,069)**	**(226)**
Oil and gas	**18,544**	**76**	**4,356**	**38**	**—**	**(2,564)**	**—**
All other	**317,468**	**80**	**58,971**	**3,484**	**(31)**	**(23,993)**	**(2,897)**
Total excluding HFS	**$ 608,260**	**81%**	**$ 113,049**	**$ 5,026**	**$ (22)**	**$ (50,733)**	**$ (6,591)**
Held-for-sale[b]	**22,507**						
Total exposure	**$ 630,767**						

December 31, 2005 (in millions, except ratios)	Credit exposure[c]	Investment grade	Noninvestment-grade Noncriticized	Noninvestment-grade Criticized	Net charge-offs/ (recoveries)	Credit derivative hedges[d]	Collateral held against derivative receivables[e]
Top 10 industries[a]							
Banks and finance companies	$ 50,924	87%	$ 6,462	$ 232	$ (16)	$ (9,490)	$ (1,482)
Real estate	29,974	55	13,226	276	—	(560)	(2)
Healthcare	25,435	79	4,977	243	12	(581)	(7)
State and municipal governments	25,328	98	409	40	—	(597)	(1)
Consumer products	25,678	71	6,791	590	2	(927)	(28)
Utilities	20,482	90	1,841	295	(4)	(1,624)	—
Asset managers	17,358	82	2,949	103	(1)	(25)	(954)
Securities firms and exchanges	17,094	89	1,833	15	—	(2,009)	(1,525)
Retail and consumer services	19,920	75	4,654	288	12	(989)	(5)
Oil and gas	18,200	77	4,267	9	—	(1,007)	—
All other	282,802	82	47,966	3,081	(82)	(12,073)	(1,996)
Total excluding HFS	$ 533,195	81%	$ 95,375	$ 5,172	$ (77)	$ (29,882)	$ (6,000)
Held-for-sale[b]	17,552						
Total exposure	$ 550,747						

(a) Rankings are based upon exposure at December 31, 2006.
(b) HFS loans primarily relate to securitization and syndication activities.
(c) Credit exposure is net of risk participations and excludes the benefit of credit derivative hedges and collateral held against Derivative receivables or Loans.
(d) Represents notional amounts only; these credit derivatives do not qualify for hedge accounting under SFAS 133.
(e) Represents other liquid securities collateral held by the Firm as of December 31, 2006 and 2005, respectively.

Wholesale criticized exposure

Exposures deemed criticized generally represent a ratings profile similar to a rating of CCC+/Caa1 and lower, as defined by Standard & Poor's/Moody's. The criticized component of the portfolio decreased to $5.7 billion at December 31, 2006, from $6.2 billion at year-end 2005. The decline resulted from upgrades, repayments and reductions in wholesale nonperforming loans as shown on page 67 of this Annual Report.

At December 31, 2006, Healthcare, Agriculture/paper manufacturing, Business services, and Chemicals/plastics moved into the top 10 of wholesale criticized exposure, replacing Telecom services, Airlines, Machinery and equipment manufacturing, and Building materials/construction.

Wholesale criticized exposure – industry concentrations

	2006		2005	
December 31, (in millions, except ratios)	Credit exposure	% of portfolio	Credit exposure	% of portfolio
Automotive	**$ 1,442**	**29%**	$ 643	12%
Media	**392**	**8**	684	13
Consumer products	**383**	**7**	590	11
Healthcare	**284**	**6**	243	5
Retail and consumer services	**278**	**5**	288	6
Real estate	**243**	**5**	276	5
Agriculture/paper manufacturing	**239**	**5**	178	3
Business services	**222**	**4**	250	5
Utilities	**183**	**4**	295	6
Chemicals/plastics	**159**	**3**	188	4
All other	**1,201**	**24**	1,537	30
Total excluding HFS	**$ 5,026**	**100%**	$ 5,172	100%
Held-for-sale[(a)]	**624**		1,069	
Total	**$ 5,650**		$ 6,241	

(a) HFS loans primarily relate to securitization and syndication activities; excludes purchased nonperforming HFS loans.

Wholesale selected industry discussion

Presented below is a discussion of several industries to which the Firm has significant exposure, as well as industries the Firm continues to monitor because of actual or potential credit concerns. For additional information, refer to the tables above and on the preceding page.

- Banks and finance companies: This industry group, primarily consisting of exposure to commercial banks, is the largest segment of the Firm's wholesale credit portfolio. Credit quality is high, as 84% of the exposure in this category is rated investment-grade.
- Real estate: This industry, as the second largest segment of the Firm's wholesale credit portfolio, continued to grow in 2006, primarily due to improving market fundamentals and increased capital demand for the asset class supported by the relatively low interest rate environment. Real estate exposure is well-diversified by client, transaction type, geography, and property type. Approximately half of this exposure is to large public and rated real estate companies and institutions (e.g., REITS), as well as real estate loans originated for sale into the commercial mortgage-backed securities market. The remaining exposure is primarily to professional real estate developers, owners, or service providers and generally involves real estate leased to third-party tenants.
- Automotive: Automotive Original Equipment Manufacturers and suppliers based in North America continued to be impacted negatively by a challenging operating environment in 2006. As a result, criticized exposures grew in 2006, primarily as a result of downgrades to select names within the portfolio. Though larger in the aggregate, most of the criticized exposure remained undrawn, was performing and substantially secured.
- Media: Media no longer represents the largest percentage of criticized exposure since its criticized exposures decreased significantly in 2006. This decrease was due primarily to the maturation of short-term financing arrangements, repayments, and the planned sale to reduce select exposures.
- All other: All other in the wholesale credit exposure concentration table on page 68 of this Annual Report at December 31, 2006, excluding HFS, included $317.5 billion of credit exposure to 22 industry segments. Exposures related to SPEs and high-net-worth individuals were 31% and 13%, respectively, of this category. SPEs provide secured financing (generally backed by receivables, loans or bonds on a bankruptcy-remote, non-recourse or limited-recourse basis) originated by a diverse group of companies in industries that are not highly correlated. The remaining All other exposure is well-diversified across industries other than those related to SPEs and high-net-worth individuals; none comprise more than 3% of total exposure.

Derivative contracts

In the normal course of business, the Firm uses derivative instruments to meet the needs of customers; to generate revenues through trading activities; to manage exposure to fluctuations in interest rates, currencies and other markets; and to manage the Firm's credit exposure. For further discussion of derivative contracts, see Note 28 on pages 131–132 of this Annual Report.

The following table summarizes the aggregate notional amounts and the net derivative receivables MTM for the periods presented.

Notional amounts and derivative receivables marked to market ("MTM")

December 31, (in billions)	Notional amounts[b] 2006	2005	Derivative receivables MTM[c] 2006	2005
Interest rate	**$ 50,201**	$ 38,493	**$ 29**	$ 28
Foreign exchange	**2,520**	2,136	**4**	3
Equity	**809**	458	**6**	6
Credit derivatives	**4,619**	2,241	**6**	3
Commodity	**507**	265	**11**	10
Total, net of cash collateral[a]	**$ 58,656**	$ 43,593	**56**	50
Liquid securities collateral held against derivative receivables	**NA**	NA	**(7)**	(6)
Total, net of all collateral	**NA**	NA	**$ 49**	$ 44

(a) Collateral is only applicable to Derivative receivables MTM amounts.
(b) Represents the sum of gross long and gross short third-party notional derivative contracts, excluding written options and foreign exchange spot contracts.
(c) 2005 has been adjusted to reflect more appropriate product classification of certain balances.

The amount of Derivative receivables reported on the Consolidated balance sheets of $56 billion and $50 billion at December 31, 2006 and 2005, respectively, is the amount of the mark-to-market ("MTM") or fair value of the derivative contracts after giving effect to legally enforceable master netting agreements and cash collateral held by the Firm and represents the cost to the Firm to replace the contracts at current market rates should the counterparty default. However, in Management's view, the appropriate measure of current credit risk should also reflect additional liquid securities held as collateral by the Firm of $7 billion and $6 billion at December 31, 2006 and 2005, respectively, resulting in total exposure, net of all collateral, of $49 billion and $44 billion at December 31, 2006 and 2005, respectively.

The Firm also holds additional collateral delivered by clients at the initiation of transactions, but this collateral does not reduce the credit risk of the derivative receivables in the table above. This additional collateral secures potential exposure that could arise in the derivatives portfolio should the MTM of the client's transactions move in the Firm's favor. As of December 31, 2006 and 2005, the Firm held $12 billion and $10 billion, respectively, of this additional collateral. The derivative receivables MTM, net of all collateral, also does not include other credit enhancements in the forms of letters of credit and surety receivables.

While useful as a current view of credit exposure, the net MTM value of the derivative receivables does not capture the potential future variability of that credit exposure. To capture the potential future variability of credit exposure, the Firm calculates, on a client-by-client basis, three measures of potential derivatives-related credit loss: Peak, Derivative Risk Equivalent ("DRE") and Average exposure ("AVG"). These measures all incorporate netting and collateral benefits, where applicable.

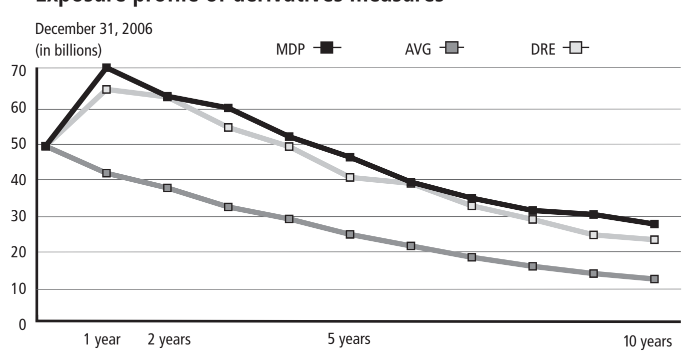
Peak exposure to a counterparty is an extreme measure of exposure calculated at a 97.5% confidence level. However, the total potential future credit risk embedded in the Firm's derivatives portfolio is not the simple sum of all Peak client credit risks. This is because, at the portfolio level, credit risk is reduced by the fact that when offsetting transactions are done with separate counterparties, only one of the two trades can generate a credit loss, even if both counterparties were to default simultaneously. The Firm refers to this effect as market diversification, and the Market-Diversified Peak ("MDP") measure is a portfolio aggregation of counterparty Peak measures, representing the maximum losses at the 97.5% confidence level that would occur if all counterparties defaulted under any one given market scenario and time frame.

Derivative Risk Equivalent exposure is a measure that expresses the riskiness of derivative exposure on a basis intended to be equivalent to the riskiness of loan exposures. The measurement is done by equating the unexpected loss in a derivative counterparty exposure (which takes into consideration both the loss volatility and the credit rating of the counterparty) with the unexpected loss in a loan exposure (which takes into consideration only the credit rating of the counterparty). DRE is a less extreme measure of potential credit loss than Peak and is the primary measure used by the Firm for credit approval of derivative transactions.

Finally, AVG is a measure of the expected MTM value of the Firm's derivative receivables at future time periods, including the benefit of collateral. AVG exposure over the total life of the derivative contract is used as the primary metric for pricing purposes and is used to calculate credit capital and the Credit Valuation Adjustment ("CVA"), as further described below. Average exposure was $36 billion at both December 31, 2006 and 2005, compared with derivative receivables MTM, net of all collateral, of $49 billion and $44 billion at December 31, 2006 and 2005, respectively.

The graph below shows exposure profiles to derivatives over the next 10 years as calculated by the MDP, DRE and AVG metrics. All three measures generally show declining exposure after the first year, if no new trades were added to the portfolio.

Exposure profile of derivatives measures



The MTM value of the Firm's derivative receivables incorporates an adjustment, the CVA, to reflect the credit quality of counterparties. The CVA is based upon the Firm's AVG to a counterparty and the counterparty's credit spread in the credit derivatives market. The primary components of changes in CVA are credit spreads, new deal activity or unwinds, and changes in the underlying market environment. The Firm believes that active risk management is essential to controlling the dynamic credit risk in the derivatives portfolio. The Firm risk manages exposure to changes in CVA by entering into credit derivative transactions, as well as interest rate, foreign exchange, equity and commodity derivative transactions.

The following table summarizes the ratings profile of the Firm's Derivative receivables MTM, net of other liquid securities collateral, for the dates indicated:

Ratings profile of derivative receivables MTM

Rating equivalent	**2006**		2005	
December 31, (in millions, except ratios)	Exposure net of all collateral	% of exposure net of all collateral	Exposure net of all collateral	% of exposure net of all collateral
AAA to AA-[(a)]	**$ 28,150**	**58%**	$ 20,735	48%
A+ to A-	**7,588**	**15**	8,074	18
BBB+ to BBB-	**8,044**	**16**	8,243	19
BB+ to B-	**5,150**	**11**	6,580	15
CCC+ and below	**78**	**—**	155	—
Total	**$ 49,010**	**100%**	$ 43,787	100%

(a) The increase in AAA to AA- was due primarily to exchange-traded commodity activities.

The Firm actively pursues the use of collateral agreements to mitigate counterparty credit risk in derivatives. The percentage of the Firm's derivatives transactions subject to collateral agreements decreased slightly, to 80% as of December 31, 2006, from 81% at December 31, 2005.

The Firm posted $27 billion of collateral as of both December 31, 2006 and 2005. Certain derivative and collateral agreements include provisions that require the counterparty and/or the Firm, upon specified downgrades in their respective credit ratings, to post collateral for the benefit of the other party. As of December 31, 2006, the impact of a single-notch ratings downgrade to JPMorgan Chase Bank, N.A., from its rating of AA- to A+ at December 31, 2006, would have required $1.1 billion of additional collateral to be posted by the Firm; the impact of a six-notch ratings downgrade (from AA- to BBB-) would have required $3.1 billion of additional collateral. Certain derivative contracts also provide for termination of the contract, generally upon a downgrade of either the Firm or the counterparty, at the then-existing MTM value of the derivative contracts.

Credit derivatives

The following table presents the Firm's notional amounts of credit derivatives protection purchased and sold by the respective businesses as of December 31, 2006 and 2005:

Credit derivatives positions

	Notional amount				
	Credit portfolio		Dealer/client		
December 31, (in billions)	Protection purchased	Protection sold	Protection purchased	Protection sold	**Total**
2006	**$ 52[(a)]**	**$ 1**	**$ 2,277**	**$ 2,289**	**$ 4,619**
2005	31	1	1,096	1,113	2,241

(a) Includes $23 billion which represents the notional amount for structured portfolio protection; the Firm retains the first risk of loss on this portfolio.

In managing wholesale credit exposure, the Firm purchases single-name and portfolio credit derivatives; this activity does not reduce the reported level of assets on the balance sheet or the level of reported off–balance sheet commitments. The Firm also diversifies exposures by providing (i.e., selling) credit protection, which increases exposure to industries or clients where the Firm has little or no client-related exposure. This activity is not material to the Firm's overall credit exposure.

JPMorgan Chase has limited counterparty exposure as a result of credit derivatives transactions. Of the $55.6 billion of total Derivative receivables MTM at December 31, 2006, approximately $5.7 billion, or 10%, was associated with credit derivatives, before the benefit of liquid securities collateral.

Dealer/client

At December 31, 2006, the total notional amount of protection purchased and sold in the dealer/client business increased $2.4 trillion from year-end 2005 as a result of increased trade volume in the market. This business has a mismatch between the total notional amounts of protection purchased and sold. However, in the Firm's view, the risk positions are largely matched when securities used to risk-manage certain derivative positions are taken into consideration and the notional amounts are adjusted to a duration-based equivalent basis or to reflect different degrees of subordination in tranched structures.

Credit portfolio management activities

Use of single-name and portfolio credit derivatives

December 31, (in millions)	Notional amount of protection purchased 2006	2005
Credit derivatives used to manage:		
Loans and lending-related commitments	**$ 40,755**	$ 18,926
Derivative receivables	**11,229**	12,088
Total	**$ 51,984**(a)	$ 31,014

(a) Includes $23 billion which represents the notional amount for structured portfolio protection; the Firm retains the first loss on this portfolio.

The credit derivatives used by JPMorgan Chase for credit portfolio management activities do not qualify for hedge accounting under SFAS 133, and therefore, effectiveness testing under SFAS 133 is not performed. These derivatives are reported at fair value, with gains and losses recognized in Principal transactions. The MTM value incorporates both the cost of credit derivative premiums and changes in value due to movement in spreads and credit events; in contrast, the loans and lending-related commitments being risk-managed are accounted for on an accrual basis. Loan interest and fees are generally recognized in Net interest income, and impairment is recognized in the Provision for credit losses. This asymmetry in accounting treatment, between loans and lending-related commitments and the credit derivatives utilized in portfolio management activities, causes earnings volatility that is not representative, in the Firm's view, of the true changes in value of the Firm's overall credit exposure. The MTM related to the Firm's credit derivatives used for managing credit exposure, as well as the MTM related to the CVA, which reflects the credit quality of derivatives counterparty exposure, are included in the table below. These results can vary from year to year due to market conditions that impact specific positions in the portfolio.

Year ended December 31, (in millions)	2006	2005	2004(c)
Hedges of lending-related commitments(a)	**$ (246)**	$ 24	$ (234)
CVA and hedges of CVA(a)	**133**	84	188
Net gains (losses)(b)	**$ (113)**	$ 108	$ (46)

(a) These hedges do not qualify for hedge accounting under SFAS 133.
(b) Excludes gains of $56 million, $8 million and $52 million for the years ended December 31, 2006, 2005 and 2004, respectively, of other Principal transactions revenues that are not associated with hedging activities.
(c) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.

The Firm also actively manages wholesale credit exposure through loan and commitment sales. During 2006, 2005 and 2004, the Firm sold $3.1 billion, $4.0 billion and $5.9 billion of loans and commitments, respectively, recognizing gains (losses) of $73 million, $76 million and ($8) million in 2006, 2005 and 2004, respectively. The gains include gains on sales of nonperforming loans as discussed on page 67 of this Annual Report. These activities are not related to the Firm's securitization activities, which are undertaken for liquidity and balance sheet management purposes. For a further discussion of securitization activity, see Liquidity Risk Management and Note 14 on pages 62–63 and 114–118, respectively, of this Annual Report.

Lending-related commitments

The contractual amount of wholesale lending-related commitments was $391.4 billion at December 31, 2006, compared with $321.1 billion at December 31, 2005. See page 66 of this Annual Report for an explanation of the increase in exposure. In the Firm's view, the total contractual amount of these instruments is not representative of the Firm's actual credit risk exposure or funding requirements. In determining the amount of credit risk exposure the Firm has to wholesale lending-related commitments, which is used as the basis for allocating credit risk capital to these instruments, the Firm has established a "loan-equivalent" amount for each commitment; this amount represents the portion of the unused commitment or other contingent exposure that is expected, based upon average portfolio historical experience, to become outstanding in the event of a default by an obligor. The loan-equivalent amount of the Firm's lending-related commitments was $212 billion and $178 billion as of December 31, 2006 and 2005, respectively.

Emerging markets country exposure

The Firm has a comprehensive internal process for measuring and managing exposures and risk in emerging markets countries – defined as those countries potentially vulnerable to sovereign events. As of December 31, 2006, based upon its internal methodology, the Firm's exposure to any individual emerging-markets country was not significant, in that total exposure to any such country did not exceed 0.75% of the Firm's total assets. In evaluating and managing its exposures to emerging markets countries, the Firm takes into consideration all credit-related lending, trading, and investment activities, whether cross-border or locally funded. Exposure amounts are then adjusted for credit enhancements (e.g., guarantees and letters of credit) provided by third parties located outside the country, if the enhancements fully cover the country risk as well as the credit risk. For information regarding the Firm's cross-border exposure, based upon guidelines of the Federal Financial Institutions Examination Council ("FFIEC"), see Part 1, Item 1, "Loan portfolio, Cross-border outstandings," on page 155, of the Firm's Annual Report on Form 10-K for the year ended December 31,2006.

CONSUMER CREDIT PORTFOLIO

JPMorgan Chase's consumer portfolio consists primarily of residential mortgages, home equity loans, credit cards, auto loans and leases, education loans and business banking loans and reflects the benefit of diversification from both a product and a geographic perspective. The primary focus is serving the prime consumer credit market. There are no products in the real estate portfolios that result in negative amortization. However, RFS offers Home Equity lines of credit and Mortgage loans with interest-only payment options to predominantly prime borrowers. The Firm actively manages its consumer credit operation. Ongoing efforts include continual review and enhancement of credit underwriting criteria and refinement of pricing and risk management models.

The following table presents managed consumer credit–related information for the dates indicated:

Consumer portfolio

As of or for the year ended December 31, (in millions, except ratios)	Credit exposure 2006	Credit exposure 2005	Nonperforming assets[(e)] 2006	Nonperforming assets[(e)] 2005	Net charge-offs 2006	Net charge-offs 2005	Average annual net charge-off rate[(g)] 2006	Average annual net charge-off rate[(g)] 2005
Retail Financial Services								
Home equity	**$ 85,730**	$ 73,866	**$ 454**	$ 422	**$ 143**	$ 141	**0.18%**	0.20%
Mortgage	**59,668**	58,959	**769**	442	**56**	25	**0.12**	0.06
Auto loans and leases[(a)]	**41,009**	46,081	**132**	193	**238**	277	**0.56**	0.54
All other loans	**27,097**	18,393	**322**	281	**139**	129	**0.65**	0.83
Card Services – reported[(b)]	**85,881**	71,738	**9**	13	**2,488**	3,324	**3.37**	4.94
Total consumer loans – reported	**299,385**	269,037	**1,686[(f)]**	1,351[(f)]	**3,064**	3,896	**1.17**	1.56
Card Services – securitizations[(b)(c)]	**66,950**	70,527	**—**	—	**2,210**	3,776	**3.28**	5.47
Total consumer loans – managed[(b)]	**366,335**	339,564	**1,686**	1,351	**5,274**	7,672	**1.60**	2.41
Assets acquired in loan satisfactions	**NA**	NA	**225**	180	**NA**	NA	**NA**	NA
Total consumer related assets – managed	**366,335**	339,564	**1,911**	1,531	**5,274**	7,672	**1.60**	2.41
Consumer lending–related commitments:								
Home equity	**69,559**	58,281	**NA**	NA	**NA**	NA	**NA**	NA
Mortgage	**6,618**	5,944	**NA**	NA	**NA**	NA	**NA**	NA
Auto loans and leases	**7,874**	5,665	**NA**	NA	**NA**	NA	**NA**	NA
All other loans	**6,375**	6,385	**NA**	NA	**NA**	NA	**NA**	NA
Card Services[(d)]	**657,109**	579,321	**NA**	NA	**NA**	NA	**NA**	NA
Total lending-related commitments	**747,535**	655,596	**NA**	NA	**NA**	NA	**NA**	NA
Total consumer credit portfolio	**$ 1,113,870**	$ 995,160	**$1,911**	$ 1,531	**$ 5,274**	$ 7,672	**1.60%**	2.41%
Total average HFS loans	**$ 16,129**	$ 15,675	**$ 29**	$ 21	**NA**	NA	**NA**	NA
Memo: Credit card – managed	**152,831**	142,265	**9**	13	**$ 4,698**	$ 7,100	**3.33%**	5.21%

(a) Excludes operating lease–related assets of $1.6 billion and $858 million at December 31, 2006 and 2005, respectively.
(b) Past-due loans 90 days and over and accruing includes credit card receivables of $1.3 billion and $1.1 billion at December 31, 2006 and 2005, and related credit card securitizations of $962 million and $730 million at December 31, 2006 and 2005, respectively.
(c) Represents securitized credit card receivables. For a further discussion of credit card securitizations, see Card Services on pages 43–45 of this Annual Report.
(d) The credit card lending–related commitments 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.
(e) Includes nonperforming HFS loans of $116 million and $27 million at December 31, 2006 and 2005, respectively.
(f) Excludes nonperforming assets related to (1) 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 (2) 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.
(g) Net charge-off rates exclude average loans HFS of $16 billion for the years ended December 31, 2006 and 2005.

Total managed consumer loans as of December 31, 2006, were $366.3 billion, up from $339.6 billion at year-end 2005 reflecting growth in most consumer portfolios. Consumer lending-related commitments increased by 14%, to $747.5 billion at December 31, 2006, primarily reflecting growth in credit cards and home equity lines of credit. The following discussion relates to the specific loan and lending-related categories within the consumer portfolio.

Retail Financial Services:

Average RFS loan balances for 2006 were $203.9 billion. The net charge-off rate for retail loans in 2006 was 0.31%, which was flat compared with the prior year, reflecting stable credit trends in most consumer lending portfolios. New loans originated in 2006 primarily reflect high credit quality consistent with management's focus on prime and near-prime credit market segmentation. The Firm regularly evaluates market conditions and the overall economic returns of new originations and makes an initial determination of whether to classify specific new originations as held-for-investment or held-for-sale. The Firm also periodically evaluates the overall economic returns of its held-for-investment loan portfolio under prevailing market conditions to determine whether to retain or sell loans in the portfolio. When it is determined that a loan that was previously classified as held-for-investment will be sold it is transferred into a held-for-sale account. Held-for-sale loans are accounted for at the lower of cost or fair value, with changes in value recorded in Noninterest revenue.

Home equity: Home equity loans at December 31, 2006, were $85.7 billion, an increase of $11.9 billion from year-end 2005. Growth in the portfolio reflected organic growth, as well as The Bank of New York transaction. The geographic distribution is well-diversified as shown in the table below.

Mortgage: Mortgage loans at December 31, 2006, were $59.7 billion. Mortgage receivables as of December 31, 2006, reflected an increase of $709 million from the prior year. Although the Firm provides mortgage loans to the full spectrum of credit borrowers, more than 75% of RFS' mortgage loans on the balance sheet are to prime borrowers. In addition, the Firm sells or securitizes virtually all fixed-rate mortgage originations, as well as a portion of its adjustable rate originations. As a result, the portfolio of residential mortgage loans held-for-investment consists primarily of adjustable rate products. The geographic distribution is well-diversified as shown in the table below.

Consumer real estate loans by geographic location

Year ended December 31, (in billions, except ratios)	Home equity			
	2006		2005	
California	**$ 12.9**	**15%**	$ 10.5	14%
New York	**12.2**	**14**	10.2	14
Illinois	**6.2**	**7**	5.5	7
Texas	**5.8**	**7**	5.3	7
Arizona	**5.4**	**6**	4.5	6
Ohio	**5.3**	**6**	5.2	7
Florida	**4.4**	**5**	3.5	5
Michigan	**3.8**	**4**	3.7	5
New Jersey	**3.5**	**4**	2.6	4
Indiana	**2.6**	**3**	2.6	4
All other	**23.6**	**29**	20.3	27
Total	**$ 85.7**	**100%**	$ 73.9	100%

Year ended December 31, (in billions, except ratios)	Mortgage			
	2006		2005	
California	**$ 14.5**	**24%**	$ 13.8	23%
New York	**8.9**	**15**	9.2	16
Florida	**7.1**	**12**	6.8	12
New Jersey	**2.6**	**4**	2.6	4
Illinois	**2.4**	**4**	2.2	4
Texas	**2.1**	**4**	2.3	4
Virginia	**1.5**	**3**	1.7	3
Michigan	**1.5**	**3**	1.5	3
Arizona	**1.5**	**3**	1.2	2
Maryland	**1.4**	**2**	1.5	3
All other	**16.2**	**26**	16.2	26
Total	**$ 59.7**	**100%**	$ 59.0	100%

Auto loans and leases: As of December 31, 2006, Auto loans and leases decreased to $41.0 billion from $46.1 billion at year-end 2005. The decrease in outstanding loans was caused primarily by the de-emphasis of vehicle finance leasing, which comprised $2 billion of outstanding loans as of December 31, 2006, down from $4 billion in the prior year. The Auto loan portfolio reflects a high concentration of prime and near-prime quality credits.

All other loans: All other loans primarily include business banking loans (which are highly collateralized loans, often with personal loan guarantees), Education loans and community development loans. As of December 31, 2006, Other loans increased to $27.1 billion compared with $18.4 billion at year-end 2005. This increase is due primarily to an increase in education loans as a result of the acquisition of Collegiate Funding Services. Loan balances also increased in Business banking primarily as a result of The Bank of New York transaction.

Card Services

JPMorgan Chase analyzes its credit card portfolio on a managed basis, which includes credit card receivables on the consolidated balance sheet and those receivables sold to investors through securitization. Managed credit card receivables were $152.8 billion at December 31, 2006, an increase of $10.6 billion from year-end 2005, reflecting organic growth and acquisitions, partially offset by higher customer payment rates.

The managed credit card net charge-off rate decreased to 3.33% for 2006, from 5.21% in 2005. This decrease was due primarily to lower bankruptcy-related net charge-offs. The 30-day delinquency rates increased to 3.13% at December 31, 2006, from 2.79% at December 31, 2005, primarily driven by accelerated loss recognition of delinquent accounts in 2005, as a result of the 2005 bankruptcy reform legislation. The managed credit card portfolio continues to reflect a well-seasoned portfolio that has good U.S. geographic diversification.

ALLOWANCE FOR CREDIT LOSSES

JPMorgan Chase's allowance for credit losses is intended to cover probable credit losses, including losses where the asset is not specifically identified or the size of the loss has not been fully determined. 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. The allowance is reviewed relative to the risk profile of the Firm's credit portfolio and current economic conditions and is adjusted if, in management's judgment, changes are warranted. The allowance includes an asset-specific component and a formula-based component, the latter of which consists of a statistical calculation and adjustments to the statistical calculation. For further discussion of the components of the allowance for credit losses, see Critical accounting estimates used by the Firm on page 83 and Note 13 on pages 113–114 of this Annual Report. At December 31, 2006, management deemed the allowance for credit losses to be appropriate (i.e., sufficient to absorb losses that are inherent in the portfolio, including losses that are not specifically identified or for which the size of the loss has not yet been fully determined).

Summary of changes in the allowance for credit losses

Year ended December 31,	**2006**			2005		
(in millions)	Wholesale	Consumer	Total	Wholesale	Consumer	Total
Loans:						
Beginning balance at January 1,	**$ 2,453**	**$ 4,637**	**$ 7,090**	$ 3,098	$ 4,222	$ 7,320
Gross charge-offs	**(186)**	**(3,698)**	**(3,884)**	(255)	(4,614)	(4,869)
Gross recoveries	**208**	**634**	**842**	332	718	1,050
Net (charge-offs) recoveries	**22**	**(3,064)**	**(3,042)**	77	(3,896)	(3,819)
Provision for loan losses[a]	**213**	**2,940**	**3,153**	(716)	4,291	3,575
Other	**23**	**55**	**78**[d]	(6)	20	14
Ending balance at December 31	**$ 2,711**[b]	**$ 4,568**[c]	**$ 7,279**	$ 2,453[b]	$ 4,637[c]	$ 7,090
Components:						
Asset specific	**$ 51**	**$ —**	**$ 51**	$ 203	$ —	$ 203
Statistical component	**1,757**	**3,398**	**5,155**	1,629	3,422	5,051
Adjustment to statistical component	**903**	**1,170**	**2,073**	621	1,215	1,836
Total Allowance for loan losses	**$ 2,711**	**$ 4,568**	**$ 7,279**	$ 2,453	$ 4,637	$ 7,090
Lending-related commitments:						
Beginning balance at January 1,	**$ 385**	**$ 15**	**$ 400**	$ 480	$ 12	$ 492
Provision for lending-related commitments	**108**	**9**	**117**	(95)	3	(92)
Other	**6**	**1**	**7**[d]	—	—	—
Ending balance at December 31	**$ 499**	**$ 25**	**$ 524**	$ 385	$ 15	$ 400
Components:						
Asset specific	**$ 33**	**$ —**	**$ 33**	$ 60	$ —	$ 60
Statistical component	**466**	**25**	**491**	325	15	340
Total allowance for lending-related commitments	**$ 499**	**$ 25**	**$ 524**	$ 385	$ 15	$ 400

(a) 2006 includes a $157 million release of Allowance for loan losses related to Hurricane Katrina. 2005 includes $400 million of allowance related to Hurricane Katrina.
(b) The ratio of the wholesale allowance for loan losses to total wholesale loans was 1.68% and 1.85%, excluding wholesale HFS loans of $22.5 billion and $17.6 billion at December 31, 2006 and 2005, respectively.
(c) The ratio of the consumer allowance for loan losses to total consumer loans was 1.71% and 1.84%, excluding consumer HFS loans of $32.7 billion and $16.6 billion at December 31, 2006 and 2005, respectively.
(d) Primarily relates to loans acquired in The Bank of New York transaction in the fourth quarter of 2006.

The Allowance for credit losses increased by $313 million from December 31, 2005, primarily due to activity in the wholesale portfolio. New lending activity in IB and CB was offset partially by lower wholesale nonperforming loans. Additionally, there was a release of $157 million of Allowance for loan losses related to Hurricane Katrina in the consumer and wholesale portfolios.

Excluding held-for-sale loans, the Allowance for loan losses represented 1.70% of loans at December 31, 2006, compared with 1.84% at December 31, 2005. The wholesale component of the allowance increased to $2.7 billion as of December 31, 2006, from $2.5 billion at year-end 2005, due to loan growth in the IB and CB, including the acquisition of The Bank of New York loan portfolio. The consumer allowance decreased $69 million, which included a release of $98 million in CS, partially offset by a $29 million build in RFS. The Allowance release by CS was primarily the result of releasing the remaining Allowance for loan loss related to Hurricane Katrina established in 2005. Excluding the allowance release for Hurricane Katrina, CS' Allowance for loan losses remained constant as improved credit quality offset the increase of $14.1 billion in loan receivables subject to the Allowance. The RFS build was primarily the result of loans acquired in The Bank of New York transaction.

To provide for the risk of loss inherent in the Firm's process of extending credit, management also computes an asset-specific component and a formula-based component for wholesale lending-related commitments. These components are computed using a methodology similar to that used for the wholesale loan portfolio, modified for expected maturities and probabilities of drawdown. This allowance, which is reported in Other liabilities, was $524 million and $400 million at December 31, 2006 and 2005, respectively. The increase reflected increased lending-related commitments and updates to inputs used in the calculation.

Provision for credit losses

For a discussion of the reported Provision for credit losses, see page 29 of this Annual Report. The managed provision for credit losses includes credit card securitizations. For the year ended December 31, 2006, securitized credit card losses were lower compared with the prior-year periods, primarily as a result of lower bankruptcy-related charge-offs. At December 31, 2006, securitized credit card outstandings were $3.6 billion lower compared with the prior year end.

Year ended December 31,	Provision for loan losses			Provision for lending-related commitments			Total provision for credit losses[c]		
(in millions)	**2006**	2005	2004[b]	**2006**	2005	2004[b]	**2006**[a]	2005[a]	2004[b]
Investment Bank	**$ 112**	$ (757)	$ (525)	**$ 79**	$ (81)	$ (115)	**$ 191**	$ (838)	$ (640)
Commercial Banking	**133**	87	35	**27**	(14)	6	**160**	73	41
Treasury & Securities Services	**(1)**	(1)	7	**—**	1	—	**(1)**	—	7
Asset Management	**(30)**	(55)	(12)	**2**	(1)	(2)	**(28)**	(56)	(14)
Corporate	**(1)**	10	975	**—**	—	(227)	**(1)**	10	748
Total Wholesale	**213**	(716)	480	**108**	(95)	(338)	**321**	(811)	142
Retail Financial Services	**552**	721	450	**9**	3	(1)	**561**	724	449
Card Services	**2,388**	3,570	1,953	**—**	—	—	**2,388**	3,570	1,953
Total Consumer	**2,940**	4,291	2,403	**9**	3	(1)	**2,949**	4,294	2,402
Total provision for credit losses	**3,153**[a]	3,575[a]	2,883	**117**	(92)	(339)	**3,270**	3,483	2,544
Credit card securitization	**2,210**	3,776	2,898	**—**	—	—	**2,210**	3,776	2,898
Total managed provision for credit losses	**$ 5,363**	$ 7,351	$ 5,781	**$ 117**	$ (92)	$ (339)	**$5,480**	$ 7,259	$ 5,442

(a) 2006 includes a $157 million release of Allowance for loan losses related to Hurricane Katrina. 2005 includes $400 million of allowance related to Hurricane Katrina.
(b) 2004 results include six months of the combined Firm's results and six months of heritage JPMorgan Chase results.
(c) The 2004 provision for loan losses includes an increase of approximately $1.4 billion as a result of the decertification of heritage Bank One seller's interest in credit card securitizations, partially offset by a reduction of $357 million to conform provision methodologies. The 2004 provision for lending-related commitments reflects a reduction of $227 million to conform provision methodologies in the wholesale portfolio.

Market risk is the exposure to an adverse change in the market value of portfolios and financial instruments caused by a change in market prices or rates.

Market risk management

Market risk is identified, measured, monitored, and controlled by an independent corporate risk governance function. Market risk management seeks to facilitate efficient risk/return decisions, reduce volatility in operating performance and make the Firm's market risk profile transparent to senior management, the Board of Directors and regulators. Market risk management is overseen by the Chief Risk Officer and performs the following primary functions:

- Establishment of a comprehensive market risk policy framework
- Independent measurement, monitoring and control of business segment market risk
- Definition, approval and monitoring of limits
- Performance of stress testing and qualitative risk assessments

The Firm's business segments also have valuation teams whose functions are to provide independent oversight of the accuracy of the valuations of positions that expose the Firm to market risk. These valuation functions reside within the market risk management area and have a reporting line into Finance.

Risk identification and classification

The market risk management group works in partnership with the business segments to identify market risks throughout the Firm and to refine and monitor market risk policies and procedures. All business segments are responsible for comprehensive identification and verification of market risks within their units. Risk-taking businesses have functions that act independently from trading personnel and are responsible for verifying risk exposures that the business takes. In addition to providing independent oversight for market risk arising from the business segments, Market risk management also is responsible for identifying exposures which may not be large within individual business segments, but which may be large for the Firm in aggregate. Regular meetings are held between Market risk management and the heads of risk-taking businesses to discuss and decide on risk exposures in the context of the market environment and client flows.

Positions that expose the Firm to market risk can be classified into two categories: trading and nontrading risk. Trading risk includes positions that are held by the Firm as part of a business segment or unit whose main business strategy is to trade or make markets. Unrealized gains and losses in these positions are generally reported in Principal transactions revenue. Nontrading risk includes securities and other assets held for longer-term investment, mortgage servicing rights, and securities and derivatives used to manage the Firm's asset/liability exposures. Unrealized gains and losses in these positions are generally not reported in Principal transactions revenue.

Trading risk

Fixed income risk (which includes interest rate risk and credit spread risk), foreign exchange, equities and commodities and other trading risks involve the potential decline in Net income or financial condition due to adverse changes in market rates, whether arising from client activities or proprietary positions taken by the Firm.

Nontrading risk

Nontrading risk arises from execution of the Firm's core business strategies, the delivery of products and services to its customers, and the discretionary positions the Firm undertakes to risk-manage exposures.

These exposures can result from a variety of factors, including differences in the timing among the maturity or repricing of assets, liabilities and off–balance sheet instruments. Changes in the level and shape of market interest rate curves also may create interest rate risk, since the repricing characteristics of the Firm's assets do not necessarily match those of its liabilities. The Firm also is exposed to basis risk, which is the difference in repricing characteristics of two floating-rate indices, such as the prime rate and 3-month LIBOR. In addition, some of the Firm's products have embedded optionality that impact pricing and balances.

The Firm's mortgage banking activities also give rise to complex interest rate risks. The interest rate exposure from the Firm's mortgage banking activities is a result of changes in the level of interest rates, as well as option and basis risk. Option risk arises primarily from prepayment options embedded in mortgages and changes in the probability of newly originated mortgage commitments actually closing. Basis risk results from different relative movements between mortgage rates and other interest rates.

Risk measurement

Tools used to measure risk

Because no single measure can reflect all aspects of market risk, the Firm uses various metrics, both statistical and nonstatistical, including:

- Nonstatistical risk measures
- Value-at-risk ("VAR")
- Loss advisories
- Economic value stress testing
- Earnings-at-risk stress testing
- Risk identification for large exposures ("RIFLE")

Nonstatistical risk measures

Nonstatistical risk measures other than stress testing include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Firm's market risk exposure. They are aggregated by line of business and by risk type, and are used for monitoring limits, one-off approvals and tactical control.

Value-at-risk

JPMorgan Chase's primary statistical risk measure, VAR, estimates the potential loss from adverse market moves in an ordinary market environment and provides a consistent cross-business measure of risk profiles and levels of diversification. VAR is used for comparing risks across businesses, monitoring limits, one-off approvals, and as an input to economic capital calculations. VAR provides risk transparency in a normal trading environment. Each business day the Firm undertakes a comprehensive VAR calculation that includes both its trading and its nontrading risks. VAR for nontrading risk measures the amount of potential change in the fair values of the exposures related to these risks; however, for such risks, VAR is not a measure of reported revenue since nontrading activities are generally not marked to market through earnings.

To calculate VAR, the Firm uses historical simulation, which measures risk across instruments and portfolios in a consistent and comparable way. This approach assumes that historical changes in market values are representative of future changes. The simulation is based upon data for the previous twelve months. The Firm calculates VAR using a one-day time horizon and an expected tail-loss methodology, which approximates a 99% confidence level. This means the Firm would expect to incur losses greater than that predicted by VAR estimates only once in every 100 trading days, or about two to three times a year.

IB Trading and Credit Portfolio VAR

IB trading VAR by risk type and credit portfolio VAR

As of or for the year ended December 31, (in millions)	**2006** Average VAR	**2006** Minimum VAR	**2006** Maximum VAR	2005 Average VAR	2005 Minimum VAR	2005 Maximum VAR	At December 31, **2006**	At December 31, 2005
By risk type:								
Fixed income	**$ 56**	**$ 35**	**$ 94**	$ 67	$ 37	$ 110	**$ 44**	$ 89
Foreign exchange	**22**	**14**	**42**	23	16	32	**27**	19
Equities	**31**	**18**	**50**	34	15	65	**49**	24
Commodities and other	**45**	**22**	**128**	21	7	50	**41**	34
Less: portfolio diversification	**(70)**[c]	**NM**[d]	**NM**[d]	(59)[c]	NM[d]	NM[d]	**(62)**[c]	(63)[c]
Trading VAR[a]	**84**	**55**	**137**	86	53	130	**99**	103
Credit portfolio VAR[b]	**15**	**12**	**19**	14	11	17	**15**	15
Less: portfolio diversification	**(11)**[c]	**NM**[d]	**NM**[d]	(12)[c]	NM[d]	NM[d]	**(10)**[c]	(10)[c]
Total trading and credit portfolio VAR	**$ 88**	**$ 61**	**$ 138**	$ 88	$ 57	$ 130	**$ 104**	$ 108

(a) Trading VAR does not include VAR related to the MSR portfolio or VAR related to other corporate functions, such as Treasury and Private Equity. For a discussion of MSRs and the corporate functions, see pages 53–54 and Note 16 on pages 121–122 of this Annual Report, respectively. Trading VAR includes substantially all trading activities in IB; however, particular risk parameters of certain products are not fully captured, for example, correlation risk.

(b) Includes VAR on derivative credit valuation adjustments, hedges of the credit valuation adjustment and mark-to-market hedges of the accrual loan portfolio, which are all reported in Principal transactions revenue. This VAR does not include the accrual loan portfolio, which is not marked to market.

(c) Average and period-end VARs are less than the sum of the VARs of its market risk components, which is due to risk offsets resulting from portfolio diversification. The diversification effect reflects the fact that the risks are not perfectly correlated. The risk of a portfolio of positions is therefore usually less than the sum of the risks of the positions themselves.

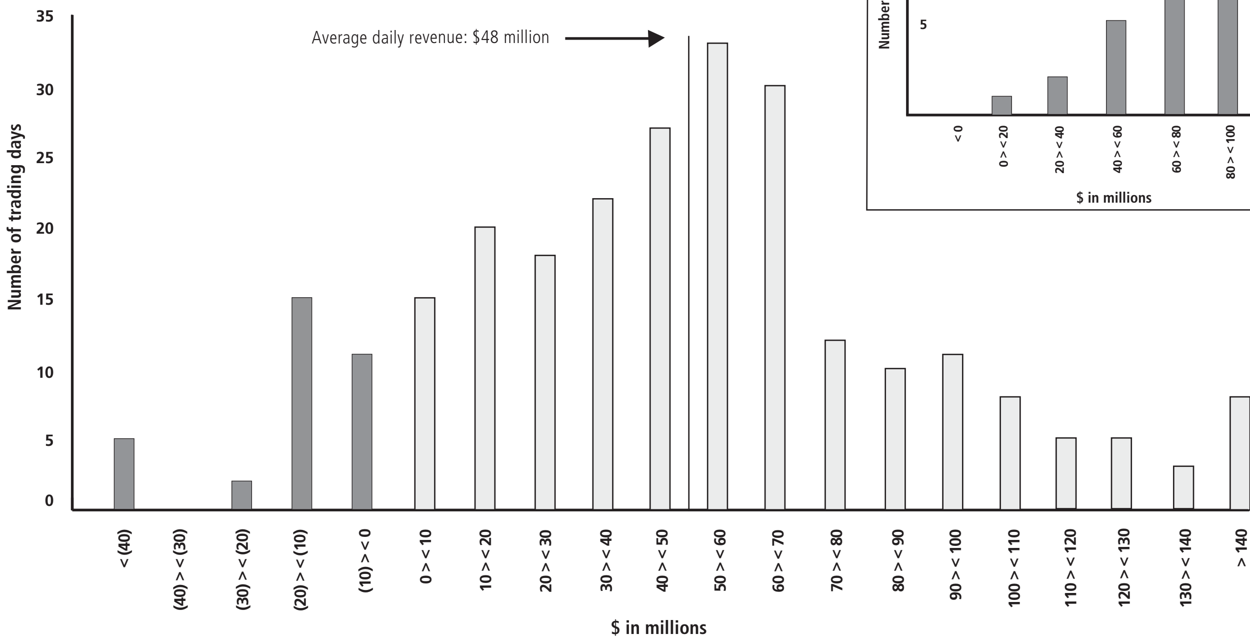
(d) Designated as not meaningful ("NM") because the minimum and maximum may occur on different days for different risk components, and hence it is not meaningful to compute a portfolio diversification effect.

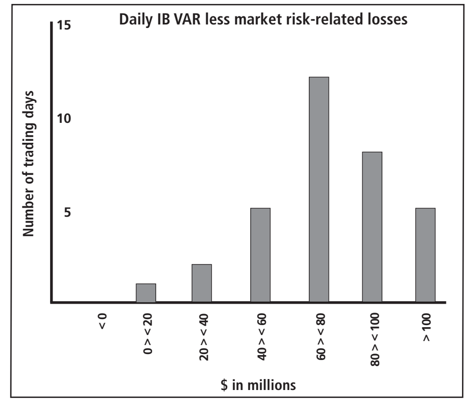
Investment Bank's average Total Trading and Credit Portfolio VAR was $88 million for both 2006 and 2005. Commodities and other VAR increased due to continued expansion of the energy trading business, while Fixed income VAR decreased due to reduced risk positions, as well as to lower market volatility compared with 2005. These changes also led to an increase in portfolio diversification, as Average Trading VAR diversification increased to $70 million, or 45% of the sum of the components, during 2006; from $59 million, or 41% of the sum of the components, during 2005. In general, over the course of the year, VAR exposures can vary significantly as positions change, market volatility fluctuates and diversification benefits change.

VAR back-testing

To evaluate the soundness of its VAR model, the Firm conducts daily back-testing of VAR against daily IB market risk-related revenue, which is defined as the change in value of Principal transactions revenue less Private Equity gains/losses plus any trading-related net interest income, brokerage commissions, underwriting fees or other revenue. The following histogram illustrates the daily market risk-related gains and losses for IB trading businesses for the year ended December 31, 2006. The chart shows that IB posted market risk-related gains on 227 out of 260 days in this period, with 29 days exceeding $100 million. The inset graph looks at those days on which IB experienced losses and depicts the amount by which VAR exceeded the actual loss on each of those days. Losses were sustained on 33 days, with no loss greater than $100 million, and with no loss exceeding the VAR measure.

Daily IB market risk-related gains and losses
Year ended December 31, 2006





Loss advisories

Loss advisories are tools used to highlight to senior management trading losses above certain levels and are used to initiate discussion of remedies.

Economic value stress testing

While VAR reflects the risk of loss due to adverse changes in normal markets, stress testing captures the Firm's exposure to unlikely but plausible events in abnormal markets. The Firm conducts economic-value stress tests for both its trading and its nontrading activities at least once a month using multiple scenarios that assume credit spreads widen significantly, equity prices decline and interest rates rise in the major currencies. Additional scenarios focus on the risks predominant in individual business segments and include scenarios that focus on the potential for adverse moves in complex portfolios. Periodically, scenarios are reviewed and updated to reflect changes in the Firm's risk profile and economic events. Along with VAR, stress testing is important in measuring and controlling risk. Stress testing enhances the understanding of the Firm's risk profile and loss potential, and stress losses are monitored against limits. Stress testing is also utilized in one-off approvals and cross-business risk measurement, as well as an input to economic capital allocation. Stress-test results, trends and explanations are provided each month to the Firm's senior management and to the lines of business to help them better measure and manage risks and to understand event risk-sensitive positions.

Earnings-at-risk stress testing

The VAR and stress-test measures described above illustrate the total economic sensitivity of the Firm's balance sheet to changes in market variables. The effect of interest rate exposure on reported Net income also is critical. Interest rate risk exposure in the Firm's core nontrading business activities (i.e., asset/liability management positions) results from on– and off–balance sheet positions. The Firm conducts simulations of changes in NII from its nontrading activities under a variety of interest rate scenarios. Earnings-at-risk tests measure the potential change in the Firm's Net interest income over the next 12 months and highlight exposures to various rate-sensitive factors, such as the rates themselves (e.g., the prime lending rate), pricing strategies on deposits, optionality and changes in product mix. The tests include forecasted balance sheet changes, such as asset sales and securitizations, as well as prepayment and reinvestment behavior.

Earnings-at-risk also can result from changes in the slope of the yield curve, because the Firm has the ability to lend at fixed rates and borrow at variable or short-term fixed rates. Based upon these scenarios, the Firm's earnings would be affected negatively by a sudden and unanticipated increase in short-term rates without a corresponding increase in long-term rates. Conversely, higher long-term rates generally are beneficial to earnings, particularly when the increase is not accompanied by rising short-term rates.

Immediate changes in interest rates present a limited view of risk, and so a number of alternative scenarios also are reviewed. These scenarios include the implied forward curve, nonparallel rate shifts and severe interest rate shocks on selected key rates. These scenarios are intended to provide a comprehensive view of JPMorgan Chase's earnings-at-risk over a wide range of outcomes.

JPMorgan Chase's 12-month pretax earnings sensitivity profile as of December 31, 2006 and 2005, were as follows:

	Immediate change in rates			
(in millions)	+200bp	+100bp	-100bp	-200bp
December 31, 2006	**$ (101)**	**$ 28**	**$ (21)**	**$(182)**
December 31, 2005	265	172	(162)	(559)

The primary change in earnings-at-risk from December 31, 2005, reflects a higher level of AFS securities and other repositioning. The Firm is exposed to both rising and falling rates. The Firm's risk to rising rates is largely the result of increased funding costs. In contrast, the exposure to falling rates is the result of higher anticipated levels of loan and securities prepayments.

Risk identification for large exposures ("RIFLE")

Individuals who manage risk positions, particularly those that are complex, are responsible for identifying potential losses that could arise from specific, unusual events, such as a potential tax change, and estimating the probabilities of losses arising from such events. This information is entered into the Firm's RIFLE database. Trading management has access to RIFLE, thereby permitting the Firm to monitor further earnings vulnerability not adequately covered by standard risk measures.

Risk monitoring and control

Limits

Market risk is controlled primarily through a series of limits. Limits reflect the Firm's risk appetite in the context of the market environment and business strategy. In setting limits, the Firm takes into consideration factors such as market volatility, product liquidity, business trends and management experience.

Market risk management regularly reviews and updates risk limits. Senior management, including the Firm's Chief Executive Officer and Chief Risk Officer, is responsible for reviewing and approving risk limits at least once a year. Market risk management further controls the Firm's exposure by specifically designating approved financial instruments and tenors, known as instrument authorities, for each business segment.

The Firm maintains different levels of limits. Corporate-level limits include VAR and stress. Similarly, line-of-business limits include VAR and stress limits and may be supplemented by loss advisories, nonstatistical measurements and instrument authorities. Businesses are responsible for adhering to established limits, against which exposures are monitored and reported. Limit breaches are reported in a timely manner to senior management, and the affected business segment is required either to reduce trading positions or consult with senior management on the appropriate action.

Qualitative review

The market risk management group also performs periodic reviews as necessary of both businesses and products with exposure to market risk in order to assess the ability of the businesses to control their market risk. Strategies, market conditions, product details and risk controls are reviewed, and specific recommendations for improvements are made to management.

Model review

Some of the Firm's financial instruments cannot be valued based upon quoted market prices but are instead valued using pricing models. Such models are used for management of risk positions, such as reporting against limits, as well as for valuation. The Model Risk Group, independent of the businesses and market risk management, reviews the models the Firm uses and assesses model appropriateness and consistency. The model reviews consider a number of factors about the model's suitability for valuation and risk management of a particular product, including whether it accurately reflects the characteristics of the transaction and its significant risks, the suitability and convergence properties of numerical algorithms, reliability of data sources, consistency of the treatment with models for similar products, and sensitivity to input parameters and assumptions that cannot be priced from the market.

Reviews are conducted of new or changed models, as well as previously accepted models, to assess whether there have been any changes in the product or market that may impact the model's validity and whether there are theoretical or competitive developments that may require reassessment of the model's adequacy. For a summary of valuations based upon models, see Critical Accounting Estimates used by the Firm on pages 83–85 of this Annual Report.

Risk reporting

Nonstatistical exposures, value-at-risk, loss advisories and limit excesses are reported daily for each trading and nontrading business. Market risk exposure trends, value-at-risk trends, profit and loss changes, and portfolio concentrations are reported weekly. Stress-test results are reported monthly to business and senior management.

PRIVATE EQUITY RISK MANAGEMENT

Risk management

The Firm makes direct principal investments in private equity. The illiquid nature and long-term holding period associated with these investments differentiates private equity risk from the risk of positions held in the trading portfolios. The Firm's approach to managing private equity risk is consistent with the Firm's general risk governance structure. Controls are in place establishing target levels for total and annual investment in order to control the overall size of the portfolio. Industry and geographic concentration limits are in place and intended to ensure diversification of the portfolio; and periodic reviews are performed on the portfolio to substantiate the valuations of the investments. The valuation function within Market risk management that reports into Finance is responsible for reviewing the accuracy of the carrying values of private equity investments held by Private Equity. At December 31, 2006, the carrying value of the private equity businesses was $6.1 billion, of which $587 million represented positions traded in the public market.

OPERATIONAL RISK MANAGEMENT

Operational risk is the risk of loss resulting from inadequate or failed processes or systems, human factors or external events.

Overview

Operational risk is inherent in each of the Firm's businesses and support activities. Operational risk can manifest itself in various ways, including errors, fraudulent acts, business interruptions, inappropriate behavior of employees or vendors that do not perform in accordance with outsourcing arrangements. These events could result in financial losses and other damage to the Firm, including reputational harm.

To monitor and control operational risk, the Firm maintains a system of comprehensive policies and a control framework designed to provide a sound and well-controlled operational environment. The goal is to keep operational risk at appropriate levels, in light of the Firm's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment to which it is subject. Notwithstanding these control measures, the Firm incurs operational losses.

The Firm's approach to operational risk management is intended to mitigate such losses by supplementing traditional control-based approaches to operational risk with risk measures, tools and disciplines that are risk-specific, consistently applied and utilized firmwide. Key themes are transparency of information, escalation of key issues and accountability for issue resolution.

The Firm's operational risk framework is supported by Phoenix, an internally designed operational risk software tool. Phoenix integrates the individual components of the operational risk management framework into a unified, web-based tool. Phoenix enhances the capture, reporting and analysis of operational risk data by enabling risk identification, measurement, monitoring, reporting and analysis to be done in an integrated manner, thereby enabling efficiencies in the Firm's monitoring and management of its operational risk.

For purposes of identification, monitoring, reporting and analysis, the Firm categorizes operational risk events as follows:

- Client service and selection
- Business practices
- Fraud, theft and malice
- Execution, delivery and process management
- Employee disputes
- Disasters and public safety
- Technology and infrastructure failures

Risk identification and measurement

Risk identification is the recognition of the operational risk events that management believes may give rise to operational losses.

All businesses utilize the Firm's newly redesigned firmwide self-assessment process and supporting architecture as a dynamic risk management tool. The goal of the self-assessment process is for each business to identify the key operational risks specific to its environment and assess the degree to which it maintains appropriate controls. Action plans are developed for control issues identified, and businesses are held accountable for tracking and resolving these issues on a timely basis.

Risk monitoring

The Firm has a process for monitoring operational risk-event data, permitting analysis of errors and losses as well as trends. Such analysis, performed both at a line-of-business level and by risk-event type, enables identification of the causes associated with risk events faced by the businesses. Where available, the internal data can be supplemented with external data for comparative analysis with industry patterns. The data reported enables the Firm to back-test against self-assessment results. The Firm is a founding member of the Operational Risk Data Exchange, a not-for-profit industry association formed for the purpose of collecting operational loss data and sharing data in an anonymous form and benchmarking results back to members. Such information supplements the Firm's ongoing operational risk analysis.

Risk reporting and analysis

Operational risk management reports provide timely and accurate information, including information about actual operational loss levels and self-assessment results, to the lines of business and senior management. The purpose of these reports is to enable management to maintain operational risk at appropriate levels within each line of business, to escalate issues and to provide consistent data aggregation across the Firm's businesses and support areas.

Audit alignment

Internal Audit utilizes a risk-based program of audit coverage to provide an independent assessment of the design and effectiveness of key controls over the Firm's operations, regulatory compliance and reporting. Audit partners with business management and members of the control community in providing guidance on the operational risk framework and reviewing the effectiveness and accuracy of the business self-assessment process as part of its business unit audits.

REPUTATION AND FIDUCIARY RISK MANAGEMENT

A firm's success depends not only on its prudent management of the liquidity, credit, market and operational risks that are part of its business risks, but equally on the maintenance among many constituents – clients, investors, regulators, as well as the general public – of a reputation for business practices of the highest quality. Attention to reputation always has been a key aspect of the Firm's practices, and maintenance of reputation is the responsibility of everyone at the Firm. JPMorgan Chase bolsters this individual responsibility in many ways, including through the Firm's Code of Conduct, training, maintaining adherence to policies and procedures, and oversight functions that approve transactions. These oversight functions include a Conflicts Office, which examines wholesale transactions with the potential to create conflicts of interest for the Firm, and a Policy Review Office that reviews certain transactions with clients, especially complex derivatives and structured finance transactions that have the potential to affect adversely the Firm's reputation.

Policy Review Office

The Policy Review Office is the most senior approval level for client transactions involving reputation risk issues. The mandate of the Policy Review Office is to opine on specific transactions brought by the Regional Reputation Risk Review Committees and consider changes in policies or practices relating to reputation risk. The head of the Policy Review Office consults with the Firm's most senior executives on specific topics and provides regular updates. The Policy Review Office reinforces the Firm's procedures for examining transactions in terms of appropriateness, ethical issues and reputation risk. It focuses on the purpose and effect of its transactions from the client's point of view, with the goal that these transactions are not used to mislead investors or others.

Primary responsibility for adherence to the policies and procedures designed to address reputation risk lies with the business units conducting the transactions in question. The Firm's transaction approval process requires review from, among others, internal legal/compliance, conflicts, tax and accounting groups. Transactions involving an SPE established by the Firm receive particular scrutiny intended to ensure that every such entity is properly approved, documented, monitored and controlled.

Business units also are required to submit to regional Reputation Risk Review Committees proposed transactions that may give rise to heightened reputation risk. The committees may approve, reject or require further clarification on or changes to the transactions. The members of these committees are senior representatives of the business and support units in the region. The committees may escalate transaction review to the Policy Review Office.

Fiduciary risk management

The risk management committees within each line of business include in their mandate the oversight of the legal, reputational and, where appropriate, fiduciary risks in their businesses that may produce significant losses or reputational damage. The Fiduciary Risk Management function works with the relevant line-of-business risk committees with the goal of ensuring that businesses providing investment or risk management products or services that give rise to fiduciary duties to clients perform at the appropriate standard relative to their fiduciary relationship with a client. Of particular focus are the policies and practices that address a business' responsibilities to a client, including client suitability determination, disclosure obligations and communications, and performance expectations with respect to risk management products or services being provided by the Firm, that give rise to such fiduciary duties. In this way, the relevant line-of-business risk committees, together with the Fiduciary Risk Management function, provide oversight of the Firm's efforts to monitor, measure and control the risks that may arise in the delivery of the products or services to clients that give rise to such duties, as well as those stemming from any of the Firm's fiduciary responsibilities to employees under the Firm's various employee benefit plans.

JPMorgan Chase's accounting policies and use of estimates are integral to understanding its reported results. The Firm's most complex accounting estimates require management's judgment to ascertain the valuation of assets and liabilities. The Firm has established detailed policies and control procedures intended to ensure that valuation methods, including any judgments made as part of such methods, are well-controlled, independently reviewed and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The Firm believes its estimates for determining the valuation of its assets and liabilities are appropriate. The following is a brief description of the Firm's critical accounting estimates involving significant valuation judgments.

Allowance for credit losses

JPMorgan Chase's allowance for credit losses covers the wholesale and consumer loan portfolios as well as the Firm's portfolio of wholesale lending-related commitments. The Allowance for credit losses is intended to adjust the value of the Firm's loan assets for probable credit losses as of the balance sheet date. For further discussion of the methodologies used in establishing the Firm's Allowance for credit losses, see Note 13 on pages 113–114 of this Annual Report.

Wholesale loans and lending-related commitments

The methodology for calculating both the Allowance for loan losses and the Allowance for lending-related commitments involves significant judgment. First and foremost, it involves the early identification of credits that are deteriorating. Second, it involves judgment in establishing the inputs used to estimate the allowances. Third, it involves management judgment to evaluate certain macroeconomic factors, underwriting standards, and other relevant internal and external factors affecting the credit quality of the current portfolio and to refine loss factors to better reflect these conditions.

The Firm uses a risk rating system to determine the credit quality of its wholesale loans. Wholesale loans are reviewed for information affecting the obligor's ability to fulfill its obligations. In assessing the risk rating of a particular loan, among the factors considered are the obligor's debt capacity and financial flexibility, the level of the obligor's earnings, the amount and sources for repayment, the level and nature of contingencies, management strength, and the industry and geography in which the obligor operates. These factors are based upon an evaluation of historical and current information, and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could impact the risk rating assigned by the Firm to that loan.

The Firm applies its judgment to establish loss factors used in calculating the allowances. Wherever possible, the Firm uses independent, verifiable data or the Firm's own historical loss experience in its models for estimating the allowances. Many factors can affect estimates of loss, including volatility of loss given default, probability of default and rating migrations. Consideration is given as to whether the loss estimates should be calculated as an average over the entire credit cycle or at a particular point in the credit cycle, as well as to which external data should be used and when they should be used. Choosing data that are not reflective of the Firm's specific loan portfolio characteristics could also affect loss estimates. The application of different inputs would change the amount of the allowance for credit losses determined appropriate by the Firm.

Management also applies its judgment to adjust the loss factors derived, taking into consideration model imprecision, external factors and economic events that have occurred but are not yet reflected in the loss factors. The resultant adjustments to the statistical calculation on the performing portfolio are determined by creating estimated ranges using historical experience of both loss given default and probability of default. Factors related to concentrated and deteriorating industries also are incorporated where relevant. 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 current portfolio. The adjustment to the statistical calculation for the wholesale loan portfolio for the period ended December 31, 2006, was $903 million based upon management's assessment of current economic conditions.

Consumer loans

For scored loans in the consumer lines of business, loss is determined primarily by applying statistical loss factors and other risk indicators to pools of loans by asset type. These loss estimates are sensitive to changes in delinquency status, credit bureau scores, the realizable value of collateral and other risk factors.

Adjustments to the statistical calculation are accomplished in part by analyzing the historical loss experience for each major product segment. Management analyzes the range of credit loss experienced for each major portfolio segment, taking into account economic cycles, portfolio seasoning and underwriting criteria, and then formulates a range that incorporates relevant risk factors that impact overall credit performance. The recorded adjustment to the statistical calculation for the period ended December 31, 2006, was $1.2 billion based upon management's assessment of current economic conditions.

Fair value of financial instruments, MSRs and commodities inventory

A portion of JPMorgan Chase's assets and liabilities are carried at fair value, including trading assets and liabilities, AFS securities, private equity investments and mortgage servicing rights ("MSRs"). Held-for-sale loans and physical commodities are carried at the lower of fair value or cost. At December 31, 2006, approximately $526.8 billion of the Firm's assets were recorded at fair value.

The fair value of a financial instrument is defined as 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 majority of the Firm's assets reported at fair value are based upon quoted market prices or upon internally developed models that utilize independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates.

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that are traded actively and have quoted market prices or parameters readily available, there is little-to-no subjectivity in determining fair value. When observable market prices and parameters do not exist, management judgment is necessary to estimate fair value. The valuation process takes into consideration factors such as liquidity and concentration concerns and, for the derivatives portfolio, counterparty credit risk (For a discussion of CVA, see Derivative contracts on pages 69–72 of this Annual Report). For example, there is often limited market data to rely on when estimating the fair value of a large or aged position. Similarly, judgment must be applied in estimating prices for less readily observable external parameters. Finally, other factors such as model assumptions, market dislocations and unexpected correlations can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded for a particular position.

Trading and available-for-sale portfolios

The majority of the Firm's securities held for trading and investment purposes ("long" positions) and securities that the Firm has sold to other parties but does not own ("short" positions) are valued based upon quoted market prices. However, certain securities are traded less actively and, therefore, are not always able to be valued based upon quoted market prices. The determination of their fair value requires management judgment, as this determination may require benchmarking to similar instruments or analyzing default and recovery rates. Examples include certain collateralized mortgage and debt obligations and high-yield debt securities.

As few derivative contracts are listed on an exchange, the majority of the Firm's derivative positions are valued using internally developed models that use as their basis readily observable market parameters – that is, parameters that are actively quoted and can be validated to external sources, including industry-pricing services. Certain derivatives, however, are valued based upon models with significant unobservable market parameters – that is, parameters that must be estimated and are, therefore, subject to management judgment to substantiate the model valuation. These instruments are normally either traded less actively or trade activity is one way. Examples include long-dated interest rate or currency swaps, where swap rates may be unobservable for longer maturities, and certain credit products, where correlation and recovery rates are unobservable. Due to the lack of observable market data, the Firm defers the initial trading profit for these financial instruments. The deferred profit is recognized in Principal transactions revenue on a systematic basis (typically straight-line amortization over the life of the instruments) when observable market data becomes available. Management's judgment includes recording fair value adjustments (i.e., reductions) to model valuations to account for parameter uncertainty when valuing complex or less actively traded derivative transactions. The following table summarizes the Firm's trading and available-for-sale portfolios by valuation methodology at December 31, 2006:

	Trading assets		Trading liabilities		
December 31, 2006	Securities purchased(a)	Derivatives(b)	Securities sold(a)	Derivatives(b)	AFS securities
Fair value based upon:					
Quoted market prices	**83%**	**3%**	**97%**	**3%**	**97%**
Internal models with significant observable market parameters	**13**	**96**	**3**	**95**	**3**
Internal models with significant unobservable market parameters	**4**	**1**	**—**	**2**	**—**
Total	**100%**	**100%**	**100%**	**100%**	**100%**

(a) Reflected as debt and equity instruments on the Firm's Consolidated balance sheets.
(b) Based upon gross mark-to-market valuations of the Firm's derivatives portfolio prior to netting positions pursuant to FIN 39, as cross-product netting is not relevant to an analysis based upon valuation methodologies.

To ensure that the valuations are appropriate, the Firm has various controls in place. These include: an independent review and approval of valuation models; detailed review and explanation for profit and loss analyzed daily and over time; decomposing the model valuations for certain structured derivative instruments into their components and benchmarking valuations, where possible, to similar products; and validating valuation estimates through actual cash settlement. As markets and products develop and the pricing for certain derivative products becomes more transparent, the Firm continues to refine its valuation methodologies.

For further discussion of market risk management, including the model review process, see Market risk management on pages 77–80 of this Annual Report. For further details regarding the Firm's valuation methodologies, see Note 31 on pages 135–137 of this Annual Report.

Loans held-for-sale

The fair value of loans in the held-for-sale portfolio generally is based upon observable market prices of similar instruments, including bonds, credit derivatives and loans with similar characteristics. If market prices are not available, fair value is based upon the estimated cash flows adjusted for credit risk that is discounted using an interest rate appropriate for the maturity of the applicable loans.

Commodities inventory

The majority of commodities inventory includes bullion and base metals where fair value is determined by reference to prices in highly active and liquid markets. The fair value of other commodities inventory is determined primarily using prices and data derived from the markets on which the underlying commodities are traded. Market prices used may be adjusted for liquidity.

Private equity investments

Valuation of private investments held primarily by the Private Equity business within Corporate requires significant management judgment due to the absence of quoted market prices, inherent lack of liquidity and the long-term nature of such assets. Private equity investments are valued initially based upon cost. The carrying values of private equity 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's senior investment professionals. A variety of factors are reviewed and monitored to assess impairment including, but not limited to, operating performance and future expectations of the particular portfolio investment, industry valuations of comparable public companies, changes in market outlook and the third-party financing environment over time.

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

MSRs and certain other retained interests in securitizations

MSRs and certain other retained interests from securitization activities do not trade in an active, open market with readily observable prices. For example, sales of MSRs do occur, but the precise terms and conditions typically are not readily available. Accordingly, the Firm estimates the fair value of MSRs and certain other retained interests in securitizations using discounted future cash flow (DCF) models.

For MSRs, the Firm uses an option adjusted spread ("OAS") valuation model in conjunction with the Firm's proprietary prepayment model to project MSR cash flows over multiple interest rate scenarios, which are then discounted at risk-adjusted rates to estimate an expected fair value of the MSRs. The OAS model considers portfolio characteristics, contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenues, costs to service and other economic factors.

For certain other retained interests in securitizations (such as interest-only strips), a single interest rate path DCF model is used and generally includes assumptions based upon projected finance charges related to the securitized assets, estimated net credit losses, prepayment assumptions, and contractual interest paid to third-party investors. Changes in the assumptions used may have a significant impact on the Firm's valuation of retained interests.

For both MSRs and certain other retained interests in securitizations, the Firm compares its fair value estimates and assumptions to observable market data where available and to recent market activity and actual portfolio experience.

For further discussion of the most significant assumptions used to value retained interests in securitizations and MSRs, as well as the applicable stress tests for those assumptions, see Notes 14 and 16 on pages 114–118 and 121–122, respectively, of this Annual Report.

Goodwill impairment

Under SFAS 142, goodwill must be allocated to reporting units and tested for impairment. The Firm tests goodwill for impairment at least annually, and more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. Impairment testing is performed at the reporting-unit level (which is generally one level below the six major business segments identified in Note 33 on pages 139–141 of this Annual Report, plus Private Equity which is included in Corporate). The first part of the test is a comparison, at the reporting unit level, of the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value is less than the carrying value, then the second part of the test is needed to measure the amount of potential goodwill impairment. The implied fair value of the reporting unit goodwill is calculated and compared with the carrying amount of goodwill recorded in the Firm's financial records. If the carrying value of reporting unit goodwill exceeds the implied fair value of that goodwill, then the Firm would recognize an impairment loss in the amount of the difference, which would be recorded as a charge against Net income.

The fair values of the reporting units are determined using discounted cash flow models based upon each reporting unit's internal forecasts. In addition, analysis using market-based trading and transaction multiples, where available, are used to assess the reasonableness of the valuations derived from the discounted cash flow models.

ACCOUNTING AND REPORTING DEVELOPMENTS

Accounting for share-based payments

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-settled stock appreciation right ("SARs"), to be measured at their grant date fair values. For additional information related to SFAS 123R, see Note 8 on pages 105–107 of this Annual Report.

Accounting for certain hybrid financial instruments – an amendment of FASB Statements No. 133 and 140

In February 2006, the FASB issued SFAS 155, which applies to certain "hybrid financial instruments" which are defined as financial instruments that contain embedded derivatives. The new 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. It also permits an irrevocable election for fair value remeasurement of any hybrid financial instrument containing an embedded derivative that otherwise would require bifurcation under SFAS 133. The Firm adopted this standard effective January 1, 2006. For additional information related to SFAS 155, see Note 1 on page 95 of this Annual Report.

Accounting for servicing of financial assets

In March 2006, the FASB issued SFAS 156, which is effective as of the beginning of the first fiscal year beginning after September 15, 2006, with early adoption permitted. JPMorgan Chase elected to adopt the standard effective January 1, 2006. The standard permits an entity a one-time irrevocable election to adopt fair value accounting for a class of servicing assets. The Firm has defined MSRs as one class of servicing assets for this election. For additional information related to the Firm's adoption of SFAS 156 with respect to MSRs, see Note 16 on pages 121–122 of this Annual Report.

Postretirement benefit plans

In September 2006, the FASB issued SFAS 158, which requires recognition in the Consolidated balance sheets of the overfunded or underfunded status of defined benefit postretirement plans, measured as the difference between the fair value of plan assets and the amount of the benefit obligation. The Firm adopted SFAS 158 on a prospective basis on December 31, 2006. SFAS 158 has no impact either on the measurement of the Firm's plan assets or benefit obligations, or on how the Firm determines its net periodic benefit costs. For additional information related to SFAS 158, see Note 7 on pages 100–105 of this Annual Report.

Accounting for uncertainty in income taxes and changes in timing of cash flows related to income taxes generated by a leveraged lease

In July 2006, the FASB issued two pronouncements: FIN 48, which clarifies the accounting for uncertainty in income taxes recognized under SFAS 109, and the related FSP FAS 13-2. FIN 48 addresses the recognition and measurement of tax positions taken or expected to be taken, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. FSP FAS 13-2 requires the recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease. The Firm will apply FIN 48 to all of its income tax positions at the required effective date of January 1, 2007 under the transition provisions of the Interpretation. JPMorgan Chase currently estimates that the cumulative effect adjustment to implement FIN 48 will increase the January 1, 2007 balance of Retained earnings by approximately $400 million. However, the standard continues to be interpreted and the FASB is expected to issue additional guidance on FIN 48, which could affect this estimate. Accordingly, JPMorgan Chase will continue its assessment of the impact of FIN 48 on its financial condition and results of operations. The guidance in FSP FAS 13-2 will also be effective for the Firm on January 1, 2007. Implementation of FSP FAS 13-2 is expected to result in immaterial adjustments.

Fair value measurements

In September 2006, the FASB issued SFAS 157, which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about assets and liabilities measured at fair value. The new standard provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity-specific inputs. The standard also establishes a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. SFAS 157 nullifies the guidance in EITF 02-3 which required the deferral of profit at inception of a transaction involving a derivative financial instrument in the absence of observable data supporting the valuation technique. The standard also eliminates large position discounts for financial instruments quoted in active markets and requires consideration of nonperformance risk when valuing liabilities. Currently, the fair value of the Firm's derivative payables does not incorporate a valuation adjustment to reflect JPMorgan Chase's credit quality.

The Firm intends to early adopt SFAS 157 effective January 1, 2007, and expects to record a cumulative effect after-tax increase to retained earnings of approximately $250 million related to the release of profit previously deferred in accordance with EITF 02-3. In order to determine the amount of this transition adjustment and to confirm that the Firm's valuation policies are consistent with exit price as prescribed by SFAS 157, the Firm reviewed its derivative valuations in consideration of all available evidence including recent transactions in the marketplace, indicative pricing services and the results of back-testing similar transaction types. In addition, the Firm expects to record adjustments to earnings related to the incorporation of the Firm's nonperformance risk in the valuation of liabilities recorded at fair value and for private equity investments where there is significant market evidence to support an increase in value but there has been no third-party market transaction related to the capital structure of the investment. The application of SFAS 157 involves judgement and interpretation. The Firm continues to monitor and evaluate the developing interpretations.

Fair value option for financial assets and financial liabilities

In February 2007, the FASB issued SFAS 159, which is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. SFAS 159 provides an option for companies to elect fair value as an alternative measurement for selected financial assets, financial liabilities, unrecognized firm commitments, and written loan commitments. Under SFAS 159, fair value would be used for both the initial and subsequent measurement of the designated assets, liabilities and commitments, with the changes in value recognized in earnings. The Firm is reviewing the recently released standard and assessing what elections it may make as part of an early adoption effective January 1, 2007.

NONEXCHANGE-TRADED COMMODITY DERIVATIVE CONTRACTS AT FAIR VALUE

In the normal course of business, JPMorgan Chase trades nonexchange-traded commodity derivative contracts. To determine the fair value of these contracts, the Firm uses various fair value estimation techniques, which are primarily based upon internal models with significant observable market parameters. The Firm's nonexchange-traded commodity derivative contracts are primarily energy-related contracts. The following table summarizes the changes in fair value for nonexchange-traded commodity derivative contracts for the year ended December 31, 2006:

For the year ended December 31, 2006 (in millions)	Asset position	Liability position
Net fair value of contracts outstanding at January 1, 2006	**$ 6,951**	**$ 5,324**
Effect of legally enforceable master netting agreements	**10,014**	**10,078**
Gross fair value of contracts outstanding at January 1, 2006	**16,965**	**15,402**
Contracts realized or otherwise settled during the period	**(12,417)**	**(12,206)**
Fair value of new contracts	**21,554**	**21,007**
Changes in fair values attributable to changes in valuation techniques and assumptions	**—**	**—**
Other changes in fair value	**(601)**	**(317)**
Gross fair value of contracts outstanding at December 31, 2006	**25,501**	**23,886**
Effect of legally enforceable master netting agreements	**(19,671)**	**(19,980)**
Net fair value of contracts outstanding at December 31, 2006	**$ 5,830**	**$ 3,906**

The following table indicates the schedule of maturities of nonexchange-traded commodity derivative contracts at December 31, 2006:

December 31, 2006 (in millions)	Asset position	Liability position
Maturity less than 1 year	**$ 10,897**	**$ 11,039**
Maturity 1–3 years	**10,784**	**9,666**
Maturity 4–5 years	**2,630**	**1,838**
Maturity in excess of 5 years	**1,190**	**1,343**
Gross fair value of contracts outstanding at December 31, 2006	**25,501**	**23,886**
Effects of legally enforceable master netting agreements	**(19,671)**	**(19,980)**
Net fair value of contracts outstanding at December 31, 2006	**$ 5,830**	**$ 3,906**